2010/2011 Estonian Human Development Report

Baltic Way(s) of Human Development: Twenty Years On

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Baltic Way(s) of Human Development: Twenty Years On

Eesti Koostöö Kogu

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Dear reader,

Twenty years ago, the people of Estonia, Latvia and Lithuania regained the freedom, independence and sovereign statehood that was taken from them during the first half of the 20th century as a result of collaboration between totalitarian and criminal regimes. For the past two decades, we have been able to establish our own goals and make our own decisions and choices. During this time, we have had to solve an equation with tens of unknowns and variables. The portion of the equation after the equal sign has included our objectives of retaining our freedom, coping with challenges, ensuring our national and cultural survival and being happy and proud in looking towards the future with self-confidence.

In this year's Human Development Report, entitled "Baltic Way(s) of Human Development Twenty Years On", distinguished social scientists from the three Baltic countries have analyzed our twenty-year journey. They have highlighted the similarities and parallels but, being serious scientists, have focused primarily on the areas in which the countries have searched for and found original paths. Their analyses provide a valuable and comparative overview of the changes that have occurred in the economic and political coordinate system since the collapse of the so-called Eastern Bloc.

The main objective of this report is not to rank countries, or once again give in to the human urge to prove to ourselves, and everyone else, that despite all the hardships and naysayers, the three Baltic states have managed to leave behind the burden of the 50-year Soviet occupation and become developed European countries through persistent work and effort. Instead, we should look at the texts as discussions on whether our development model, our way of doing things, is the most effective and could, in the future, be set as an example for other countries and regions that currently, for various reasons, stand on the threshold of major change.

At the time of writing this text, the entire civilized world is looking for solutions to the debt crisis proceeding from globalization, changing economic conditions and demographic processes. Many believe that the crisis signals the failure of the welfare state model that came into being in the free world after World War II and has been increasingly financed by borrowing from future generations. The serious economic crisis of 2008 dealt a heavy blow (some experts even say the heaviest blow) to the Baltic states, which have open economies and social protection networks that are still, for various reasons, relatively weak. Our flexibility and desire to cope with the difficulties allow us to feel a bit more secure in the current situation, where the economic future of Europe and the USA involves an alarming amount of uncertainty and fear and where alienation and the resulting protests lead to mass disturbances and, in some cases, completely irrational killings.

The achievements of Lithuania, Latvia and Estonia in the past two decades deserve credit. We have managed to come close to reaching our goal, despite that fact that our countries are constantly changing, as is the goal itself. Accordingly, this Human Development Report can be viewed both as an interim summary as well as a critical look at the areas that we must develop with persistence and prudence over the course of the following decades.

Kadriorg, 10 August 2011

Toomas Hendrik Ilves

President of the Republic of Estonia

Preface

In a sense, this year's Human Development Report is the story of a generation: the people who were born during the Singing Revolution and the time when Estonia, Latvia and Lithuania restored their independence have graduated from schools and are starting lives of their own. They will soon become active leaders for whom the horizon of possibilities is not constricted by national borders or convictions. These "children of freedom" will, in twenty years' time, be the decision-makers who are actively shaping the course of development of our country and society.

There has been an ongoing discussion in Estonian society for some time concerning our development goals. The economic crisis definitely helped us to understand that economic growth in and of itself cannot be our primary objective. Instead, it is more of a necessary prerequisite for ensuring what all of us consider important: our way of life and life satisfaction, the sustainability of our society, the feeling that we are always welcome home. In other words – our quality of life. The Human Development Reports are published in order to contribute to the understanding and continuous development of quality of life and the increasing of our human assets.

The current Human Development Report will be released at a time when developed countries have begun to reorient towards a new social model that involves exploring the sustainability of covering social and education-related costs in addition to focusing on economic capability. This is where Estonia could forge its own path, taking into account the geopolitical transitions and population changes of the coming century.

Estonia, Latvia and Lithuania worked together to bring down a totalitarian empire, so that our people and nations could determine their own destiny. Although the paths we take may be different, our goal is the same: to stand for the freedom, sustainability and quality of life of our people. We aim to accomplish this goal side by side with our neighbours around the Baltic Sea.

The Estonian Cooperation Assembly would like to thank the Editor-in-Chief as well as all of the other editors and authors of this Human Development Report. We would like to express our special gratitude for the efforts of our colleagues from Latvia, Lithuania, Finland, Sweden, Denmark, the United Kingdom and beyond, who have contributed their thoughts and texts to making this publication special. We also wish to thank the Representation of the European Commission in Estonia for its support that was crucial to the success of this cooperation project involving Estonia, Latvia and Lithuania.

This Human Development Report is, first and foremost, an acknowledgement of the achievements of the people who helped us regain our freedom two decades ago and have now brought up a new generation of children and grandchildren – the children of freedom.

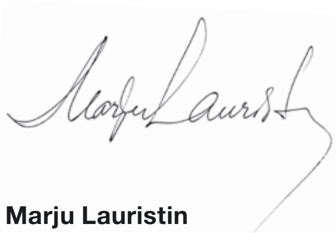
Peep Mühls
Chairman of the Executive Board
Estonian Cooperation Assembly

Introduction

This year's edition of the Estonian Human Development Report is unique in many ways. The report will reach the public at a time when Estonia, Latvia and Lithuania are celebrating the twentieth anniversary of the reappearance of the free Baltic states on the world map. Consequently, the publication's content and pool of contributors is different from usual. Although the 2010/2011 Human Development Report, as with reports published in previous years, was initiated and published by the Estonian Cooperation Assembly, each of its chapters has been compiled by an international team of authors, which includes Estonians as well as Latvians and Lithuanians. Chapters 4 and 5 provide a different perspective with experts from outside the Baltic states commenting on the region's development. Each chapter covers a different aspect of human development in Estonia compared to the developments in Latvia and Lithuania over the period of the past two decades. Where possible, the development of the Baltic states is also compared to that of the other countries of the Baltic Sea region. Due to its publication at a time of symbolic significance, this year's Estonian Human Development Report focuses on more than just our current state of development: instead, it attempts to describe our course of development over the past two decades. Perhaps the report should bear the subtitle "Baltic lessons", since learning through the mutual comparison of experiences was definitely one of the objectives of the project.

The contents of the UN Human Development Index provide a basis for international comparisons both at a global and regional level. This comparison of national development trends is an overview based on annual international statistics and usually does not explain the reasons behind the developments. However, every country has the freedom, and perhaps even the obligation, to analyze its course of development. We have been inspired by the twentieth anniversary of the restoration of independence of the Baltic states to take a more in-depth look at why the three countries have developed as they have. We compare the three small Baltic countries, which have had very similar fates, in terms of the reforms implemented in their economic systems, political institutions, healthcare and social insurance systems, education systems and language policies over the past two decades, and we analyze the results of the developments, which range from the clearly similar to the markedly different with regard to population trends, wellbeing and public opinions of national development. In making these comparisons, the authors have been inspired by the question of whether the similarities between the countries have more to do with the coincidence of objective circumstances (small population sizes, similar economic structures, similar geopolitical situations, simultaneous liberation from the grasp of the Soviet Union and movement towards integration with the Western economic and political structures) or with the will of the people, the subjective choices made by politicians and the preferences the countries have committed to for one reason or another. It is clear that finding reliable scientific answers to this question requires thorough and versatile research based on archival documents and path dependence analysis, which could feasibly be conducted by an internationally financed Baltic Sea region development institute.

Regrettably, as of yet, there is no such institution that could, in the future, assume the responsibility for preparing an official joint Human Development Report for the Baltic states. This year's Estonian Human Development Report is not a result of official cooperation between the Baltic countries and has not been carried out as an internationally financed research project. Instead, it is the much more modest product of the labour of a creative team of social scientists that was brought together by the Estonian Cooperation Assembly. All of the authors, regardless of their country of origin, express opinions based on their professional research. The authors hope that as the first publication to present an overview on this scale of the development of the three Baltic states over the course of the past two decades, the report, despite its omissions (or perhaps due to the fact that the readers will be able to identify the subjects that have not been discussed), will serve as inspiration for the next step in the European Union Strategy for the Baltic Sea Region. This would include creating both financial and organizational opportunities for developing cooperation between the universities and knowledge centres of the countries of the Baltic Sea Region, in order to make it possible to systematically conduct comparative studies of the economic, social, political and cultural development of the Baltic states, the Nordic countries, Germany, Poland and Russia.



Marju Lauristin
Editor-in-Chief, 2010/2011 HDR

CHAPTER 1

The path of transition and human development of the Baltic states: commonalities and divergences

1.1. Introduction. Human development during the period of transition: the challenges faced by the Baltic states

Marju Lauristin

Looking back at the two decades of human development in Estonia, Latvia and Lithuania, we focus in this chapter on the connections between human development and the outcomes of economic reforms during the transition from socialism to capitalism. After all, human development is based on a society's ability to ensure the well-being of its members through developing economic conditions and state institutions and enabling the provision of health care, education and social security. On the other hand, we are also interested in how these changes are reflected in people's subjective well-being, their satisfaction with their standard of living and opportunities for self-fulfilment. These indicators are dependent on more than material well-being: the development of democracy, the state of the environment, social relations and culture also play a part in shaping them.

The changes that occurred in Estonian, Latvian and Lithuanian societies after the collapse of the Soviet Union form a distinctive chapter in the post-communist development of Eastern and Central Europe, both in terms of their common features and differences. Having cut themselves off from the rouble zone as well as Russia's markets and the being left without access to cheap raw materials, the newly independent Baltic states also, virtually overnight, had to abandon the old social security networks and health care management systems, since these were based on the Soviet currency, all-Union budget, and total state control of all resources, infrastructures and employment. One of the three countries, Lithuania, did try to soften this complete structural overhaul by adopting a course of "gradual reform". However, this tactic only caused Lithuania's population to become increasingly dissatisfied and the path of cautious reforms had to be abandoned rather quickly (for more on this, see Subchapters 1.4 and 1.5).

Unlike the Baltic states, the post-communist states of Central Europe and the Balkans were able to rely, at least in part, on the institutions and resources they had used during the socialist era. These differences in development in comparison to the post-communist countries of Central Europe and the relative abundance of common features between the development conditions of the Baltic states are the reason why it is interesting to compare human development in Estonia and the other Baltic states today, twenty years later. We have come to a point where we can compare the choices made under similar circumstances and analyze their outcomes. At the same time, the broader background of the Baltic Sea region, where Poland and Russia can be used as points of comparison, allows us to identify the specific features of the transition process in the Baltic states. What kind of capitalism have the Baltic countries built, we can ask, using the expression coined by Anders Aslund (Aslund 2002). On the other hand, when we compare human development in the Baltic countries with their prosperous neighbours, the Nordic countries and Germany, we have the opportunity to discuss whether it will be possible to close the still-yawning gap between the levels of human development on the opposite coasts of the Baltic Sea. We can also reflect on the possibility of developing a third and inherently Baltic welfare state model in addition to the ones in place in the Nordic states and Germany.

The development of Estonian, Latvian and Lithuanian societies after the restoration of their independence could be divided into various stages and periods (see Lauristin & Vihalemm 2009). In terms of human development, we can distinguish three periods that are common for all three countries. **First,** the creation of the new constitutional and social order and carrying out basic economic reforms in order to escape the deep crisis that followed the collapse of the socialist planned economy. In Estonia where radical economic reforms were carried out and a suitable environment was created for the development of a market economy within four years, the first stage was the shortest of all three countries (see Subchapter 1.4). In Latvia and especially

Lithuania, the process of stabilizing the economy and restoring its growth lasted a few years longer. The social reforms, on the other hand, required more time. All three countries started social reforms by establishing health insurance and pension insurance systems, but due to the economic crisis and lack of financial as well human resources it was impossible to act as quickly in terms of creating an effective social protection system, which could have softened the impact of rapidly increasing poverty. Even having in mind the ideals of the Nordic model, it proved impossible to implement these ideals in the poor and devastated countries fighting for their very existence. The pressure of economic interest groups became stronger in politics and the enthusiasm of the Singing Revolution was replaced with the citizens' estrangement from the state. In Estonia, internationally praised for its successful market reforms, the weakness of social security was more effectively compensated by general optimism regarding the country's economic and technological development. Throughout this transition period, the opinions of Estonians as well as Russian-speakers living in Estonia regarding the country's developments remained much more positive than those of people living in Latvia and Lithuania (see also Chapter 3).

The second period in the Baltic transition is related to the start of accession talks with the European Union. Estonia was invited to join the EU as early as 1997. This also inspired Latvia and Lithuania to make preparations for potential accession talks. All three Baltic states received an official invitation to join the EU in 1999. The prospect of joining the EU in the first wave of enlargement as well as the opportunity to achieve NATO membership formed the solid basis for political consensus that was necessary for implementing the political and economic reforms. This consensus around the need for the rapid modernization and 'westernization' of the economy and state institutions helped to postpone from the political agenda the problems related to human development: the drop in birth rates, quick increase in social inequality and growing distrust of political institutions were not seen as top-priority challenges. The liberalization of the economy was accompanied by rapidly increasing social inequality and the division of the society into "winners" and "losers". By the end of the 1990s, this situation started to affect general expectations for the state to be more attentive in regard to social issues. In Estonia, which had outpaced the other Baltic states in terms of economic development, the topics of poverty and social exclusion, which had thus far been considered marginal, became important in the public debate. As a result, people became increasingly disappointed and in 2000–2001 public support in Estonia for the government and the parliament sunk to its lowest level since the restoration of the country's independence.

The third period in the development of Estonia, Latvia and Lithuania began with the accession of the three countries to the European Union on 1 May 2004. This period is characterized by a general increase in well-being, followed by a deep economic downturn. It can be seen, on the one hand, as the end of the period of transition. On the other hand, it can be characterized as a time when the countries are standing on a new crossroads and have to make new fundamental choices. The beginning of the period saw strong economic growth in all of the Baltic states: the countries experienced a GDP growth of 10% and more from the spring of 2005 to the autumn of 2007. This part of the period can be identified as a time of increasing well-being and peaceful accumulation of social wealth when no fundamental changes were planned and the countries enjoyed the fruits of their success. The overheating of the economy was not taken as a serious threat; people enjoyed the feeling of relaxation after the hard years of struggling with poverty. The final phase of the period of transition was also marked by an increase in public satisfaction, which was remarkable even among groups whose situation had heretofore been less favourable, including the Russian-speaking minority. The deep economic recession that followed the time of fast growth has also severely challenged the sustainability of all three Baltic states. The capacity of the young states to overcome the crisis and return to the path of economic growth and increasing prosperity was seriously called into question by many international analysts. However, according to international expert opinion, by now Estonia has come out on top from this difficult ordeal. Lithuania and Latvia, which suffered the most onerous recession, have also managed to put the worst of the situation behind them and have hopefully managed to find new paths of positive development. The price of the recovery has included severe cuts in public finances, shrinking family budgets and a wave of emigration among the skilled labour. Anders Aslund, one of the leading analysts on the issues of transition countries, has made the following remarks regarding the Baltic states' recession-fighting efforts:

> The Baltic states, in particular, which were new nations, remained concerned about their national sovereignty. … They feared the financial crisis could undermine their sovereignty and they stood up for their nations.
>
> The political economy of crisis differs greatly from that in the ordinary times, and these nations knew how to handle the crisis. … Both people and leaders were prepared to do what was necessary (Aslund 2010: 88).

The rapid changes in recent decades have caused a conflict of values and tangible social circumstances in the development of the Estonian, Latvian and Lithuanian societies. The situation may even be described as an ethical crisis, which is characterized, for example, by the fact that the more successful part of the public sees social inequality and the marginalization of the weaker members of society as a "natural" side-effect to market economy reforms. International

Table 1.1.1. EU countries with the highest and lowest level of total expenditure on social protection

	2000	2004	2008
	Highest level of total expenditure on social protection (percentage of GDP)		
France	29.5	31.3	30.8
Denmark	28.9	30.7	29.7
Sweden	29.9	31.6	29.4
Netherlands	26.4	28.3	28.4
Belgium	26.2	29.2	28.3
	Lowest level of total expenditure on social protection (percentage of GDP)		
Lithuania	15.8	13.4	16.2
Bulgaria	10.2	9.7	15.5
Estonia	13.9	13.0	15.1
Romania	13.0	12.8	14.3
Latvia	15.4	13.1	12.6

Source: Eurostat

comparisons indicate that all three Baltic states are similar in the sense that during the years of economic growth they exhibited no clear development towards reducing their levels of social inequality (which can be considered large in the European context) and instead remained behind other EU countries in terms of social spending and the level of social protection (see Table 1.1.1).

One explanation for the low level of solidarity in the Baltic societies is the ethnic split in the populations of these countries. Researchers of welfare systems have pointed out that one of the important factors in the development of the Nordic model of the welfare society has initially been the ethnic homogeneity of these small societies. A strong common cultural background makes it easier to foster the principles of solidarity and social justice so that they come to be seen as natural and the people begin to view the state as the "people's home". Reaching a level of solidarity comparable to Nordic societies is especially difficult in Estonia and Latvia where many social problems are linked to ethnic issues. Unfortunately, we can see that immigration, spurred by globalization and crises, has also caused tensions, conflicts and violent clashes in the countries of "old Europe" and even in the Nordic countries. The pillars of the welfare society have become unstable just when the "new democracies" would have needed their support.

Despite the serious backlashes and problems, the period of economic crisis has also raised hopes that people's common needs would help them once again rely on each other's support, and would facilitate turning from material values to the "softer" values of human warmth and trust. Hopefully the crisis will inspire critical reflections and comparisons between the will-o'-the-wisps of consumer society and the sustainable well-being of the Nordic countries.

In the post-crisis atmosphere, there are increasingly stronger voices in the Baltic societies calling for a switch from the development path that valued economic success as an absolute virtue to the development model that puts more stock in human development. This endeavour was evident, for example, by the rise to prominence of social issues in the election promises made by political parties in the 2011 parliamentary elections in Estonia. The most significant social challenge faced by all three Baltic states is the threat of a sudden population decrease due to low birth rates and increasing emigration. The need for and specific nature of the social reforms that must be implemented in order to alleviate this threat is subject to continuing debate. This human development report attempts to provide an analytical input into these discussions.

1.2. Human Development Index: common and different characteristics of the countries in the Baltic Sea region

Peeter Vihalemm

The global Human Development Report, published by the United Nations Development Programme (UNDP) since 1990, underwent some major changes in 2010. Although the three main dimensions of human development – health, education and living standards – remained the same, the indicators for education and living standards changed, as did the way they are aggregated.

A thoroughly changed Human Development Index

The education dimension of the HDI used to be calculated on the basis of the adult literacy rate and gross enrolment (the combined primary, secondary, and tertiary gross enrolment ratio weighting). However, in Europe the literacy rate had stayed close to the maximum level for decades, so it was never actually measured any more. The calculations were made based on expert opinions, which provided adult literacy rates varying between 99% and 100% (99.8% in the case of Estonia in 2009). In the case of the 2010 Human Development Index, two new education indicators were adopted: the mean years of schooling (this indicator was also used before 1995 instead of the gross enrolment ratio) and the expected years of schooling – the years of schooling that a child can expect to receive at the given enrolment rates. As with all other indicators, the education (component) index was calculated on the basis of the calculations and estimations of experts from the UN and other international organizations. In the case of the 2009 and 2010 HDI, these calculations were based on data from 2008 and, on occasion, 2007 (e.g. the data on the expected years of schooling).

The standard of living used to be measured as gross domestic product (GDP) per capita at purchasing power parity (PPP). As of 2010, the gross national income (GNI) per capita at PPP is used as the indicator of the living standard. While GDP indicates the total value of final goods produced in a given territory (including the goods produced by foreign companies), the GNI is based on the income of the permanent residents of the country and also takes into account revenue acquired abroad. In the case of Estonia, the difference between GDP and GNI is not very large: the GDP is 6–7% higher than the GNI. In countries where there are a lot of foreign companies, the GDP can surpass the GNI by several dozen per cent: for example, the GDP is 46% higher in Iceland and 50% higher in Luxembourg.

Unlike previous HDIs, which have been calculated on the basis of data that was two years old (for example, the 2009 Index was based on data from 2007), the 2010 HDI is based on estimations by experts for 2010. In the case of GNI and GDP, the data of the World Economic Outlook published in April 2010 were used. As we have pointed out below, the actual development of Estonia, Latvia and Lithuania is usually somewhat more positive, so the estimations published in the autumn of 2010 and the spring of 2011 were already somewhat more optimistic than those published in the spring of 2010. However, it is important to take into consideration that the 2010 human development indicators reflect the time of the economic crisis: how it took shape in 2008, peaked in 2009 and was alleviated in 2010.

In the case of **health**, the third component of the Human Development Index, the same indicator was used as in previous years: life expectancy at birth. However, the data on life expectancy was based on expert estimations for 2010 instead of two or three-year-old data, as before. It is also noteworthy that the estimation made about Estonia in 2008 (73.7 years) was more modest than the actual development. According to Statistics Estonia, the average life expectancy in Estonia in 2009 was 75 years.

Compared to earlier years, **the methodology** for calculating the HDI also changed in 2010: the geometric mean of the three dimension indices was used to calculate the aggregate index.

The new methodology has been used to recalculate all previous indices and their components in the statistical database back to 1980. As we can see from Table 1.2.2, the differences between the new and old methodology are immense. The aforementioned differences apply both to the aggregate index and the component indices as well as Estonia's position in the global ranking of countries. According to the 2009 Human Development Report, Estonia occupied the 40th position in the global ranking, while in the case of the recalculated index, Estonia's ranking was somewhat higher: namely 34th place, just as it was in the 2010 HDI. This means that Estonia's position has not improved, as a perfunctory comparison of the rankings published in the 2009 and 2010 Human Development Reports would suggest. The values of both the aggregate index and the component indices indicate that the country has made a fairly limited amount of progress. Progress has also been modest compared to 2005 when the (recalculated) index value of 0.805 put Estonia in 31st position, its best rank in the table so far.

The new methodology changes the relative importance of the components in the formation of the Human Development Index. According to the former methodology, Estonia's weakest HDI component was life expectancy, so much so that the 2007 Estonian Human Development Report identified "health indicators as an inhibitor of Estonia's human development" (Vetik 2008: 11), while the fast GDP growth over a number of years allowed economic development to be seen as the driving force behind Estonia's rise (Vetik 2008: 10). The use of the new methodology and the occurrence of the economic crisis have reversed the situation. Although Estonia's life expectancy index is significantly lower compared to most other very highly developed countries, the so-called A-ranked countries, it does not fall far behind the value of the education dimension index, while the indicator for the level of economic development, the GNI index, is considerably lower than the previous two.

An important change was also made in 2010 in regard to the classification of the countries. The countries used to be classified into four groups – very high human development, high human development, medium human development and low human development – based on specific numerical criteria: the margin between very high human development and high human development was index value 0.900, the margin between high and medium human development was 0.800 and the margin between medium and low human development was 0.500. In 2010, this system was replaced with one where all 169 ranked countries or territories were divided into four equal groups of 42 countries (only the second group consisted of 43 countries). The first group was classified as having very high human development, the second as having high human development and so forth.

Table 1.2.1. Estonia's Human Development Index and its components in 2009 and 2010

	HDI		Life expectancy index	Education index	Gross national income (GNI) index*
	Value	Position in the ranking			
2009 (initial)	0.883	40th	0.799	0.964	0.887
2009 (recalculated)	0.809	34th	0.847	0.877	0.714
2010	0.812	34th	0.851	0.878	0.717

*Initially the GDP index in 2009

Source: Human Development Report 2010

Table 1.2.2. Human Development Index and its components in selected countries in 2010

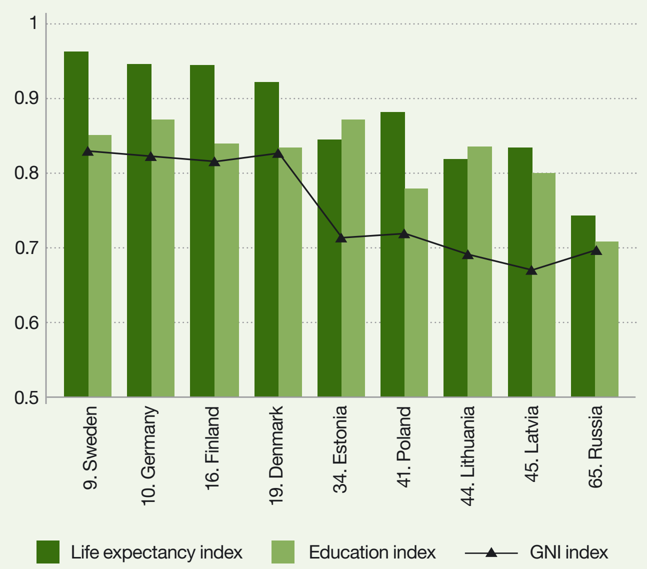
Rank among 169 countries	HDI value	Life expectancy at birth in 2010 (years)*	Years of schooling 2010	Expected years of schooling 2007–2008	Gross National income (GNI) per capita in 2010 (PPP USD)**
Very high human development countries (top quarter of the list, 42 countries)					
1. Norway	0.938	81.0	12.6	17.1	58,810
2. Australia	0.937	81.9	12.0	20.5	38,692
3. New Zealand	0.907	80.6	12.5	19.7	25,348
4. USA	0.902	79.6	12.4	15.7	47,094
5. Ireland	0.895	80.3	11.6	17.9	33,078
9. Sweden	0.885	81.3	11.6	15.6	36,936
10. Germany	0.885	80.2	12.2	15.6	35,308
16. Finland	0.871	80.1	10.3	17.1	33,872
19. Denmark	0.866	78.7	10.3	16.9	36,404
31. Slovakia	0.818	75.1	11.6	14.9	21,658
32. United Arab Emirates	0.815	77.7	9.2	11.5	58,006
33. Malta	0.815	80.0	9.9	14.4	21,004
34. Estonia	0.812	73.7	12.0	15.8	17,168
35. Cyprus	0.810	80.0	9.9	13.8	21.962
36. Hungary	0.805	73.9	11.7	15.3	17,472
37. Brunei	0.805	77.4	7.5	14.0	49,915
41. Poland	0.795	76.0	10.0	15.2	17,823
High human development (second quarter of the list, 43 countries)					
44. Lithuania	0.783	72.1	10.9	16.0	14,824
45. Latvia	0.769	73.0	10.4	15.4	12,944
65. Russia	0.719	67.2	8.8	14.1	15,258
Medium human development (third quarter of the list, 42 countries)					
89. China	0.663	73.5	7.5	11.4	7,258
119. India	0.519	64.4	4.4	10.3	3,337

*UNESCO prediction for 2008

**Estimations based on IMF data (World Economic Outlook April 2010)

Source: Human Development Report 2010

Figure 1.2.1. HDI components in the Baltic Sea region countries in 2010



Source: Human Development Report 2010

Table 1.2.3. HDI in the Baltic Sea region countries 1990–2010 (ranks and index values recalculated based on the 2010 methodology)

	1990	1995	2000	2005	2009	2010
Estonia	?	**41th** 0.700	**37th** 0.762	**31th** 0.805	**34th** 0.809	**34th** 0.812
Latvia	**39th** 0.679	**52th** 0.652	**45th** 0.709	**46th** 0.763	**48th** 0.769	**48th** 0.769
Lithuania	**29th** 0.709	**45th** 0.677	**40th** 0.734	**42th** 0.775	**44th** 0.782	**44th** 0.783
Poland	**37th** 0.683	**38th** 0.710	**39th** 0.753	**44th** 0.775	**40th** 0.791	**41th** 0.795
Germany	**15th** 0.782	**13th** 0.820	?	**9th** 0.878	**10th** 0.881	**10th** 0.885
Denmark	**12th** 0.797	**12th** 0.821	**15th** 0.842	**16th** 0.860	**19th** 0.864	**19th** 0.866
Sweden	**9th** 0.804	**7th** 0.843	**4th** 0.889	**6th** 0.883	**9th** 0.884	**9th** 0.885
Finland	**16th** 0.782	**16th** 0.810	**19th** 0.825	**14th** 0.863	**15th** 0.869	**16th** 0.871
Mean of the index values for old EU countries (Nordic countries and Germany)	0.791	0.824	0.852	0.871	0.875	0.877
Mean of the index values for Baltic countries and Poland	0.690	0.685	0.740	0.780	0.788	0.790
Russia	**34th** 0.692	**56th** 0.644	**57th** 0.662	**68th** 0.693	**65th** 0.714	**65th** 0.714

Source: Human Development Report 2010

In 34th position, Estonia falls safely within the category of countries with very high human development and has belonged to that group since at least 2005. According to the HDI calculated on the basis of the old methodology, Estonia was only left out of the group of countries with very high human development in 2009 by quite a narrow margin: its index value was 0.883. However, even though Estonia held the 40th position in the original list, the country did belong among the top 25% of countries in terms of human development. In the recently recalculated 2009 ranking, Estonia is located even six places higher (34th instead of the original 40th position).

Also, based on the new classification principles, Latvia and Lithuania remained in the second group of countries with the high human development, (Table 1.2.2). They held the 48th and 44th position, respectively, according to the recalculated 2009 index, while both had been ranked two places higher in 2005.

Ranking of countries based on the 2010 Human Development Index

Just as in the case of several previous years, the top positions of the list of countries with the highest human development in 2010 are held by Norway, Australia, New Zealand, USA and Ireland (Table 1.2.2).

The nine countries of the Baltic Sea region can be divided intro three groups according to the value of the Human Development Index:

1. the old EU member states, including the Nordic countries and Germany, whose 2010 index values vary between 0.885 to 0.866 and who are ranked between 9th place and 19th place;
2. the new EU member states, including the Baltic states and Poland, in whose case the index varies to a greater degree, between 0.812 to 0.769, although their positions are similarly consistent, ranging between 34th place and 45th place;
3. Russia, whose index value is as different from that of the second group as the second group's index value is from that of the first group.

In the recalculated ranking for 2009 we find the same countries situated slightly above or below Estonia as in the former list. The countries ranked somewhat higher than Estonia in the list included Slovakia (31st), United Arab Emirates (32nd) and Malta (33rd), while Cyprus, Hungary and Brunei were ranked slightly below Estonia. The Czech Republic, which was placed 36th, just above Estonia, in the original 2009 Human Development Report, has risen to 28th place according to the recalculated list. Slovakia, which was located below Estonia in the 42nd position in the original 2009 Report, is ranked considerably higher than Estonia, in 31st place, in the recalculated 2009 list. Both the Czech Republic and Slovakia also held the same places in the 2010 ranking.

The relative importance of the different dimensions in shaping the aggregate index is revealed in more detail through the values of component indices (Figure 1.2.1).

The differences between the countries of the Baltic Sea region are greatest in terms of life expectancy: neither the old nor the new EU member states constitute any kind of uniform group in this regard. Life expectancy is lower in Denmark than in the other old EU countries and higher in Poland than in the Baltic states. The similarities between the old and new EU member states are most apparent in the case of the education index. Germany and Estonia appear exactly the same in terms of years of schooling, ranking among the top ten of the 169 countries. Russia lags far behind the other countries of the Baltic Sea region in both life expectancy and education. However, this cannot be said about gross national income, which is higher in Russia than in Lithuania or Latvia. The differences between the old and new EU member states are very large in terms of the living standards, which is almost three times higher in Sweden than it is in Latvia. If we wouldchoose not take into account the differences in income and chose only to base our calculations on health and education, Estonia's level of human development would be much higher: in 2010, we would have been ranked 23rd in the world, while Lithuania would have been 36th and Latvia 39th.

Dynamics of the Human Development Index and its components in 1990–2010

How have the positions of different countries in the human development ranking changed over the course of the past 20 years? Have the gaps between the new and old EU member states lessened or increased during that time? Has the development of Estonia, Latvia and Lithuania been identical or different?

Based on the recalculations made in 2010, it can be said that the divisions between the countries of the Baltic Sea region with higher and lower human development were established already in 1990 and the gap between the two groups has somewhat narrowed over the past two decades: the average value of the indices of the groups of countries differed by 0.101 points in 1990 and by 0.087 points in 2010. In 1990, Russia was on the same level of development as the Baltic states, but its drop in the Human Development Index during the first half of the 1990s was more severe and its rise in the second half of the 1990s less vigorous than that of the Baltic states. As a result, Russia had become significantly backward by 2000 and remains so to this day.

Table 1.2.3 indicates that there has been a significant difference between the development of the Baltic states and that of Poland in the past 20 years. The beginning of the transition period meant a decline in terms of economic as well as social development indicators for the Baltic states and even more so for Russia, while Poland was untouched by this effect and has enjoyed a more balanced course of development.

Comparing the mutual development dynamics of the Baltic states is made somewhat more difficult by the fact that the 2010 Human Development Report lacks the data on the recalculated Estonian index for 1990. The 2009 Human Development Report contains the 1990 HDI data calculated on the basis of the old methodology. The index value for Estonia is listed as 0.817, Latvia's index value is 0.803, Lithuania's is 0.828 and Russia's stands at 0.821 (Human Development Report 2009: 168). According to this data, Lithuania was slightly ahead of Estonia and Latvia in terms of its level of human development in 1990. Estonia's quick development in the beginning of the period of transition allowed it to outpace Lithuania by the mid-1990s, and its lead persists to this day.

The development of the different components of the HDI has mostly coincided with the development of the aggregate index, but at times has also varied from it.

In regard to the **dynamics of life expectancy** (Table 1.2.4, Figure 1.2.2), we can see a clear-cut difference between the new and old EU member states as well as the 1990s regression in the Baltic states and Russia, but not Poland.

The difference between the life expectancy of the old and new EU member states has increased rather than diminished: the difference between the average levels of the groups of countries was 5.8 years in 1990 and 6.4 years in 2010. The life expectancy in Russia lags considerably behind the level of even the new EU countries, and this indicator shows that the social decline in Russia was much steeper and longer than in the Baltic states.

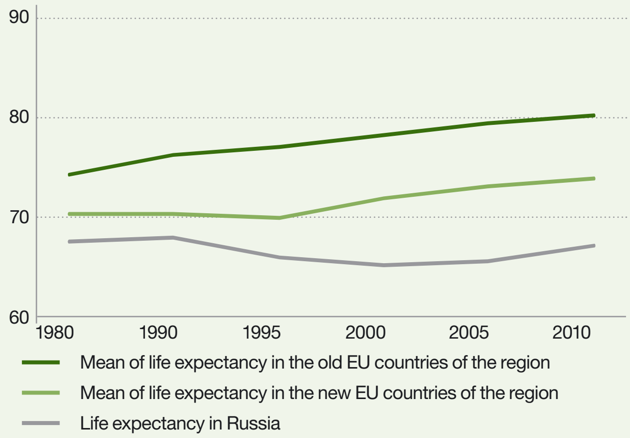
Table 1.2.4. Dynamics of life expectancy in the Baltic Sea region countries, 1980–2010

	1980	1990	1995	2000	2005	2010*
Estonia	69.5	69.4	68.6	70.4	72.3	73.7
Latvia	69.1	69.1	68.0	71.7	72.0	73.0
Lithuania	70.7	70.8	70.0	71.3	71.8	72.1
Poland	70.9	71.1	72.1	73.8	75.2	76.0
Germany	73.2	75.5	76.7	78.0	79.4	80.2
Denmark	74.4	75.0	75.1	76.7	77.9	78.7
Sweden	75.7	77.8	78.7	79.7	80.5	81.3
Finland	73.1	75.2	76.4	77.6	79.0	80.1
Russia	67.5	67.9	65.9	65.0	65.5	67.2

**Data for 2010 is based on UN experts' predictions from 2008 published in World Population Prospects: The 2008 Revision*

Source: International Human Development Indicators - UNDP http://hdrstats.undp.org/en/indicators/69206.html

Figure 1.2.2. Dynamics of life expectancy in the Baltic Sea region countries, 1980–2010



Source: International Human Development Indicators - UNDP http://hdrstats.undp.org/en/indicators/69206.html

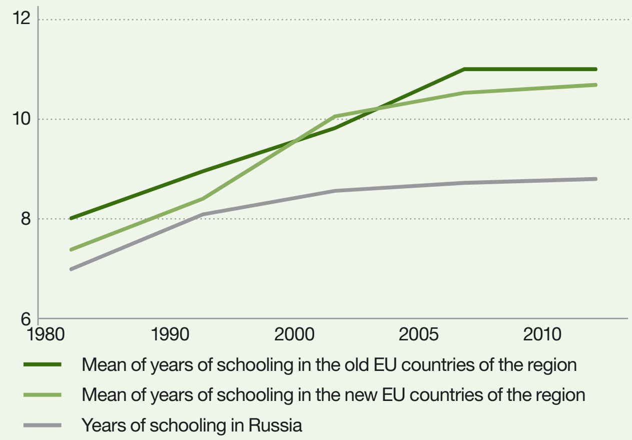
Table 1.2.5. Dynamics of years of schooling in the Baltic Sea region countries, 1980–2010[1]

	1980	1990	2000	2005	2010
Estonia	8.4	9.3	11.7	11.9	12.0
Latvia	6.3	7.6	9.4	10.1	10.4
Lithuania	6.8	8.3	9.9	10.6	10.9
Poland	7.8	8.5	9.5	9.7	10.0
Germany	5.7	8.1	10.5	12.3	12.2
Denmark	9.0	9.6	10.0	10.1	10.3
Sweden	9.1	10.0	11.0	11.7	11.6
Finland	8.3	8.2	8.2	10.2	10.3
Russia	6.9	8.1	8.6	8.7	8.8

Source: International Human Development Indicators - UNDP http://hdrstats.undp.

1 Expert evaluations based on the division of population above the age of 25 according to different levels of education and the nominal duration of these levels (years of schooling).

Figure 1.2.3. Dynamics of years of schooling in the Baltic Sea region countries, 1980–2010



Source: International Human Development Indicators – UNDP http://hdrstats.undp.org/en/indicators/69606.html (data of the Table 1.2.5)

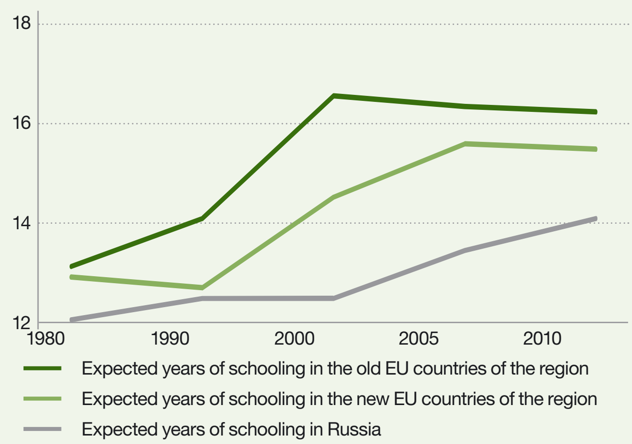
Table 1.2.6. Expected years of schooling in the Baltic Sea region countries, 1980–2010*

	1980	1990	2000	2005	2010*
Estonia	13.7	12.9	15.0	16.0	15.8
Latvia	13.3	12.7	14.2	15.7	15.4
Lithuania	?	12.9	14.6	15.9	16.0
Poland	11.9	12.5	14.7	15.2	15.2
Germany	?	14.6	?	15.6	15.6
Denmark	13.4	14.1	16.3	16.9	16.9
Sweden	12.8	12.9	15.9	15.8	15.6
Finland	13.3	15.0	17.7	17.2	17.1
Russia	12.1	12.5	12.5	13.5	14.1

**Estimations of experts at the UNESCO Institute for Statistics; the projection for 2010 was prepared based on data available in 2008*

Source: International Human Development Indicators - UNDP http://hdrstats.undp.org/en/indicators/69706.html

Figure 1.2.4. Expected years of schooling in the Baltic Sea region countries, 1980–2010



Source: International Human Development Indicators – UNDP http://hdrstats.undp.org/en/indicators/69706.html (data of the Table 1.2.6)

It is important to point out that the data for Estonia presented in Table 1.2.4 differs from the data provided by Statistics Estonia, according to which the decline in life expectancy during the first half of the 1990s was greater, just like the rise in life expectancy in recent years. According to Statistics Estonia, life expectancy in Estonia in 1995 was 67.6 years, with the actual low point in life expectancy having occurred one year before: in 1994, life expectancy in Estonia was 66.5 years. By 2009, however, the country's average life expectancy had risen to 75 years.

The development of the **level of education** (Table 1.2.5, Figure 1.2.3) in the countries of the Baltic Sea region has been much more even than the dynamics of the other components of the Human Development Index. The countries cannot be separated into two groups based on the mean years of schooling of adults: the level of education is not considerably higher in the old EU countries compared to the new member states and the difference has been smaller during the past decade than in the 1980s and 1990s. Meanwhile, the level of education in Russia is increasingly lagging behind that of the other countries of the Baltic Sea region.

The situation was even more balanced in the countries of the Baltic Sea region in terms of the second indicator: the differences between countries in the expected years of schooling amounted to less than a year and a half both in 1990 and in 2010. The exception in this regard was Russia, which, again, tends to lag behind the other countries of the region in regard to this indicator (Table 1.2.6 and Figure 1.2.4).

Table 1.2.7 and Figure 1.2.5 provide data on the dynamics of **economic development** in the countries of the Baltic Sea region over the course of 20 years, from 1990 to 2010. Instead of using the indicator of gross national income per person, we have used GDP per person at purchasing power parity as a much widely recognized indicator.

We can see the vast gap, already mentioned above, between the living standards of the two groups of Baltic Sea countries: the new EU member states and Russia and the old EU member states. Despite the fast GDP growth in the new EU countries between 2000 and 2007, the difference between the groups is difficult to overcome. The average values of the groups of countries differed 2.44 times in 1990; due to the decline in the first half of the 1990s, there was a 2.94-time difference between the groups in 1995; at the peak of the economic growth period in 2007, the difference had shrunk to 2.04 times; the estimation for 2010 indicates a 2.17-time difference in the living standard index scores of the two groups of countries. The difference between Russia and the new EU member states in terms of GDP is much smaller than it is in the case of life expectancy or level of education.

We can see that in terms of GDP per capita, Russia was in a better position than the Baltic states in 1990. The difference was especially notable in the case of Poland. According to this indicator, Lithuania's economic starting position was significantly better than that of Estonia and Latvia. The situation had changed by 2000 when Estonia had gained a clear lead in front of Latvia, Lithuania and Russia, while Poland had reached the same or slightly higher level of economic development compared to Estonia. The years from 2000 to 2007 were characterized by very quick economic development in the Baltic states, which resulted in all three states surpassing Poland in terms of their level of GDP. The economic crisis changed the situation completely as the Baltic states suffered a very steep downturn between 2008 and 2010, while Poland's economy continued to grow.

It is important to point out that the estimations for 2010 presented in Table 1.2.7 and 1.2.8 are based on the IMF's database, which was made public in April 2010. Estimations from the autumn of the same year (IMF Word Economic Outlook October 2010) indicated that the economy was recovering slightly faster than experts had believed it would in the spring. The estimations made in April 2011 gave even more positive results, especially regarding Estonia (IMF Word Economic Outlook April 2011). According to the IMF's analysis published in April 2011, the 2010 per capita GDP level also exceeded the 2009 level in Lithuania and Latvia, although only slightly in the case of the latter. Eurostat data indicates that GDP growth in 2010 amounted to 3.1% in Estonia, 1.3% in Lithuania and -0.3% in Latvia.

In addition to the indicators directly connected to the HDI, the 2010 UN Human Development Report also includes numerous other indicators and indices.

One of the innovations adopted in 2010 presented **the inequality-adjusted HDI** and component indices, which take into account the fact that health, education and income are unequally divided among individuals and indicate the degree of inequality involved. In the case of Estonia, the inequality-adjusted index is 9.8% lower than the general index. There is less inequality in the Nordic countries and Germany, which lose between 6.5 and 8 points in their HDI value when it is adjusted for inequality. The level of inequality is greater in Poland, Latvia, Lithuania and Russia whose adjusted index scores are between 10.8% and 11.5% lower. The inequality-adjusted index is 20–40% lower for most Latin American, Asian and African countries: for example, it is 23% lower for China and 30% lower for India.

Level of satisfaction is lower than objective human development indicators

One of the more important new features of the 2010 UN Human Development Report is the inclusion of various "subjective" indicators such as satisfaction, well-being and happiness.

A comparison of the subjective indicators for the countries of the Baltic Sea region shows that the differences between the old EU member states and the new member states are as great in this case as in the case of the so-called objective indicators. In this regard, Poland is closing the gap between itself and the old EU member states. However, surprisingly enough, the level of satisfaction in Russia (which is lagging behind in terms of objective indicators) is higher than that in the Baltic states.

According to a worldwide Gallup poll conducted in 2009, 53% of the population in Estonia was satisfied with their freedom of choice, while similar indicators were lower in Latvia and Lithuania: 39% and 45%, respectively. While the satisfaction level was 50% in Russia, it was 74% in Poland and reached the level of 90% in the Nordic countries.

The relatively low level of satisfaction in the Baltic states compared to the other countries of the Baltic Sea region is highlighted with even more clarity in the prosperity and well-being index compiled by the Legatum Institute.

In October 2009, the UK-based think tank Legatum Institute published the **Legatum Prosperity Index**, which

Table 1.2.7. Gross domestic product (GDP) in the countries of the Baltic Sea region, 1990–2010 (USD per capita at PPP; estimations for 2009 and 2010 based on 2008 prices)*

	1990	2000	2005	2006	2007	2008	2009	2010
Estonia	11,096	12,143	18,096	19,935	21,401	20,651	17,987	18,355
Latvia	10,575	8,951	13,680	15,438	17,067	16,357	13,627	13,224
Lithuania	12,860	9,674	14,429	15,654	17,144	17,753	15,384	15,327
Poland	8,598	12,367	14,504	15,417	16,472	17,275	17,783	18,406
Germany	26,979	32,099	32,967	33,981	34,864	35,374	34,053	34,743
Denmark	26,862	33,586	36,491	37,736	37,676	37,535	35,824	36,404
Sweden	26,640	31,454	35,322	37,261	38,201	37,777	36,392	36,953
Finland	24,618	29,544	33,408	35,068	36,015	35,945	33,386	33,872
Russia	13,647	9,086	12,523	13,479	14,697	15,455	14,465	15,258

UNDP calculations based on the IMF database

Source: http://hdrstats.undp.org/en/indicators/90406.html

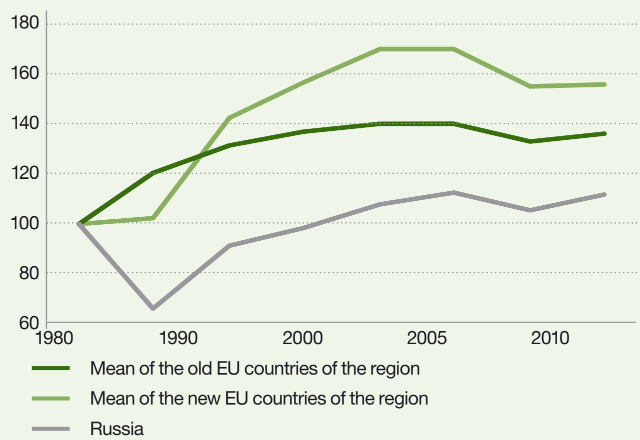
Table 1.2.8. Gross domestic product dynamics in the countries of the Baltic Sea region, 1990–2010 (1990 = 100)*

	1990	2000	2005	2006	2007	2008	2009	2010
Estonia	100	109	163	180	193	186	162	165
Latvia	100	85	129	146	161	154	129	125
Lithuania	100	75	112	122	133	138	120	119
Poland	100	144	167	179	192	201	207	214
Germany	100	119	122	126	129	131	126	129
Denmark	100	125	136	140	140	140	133	136
Sweden	100	118	133	140	144	142	137	139
Finland	100	120	136	142	146	146	136	138
Russia	100	67	92	99	108	113	106	112

UNDP calculations based on the IMF database (data of the Table 1.2.7)

Source: http://hdrstats.undp.org/en/indicators/90406.html

Figure 1.2.5. Gross domestic product dynamics in the countries of the Baltic Sea region, 1990–2010 (1990 = 100)



Source: International Human Development Indicators – UNDP http://hdrstats.undp.org/en/indicators/90406.html (data of the Table 1.2.8)

Table 1.2.9. Ranking of different countries according to the 2009 and 2010 Legatum Prosperity Index

	Overall rank	
	2010	2009
Norway	1.	1.
Denmark	2.	2.
Finland	3.	4.
Australia	4.	5.
New Zealand	5.	3.
Sweden	6.	7.
Germany	15.	16.
Poland	29.	28.
Estonia	35.	31.
Lithuania	42.	40.
Latvia	47.	41.
Russia	63.	62.

Source: The 2010 Legatum Prosperity Index

Table 1.2.10. At the present time, would you say that things are going in the right direction or in the wrong direction in your country? (% of positive answers)

	2006	2007	2008	2009	2010
Estonia	53	56	42	42	45
Latvia	40	26	19	7	21
Lithuania	50	39	19	10	25
Poland	21	31	41	36	46
Germany	23	39	38	40	36
Denmark	48	59	44	42	32
Sweden	49	44	47	53	61
Finland	52	51	36	46	45

Source: Eurobarometer

compares the majority of the world's countries based on economic growth, the economic, political and cultural factors that contribute to prosperity and the social and political factors related to well-being and satisfaction. The Legatum Institute's index has a broader scope than the UN Human Development Index as it includes more indicators related to subjective well-being, in addition to external circumstances and factors.

In 2010, the Legatum Institute published an updated index based on 89 separate indicators, which were obtained from objective statistical data as well as survey results and were compiled intro eight sub-indices, each of which includes indicators related to factors that impact prosperity (per capita income) and well-being (satisfaction).

Table 1.2.9 shows the top of the 110 countries included in the Prosperity Index and compares the position of the countries of the Baltic Sea region in the ranking list. The Nordic countries are holding the first three positions at the top of the list, while Australia and New Zealand also have high positions. We can also see that according to the Legatum Prosperity Index, the countries of the Baltic Sea region fall, once again, into separate categories that are similar to the ones based on the human development indicators.

Estonia's position is higher: it is among the top 30 countries in terms of the Entrepreneurship and Governance sub-indices (23rd rank). However, in terms of several sub-indices, Estonia is ranked below the 40th position and is among the average ranking countries (middle 50) in the lists.

It is worth noting that while Estonia's externally observable institutional indicators are relatively good, its **subjective well-being and satisfaction indicators are rather low**. This is clearly expressed in the Legatum Report's summarized country description of Estonia according to specific domains (sub-indices):

- Despite moderately high levels of innovation and low start-up costs, most Estonians are pessimistic about their entrepreneurial environment;
- Estonia's governance approaches Western European levels in many areas, but the country's citizenry is less satisfied;
- Although health outcomes are consistently above global averages, the population does not feel healthy;
- Despite relatively high levels of civic freedom, Estonia's population is dissatisfied with their level of free choice and is relatively intolerant of minorities;
- Despite a high level of trust, the level of social capital and access to support networks is very low (Legatum 2010: 158–159).

The Legatum index poses the question: "Considering the country's relatively encouraging objective indicators, why are Estonians still so discontented with almost every aspect of their lives?" (Masso 2010). At the same time, the level of dissatisfaction is even higher among Latvians and Lithuanians (Legatum 2010: 206–207, 210–211). One potential answer is that the high level of dissatisfaction can be related to internal insecurity, the lack of clear vision and a weak identity.

However, according to the annual Eurobarometer public opinion survey, Estonians have a relatively positive opinion about the work of national institutions, compared to people in Latvia, Lithuania and Poland, but also compared to some Western European countries. As a result of the economic crisis in 2008 and 2009, the level of public satisfaction dropped in many countries of the Baltic Sea region, especially Latvia and Lithuania. The level of positive opinions generally rose in 2010. This is clearly reflected by the answers to the question: "Would you say that things are going in the right or wrong direction in your country?" (see Table 1.2.10).

Table 1.2.10 also points to the fact that a general positive attitude towards the course of development of one's country depends on factors other than the economic situation, such as satisfaction with the political developments. Recent elections presumably contribute to people's positive outlook, which could explain the increase in the population's positive attitude towards developments in Denmark and Poland in 2007. In addition to the economic recovery, the expectation of changes related to the election results was probably also one of the factors that increased the level of positive assessments in Sweden and Latvia in 2010, in comparison to the previous year.

In general, the dynamics of social satisfaction is much more complicated than the development of the primary economic and social indicators, since the range of factors that have a significant impact on the process is wider.

1.3. Satisfaction with outcomes of Baltic transition in spring 2011

Marju Lauristin, Peeter Vihalemm

As indicated above, despite the external similarity of Estonia, Latvia and Lithuania in the eyes of foreign observers, there are some important differences in terms of general political choices as well as choices affecting economic development, and also in people's general opinions.

This subchapter is devoted to the opinions of the populations of Estonia, Latvia and Lithuania looking at the changes that have occurred during the twenty years of transition, and also regarding their current standard of living. The subchapter also looks at the popular attitudes concerning cooperation between the Baltic states and other countries in the region. Our analysis is based on a comparative survey ordered by the Estonian Cooperation Assembly and carried out by TNS EMOR in all three Baltic states in April 2011 (a representative sample of 1,000 respondents between the ages of 15 and 74 was interviewed in each country).

1.3.1. Satisfaction with changes in the society

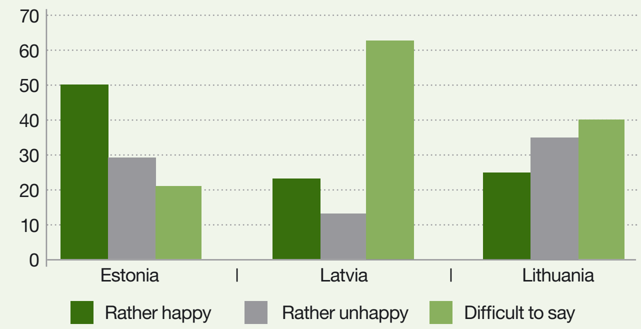
Although the development of all three Baltic states has been generally successful after the restoration of their independence and the countries are recovering from the strong economic depression of 2008–2009, there remains quite a lot of dissatisfaction with the changes of the past 20 years. The level of dissatisfaction varies strongly from country to country.

Only in Estonia did respondents who were happy with the changes (50%) outnumber those who were unhappy (23%). In Latvia, the proportion of people who found the changes unpleasant was much higher, with just 23% of the population approving of the changes and 63% disapproving of them. Negative opinions were also to the fore in Lithuania, although not as overwhelmingly: 25% of the population saw the changes as positive and 40% as negative.

As we pointed out above, the ethnic heterogeneity of the Baltic states is an important factor in their human development. The difference in attitudes is also apparent in the evaluation of the post-Soviet developments: the percentage of people who are pleased with developments is considerably higher in the case of native ethnic groups. However, in Estonia positive attitudes were dominant among both the native ethnic group and ethnic minorities (see Figure 1.3.2). It is remarkable that the percentage of people who are satisfied with the changes is higher among the Russian-speaking population of Estonia than among native Latvians and Lithuanians. The difference is even greater when we look at the minorities in the Baltic states.

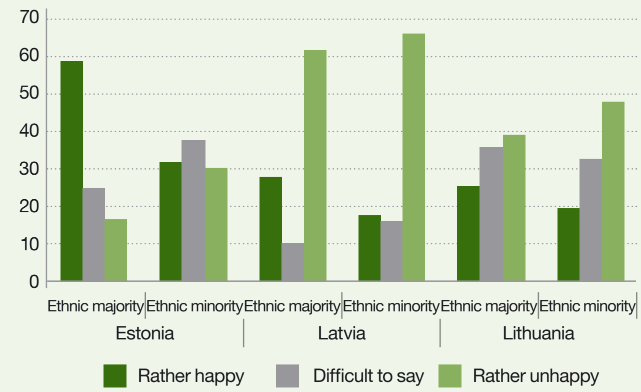
Satisfaction with various policies is also significantly higher in Estonia than in the other Baltic states and is lowest in Latvia. As indicated in Table 1.3.1, more than half of Latvia's population is dissatisfied with the progress being made in nearly all areas of human development. The level of negative opinions is especially high in relation to the state's efforts regarding the birth rate, material well-being, reducing social inequality and fighting corruption. Corruption, inequality and people's inability to cope financially are also the main causes of public discontent in Lithuania.

Figure 1.3.1. General evaluation of changes: Are you personally happy with the changes in the country since the restoration of its independence?



Source: TNS Emor, Baltic survey 2011

Figure 1.3.2. Attitudes of ethnic majorities and minorities in Estonia, Latvia and Lithuania concerning changes in societies during the last 20 years



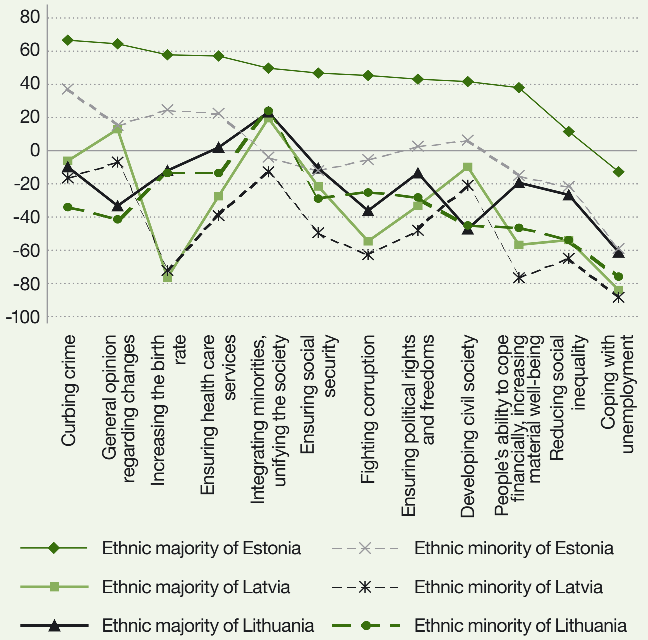
Source: TNS Emor, Baltic survey 2011

Table 1.3.1. Critical opinions of the country's ability to cope with problems related to human development (percentage of respondents who had a negative opinion of the developments in the field)

	Estonia	Latvia	Lithuania
Coping with unemployment	63	92	85
Reducing social inequality	48	77	63
People's ability to cope financially, increasing material well-being	39	82	61
Fighting corruption	32	75	78
Ensuring social security	34	65	54
Increasing the birth rate	23	85	50
Developing civil society	33	54	49
Ensuring health care services	27	65	49
Curbing crime	20	53	40
Developing democracy	22	43	42
Integrating minorities, unifying the society	29	40	30

Source: TNS Emor, Baltic survey 2011

Figure 1.3.3. Balance of positive and negative evaluations of ethnic majority and ethnic minority with developments in different areas



Source: TNS Emor, Baltic survey 2011

Table 1.3.2. How would you rate your family's financial situation and your ability to meet your daily needs? (% of respondents)

	Estonia	Latvia	Lithuania
Very good or generally good	30	11	24
Relatively satisfactory	45	49	48
Generally poor or very bad	25	39	28

Source: TNS Emor, Baltic survey 2011

Table 1.3.3. Was your family's financial situation 20 years ago better or worse than it is now? (% of respondents)

	Estonia	Latvia	Lithuania
Much better or somewhat better	41	59	46
Much worse or somewhat worse	30	15	16
The same	16	11	11
Difficult to say	13	16	27

Source: TNS Emor, Baltic survey 2011

Table 1.3.4. What do you expect your family's financial situation to be like in 5 years' time? (% of respondents)

	Estonia	Latvia	Lithuania
Much better or somewhat better	50	35	34
Much worse or somewhat worse	13	19	17
The same	24	23	26
Difficult to say	14	24	23

Source: TNS Emor, Baltic survey 2011

The greatest problems in all three Baltic states are related to coping with unemployment. This is one area in which more than half of the population is dissatisfied with the situation in the country in all three Baltic states, Estonia included.

It is important to point out the fact that the problem of insufficient integration of minorities in society, which is considered to be among the top concerns in Estonia and Latvia by foreign observers, is clearly overshadowed by other social issues for the residents of the two countries. Integration-related problems are considered less serious than issues related to the economy (and, in the case of Latvia, low birth rate). Nevertheless, in all three Baltic states, the respondents who belong to the various ethnic minorities differ from the ethnic majority in terms of their higher level of dissatisfaction. The difference between the opinions of the groups is greatest in Estonia. However, it also bears noting that in nearly every area (except for civil society) the opinions of Estonia's Russian-speaking respondents were more positive than the opinions of Latvians and Lithuanians as well as the representatives of minority groups in those countries. The relatively positive attitude of the Russian-speaking population of Estonia is especially conspicuous in two areas: the fight against corruption and social integration (see Figure 1.3.3). The highest level of dissatisfaction across all respondents groups was expressed regarding the states' ability to cope with unemployment.

1.3.2. Opinions on economic well-being and quality of life

The answers to the questions regarding the financial situation of the respondents' families reveal that daily coping remains a burning issue for about a quarter or third of the population. However, the situation differs from country to country (Figure 1.3.3.). In Latvia, the percentage of individuals who rate their family's financial situation as relatively poor or even bad was considerably higher (39%) than the percentage of people who generally considered their situation to be good (11%). In Lithuania, roughly an equal share, a quarter of the population, saw their financial situation as negative or positive, while in Estonia, where a quarter of the population also felt that they were poor, a larger percentage (30%) respondents were rather satisfied with their financial situation.[2]

The relatively negative assessment of the current economic situation amplifies the sense of nostalgia about the period before the restoration of independence in the Baltic states – the Soviet era. In Latvia, more than half of the respondents stated that their family's financial situation had been better 20 years ago than it was at the time of the survey. In Lithuania, nearly half of the population shares this belief. Even in Estonia, the largest percentage of people held that their family's living standard was higher at the end of Soviet era compared to the present. When we interpret these answers, however, we must keep in mind that people assess their situation against the background of the overall situation in society. While people's opportunities and expectations were uniformly limited in Soviet times, they are now characterized by diversity, high ambitions and strong social contrasts.

However, there are more people who are optimistic about the future than pessimists in all three countries, with Estonia in a leading position in front of Latvia and Lithuania.

2 A closer look is taken at the satisfaction levels of the population in Chapter 3

If public opinion about the economic situation reflects the more general outcomes of development, then the impact of social changes on the everyday lives of people is reflected in people's satisfaction with their quality of life. The concept of quality of life reflects not only material well-being, but also the quality of the mental and social environment, the feeling of security and access to services. In this regard, the comparison between the ethnic majorities and minorities in the Baltic states reveals considerable differences. Among Estonians the percentage of people who have a quite high opinion of their quality of life is much larger than among native Latvians or Lithuanians. The difference is even greater compared to the level of satisfaction among minority groups (see Figure 1.3.4).

The most concise way to gain information about people's perception of the current and future situation of their country is through answers to the following question: "Would you like for your and your children's future to be bound to Estonia/Latvia/Lithuania?" Table 1.3.5 points to significant differences between the Baltic states as well as a relatively greater difference between the native ethnic group and residents of other ethnicities in Estonia.

The picture emerging from these answers is in sharp contrast with the atmosphere of "national awakening" that was felt 20 years ago. Currently, in all of the Baltic states one third to a half of the population does not have a very strong psychological attraction to their home country.

Proceeding from the perspective of natural population growth (or decrease) in the three small nations, the situation seems quite worrying, taking into account the high level of readiness among the younger age groups to leave their own country (see Table 1.3.6). In all three Baltic states, less than half of all young people below the age of 30 are convinced that their future and the future of their children will be bound to their native land. In Lithuania, a quarter of all young people between 15 and 22 are certain that their future will not be connected to Lithuania. In Latvia, just above a third of people in their prime working age (between the ages of 23 and 45) are convinced that their future will be bound to their native country.

In a situation where such a large segment of a country's population does not feel a permanent connection to their homeland's future, the primary problem related to human development in the Baltic states obviously lies in demographic sustainability, which is hampered not only by low birth rates, but even more so by growing emigration.

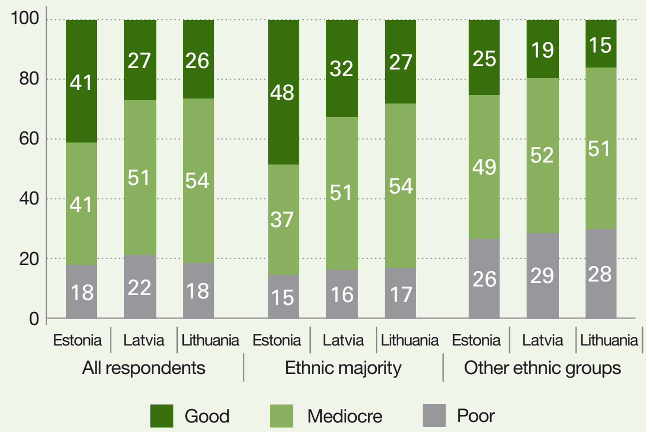
A high level of human development, satisfaction with the quality of life and young people's desire for self-realization in their native land is the safest way for the Baltic states to ensure the future preservation of their independence, culture and nation.

1.3.3. Opinions on cooperation with other countries

The fate of the Baltic states has relied on their relations with their neighbours in the past and still depends on them today, forming a part of the general development of the Baltic Sea region. However, what importance do the populations of the countries attribute to the ties with closer as well as more distant neighbours around the Baltic Sea? The answers show that the residents of the three Baltic states have surprisingly different views about the significance of the Baltic states for each other as well as the importance of the Nordic countries and other neighbouring countries (see Table 1.3.7).

Russia was the first choice as a partner for the people of Latvia and Lithuania, while the Estonian public was the only one to favour Finland as well as Sweden, which were followed by Russia in third place. In Lithuania, Germany was placed second on the list of most desirable partners for the country. The population of Latvia proved to be the

Figure 1.3.4. Assessments given to quality of life in Estonia, Latvia and Lithuania



Source: TNS Emor, Baltic survey 2011

Table 1.3.5. Would you like for your and your children's future to be bound to Estonia/Latvia/Lithuania? (% of the group of respondents)

	Estonia		Latvia		Lithuania	
	Estonians	Other ethnic groups	Latvians	Other ethnic groups	Lithuanians	Other ethnic groups
Yes, definitely	66	50	46	40	49	46
Preferably not	4	15	16	18	14	17
Difficult to say	30	35	38	42	37	37

Source: TNS Emor, Baltic survey 2011

Table 1.3.6. Would you like for your and your children's future to be bound to Estonia/Latvia/Lithuania?

Age	Country	Preferably not	Difficult to say	Yes, definitely
15–22	**Estonia**	8	47	45
	Latvia	17	51	32
	Lithuania	23	45	32
23–30	**Estonia**	9	43	48
	Latvia	17	45	38
	Lithuania	13	43	44
31–45	**Estonia**	5	38	56
	Latvia	19	44	37
	Lithuania	14	43	44
46–69	**Estonia**	12	20	68
	Latvia	16	37	47
	Lithuania	16	36	48
61–74	**Estonia**	4	15	81
	Latvia	13	23	64
	Lithuania	4	19	77

Source: TNS Emor, Baltic survey 2011

Table 1.3.7. How important do you think it is for your country to have close economic ties with the following countries? (The mean values of opinions on a 5-point scale, where 1 signifies a lack of importance and 5 signifies great importance.)

	Estonia		Latvia		Lithuania
Finland	4.30	Russia	4.02	Russia	4.09
Russia	4.20	Lithuania	3.83	Germany	3.90
Sweden	4.06	Estonia	3.83	Latvia	3.84
Latvia	4.00	Germany	3.63	Estonia	3.79
Lithuania	3.92	Sweden	3.53	Poland	3.76
Germany	3.88	Norway	3.45	Norway	3.70
Norway	3.73	Finland	3.36	Sweden	3.67
Denmark	3.61	Poland	3.36	Denmark	3.59
Poland	3.47	Denmark	3.35	Finland	3.55
China	3.27	China	2.89	China	3.12

Source: TNS Emor, Baltic survey 2011

most focused on collaboration between the Baltic states: they considered partnerships with Estonia and Lithuania to be more important than working together with Germany and the Nordic countries.

There are also some differences between the majority ethnic groups and ethnic minorities in terms of their attitudes towards the importance of collaboration with other countries of the Baltic Sea region. While the Russian-speaking population of Estonia attributes more value to collaboration with Russia and Germany than the Estonians do, Latvia's Russian-speaking population is more enthusiastic compared to the ethnic majority about all collaboration partners: especially Russia, of course, but also Estonia, Lithuania and Germany. The minority groups in Lithuania naturally have a higher appreciation of partnerships with their countries of origin, namely Russia and Poland. In general, it can be said that the Russian-speaking minority is a greater supporter of collaboration with Russia and Germany in all three Baltic states, while differences between ethnic groups are small in terms of their opinions on working together with the Nordic countries and with the other Baltic states.[3]

1.4. Estonian, Latvian and Lithuanian post-communist development in the comparative perspective

Zenonas Norkus

The post-communist transformation not only brought a "return to diversity" (see Rothschild & Wingfield 2008), but it also increased the differences between the Baltic states.

At this point, we need to identify **which** capitalism and **which** democracy is present in the Baltic states? In what way do they differ from those in other post-communist countries and in the advanced West? Are they the same in all three Baltic states? Can we talk of the "Baltic model" of development, and compare the trajectories of change in Estonia, Latvia and Lithuania with other former communist countries? How should we explain the similarities and differences? In this subchapter, only the specifics of Baltic capitalism will be tackled, while those of democracy are discussed in the chapter on political developments.

Baltic capitalism(s) in international comparison

After two decades of post-communist transformation, the political-economic systems of the Central European and Baltic (CEB) states can be classified as rational entrepreneurial capitalism (REC). The adjective "entrepreneurial" refers to the central role of the private entrepreneurship – seeking its own advantage in the market exchange. The adjective "rational" refers to the ability of the economic system to allocate resources efficiently due to the pressure of market competition to minimize costs, and to provide incentives for private entrepreneurs to use their energy and talent in a socially productive way.

In most of the former Soviet republics, the bulk of state property was privatized by the former communist nomenklatura, who became oligarchs in the process. There were a few winners of the partial reforms, while the majority lost. The outcome was political oligarchic capitalism, in which political entrepreneurs/capitalists compete to capture the state and appropriate the rents.[4] In comparison, the market reform performance of CEB countries was a stunning success, by achieving REC in a decade with the majority of population as transition winners. This success was certified by the accession to NATO and EU. Now the "new Europe" countries compete to see who will be the first to converge with old EU core countries and join the most advanced countries of the world. The most common measures of the progress in pursuit of this target are GDP per capita, HDI index, and other quantitative indicators. But they are not enough to provide the big picture. States on the frontier of technological progress display a variety of institutional arrangements of production and innovation. There are different types of REC as possible convergence targets.

Table 1.4.1 lists the distinctive features of the two ideal types of REC: **liberal capitalism or liberal market economy (LME)** and **social capitalism or coordinated market economy (CME)** with the USA as a model cases for LME,

3 The prospects for collaboration within the Baltic Sea region is examined in more detail in Chapter 7 of the report.

4 In Russia after 2000, another variety of political capitalism emerged, in which oligarchs are in the capture of state. This is state monopolistic capitalism.

and Germany that of CME (see Hall & Soskice 2001; Amable 2003; Lane & Myant 2007; Norkus 2008).

In describing one of the two types of the rational entrepreneurial capitalism as strategically coordinated capitalism, the theory of varieties of capitalism highlights the role of non-market coordination between the firms. The other way to designate the same type as social capitalism focuses on the different social welfare consequences of coordinated and liberal varieties of capitalism. By the same level of economic productivity or GDP per capita, liberal capitalism brings smaller taxes (but also a lesser supply of public goods), lower unemployment (but also more prisoners), more inequality, more alienation and less solidarity, more freedom (for rich people), more social insecurity and more poverty than its social counterpart (Kenworthy 2004; Pontusson 2005). The welfare system of LME is reduced to a minimal welfare state (see Esping-Andersen 1990). In CME, a more generous welfare state is necessity. Workers would not invest into specific human capital, if not insured against unemployment risk.

The next question is viability. There is no coherent set of institutional arrangements that would make a country competitive in all high added value industries and services. CME institutions provide comparative advantages for firms in traditional industries with capability for incremental innovation, such as car manufacturing. These are community-like firms with internal labour markets and loyal key personnel (*Hauptbelegschaft* in German) attached to them by de facto life-long contracts. *Hauptbelegschaft* is a carrier of tacit technological knowledge and the skills necessary to produce high quality diversified products. LME institutions sustain a comparative advantage in the emerging industries, in which radical innovation is the key to success. The reason is the rich supply of venture capital and a flexible labour force with general human capital.

The different institutional spheres listed in the table are complementary, which means the mutual increase of returns. If the institutional logics of different spheres contradict, returns decrease. The international competitiveness of the state suffers, pressing for change towards a coherent institutional structure. As firms in LME have no patient capital, they are forced to be "cruel" with their workforce, shedding it when demand slumps. But the flexibility of employment results in employees' disloyalty to their firms. By employing such employees, firms avoid investing in their training. Therefore, they do not have a skilled task force to meet the challenges of the high quality diversified production. Under no employment protection and weak unemployment protection, future employees avoid investing into specific human capital acquisition (professional education and training), and prefer a university education of transferable skills and "learning to learn" to be able to quickly find new jobs upon being fired. In terms of the trade-off between specialization and adaptability, this means a preference for adaptability. Institutional complementarity is the obstacle for the construction of perfect capitalism by borrowing best practices from different types of capitalism (e.g., social protection from Sweden, venture capital markets from USA, and professional training system from Germany). It may appear counterintuitive, but a variety of capitalism theory predicts that a mix of "best practices" and arrangements will perform worst.

Table 1.4.1. Ideal types of rational entrepreneurial capitalism in advanced countries

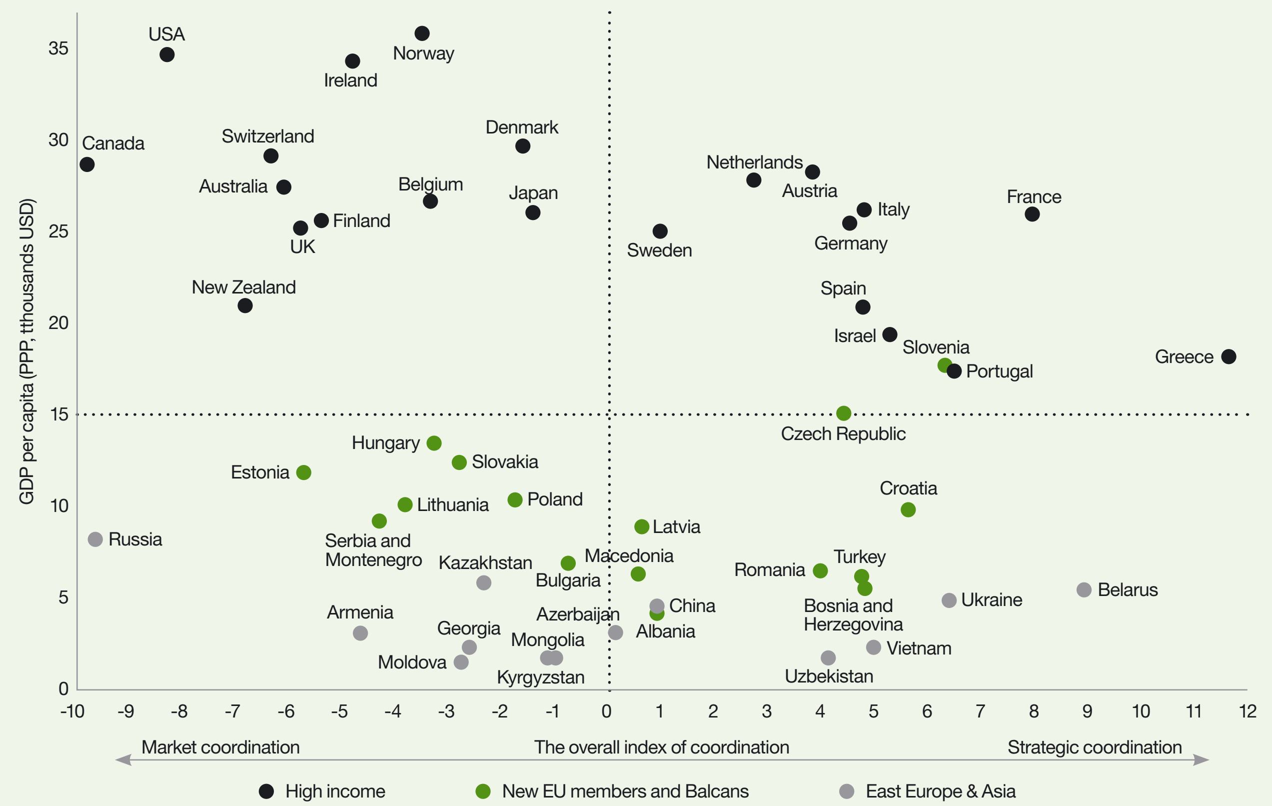
Institutional spheres	Liberal market economy or liberal capitalism	Coordinated market economy or social capitalism
Financial system	• Equity markets as source of capital • Impatient capital • Dispersed property rights	• Bank loans as sources of capital • "House banks"; patient capital • Main (block) owner
Industrial relations	• Weak trade-unions • Contingent work force, insecure jobs • Individual labour contracts, "hire and fire" personal policy • Flexible labour market	• Strong trade-unions • Collective labour contracts, employment and unemployment protection • Life-long work contracts • Elements of industrial democracy
Education and training	• Future employees invest in general skills (general human capital) • Firms avoid investing into specific skills, "stealing" workers with requisite skills from other firms	• Future employees invest into specific skills (specific human capital) • Firms invest into specific skills
Relations between firms and employees	• Disloyal employees	• Loyal employees, community-like firms
Relations between firms	• Coordination only via market • arm's-length relations between firms • Fully specified contracts	• Strategic coordination using non-market channels and mechanisms • Networks of trust or branch associations • Relationship contracts

Source: Hall & Soskice 2001; Amable 2003; Lane & Myant 2007; Norkus 2008

Because a novelty of today may become the norm after a decade, it would be futile to compose final lists of both types of industries. In recent decades, LME economies performed best in the information and telecommunication (ITC) industries, while CME economies were more competitive in automobile, electro-technical, microelectronic, and manufacturing equipment building industries. At this time, there was much written and spoken about the pending demise of CME. The argument was that economic globalization would cause the worldwide convergence to LME. However, this was a misperception of what really were the adaptation processes of CME to globalization, which did not erase their specifics. Instead, globalization only brought the institutional advantages of CME states into sharper focus by the spread of institutional arbitrage. This is the location by transnational corporation (TNC) of those segments of their worldwide commodity production chains in the states with institutional advantages that best adhere to these segments. The viability of CME countries was impressively confirmed by the superior performance of Germany and the Nordic countries during the recent worldwide economic crisis, while LME states were hit the worst.

The predicted sixth Kondratieff wave may harbour a new future for LME countries by becoming the hothouse for synthetic biology industry. However, the differentiation between the two basic types of REC will remain in place for the decades to come. So, the ideal types of LME and CME still provide the best framework on how to consider the future of the Baltic states and that's why we have

Figure 1.4.1. Economic development and overall index of coordination



Source: Knell & Srholec 2007

started with them. But they are not enough to understand where are we now.

This is what transpires in Figure 1.4.1, which visualizes the findings of a recent attempt to apply the index of market/strategic coordination to a data set, including both advanced REC and post-communist countries betwwn 2001 and 2004.[5] While the big picture may deem correct, it conceals the qualitative differences between advanced REC and underdeveloped post-communist countries. It would be too straightforward to conclude that Russia belongs to the same capitalism type as the USA, or France with Belarus, because this would neglect the qualitative difference: the USA and France are on a global technological frontier, while Belarus and Russia are far behind. Russian political oligarchic capitalism might have been most wild at some time[6], but never was it more close to the textbook free market economy than Baltic capitalism.

There is broad expert consensus that Estonia is the most pure case of a liberal market economy among the CEB countries, while Slovenia is the sole comparatively clear-cut case of a coordinated market economy among the new members of the EU (see Buchen 2007; Feldmann 2006; Frane, Primož & Tomšič 2009). In the other new member states of the EU, one finds a mix of coordinated and liberal institutional arrangements, with Lithuania and Latvia closer to neo-liberal Estonia, and Visegrad countries moving towards the more coordinated capitalist states of the older members of the EU (first of all, Germany and Austria). This permits us to speak about the **neoliberal Baltic capitalism model**, with Estonia as its paragon or lead case due to its balanced state budget and non-redistributive taxation policies. In all three Baltic countries, industrial relations are decentralized; there is no employee co-determination. The workers and employers are weakly organized; there is almost no unionization in the private sector (see Kohl & Platzer 2004: 237). The time frames of employments are short, with the average job tenures being the shortest among CEB countries (Cazes & Nesporova 2001). In all the Baltic states, there was a move to the Anglo-Saxon system of basic and general skills, provided by college and university education, while post-secondary training at professional training schools and technical high schools contracted and declined.

However, here one does not find active and liquid stock markets and significant stock market capitalization. As with other post-communist countries, they are just not sufficiently affluent to provide ample venture capital that makes LME-type economies favourite sites for emerging industries grounded in radical innovation. Instead, their

5 The index is constructed using 12 quantitative indicators, selected using Peter A.Hall's and David Soskice's theory of the varieties of capitalism as the guideline.

6 According to "Transition Reports", regularly published by the European Bank for Reconstruction and Development, Russia was never the liberalization leader among the post-communist countries. See http://www.ebrd.com/pages/research/publications/flagships/transition.shtml. Accessed at 14/02/2011. It is a matter of common knowledge among social researchers that the conclusions of variable-orientated quatitative research and those of in-depth case analysis frequently diverge.

growth is conditional on capital and technology imports. Until the Baltic states become affluent and reach the technology frontier, the theory of the different comparative advantages of the advanced countries is useful to consider for the future, but it is of limited value in understanding their present state.

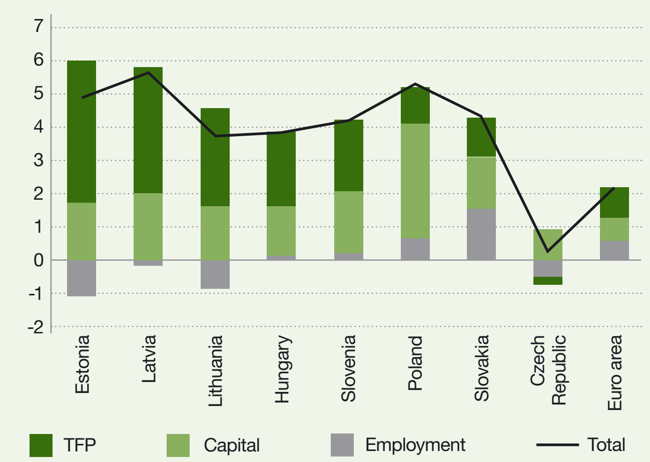
In mature REC economies, technological innovation grounded in research and development is the only means to increase productivity. Less developed countries can do this either by exploiting still unused resources (this is "extensive growth") or by emulation (technology transfer). Post-communist market transition involved two overlapping processes: (1) closing the technology gap or catching up with the technological frontier countries, and (2) integration into the world economy by finding a place in the international division of labour.

Until the technology gap is closed, differences in the institutional arrangements matter not as the basis of advantages in different types of genuine innovations, but rather as causes of disparities in the absorptive capacity. This is the capability to assimilate and apply new ideas and technology developed abroad (Abramowitz 1986). Its effects are measured by the changes in total factor productivity (TFP). Along with factor accumulation (use of additional labour force and capital), this is one of the sources of economic growth. Innovation-driven growth is displayed in the most pure form when output increases despite a decrease in wages and capital.

Among the post-communist REC countries, the Baltic states displayed the greatest productivity growth (TFP - total factor productivity) in the EU pre-accession years 1995–2001 (see Figure 1.4.2): increases in TFP are estimated to have contributed 4.25 per cent to annual GDP growth in Estonia, 3.75 per cent in Latvia, and 3 per cent in Lithuania. These estimates are somewhat larger than similar estimates for other acceding countries and significantly larger than estimates for the euro area (Burgess, Fabrizio & Xiao 2004: 25).[7] This may be interpreted as evidence about the comparative advantages of the neoliberal Baltic model at least for EU pre-accession years.[8] Due to its openness to radical innovation, this model displayed greater absorption capacity for technology transfer than other varieties of REC.

Under the conditions of post-communist transformation, the main vehicle of this transfer was foreign direct investments (FDI). The absorption capacity of technology went hand in hand with the capacity to attract and absorb FDI. However, not all FDI may serve as such a vehicle. Not all FDI have positive spillover effects by links with local firms to move the host economy closer to the frontier. With no such effects, the outcome can be a country with two economies: one based on the activities of foreign enterprises and the other based on domestic small enterprises and traditional economic sectors. The quality of FDI is contingent on the mode in which the transition country was inserted into world capitalist economy, which is revealed by the structure of the country's foreign trade and how its overall payment balance is maintained.

Figure 1.4.2. Contribution of total factor productivity growth to average GDP growth, 1995–2001.



Source: Burgess, Fabrizio & Xiao 2004

Between core and periphery

From the viewpoint of technological innovation, one can distinguish core, semi-core, semi-periphery, and periphery capitalist countries.

The core of the world capitalist economy ("top league") includes most capital-affluent and advanced postmodern countries on the frontier of radical or incremental technological innovation, in which highest added value production is concentrated.

The semi-core includes modern countries with the capability to manufacture products developed in the core, but which are still unable to develop and organize independently (as intellectual property owners and marketers) commodity chains to produce high tech or branded products or provide related services.

The semi-periphery includes countries with the skills and economic environments sufficient to produce semi-manufactured (steel, heavy chemicals, oil refinery products) and simple manufacturing products (e.g. garments, footwear) of low added values. A low labour cost is a key factor for the international competitiveness of such products.

The periphery countries are able to compete on the world markets as raw materials (oil, gas, coal) producers. If they are not endowed by nature, they survive by exporting their labour force with emigrant remittances that are an essential element for their international payments balance, and by foreign aid.

After two decades of post-communist transformation, only Slovenia may be reasonably regarded as belonging to the capitalist core. The primary evidence is the domination of the machinery-complex products developed by the domestically owned firms in Slovenian export, which verify the ability of the country to sustain the competitiveness grounded in incremental innovation (see Myant & Drahokoupil 2011: 304–305). After the first decade of post-communist transformation, Central European (Visegrad)

7 These trends of 1995–2001 may have not continued in later years.

8 The provision is necessary that for the pre-industrial economies institutional arrangements characteristic of state capitalism can be a more efficient framework for catching-up development. Generally, there is no "one-size-fits" all success recipe. Cp. Rodrik D. (2007). One economics, many recipes: Globalization, institutions, and economic growth. Princeton: Princeton UP.

countries already established themselves as semi-core countries due to the influx of the FDI directed to the skill-intensive and capital-intensive export-orientated industries such as automobile, electro-technical, electronics and pharmaceuticals. Skilled populations and relatively low labour costs are their comparative advantage as as resource for production of technologically sophisticated industrial goods. In this regard, one can see the emergence of the distinctive type of semi-core REC, characterized by dependence on intra-firm hierarchies within transnational enterprises as a distinctive coordination mechanism, foreign direct investments and foreign-owned banks as a primary means of raising investments and the control of local subsidiaries by headquarters of transnational enterprises as a distinctive mode of corporate governance (see e.g. Nölke & Vliegenthart 2009; Bohle & Greskovits 2006; Bohle & Greskovits 2007).

Post-communist semi-core countries are still weak in genuine innovation. Research and development activities that take place inside countries in which there are transnational subsidiaries are mostly directed to activities such as testing and standards. The bulk of research and development is done outside in the TNC headquarters countries, which is then imported into the dependent semi-core market economies through transnational networks that bind together different places of production. Nevertheless, the semi-core countries are best placed to advance into the top league of the capitalist world economy, provided they will manage to establish and maintain research universities and related academic and research centres for both upstream (fundamental) and downstream (applied) research.

Of all the post-communist countries, Estonia is the most successful in attracting FDI. In the last pre-crisis year of 2007, its stock of FDI as a percentage of GDP was 79%, which means 12,347 USD per capita. This not only exceeds by far Latvia (39%, 4,586 USD) and Lithuania (38%, 4,325 USD), but also leaves behind the Visegrad countries of Czech Republic (60%, 9,825 USD), Hungary (70%, 9,671 USD), Slovakia (56%, 7,735 USD) and Poland (34%, 3,727 USD).[9] This provides an important indication to classify Estonia not with Latvia and Lithuania but with the Central European countries as already one of the capitalist semi-core countries. Some authors (e.g. Bohle & Greskovits 2006, 2007) are of different opinion, classifying Estonia as a capitalist semi-periphery country, but this author disagrees. It is difficult to see how such a classification can be matched with its leadership in FDI. It may be different from Central European capitalist semi-core countries due to specialization in the higher added-value services. The famous "Tiger leap (*Tiigrihüpe*)" project and Skype technology can be emblematic for a successful innovation policy that helps to reduce the disparity between technology frontier and pursuer countries.

Paradoxically, during the "golden years" from 2001 to 2007, Estonia may have been distracted from such development trajectory because during this time financial inflows from abroad served to support domestic consumption and real estate development rather than to develop export industries or services. As in other Baltic states, wage increases overlook growth in productivityand undermined the country's competitive position. This may change after the 2007–2010 recession, provided that the Baltic states pursue an innovation policy that promotes advanced research and education. Otherwise, the hope that joining the Euro area will give the Estonian miracle a second breath may not be realized.[10] As some Western experts have pointed out, the Baltic states seemed to have reached a dead end in their growth strategies, as the speculative boom was not likely to be repeated in the region in the foreseeable future (Myant & Drahokoupil 2011: 330).

If this would turn out to be the truth, it would mean an unholy twist in the "Baltic way". Instead of becoming the second post-communist country (after Slovenia) that has managed to break into the league of the first-rank rational entrepreneurial capitalist countries, Estonia may fall behind, joining third-rank semi-peripheral capitalist countries.

So far, Estonia has followed the path of foreign-led modernization, and given its size, political economy and EU integration, this path is likely to continue. However, past cases of success suggest this is insufficient for catching up unless the national system of innovation or its sectoral elements are strengthened. Only coupling between foreign and local firms and organizations at the production and technology level ensures synergies and spillovers and in turn virtuous circles (Radoševič & von Tunzelman 2006: 325).

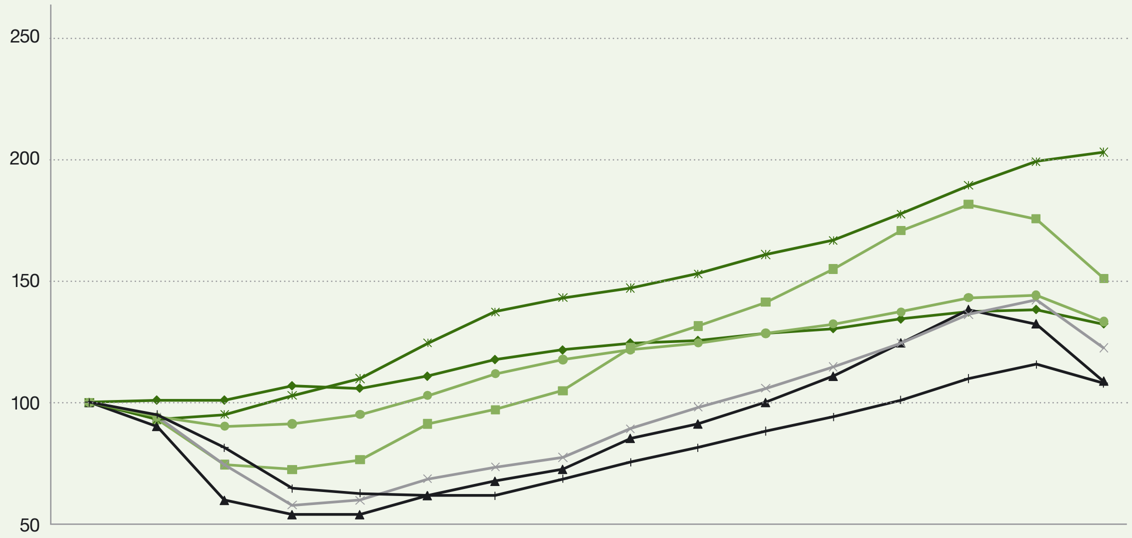
Capitalist semi-periphery is the present position of Latvia and Lithuania. Both have trailed along the "Baltic way" in the steps of Estonia in the two first decades of restored independence. When foreign capital arrived to the Southern Baltics, the enterprises with technological capabilities in middle to high-tech level manufacturing were already bankrupt, their equipment was stripped away for alternative uses in services and low-tech level production (e.g. domestic or gardening appliances for local markets) and large parts of the labour force was deskilled. Foreign investments were directed to banking, telecommunication, infrastructure monopolies sectors and they did not contribute significantly to their maintaining or upgrading of the export-orientated production capabilities. Those surviving and start-up Lithuanian and Latvian enterprises that were able to enter foreign markets could do this only by joining consumer driven international commodity chains as subcontractors for low-skill labour intensive products. Therefore, these countries entered the "low road" development path, characteristic of semi-periphery countries.

Disappointingly, the "golden years" from 2001 to 2008 were not used for the sustained attempt to break with emerging suboptimal path-dependence. According to the findings of Jüri Sepp and Tiiu Paas (2008), Lithuania was almost unique among EU countries by its economy "swimming against the tide" in the added value structure in 2000–2005. Most of them (including Esto-

9 See Myant M., Drahokoupil, J. (2011). Transition economies, p. 279. Calculated from the UNCTAD Foreign Direct Investment database, available at: http://unctadstat.unctad.org/ .

10 It still cannot be accepted as granted that participation in the European Monetary Union will favour rather than slow down Estonia's real convergence with most developed countries of EU (see e.g. Begg 2006).

Figure 1.4.3. Changes in GDP in Estonia, Latvia, Lithuania, Poland, Finland and Russia.



	1990	1991	1992	1994	1995	1997	1999	2000	2002	2003	2004	2005	2006	2007	2008	2009
EU27	100	101	101	107	106	111	118	122	125	126	129	131	135	138	139	133
Estonia	100	93	74	72	76	91	97	105	123	132	142	156	172	183	177	152
Latvia	100	90	59	53	53	61	67	72	85	91	100	111	125	139	133	109
Lithuania	100	94	74	57	59	68	73	77	89	98	106	115	125	137	143	123
Poland	100	93	95	103	110	125	138	144	148	154	162	168	179	191	201	205
Finland	100	94	90	91	95	103	112	118	122	125	129	133	138	144	145	134
Russia	100	95	81	64	62	61	61	68	75	81	88	94	101	110	116	108

Source: UN World Economic Prospects and Social Survey. Update as of mid-2010. www.un.org/esa/policy/wess/wesp.html

nia) shifted to a post-industrial service economy (with Ireland as the most pronounced case) and witnessed a decline in the share of industry due to an increase of the traditional services (trade, tourism, transport). Lithuania demonstrated both a decline in the share of industry and a shift away from modern services. Latvia made no progress towards modern services, displaying decline in industry.

Neither Latvia nor Lithuania used the improved economic situation to balance their budgets and increase allocations for research and development. Lithuania even missed the opportunity window to join the EMU as early as 2007. The reform of higher education was delayed in Lithuania, and when it was finally launched in 2009, it went in the wrong direction by not providing for the emergence of at least one research university. The economic growth between 2001 and 2008 was mostly internal consumption driven, being propelled by the "generous" private credit policies of the foreign owned banks. The construction and real estate sectors expanded, while many enterprises producing for export lost their competitive advantage due to wages increasing more rapidly than productivity.

These are the main causes why Latvia and Lithuania (with Estonia next) became the European Union countries that were hit most harshly by the very first blow of the worldwide crisis: the worldwide credit crunch following the collapse of the Lehmann Brothers bank in September 2008. In coping with the crisis, all the Baltic states choose the policy of maintaining the currency peg at all costs. This led to internal deflation with unemployment up to 20% of labour force in Latvia and a decrease in both nominal and real wages. The outcome was an unprecedented wave of emigration. Given the slow recovery from the present crisis, these processes may push Latvia and Lithuania downwards towards the status of peripheral remittance economies. This would mean the failure to develop an internationally competitive economy and unclear prospects for future successful development.

Why Estonia forged ahead, and Latvia and Lithuania were left behind?

So the big picture of where the Baltic states are now after 20 years of post-communist transition should be clear. All three countries are examples of emerging and still immature liberal market economies. However, while the capitalist semi-core country of Estonia is poised for another spurt to join the capitalist core after joining the EMU, semi-peripheral Latvia and Lithuania are struggling to restore their macroeconomic balance and not fall back into the periphery of the world economy due to their failure to build export basis.

As far back as 1994, foreign analysts praised Estonia as "a shining star from the Baltics" (Hansen & Sorsa 1994), while the economic performance and reputation of Latvia and Lithuania was rather mediocre. In 1997, the European Union (EU) recognized Estonia's stronger performance by inviting it to begin negotiations on accession two years ahead of the other Baltic states. As the data on GDP dynamics in Figure 1.4.3 display, the decline of GDP during the period of economic recession in Estonia was smaller than in other Baltic states, and the country achieved better economic results after the recovery. In 2004, when all three Baltic states joined the EU, Estonia was the only one of the Baltic states that had GDP surpassing the level of 1989.

Another question of interest is why the running order is different from that in pre-communist time. Before 1914 and in 1940, Latvia was the leading Baltic country in terms of cultural, social, and economic development. Estonia followed closely behind, and Lithuania was a distant laggard. Before World War I, Riga attracted huge immigration from Lithuania, and "the pejorative image of the Lithuanian as a dirty, shiftless, landless labourer lingers in Latvia to this day" (Lieven 1993: 182). In the post-Soviet time, Estonia is valedictorian, outpacing with increasing distance Lithuania, which slightly outpaces Latvia. Why has Latvia lost its previous leading position? Will Estonia become the Baltic Lombardy in the not too distant future, with Latvia and Lithuania lapsing into Baltic Mezzogiorno? Intriguingly, the gap in social-economic development separating Lithuania from Latvia and Estonia was closed in the Soviet era. It re-opened in the first decade of post-communist transformation, though it is still not as large as it was in the interwar time. Lithuania was then one of the most underdeveloped European countries, while many Estonians and Latvians believe that their countries were on a par (if not better) with Finland.

These questions generated a variety of different explanations. In so far as multiple conjunctural causation is a characteristic feature of economic and political change (see Ragin 1987: 19–33), one cannot assume that Estonia's success had only one cause. Rather, there were several causes jointly producing the outcome. At this point, we discuss the list of putative causes with a brief commentary on their credibility. Because most explanations were independently advanced by authors, the list may be not precise about their authorship. Also, the order in the list does not indicate how important the cause is. However, I will close with a remark about what may be their most plausible hierarchy order. But in dealing with 3 cases, it may never be possible to know how much each of them did matter, as it is possible to conduct large N statistical analysis that allows for the assessment of how much of total variation in dependent variables is explained by each of the independent variables.

(1) Estonia's **geographic location** did matter. Estonians understand the Finnish, and during the Soviet period residents of northern Estonia could watch Finnish television. After 1992, the abolition of all export and import duties made Estonia an attractive place for weekend shopping tourism from Finland. According to recent research (Bandelj 2008: 131–167), FDI is not just product of an investor's calculation of risk and return. Instead, decisions on investing are influenced by business and personal networks in which investors and hosts are participating and by culturally embedded understandings about most appropriate partners. Because of ethnolinguistic affinities and perceived cultural proximity, Estonian businessmen were natural first preference partners for their colleagues in Finland and the Scandinavian countries. Although the economies of Finland and Sweden were in deep recession in the early 1990s, the "Finland factor" (or, more generally, the "Nordic factor') worked to Estonia's advantage in the inter-Baltic competition for FDI and other favours of cooperation with advanced countries. After accession to the EU, the Finland factor helps to mitigate mass emigration problem common to all Baltic states, because many Estonians can commute to work in neighbouring Finland, instead of permanently settling down in Ireland or the U.K., which are the primary immigration countries for Latvians and Lithuanians.

(2) During the Soviet era, Estonia's economy in may have been **less structurally distorted** by "socialist over-industrialization" and "negative added value" (if calculated using comparative prices revealed by the international competition) industries than the other Baltic economies (see e.g. Nørgaard 2000: 175). Among the Baltic states, Latvia suffered most from this plight, hosting most "all-union" enterprises with the widest range of inputs, which were only viable as parts of the centrally planned Soviet economy. Producing sophisticated, but technologically out-dated output, they had the least chances to survive and adapt.

(3) The Estonian government implemented **more radical** ("shock therapy" or "big bang") type of **market reforms**, while in Latvia and especially in Lithuania the gradual approach to market reforms prevailed. These reforms included macroeconomic stabilization, internal and external liberalization of the economy, and privatization (these reforms are covered in more detail in the next subchapter). Under shock therapy, all three kinds of reforms are implemented in a radical way and with maximal speed. This includes currency reform or radical devaluation, balancing the state budget through spending cuts, instantaneous abolishment of all price controls, subsidies, duties, capital account and foreign currency exchange controls, and immediate small and large-scale privatization. Gradual reforms mean that the government determines and enacts new economic legislation in order to launch stepwise reforms, allows for private start-up enterprises to develop until a "two-track" economy emerges, privatizes small enterprises but postpones large scale privatization. There is a philosophical difference behind these two strategies: "shock therapy" doctors consider the market as natural order of human interaction that starts to work after the state vacates the field; according to gradualists, efficient markets are conditional on the institutions that can only be created and maintained by the state with strong infrastructural power capabilities.

    If measured by these definitions, only market reforms in China, Vietnam, Hungary and Slovenia (thanks to their beneficial legacy of market socialism elements) were clear gradual reform cases. The collapse of the Soviet economy in late 1991 simply did not allow for gradual market reforms, as it demanded swift emergency action. The real choice was between radical (shock therapy), partial, and minimal market reforms. In all three Baltic states, shock therapy-style reforms were implemented. What really may have mattered, however, was their sequence. While market reformers in Lithuanian were busy launching large-scale privatization as early as possible, in Estonia they were more concerned about stabilization. The breakthrough was already achieved in June 1992, when Estonia left the ruble zone. Lithuania followed this lead after another year, when the national currency, Litas, was introduced in June 1993. However, their first successes came only a year later, when Litas were pegged to the USD. At this time, the bulk of the state-owned enterprises (with the exception of a few "strategic enterprises") were already privatized.

The mass privatization under hyperinflation provided Lithuania with shock therapy in the form of partial reforms, the adjective "partial" meaning both their incompleteness and the non-impartiality of their distributive consequences. This is the version of market reforms that according to some analysts prevailed in most of the former Soviet republics and South Eastern Europe (see Hellman 1998). The postponement of stabilization and incomplete external liberalization provided the opportunities for the early market reform winners to seek rents by price arbitrage, receiving credits (de facto free grants) from the state banks, and buying state enterprises for asset stripping. In fact, the window of opportunity for such "uncreatively destructive" and parasitic activities in Lithuania was open much longer than in Estonia. This may be important for explaining why the post-transformation recession was deeper in Lithuania than in Estonia.

(4) **The differences in the large-scale privatization methods** may have mattered. In Lithuania (following the Czech example), the primary method was voucher privatization, which favoured the insiders. In Estonia (following the German example), the privatization agency was established to sell state enterprises to outsiders through direct sales or investment tenders (see Terk 2000). This method of privatization favoured foreign investors who could only pay real money or provide the investments. The Estonian method was more successful. The Lithuanian voucher privatization did not provide new investments and technology for enterprises. In Estonia, most foreign investors brought new expertise and access to new markets. Even if modest, the revenue from privatization helped to consolidate the Estonian state budget during the most difficult years 1992–94. From 1993–95, Estonia attracted USD366 million, Latvia USD143 million and Lithuania only USD42 million in foreign investments (Aslund 2002: 436). Together with "Nordic factor", this may help to explain why Estonia recovered earlier than Lithuania.

(5) Most of the market reforms in Estonia were implemented by the government (from 1992–1995) of the right-wing coalition with the nationalist and market neo-liberal Fatherland Union (Isamaaliit) party as its core, which maintained its election promise to **"clean the house"**. This government implemented a de facto lustration, thereby largely removing the administrative elite from the Soviet time. Fredo Arias-King (2003) even considers this as a key part in explaining the Estonian success: youth, courage or recklessness and the low level of administrative competence on the part of the Estonian leaders benefited reforms under the conditions of extraordinary politics. In Lithuania, the first post-Soviet parliamentary election was won by the ex-communist Lithuanian Democratic Labor Party – LDLP. As a result, there was much more personnel continuity in the state machine. This may be important for explaining why perceived corruption is less in Estonia than in Lithuania.[11] Lower levels both of perceived corruption and real corruption (much more difficult to measure) had economic consequences, helping Estonia in competition for FDI and decreasing transaction costs in doing business.

(6) 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.[12] Therefore, we should point at explanatory arguments that attempt to take into account the cultural and ideological background of economic and political choices. One culturalist argument refers to the perceived **Russian threat factor**. The alleged problem of the citizenship rights of the Soviet-time Russian-speaking immigrants is the card that neighbouring Russia can play to undermine the independence of Estonia. In Lithuania, Russia was stripped of this card by granting these rights to all permanent residents of Lithuania. More concerned about the Russian threat, Estonians mostly vote for right-wing parties, giving them a free hand to implement radical economic policies with very harsh short-term welfare consequences. Feeling less concerned about Russia, Lithuanians are less patient, voting for ex-communists and then left-to-centre populist parties (see e.g. Mygind 1997: 144). Truly, the identity politics factor may be very important in explaining the differences in the voting behaviour between Estonians and Lithuanians.

(7) Another culturalist argument is **"Weber's thesis for Baltic"**. This is the how the German researcher, Katrin Mattusch, summarizes the differences in opinion trends between Latvians, Estonians, and Lithuanians, registered on the eve of the exit from communism in 1990s by the World Value Survey:

Lithuanians <...> take guidance from traditional values in family life, are personalistically orientated, fairly authoritarian, have high demands of equality for the community, believe that one can achieve little in life and society by her/his own efforts and are less disposed towards capitalist ideas of property and distribution. Estonians are more secularized; they conceive family roles in a less traditional way and display the individualistic, autonomous, and achievement-orientated understanding of their role in society. They have interiorized to a lesser degree the requirements of equality (although they accustomed themselves to the socialist provision state

11 According to (the Corruption Perception Index data for 2010, Estonia – 26th, Lithuania – 46th, Latvia – 59th place in the list including 178 countries. See http://www.transparency.org/policy_research/surveys_indices/cpi. Accessed 14/02/2011.

12 This is rightly pointed out by Marju Lauristin and Peeter Vihalemm (2009: 4).

(*Versorgungsstaat*) too). They provide more support for the capitalist ideas of management and differentiation. With respect to all of these basic value ideas, Latvians take the middle position between Lithuanians and Estonians. It seems that this culture is characterized by the mixture of different traditions" (Mattusch 1997: 81–82).

It takes just one additional step to relate these differences to the **impact of Protestantism** on Estonian culture versus the influence of Catholicism. It is important to remember that the Max Weber`s well-known thesis about the Protestant origins of the "spirit of capitalism" (capitalist economic culture) refers not to Protestantism in general but only to some of its denominations. Lutheranism was excluded by Weber except for its Pietist revival that has spread as Herrnhuter movement also in Estland and Livland governments in the 17^{th}–18^{th} centuries (see Norkus 2007).

The third Baltic state – Latvia – is both an important test case for some of these arguments as well as a separate explanation problem. Like Estonia, its culture has Protestant roots[13], identity politics with a focus on the Russian threat was of no less importance, there was no influential ex-communist party, and Latvia like Estonia was governed by the right or right-of-centre coalition governments. The de-facto lustration and personal change in the state administration was even more radical than in Estonia, because in the Soviet time its personnel included a very significant proportion of ethnic non-Latvians. They were removed after 1991 because of alignment with pro-Moscow forces, paving the way for ethnically Latvian officials whose youth, courage and the low level of administrative competence was not below that of their Estonian counterparts.

However, Latvia fell back not only behind the Estonia, but also behind Lithuania. It seems that all the possible advantages in the initial socio-political and cultural conditions were overridden by a single unfavourable background condition: the near minority status of Latvians in their own country at the beginning of the post-communist transition. Because of intense immigration, a unique situation emerged in Latvia in which the ethnic division of labour was more resembling of that in the Soviet republics of Central Asia. Russian-speaking immigrants were a majority not only among the industrial workers of the low and middle qualification, but also in the ranks of engineers, technicians, highly skilled workers and representatives of other modern professions (see Dreifelds 1996: 159).

These tendencies in the **ethnic division of labour** intensified even more after 1990, as restrictive citizenship laws diminished the opportunities of employment in the public sector for Russian-speaking population. According to Petty's law pattern, the enterprising and aspiring for vertical mobility Russian-speakers directed their energies towards self-assertion in the private sector. According to some surveys, by the middle of the 1990s Russian-speaking business people comprised up to 80% of business people in Latvia (see Bleiere, Butulis et al 2006: 477, also Dreifelds 1996: 127). These entrepreneurs used the opportunities that Latvia enjoyed as transit land and provider of off-shore services for Russian businessmen. Therefore, capitalism in Latvia took over many features attributed to the "wild" Russian casino and political capitalism.

An important activity sphere of the Russian-speaking economic elite in Latvia was financial intermediation services for Russian businessmen, sometimes involving what is classified as "money laundering". This contributed to the rise in Latvia of the bloated banking sector in the early 1990s that suffered repeated crises caused by the failures of the biggest Latvian banks, mainly on the Russian market. During the banking crisis in 1995 alone about 40% of bank assets were lost (see Hallagan 1997: 74). The banking crises damaged Latvia's real economy more than those of its Baltic neighbours, slowing down its overall economic recovery. History repeated itself in 2008, as the Latvian government's costly engagement to save the collapsing Parex bank from the Russian sector in Latvian business made the general economic crisis the most severe in the Baltic states. The Estonian strategy to exploit its more liberal economic environment to become a regional financial and other services centre for Nordic CME countries (a kind of Northern Hong Kong or Luxembourg) seems to have paid off more than Latvia's attempt to establish itself as "near Switzerland" for Russia and the other former Soviet Union republics.

The Latvian policy of macroeconomic stabilization was no less resolute than that in Estonia. However, the fears and complaints of radical nationalists that privatization would end with Russians hijacking Latvia's economy caused vacillations and zigzags in the economic policy of the right-wing governments that impeded and slowed down the recovery of Latvia's economy even more than the comeback of ex-communists in Lithuania with the ensuing partialization of shock therapy reforms (see Norgaard et al 1996: 147; also Nissinen 1999: 216–244).

In Estonia, restrictive citizenship legislation and the ensuing dominance of identity politics may have safeguarded the continuity of the neoliberal economic policy over the government changes. If Russian-speaking immigrants were granted citizenship rights, their votes most probably would have been won by the left-of-the centre parties or would have favoured populist politics. But more committed neoliberal market reforms were only one causal factor why Estonia forged ahead of its immediate competitors on the Baltic way towards affluence. These factors can be divided into background conditions ((1) advantages of location, (2) less deformed economy during the Soviet era, (7) legacy of capitalist economic culture), and proximate causes ((3), (4), (5), (6)). These include contingent factors related to agency, while background conditions refer to obstacles or opportunities that were not dispensable. Given more favourable background conditions, Estonia's economic performance would not be worse and that in the human development (which means better life) would be better, if its market reforms had been more socially sensitive.

13 However, one should not forget that Latvia includes Catholic Latgale and that Courland was not affected by the Pietist revival.

1.5. From state-owned enterprises to innovation-based entrepreneurship: a comparison of the Baltic states

Erik Terk, Alasdair Reid

Transition is a complicated body of processes, which consists of political, economic and other reforms, social adaptation, changes of mentality, etc. The previous subchapter attempted in a holistic manner to view the transition process as a combined effect of various factors, and thereby find explanations as to why the developments in one Baltic state or another were more or less successful or why they moved in specific directions. This subchapter will also attempt to find and explain the differences and "branching out", but it also concentrates on one of the main issues, namely the development of a new, preferably efficient structure of ownership and entrepreneurship.

The present text will not be limited to the general treatment of ownership reform as one of the components in creating a market economy environment; instead, we shall specifically study the aspects of the transformation of the ownership and entrepreneurship system in Estonia, Latvia and Lithuania. This choice of study focus is based on the idea that the development of the macroeconomic and business environment in the Baltic states has been affected by generally similar factors and its dynamics have been relatively analogous (see The Baltic states… 2000)[14]. The economic declines related to the disentangling from the USSR began roughly at the same time and the magnitudes of the declines were also comparable, as were the macroeconomic stabilization patterns. While the currency reforms were carried out in a technically different manner, the three countries' monetary policies, however, could be considered rather similar. Over the course of development, the common motive of joining the European Union worked as an incentive for corresponding economic patterns. The general level of the tax burden has also been comparable, but it differs from that of the Central European transition economies. True, certain differences can be observed in the forming of the market economy environment; some of them have been outlined in the previous subchapter, but in their case it was mostly about differences in the speed of implementing the reforms or the larger or smaller consistency of the reforms rather than principal differences regarding the strategic issues of economic transition. Judging from the latter aspect, all three Baltic states are considered as orientated towards the liberal economy and are faithful followers of the so-called Washington consensus developed by the IMF and the World Bank. Yet**, the development of the ownership and entrepreneurship structures in the three countries has occurred in a rather different manner** and, accordingly, this could be considered, at least hypothetically, a body of crucially important questions, which could show why the transition process in Estonia has been more successful than in Latvia or Lithuania. This experience would be difficult to explain based on the dynamics of macroeconomic parameters. For instance, the level of inflation, which is considered to be one of the most significant success-creating parameters of the macroeconomic environment, was lower in Latvia than in Estonia for many years in the 1990s, yet Estonia's economy began to grow at a faster rate than that of Latvia.

The initial point in the forming of the new economic structures is ownership reform (privatization). However, as several authors have pointed out (see Bornstein 2001), it is not sufficient to merely analyse the ownership and entrepreneurship structures that emerge in the process of privatization; it is also necessary to study the developments of the post-privatization period (post-privatization restructuring).

However, the specific elements of the entrepreneurship structures, which emerged from the ownership reform, explain the developments of the 1990s rather than those of the later period. The critical parameters of efficient entrepreneurship structure are not the same at various development periods of countries' economies. Our logic is based on the treatment of Michael Porter (1990), according to which the countries' economies pass the resource-based, investment-based and innovation-based stages in their development. The first of the listed stages, where the Baltic states were at the beginning of the 1990s, is characterized by the concentration of a large number of enterprises on the export of raw materials, in our case, for instance, the export of unprocessed or nearly unprocessed timber. During the next stage, the launching of somewhat more complicated production systems emerges, requiring a more reliable business environment and discipline among business partners in order to attract investments. A gradual increasing of efficiency and reducing costs, by using scale economy, becomes of central importance. Countries that leave behind state socialism are expected to increase their production efficiency, if they introduce adequate policies, and narrow the gap between them and developed economies. However, wages would increase during this process and the cost of other production input would grow as well. The country would no longer remain competitive in the niches of the investment-based economy and would inevitably have to rely on more expensive and sophisticated products and services, modernize its products and business models – develop an innovation-based economy.

In the following text, we shall presume that the challenges of the innovation-based economy became relevant for all the Baltic states in the first decade of this century, although at somewhat different moments in time. While the central issue of the previous decade had been the development of business structure based on private own-

14 It is true that Estonia's opening to foreign trade was somewhat more radical than that of the other Baltic states through waiving import tariffs altogether.

ership and the so-called primary restructuring, which took place parallel with privatization or afterwards, as well as the growth period dependent on its success, achieving the threshold of the innovation-based development stage made a further restructuring relevant, which would meet different requirements.

This subchapter has been structured accordingly, initially addressing the comparison of the privatization models and the subsequent developments and then analysing the implementation of innovation policies.

Privatization models in the Baltic states and their realisation

It has become customary to single out five privatization models (Mickiewicz 2010: 162-167): 1) sale to outsiders; 2) management buyouts; 3) employee buyouts; 4) massive use of privatization securities (voucher privatization); 5) re-privatization (restitution). When voucher privatization is directed at the employees of the enterprise, it should be classified as the third model, rather than the fourth[15].

Let us now discuss the progress of privatization in the three countries according to the subjects listed in Table 1.5.1.

There were **no significant differences in the Baltic states' starting positions**. It is true that the implementation of new entrepreneurial opportunities made available during the Soviet regime at the end of the 1980s (leased enterprises, semi-private small firms, joint ventures with foreign capital, newly-formed cooperatives in the services sector) was somewhat slower in Lithuania than in the other two Baltic states. Estonia led in the establishment of the first joint ventures and had also begun preparations somewhat earlier (since 1987) for drafting the basic principles for the country-centred economic and entrepreneurship reform. However, these differences were quite moderate. It should be pointed out that while a solid small business-based private sector had developed in several Central and Eastern European countries during the period of erosion of state socialism and at the beginning of transition to market economy, only its rather limited embryos could be observed in the Baltic states.

Certain differences, which had a potential effect on the restructuring of entrepreneurship, were apparent in the economic structure of the Baltic states at that time. Latvia's industry was characterized by the high share of so-called all-union enterprises, many of which were linked to the military complex of the USSR. Although such enterprises predominantly manufactured end products and belonged to the sectors that were considered technologically advanced (radio electronics, electrotechnical equipment, instruments), they produced it largely for the Soviet market and were dependent on a wide network of subcontractors in the Soviet Union. The reorientation and restructuring of such enterprises in the new environment was extremely difficult. Many such enterprises faced decline and collapse in Estonia as well, but, unlike Latvia, the share of smaller and more flexible industrial enterprises was larger in Estonia.

The tertiary sector (services sector) was backward in all three countries in comparison with market economies. The share of GDP of the tertiary sector in Lithuania as a largely agricultural country was a couple of percent lower than in the other two countries. However, this small difference was less important than the advantages in the development of services and trade enjoyed by Tallinn and especially Riga thanks to their location, while in case of Estonia the semi-private entrepreneurship experience from the 1980s is also noteworthy. The emergence of new entrepreneurship and small-scale privatization occurred more or less analogously in all three Baltic states. On the other hand, significant differences could be observed in the **privatization of large enterprises.**

The Lithuanians chose the voucher-based method as the main model of privatization and managed to realize it quite rapidly in the initial years. It is somewhat unfair that countries such as the Czech Republic and Russia have been highlighted in the analysis of the international experience of voucher privatization, while the massive voucher privatization in Lithuania has been viewed for some reason as being less interesting or worthy of analysis. "At the time when the Polish government's sectoral privatization and mass privatization failed in 1990–1992 and when Czechoslovakia was still making early plans for mass privatization, Lithuania leaped ahead of the others as early as 1991 with its integrated privatization programme" (von Hirschhausen & Wan-Sze Hui 1995: 10). The peak of mass privatization in Lithuania was in 1993. By the end of 1994, more than 75 percent of industrial and transport enterprises in Lithuania had been privatised, while the percentage in construction and services was significantly higher. The privatization methods used by that time comprised to a more or less equal degree of auctions (in the case of smaller enterprises) and voucher privatization (mass privatization).

The Lithuanian mass privatization made parallel use of so-called people's shares and vouchers meant for the employees of the enterprise, while the advantages granted to the enterprise's employees in the use of the vouchers increased over time, unlike the method used in Estonia or Latvia. Some authors have explained the popularity of this "distribution ideology" with the egalitarian attitudes of the Lithuanian politicians and the people, as well as the relative strength of trade unions in comparison with Estonia and Latvia (Čičinskas 1994). Without denying it, the reasons were also apparent in some foreign and domestic political factors.

The table shows that in all three countries **the emphasis transferred from one privatization model to another over time**. While it could be considered pre-planned to some extent in Lithuania's case as the sale for cash was intended to be carried out at the end of the period, in Estonia's case a struggle between the different privatization ideologies is clearly apparent, which ended with a compromise, but direct sale eventually retained its dominating role in the privatization of enterprises. In Latvia's case, there was largely an inability to decide between the various models.

The analysis of the privatization processes shows that although the type of the initially chosen privatization model is important, it is far from crucial in the further process. Much depended on the organization and rapidity of the privatization process, as well as the ability to make

15 However, in cases, when the voucher privatization does not target the employees directly, yet the employees have considerable advantages in the use of their vouchers, as happened in Lithuania, there could be problems in differentiating between the two models.

Table 1.5.1. Privatization and the forming of initial ownership structure

	Estonia	Latvia	Lithuania
Basic characteristics of initial position for privatization	Certain time advantage in the preparation for economic reforms and launching of new semi-state-owned (small) enterprises. National heterogeneity (so-called new migrants) as a potential problem in privatization and restructuring	Problem posed by domination of large all-Union (military) industrial enterprises. Potential conflicts between various ethnic groups analogously to Estonia. Excellent geographical location for claiming the role of economic bridge between the East and the West.	High significance of agriculture and small share of the services sector. Relative ethnic homogeneity as a premise favouring reforms and system change.
Privatization model and its transformation	According to initial ideology basically orientated at direct sale for cash. The model was subsequently changed towards vouchers and restitution. From the autumn of 1992, a return to direct sale for cash	Initially declared as voucher- orientated. Subsequently longer indecision between various models. Starting from 1994 movement towards the Estonian final model	Initially definitely voucher-centred. Direct sale for cash starting from 1995.
Institutional organization of privatization	Initially via State Property Board and a special privatization enterprise, later via a Privatization Agency formed by their merger in the autumn of 1993 (centralized option)	For a longer time via branch ministries (relatively decentralized option), starting from the summer of 1994 via a Privatization Agency (similarly to Estonia)	Initially via spontaneously formed investment funds (decentralized option). Later direct sales in different organizational framework
Attempts to restructure or reorganize enterprises before privatization or during it	Practically never happened (except for sale of some enterprises in parts)	Some attempts existed, but their realization was complicated in the initial period, hesitation between sale and restructuring plans slowed down the process. From 1996, a division of labour was introduced: privatization agency handled privatization, while the development agency addressed restructuring.	Not allowed by voucher privatization
Launching and speed of privatization	Despite quite early preparations large-scale privatization was launched only in the 2nd half of 1992 (except for experimental privatization of a limited number of large enterprises). Speeded up after the passing of the privatization act and the launching of the privatization agency in the 2nd half of1993. Subsequently very rapid sale thanks to successful technology. Peak year of mass privatization: 1994	Launching large-scale privatization was delayed, speeded up only after the centralization of privatization (launching of privatization agency in 1994)	Voucher privatization was launched rapidly; its completion was somewhat delayed. Peak year of mass privatization: 1993. Switching to direct sale reduced the speed of privatization
Availability of finances via domestic banks during massive sale period of large enterprises	Thanks to the development of domestic commercial banking credit and investment, guarantees were sufficiently available to buyers	A serious banking crisis coincided with the period of accelerating privatization, which prevented the banks from participating in privatization crediting	Commercial banking was still in the embryonic stage during the early period of privatization. This was one of the reasons for the preference of freely distributed vouchers as a privatization scheme
Involvement of foreign investors	The option supported by economic policy, but there were initially few foreign buyers due to confused economic environment. Increased since 1995, especially with the sale of major enterprises, which were too expensive for local investors	Weaker than in Estonia	Very small, apparently not supported by the economic policy
Transformation of ownership structure during privatization	Significance of enterprises' management or employees was equal or slightly higher than that of outside buyers in the first years of large-scale privatization; Estonian outside buyers clearly dominated in the following years.	The largest significance of enterprises privatised directly by management in comparison with the two other countries.	Very large proportion of shares concentrated among enterprises' employees after voucher privatization (incl. common workers rather than management), typical high dispersal of enterprise shares, absence of controlling interest

Source: Authors' compilation

use of the specific opportunities offered by a particular period.

After the delay caused by the struggle between the different models, Estonia managed to significantly accelerate its privatization from the beginning of 1994. That acceleration was based on several factors: the centralisation of privatization (via the privatization agency), the adoption of adequate legislation, which helped avoid unnecessary debates (the Privatization Act), strong political determination (there were practically no debates between the Estonian political parties regarding the need for the rapid privatization of regular enterprises), excellently devised and smoothly realised bidding technology with preliminary negotiations. The demand of employment and investment guarantees from potential buyers also helped to develop a positive attitude towards privatization. That method had been adopted from Germany's privatization practice. The sharing of roles between officials and politicians in the sale of enterprises was another success – the officials prepared the sales, while the decision of sales was made by a broad-based council of the agency, which consisted predominantly of politicians, including the political opposition. This significantly helped to reduce political accusations against the officials involved.

Two aspects have often been emphasized in regard to Estonia's privatization practice; firstly, the copying of the privatization technology of the German *Treuhand* agency, and secondly, the considerable emphasis on foreign investors as potential buyers. In fact, either claim is only partially true (for details see Terk 2000). The development of the enterprises' sale technology relied greatly on the German example in the initial period of privatization, from 1992 to 93. The sales technology, which was initially based on the German ideas, was subsequently revised to a great degree, both during the drafting of the Privatization Act and the finishing of the processes by the Privatization Agency, especially towards the speeding up of the sales. The version realized in practice was actually an original sales preparation and selling technology adjusted to Estonia's conditions, which differed from the German one in quite a number of aspects (e.g. significantly smaller attention to the enterprises' pre-sale reorganization and restructuring as well as giving up the sectoral organization of sale). The desire to attract foreign investments via privatization was clearly present, but the sales statistics certainly do not show their dominance. It would be more correct to state that foreign investors, Estonian local buyers and the enterprises' managements could quite broadly participate in the privatization process.

A very important role in privatization in Estonia was played by commercial banks, which either granted or refused loans to the potential buyers and endorsed or rejected their investment guarantees, thereby effectively deciding who could take part in privatization. The investment funds, which developed from banks (e.g. Tallinvest), also took part in privatization as independent actors. It should be pointed out that in Latvia and Lithuania, the period of privatization, when enterprises were directly sold for cash, unfortunately coincided with the time when commercial banks experienced great problems. Therefore, their role in the Latvian and Lithuanian privatization remained smaller than it could have been.

Post-privatization restructuring

The success or otherwise of a privatization model and policy can only be assessed by observing the privatised enterprises' post-sale results and the further dynamics of the privatised enterprises' ownership and entrepreneurial type. This should consider further changes of ownership (e.g. sale from domestic to foreign owner) and the concentration of stock in the hands of a smaller number of owners (or the opposite process). As Morris Bornstein (2001) shows, post-privatization restructuring comprises both long-term strategic measures and short-term survival actions (cutting workforce, replacing production input by cheaper if possible, selling unnecessary equipment, increasing the sales of products of higher demand and abandoning the production of those of smaller demand or unprofitable, in some cases directing existing products to other markets or introducing new product modifications if this could be implemented rapidly). Which option the new owner takes and how rapidly it is implemented depends on his motivation and financial ability. Restructuring is closely related to the governance type of the developing business organization (arrangement of relations between the owners and managers), its operation and quality. Strategic restructuring could transform into a change of resources allocation at an inter-sectoral level.

Which of the ownership structures likely to develop would be the most efficient for further economic development? Theoretical works on the transition period, especially the earlier ones, have frequently emphasized the advantages of foreign investors compared with the domestic ones and the advantages of outsider ownership versus the so-called insider ownership (the management and/or employees of the enterprise). However, empirical studies of the Baltic states' post-privatization period show that this need did not always hold true. Terk and Pihlak point out in their study (1995), which covered larger enterprises privatised in Estonia between 1993 and 1994, that at least in the immediate post-privatization years the domestic outsider owners were actually more efficient in Estonia than foreign investors. Jones and Mygind (2002), whose observation period was slightly different from the above study, and whose sample of Estonian enterprises was somewhat broader, comprising also smaller enterprises, reached a conclusion about the sufficient stability and success of insider-owned enterprises, either owned by managers or employees. It should be pointed out, however, that in regard to either study the success could be viewed as short-term. However, there are some results, which coincide in all studies. These are, firstly, the negative effect of the long-term retention of dispersed stock ownership on the progress of the enterprise (in our case the Lithuanian option), and, secondly, the inconsistency of retaining the controlling stock by a larger body of employees during a longer period. The significance of this form of ownership has declined over time in all of the countries under observation.

As for the success of the enterprises' management as owners and domestic outside owners, the issue will remain open theoretically, since it largely depends on the local economic environment where they have to operate long-term and the ability of the owners' groups to mobilise themselves.

When observing the developments of the 1990s as a whole, i.e. as a process, which consisted of the enterprises' privatization as well as their post-privatization restructuring, we can argue that the new structures emerged in the Baltic states at a different rate and that various types of ownership and entrepreneurship structures emerged as well.

In **Lithuania**, the initially rapid voucher privatization eventually ended in relatively closed structures: industrial holdings. A powerful impact of the domestic industrial lobby on politics developed and protectionist tendencies were growing as a result. As a potential advantage of that structure, we could mention relative stability and the pres-

Table 1.5.2. Similarities and differences in the post-privatization restructuring of enterprises and the achieved economic growth rate

	Estonia	Latvia	Lithuania
Dynamics of ownership structure in post-privatization period	Relatively rapid, but varied dynamics in the post-privatization years: movement of ownership from workers to managers, from the enterprise's employees to Estonian outside buyers, from Estonian owners to foreign owners (although not massively). Strengthening of core owners' positions among shareholders.	Ownership dynamics in post-privatization period significantly lower than in Lithuania or Estonia.	Relatively high dynamics, rather rapid concentration of (common) employees' stock in managers' hands
Corporate governance framework and its operation	Strong orientation towards clear defining of owners' and managers' roles in legislation. In joint-stock companies, mandatory two-tier governance system (supervisory board and management board). According to EBRD, the quality of governance was slightly better than in Latvia and Lithuania: dynamics positive. Typical conflicts between owners and managers (owners' interference and excessive restriction of manager's role) rather than between shareholders or their groups due to the restriction of their interests.	In joint-stock companies, one or two-tier governance system. According to EBRD, the quality of governance roughly comparable to that of Lithuania: improving. As the legislation was improving, serious problems were posed by ensuring observance of the laws (better functioning of courts).	In joint-stock companies, one or two-tier governance. According to EBRD, the quality of governance roughly equal to that of Latvia, slightly lower than in Estonia: tendency positive. In the 1990s, there were problems with regulation of the relation between enterprises and industrial holdings (rules of diverting money between enterprises of a holding), practice of "sucking dry" of enterprises, also rights of small stockholders.
Specifics of the developing ownership and entrepreneurship structure	Quite varied (regarding groups of owners) and relatively efficient ownership structure. Number of (industry) sectoral business groups small, cross-ownership of banks with real economy enterprises very limited.	Characteristic business groupings from privatization period, appointment to key positions in various economic sectors on ethnic basis can be observed. Close ties of business groupings with politics.	Ownership structure obstructed efficient development of enterprises for a long time. Large holdings dominated in industry. These temporarily managed to keep the large enterprises from disintegrating and under control of domestic capital, but the price were problems with the development of these industries (capital shortage) and certain protectionist tendencies in national economic policy.
Economic growth in the stabilization period (1995, 1996, 1997, 1998)	4.3%; 3.9%; 10.6%; 4.0%	Minus 0.8%; 3.3%; 8.85%; 3.6%	3.3%; 4.7%; 7.3%; 5.1%

Source: Authors' compilation

ervation of the industrial potential of technological capability, in the hope of utilizing that potential in better times. Yet, so far it has only been realized in rare cases. Time will tell whether the structure largely based on domestic holdings can prove its advantages in the future or whether the ownership structure would rather become an obstruction to the development of entrepreneurship.

In **Latvia**, the development of the entrepreneurship structure was influenced by delayed privatization as well as its implementation by the sectoral ministries in the initial period. This favoured insiders with political and departmental ties. The corruption level of business was quite high (Vanags 1999). Since the Latvian economy included several potentially highly profitable sectors (transit, banking), politics and top business became tightly interlaced, leading to the forming of political parties around various business leaders. The transformation of ownership in the post-privatization period was slow, and several processes which should have occurred in the 1990s were postponed until the next decade. As a result, the Latvian business of the 21st century could not become sufficiently resilient before the latest economic crisis.

The Latvian economy, analogously to the other Baltic states, enjoyed a period of rather rapid growth, e.g. in export, before the decline in the second half of that decade. However, due to several processes, which occurred in the 1990s, this growth period started at a lower level than in Estonia or Lithuania, while the overly restricted ownership dynamics did not favour economic development.

As Havrylyshyn points out (2007), delays with reforms could lead to quite a vicious circle: an increasing possibility that insiders will seize control of property (*rent seeking*), which leads to strong accumulation of property in the hands of certain groups, resulting in so-called oligarchic ownership, which in the end could "capture the state" and block the emergence of undesirable competition.

Although the launch of(large scale) privatization in **Estonia** was also delayed, the privatization model employed lead to a rapid emergence of core owners and the normal dynamics, which increased the efficiency of the ownership structure that continued through to the post-privatization period. As a result, Estonia achieved the highest economic growth rate among all three Baltic states before the 1998 Russian crisis. The ownership structure of the Estonian enterprises was the most varied and open of the three countries. The entrepreneurial community was young, active and quite well educated[16], although their activity was somewhat hampered by the setback following the Russian crisis as a number of "crown jewels" of the new business (including banks) were sold to foreign, mostly Nordic capital in the worsening economic situation. The protectionist lobby and the intertwining of business and politics were relatively weak. The weakness of the entrepreneurship structure was primarily the scarcity of strong leader firms as well as insufficient cooperation between enterprises.

A clear majority of important enterprises in Estonia are presently owned by foreign investors. Accordingly, the opportunities for entering the foreign markets should be better as well. However, there are certain signs showing that international firms with a Scandinavian background and Estonian managers, many of whom started their career as entrepreneurs rather than paid employees, need not always make a happy combination (Elenurm, Terk & Andresoo 2008). The corporate governance and management practice of international firms does not always favour local initiative, while the limited opportunities for strategic choices cannot motivate Estonian managers, who are used to greater freedom of action.

One of the traits that characterizes all three Baltic states was that **no significant number of large enterprises emerged** in any of them with the transition to market economy. This can be stated not only regarding the 1990s, but also about the later period. A survey carried out in 2006 (Müürsepp 2007) showed that Estonia, the most successful of the Baltic states, had only four firms (Eesti Energia, Tallink, Eesti Telekom, Merko Ehitus) listed among the 500 largest in regard to turnover in Central and Eastern Europe (except the CIS countries) and only five among the top thousand. The situation was hardly better in the other Baltic states with three out of the five largest enterprises belonging to Estonia.

The scarcity of large and strong leading enterprises need not be a factor of fatal significance, as Denmark, for instance, is known for its successful small and medium-sized enterprises. Yet, their small number complicates a more extensive attaining by Estonian entrepreneurship of the higher value added niches of the international market. Irish experts, who consulted Estonia a number of years ago (Best & Bradley 2006), pointed out the excessive dispersal of the Estonian entrepreneurship between various industrial sectors and sub-sectors, as well as the resulting need to concentrate around potential breakthrough lines. With the scarcity of flagship enterprises, achieving these goals would require, in entrepreneurship policy in general and innovation policy in particular, highly creative solutions.

On the way towards new restructuring: innovation challenges and innovation policy

Innovation policy and other policies to support innovation (education, management, science, information technology policies, etc.) came to the fore in the middle of the first decade of this century. Obviously, innovation-related moves can be observed even earlier. For instance, three foundations, which could be considered tools of innovation policy – the science foundation, the innovation foundation and the information sciences foundation – were established in Estonia as early as between 1989 and 1990. However, the capital available for supporting innovation was rather limited at that time and the arsenal of policy measures for the same purpose was very small as well. Efforts were made to support the development of high-technology small enterprises, which had spun off from research institutions, but the shortage of marketing and financial management skills and knowledge, as well as the absence of high-technology firms' management culture, obstructed them for quite a long time (Terk 1997). More sophisticated innovative entrepreneurship, especially technologically innovative, was driven to the background as the private ownership-based entrepreneurship structure was taking shape.

The implementation of **information technology** in the Baltic states has moved along somewhat different paths. ICT development is not a separate direction of entrepreneurship, but rather a general basis that creates a foundation for the modernization of the entire economy and social affairs. In that respect, the rapid success of Estonia, in particular, should be highlighted, as it adopted the leading place along with Slovenia among the Central and Eastern European countries by the end of the 1990s and passed by several Western European countries on a number of ICT usage indicators. A slower, yet quite commendable development, in comparison with other countries, took place in Latvia, while Lithuania's progress was somewhat slower. While the number of computer users among residents aged 15–74 years was approximately 20% in Latvia by the end of the 1990s and slightly lower in Lithuania, it had reached one third of the population in Estonia and the rapid growth continued, approaching the 50% limit, which predicts a qualitative change, by 2003. Largely similar dynamics with a lag of couple of years can be observed in Internet usage as well. Estonia reached the limit of one third of population in the 15–74 year age bracket in 2001, while Latvia and Lithuania achieved the same level of Internet usage in 2005. (TNS Emor, e-monitoring).

Estonia's progress in ICT, which is primarily related to the 1990s, has been explained by various factors. It has been emphasized that this was not the case of realisation of a classical, programmed in advance, development plan, but rather was an activity based on timely initiatives and enthusiastic supporters (including key figures), which developed in stages. Emphasis was laid on aspects such as finding the correct and popularly supported focus at the stage of the initial promotion of an idea (bringing Internet to schools, stressing the creating of opportunities for the young generation); first success stories (banking services, e-tax board, later m-parking); increasing the support for ICT development from the state budget (gradual increasing of the initially small budget allocations in 1994–1998); the advantage of "starting from scratch" (e.g. in banking the stage of paying with cheques was bypassed); ensuring broad access to the Internet (Lemberg, Terk & Viia 2007). Estonia's ICT success has not been realized as a nationally important sector of the economy and export on the basis of IT, but rather by demonstrating the efficiency of

16 As early as in the mid-1990s, studies revealed the surprising fact that the education levels of Estonian entrepreneurs in small and medium-sized manufacturing firms were higher than those of their British colleagues (Smallbone & Venesaar 1996)

the state and Estonia's enterprises and by creating a more convenient operating and business environment. It can be argued that this is an important background-creating element for the entire innovative activity in Estonia.

Contemporary **innovation policy** not only concentrates on research and development activities or technological innovation, but also on the various forms and stages of innovative activity. The measures of innovation policy may be directed at the immediate enterprise level as well as the ties between enterprises and universities/research institutions, but also at the development of learning and research institutions as a basis necessary for innovation, at certain investment funds or knowledge management structures, etc. A sign of targeting that type of policy was the adoption of the innovation policy basic document "Knowledge-based Estonia" in 2001.

Since joining the European Union became an immediate future prospect for the Baltic states in the early 2000s, it is logical that the initial innovation policy documents were drafted by using the experience of countries successful in innovation. For instance, it can be stated about Estonia's complex of innovation policy measures in the first half of the decade that it contained most of the innovation support measures used in the EU at that period. The peculiarity was in the fact that, compared with the so-called old EU countries, the financing opportunities of the measures were initially much more limited, while the sphere of enterprises benefiting from the measures was also quite narrow (Terk 2005). The financing opportunities of the measures improved significantly after the use of the EU structural funds became available to the Baltic states. Since then, the Baltic states' innovation policy measures and the extent of their financing have been more comparable with each other.

All three Baltic countries have benefited since joining the EU from significant funds that have allowed them to expand their range of R&D and innovation policy measures and the scale of funding. During the relatively short 2004–2006 period, all three countries launched an initial series of policy measures, most of which were extended into the next period. However, the level of funding was relatively different with Estonia investing 11% of Structural Funds on R&D and innovation, compared to only 6% in Lithuania and 3% in Latvia.

An important element of **Estonian** policy in using the Structural Fund resources was the technological competence centre programme aimed at developing industry-led long-term focused R&D consortia in partnership with one or more academic research teams. This initiative has proven successful and a mid-term evaluation pointed to effects on both the industrial partners in terms of new product development as well as on human resources for science and technology (increased number of industrial doctorates). Equally, Estonia launched a limited in funding but key initiative in terms of promoting an innovation culture, in the shape of the innovation awareness programme (funding for media and events focused on innovation). Interestingly, Estonia placed less emphasis in the 2004–2006 period on investments in research infrastructure at universities, preferring first to boost business innovation.

In **Latvia**, a 'National Concept on Innovation for 2003–2006' was adopted in 2002 but was rapidly replaced by a national programme for 2003–2006 with an emphasis on developing an innovation-friendly environment and the introduction of innovation products or services in export markets. The programme was followed by an action plan focusing on three key measures: a harmonized and co-ordinated innovation-friendly environment, promoting the development of innovative enterprises and a competitive innovation infrastructure. However, it was not until the launch of the Structural Funds post-accession that programmes were launched, with a notably early emphasis on venture capital funding, which was somewhat counter-intuitively given the lack of potential high-growth firms (prior to any serious restructuring/renewal of the Latvian research system).

In **Lithuania**, the focus prior to 2004 was on developing the 'innovation support infrastructure' (incubators, technology parks, etc.) and less on stimulating the demand side. Even from 2004 to 2006, the balance of funding continued to flow towards 'infrastructure' and developing the potential supply of services to firms interested in an input for more sophisticated innovation. Kriaucioniene (2005) underlined that there was not enough done in the early period to develop a broader innovation culture and that the focus of investment was on public (academic) research rather than stimulating broadly business innovation.

Some of the above specific elements continued in the new EU budgeting period since 2007, while others ceased to exist. In financial terms, Latvia became the largest investor in research and technological innovation of the Baltic states. In absolute terms, Latvia intended to invest 855 million euros in research technological innovation using the 2007–2013 structural funds, which amounts to nearly 28% of Latvia's share from the structural funds for the period. In Estonia's case, the corresponding amount was slightly less than half a billion euros. In per capita terms, the gap between Latvia and Estonia was not all that significant – 378 euros in Latvia and 361 euros in Estonia. However, the sum was noticeable lower in Lithuania with only 243 euros. The worrying aspect is that while the EU structural funds had been meant to serve as co-financers for the corresponding national programmes, they have now remained the dominant source of R&D and innovation funding. This raises an important issue about the long-term sustainability of the policy in the event that Structural Fund support is significantly decreased post-2013.

When comparing the research and innovation-related EU structural funds' supports as to the directions of usage, a surprising shift becomes apparent, which would have been hard to predict by the Baltic states' previous policy priorities. While Estonia used to differ from its Baltic neighbours with the strong entrepreneurship emphasis of its innovation policy, the use of the EU funds in Estonia in the period from 2007 is characterized by a greater angle towards research institutions compared with Latvia or Lithuania. Approximately ¾ of the structure funds' support measures in Estonia for that period are planned to be used for the development of activities of research institutions by strengthening their infrastructure and finding the technologies development centres, which are also primarily financing research at the universities. Compared with Latvia and Lithuania, the share of investments interpreted as strengthening the human potential is also somewhat higher in Estonia. The use of the EU Structural Funds by the other Baltic states in that period shows a higher share of financing towards boosting enterprises' innovativeness and the implementation of information technologies than in Estonia. How should we explain this turnaround? One possible explanation is that Estonia presently has different priorities than Latvia or Lithuania, that entrepreneurship has already exhausted the opportunities of "less sophisticated" innovation and has reached close to the cutting edge of technologies, and, therefore, the enterprises' ties with universities and research institutions have become of prime importance for the economy. However, this premise is apparently too idealistic and the changing emphasis in Estonia's innovation policy was influenced to an equal or even greater degree by the fact that the new version of the "Knowledge-based Estonia" document was supervised by the Ministry of Education and Science rather than the Ministry of Economics and Communications.

Estonia's innovation policy as a whole is relatively more sophisticated and consistent than that of its two neighbours (Männik & Rannala 2011). Innovation policy basic measures (e.g. SPINNO – research commercialization from universities, Competence Centres or the innovation awareness programme) have been operational since before the Structural Funds support arrived in 2004. The understanding that innovation is something wider than R&D is clearly present among the policy-makers and the general public. It was reflected in the establishment of the parliament-administrated Estonian Development Foundation in 2006, which was tasked with, besides handling venture capital investments, the so-called future monitoring in order to determine, together with the business circles' and public representatives, new prospective directions and opportunities for innovating Estonia's economic structure. Estonia has also made progress since the improvement of its doctorate programmes and increasing its R&D staff. However, it has to be admitted that not all measures are operating efficiently, as the number of firms making significant investments in R&D activities is small, etc.

The Lithuanian innovation policy mix (Paliokaite 2011) is dominated by financial measures that focus on the public research system (40–50%), with only about 15% for direct support to R&D in firms and the remainder scattered across a large number of other measures. In particular, the amount of direct support allocated to co-operation in the system is fairly limited. Paliokaite criticizes the Lithuanian innovation support system for focusing on supporting the winners and placing too little emphasis on firms not yet engaged in R&D. In terms of boosting the rate of entrepreneurial innovation, Lithuania is the only Baltic state not to have given an emphasis to boosting private venture capital investment.

The main instrument of innovation policy in Lithuania has so far consisted of various 'streams' of investment into public research, ostensibly aimed at boosting academic-business co-operation, but in reality, these are largely a flow of funds to renew academic research infrastructure. In 2008, the Government of the Republic of Lithuania made an attempt to concentrate efforts in scientific research and reseach-intensive businesses. It adopted a resolution on establishing five integrated centres ('valleys') aimed at consolidating the potential of scientific research and knowledge intensive business in the fields of biotechnology, laser technology and material sciences, chemistry, mechatronics, agro-science, and marine sectors. However, following a change of government, it was then decided to implement 20 Joint Research Programmes (JRP; 'joint' meaning that both business and science communities would be involved in implementing the programmes), part of which were related to the above five priority spheres, while others remained outside of them. Moreover, 12 national complex research programmes (NCPs) were approved in: biotechnology and biopharmaceuticals; lasers, new materials, electronics, nanotechnologies and applied physical sciences; sustainable chemistry; ICT; medical sciences; sustainable environment; mechatronics; civil engineering and transport; cultural and creative industries; marine sector; agriculture, forestry and food industry. This poses the threat that such a multiplicity of directions would fail to significantly involve the business sector while the focusing of policy on key 'valleys' would be lost as well.

While the largest share of EU support funds was allocated for **Latvia's** innovation policy in comparison with its neighbours, it is facing the greatest challenges, due to the very difficult economic situation and the public budget (post-crisis economic reality), as well as the contradictory innovation policy itself. Although it has moved somewhat towards applied research, it has been so far focused on consolidating leading research performers rather than the development needs of enterprises. The recent (2010) launch of a competence centre programme (similar to that of Estonia but more driven by the academic sector) is considered a key element in boosting industrially relevant research. However, experts like Kristapsons et al. (2011) argue that there is a lack of correlation between national R&D priorities and the strengths of the national economy and that the Latvian innovation policy so far has been inefficient in emphasising entrepreneurial-driven innovation, by stimulating firms to engage more intensively in innovation and supporting their efforts in that direction.

Generally, it can be said that while Estonia's innovation policy has been more market-based compared with those of Latvia and Lithuania, the latter have made a greater contribution to the development of various types of infrastructures and investments in key technologies. Relying on the financial allocations data, it can be argued that Estonia has also begun to move in that direction during the latest period. It is regrettable, however, that neither Latvia not Lithuania have been significantly successful in creating innovative entrepreneurial clusters. It appears that even in the case of an approach that is primarily targeting infrastructures success would be likely only if a larger number of enterprises (critical mass) could be involved in innovation.

The 2007–2013 investment Structural Funds is largely focused on the higher education sector in all three countries. The fact that all three Baltic states are trying to boost the number of doctoral students and the quality of doctoral studies is not a coincidence but rather recognition of the fact that all three lag far behind the rates required to support a 'knowledge-based' economy transition. Similarly, lack of specialists in key enabling technologies (ICT, etc.) is perceived as a weakness. At the same time, it would be relevant to wonder whether this policy in small countries with some of the lowest wage levels in the EU can achieve the desired results. Would the current or increased investments in the training of researchers and the research infrastructure be sufficient for improving or even retaining the international competitiveness of the university sector? Since it would be relatively difficult to presume that the wages of innovation-related staff at the universities would become comparable to those in the Nordic countries or Germany, there is a real likelihood that they would seek employment in other countries. A solution could only be provided by the business sector hiring highly qualified specialists and participating in innovation becoming a motivating factor in its own right.

The above concerned the innovation policies. What is the innovation potential situation like? We shall use the EU innovation scoreboard data to compare the positions of Estonia, Latvia and Lithuania.

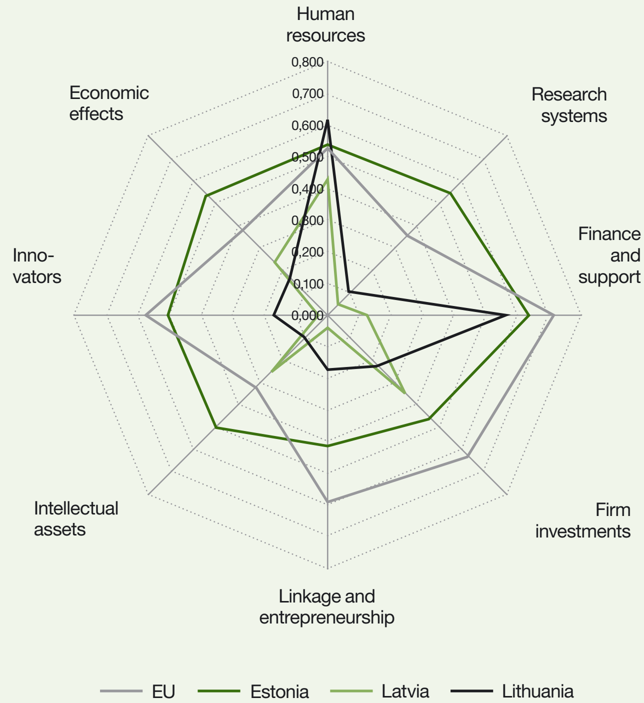
Figure 1.5.1 shows the three Baltic states' **synthetic innovation indicators** in comparison with the EU average. As we can see, Estonia's results exceed its neighbours in all parameters except in the area of human resources, in which Lithuania does marginally better. As for innovation finance and support, Lithuania's performance is close to the EU average while Estonia is above average. The scoreboard assesses most of Latvia's innovation parameters as quite low with the human resources indicator being somewhat better than the others.

The general classification of the EU countries places Latvia and Lithuania in the lowest group of the four, that of the "modest innovators" (according to the combined index, Latvia holds the 27th and Lithuania the 25th position among the EU countries), while Estonia's combined index is only slightly lower than the EU average and is classified among "innovation followers" – the group of ten countries attempting to catch up with the innovation leaders (Sweden, Denmark, Finland, Germany). As for innovation dynamics, Estonia is one of the most successful in the EU, having improved its innovation scoreboard indicators by 6.6% in the past five years, while Latvia has improved 2.7% and Lithuania deteriorated –0.7%.

Even though Estonia makes a slightly better impression than its Baltic neighbours as to innovation results and systemic support measures of innovation policy, the issue of the innovativeness level of the economy and the efficiency of the innovation policy is raising a serious discussion here as well. Such debates were provoked by doubts in the sustainability of the general growth model of the economy, which emerged in the years 2006–2007. Although Estonia displayed rapid economic growth at that time, a research project commissioned by the Estonian Development Fund and carried out by economists of the Tartu University showed that the rapid growth is excessively based on domestic demand (Varblane et al. 2008), while exports are losing their competitiveness due to rising input costs, the production's value added is low and it is not rising as rapidly as it should. The authors of the report were critical of the economic structure that had developed in Estonia and its dynamics. They underlined that the economic structure is dominated by sectors in which it would be difficult to increase the value added, while even in the perspective sectors the Estonian enterprises have specialised in activities of low value added, i.e. business models without prospects (ibid.).

A publication issued under the aegis of the Estonian Academy of Sciences (Tiits 2007) raised certain doubts about Estonia's previous economic policy, which underestimates greater focusing and the need for determining priorities. It was also emphasized that Estonia's previous advantages based on the favourable economic environment and relatively cheap production input are being exhausted due to the rapidly increasing costs. The researchers underlined that the laissez-faire policy of the state leads to granting advantages to the companies that have created relatively more favourable conditions for the development of knowledge and technology-intensive activities, either by training more qualified employees or improving the enterprises' competitive potential via cooperation between the state and the businesses. Such declarations in turn bring along greater hopes for innovation policy as well as stricter criteria for rating it.

Figure 1.5.1. Innovation indices of the Baltic states in 2010



Source: http://www.proinno-europe.eu/inno-metrics/page/innovation-union-scoreboard-2010

In this light, it makes sense to take a more in-depth look at the innovation activity of Estonia's enterprises. Analysts have underlines the following aspects (Viia et al. 2007):

1. The amount of new products from Estonian enterprises does not seem low in international comparison, but these innovations are predominantly made from the viewpoint of the enterprise rather than the market. Even in the latter case, these are mostly versions of the product rather than radically new products. In many cases, the significance of new products in monetary turnover is low.
2. The enterprises' expenses on product innovation are low compared with the international background and a large share of these expenses involves the procurement of new equipment rather than sophisticated innovative activities (product or technology development, etc.).

Table 1.5.3. Countries' positions in a ranking based on various indicators (ranking among 139 states)

	Combined global competitiveness index	Higher education and training index	Innovation index
Estonia	33.	22.	37.
Latvia	70.	35.	77.
Lithuania	47.	25.	51.
Finland	7.	1.	3.
Sweden	2.	2.	5.
Germany	5.	19.	8.
Switzerland	1.	6.	2.
Republic of Korea	19.	16.	11.

Source: The Global Competitiveness Report 2010-2011

3. The density of cooperation of Estonian enterprises in the innovation process is quite high, but this is predominantly cooperation that targets suppliers and consumers, and increasingly also inter-concern cooperation (an accompanying phenomenon of the enterprises internationalization). Cooperation with other enterprises as well as with universities and research institutions for the innovation of production is low.
4. The innovative activity of Estonian enterprises has been relatively high in the international comparisons thanks to service enterprises, while it is low among industrial enterprises, which predominantly produce for the foreign market; this is a warning sign in the general context of weakening competitiveness of industry.

A number of problems have also emerged in connection with the basic assessment of the effectiveness of the innovation policy – a predominant share of technology support grants has been allocated to new small high technology enterprises, while the share of such enterprises of the overall economy remains low. In numerous key sectors of the Estonian economy, which provide a large share of production and employ a very large share of the workforce, e.g. forestry, timber and furniture industry, the local expertise is weak and therefore the enterprises' chances of receiving support are limited. Despite quite long-time applications to boost the universities' ability and motivation for cooperating with enterprises (the Spinno programmes), they have nevertheless remained low.

All the Baltic states like other countries that transitioned into market economy from state socialism display somewhat better education indicators in comparison with other countries at the same level of development (also, see data on human development components in Subchapter 1.2). As the following table shows, the positions of all Baltic states in the World Economic Forum ranking as to the higher education and training index are significantly better than these countries' positions in the global competitiveness ranking. In the case of Latvia and Lithuania, the difference spans more than twenty positions.

This situation seems hopeful – it should be logical that a country's high education level should help to elevate its position in the competitiveness index. However, the problem is in the fact that the education level should be able to influence a country's competitiveness, especially via innovation capability. All the Baltic states, including Estonia with its relatively well-developed innovation policy, hold worse positions based on innovation than in the ranking of competitiveness. That the position of the three factors typical of the Baltic states need not be a general rule is shown by the positions of some other countries in the table.

In conclusion, we can say that Estonia gained a considerable lead over the two other Baltic countries in the 1990s due to its better timing in terms of initiating a number of business-related reforms (at the beginning of the 1990s, a six-month head start had an extremely large impact on the countries' development process) and also due to its more consistent general approach to the implementation of reforms. Another important positive effect was the successful implementation of ownership reform, which ensured the abundance of owners, helped avoid the excessive intertwining of politics and the economy, restrained corruption and prevented the rise of oligarchs. Although Estonia managed to reach the new innovation-based stage of development somewhat earlier, all three Baltic states are only just taking their first steps in this territory. It has become crucial for the Baltic states to fully develop and make use of the innovation potential of their educational systems.

1.6. Summary

Peeter Vihalemm, Marju Lauristin

The answer to the question of whether there is a single Baltic development model depends on the scale to which we make the comparison. This chapter, like the following chapters, indicates that when we look at the situation from a distance and place it in a European context, there are important common features in the development and position of the Baltic states. A closer look, however, reveals a number of differences.

Based on the aggregate Human Development Index, the countries of the Baltic Sea region are clearly divided intro three groups: 1) the old EU member states: the Nordic countries and Germany; 2) the new EU member states: the Baltic states and Poland; 3) Russia. The difference is not as clear when we look at the human development sub-indices: the comparison of GNI, the indicator for the level of economic development, does not reveal a significant difference between the two latter groups. In fact, Russia's GNI is somewhat higher than Lithuania's and considerably higher than Latvia's GNI. Based on the education sub-index, all Baltic states enjoy a relatively good position internationally. Estonia is placed at the top of the region's countries along with Germany, slightly outpacing the Nordic countries and the other Baltic states. However, a closer look at education in this volume's Chapter 4, which is dedicated to the aforementioned topic, shows that Estonia's education system considerably lags behind the education systems of Finland and Sweden.

Although according to the Human Development Index, which reflects the objective situation, Estonia's level of development is somewhat higher than that of Latvia and Lithuania, the common issue among the Baltic states is the backwardness of the social sphere compared to the economic development. A comparison of the results of the survey conducted in all three Baltic states showed that the levels of satisfaction in Estonia and the other Baltic states differ to an even greater degree than the objective development indicators. At the same time, the satisfaction ratings are lower in all three Baltic states than in the Nordic countries and Germany. However, the most important feature unifying all Baltic countries lies in the shrinking population due to the low birth rate, high mortality as a result of external causes, and in particular recently, the growing trend for emigration. These issues will be studied in more detail in Chapter 2 and Chapter 3.

Comparing the development of Estonia, Latvia and Lithuania to the other post-communist countries on the one hand, and developed Western countries on the other hand, we attempt to identify which model of capitalist society the Baltic states are following – the liberal market economy model or the strategically coordinated market economy model. In terms of types of capitalism, many researchers classify Estonia as a clear example of a liberal market economy. Lithuania, Poland and Latvia have also moved in the same direction, while Germany represents a different type of capitalism: the strategically coordinated market economy. The Nordic countries could be classified as belonging, in general, to the same liberal market economy group as the Baltic states, although they are qualitatively very different and enjoy a much higher level of economic and social development. The more in-depth studies that follow the Nordic countries, especially Finland and Sweden, for a longer period of time have classified them among countries with coordinated market economies (Hall & Soskice 2001). Using this distinction, one can further develop ideas about the applicability of the Nordic or German models for social security systems or education reforms in the Baltic states.

In terms of technological innovation and the share of high-added-value products in total production, different countries can be classified as belonging to the capitalist world economy's core, the leading capitalist countries in the world, semi-core countries, semi-periphery and the periphery. Among the countries of the Baltic Sea region, the Nordic countries and Germany belong among the leading core, Estonia belongs to the semi-core, and Latvia and Lithuania are placed in the semi-periphery. Poland's steady development in recent years and the fact that it was practically untouched by the economic crisis probably allows us to include it in the semi-core group. The years that follow the adoption of the euro will show whether Estonia will be able to break into the highest category, to the core group of leading countries, or whether it will decline and once again become a semi-periphery country.

The positioning of the Baltic states in the EU innovation map in 2010 indicates that Estonia has been somewhat more successful in this field compared to its neighbours, having been placed in the second group trailing the leaders, while Latvia and Lithuania were placed in the last group of modest innovators. However, the restructuring of the economy towards production with higher added value has been too slow in Estonia for us to be optimistic about the achievement of the aforementioned breakthrough.

We will be able to gauge whether Estonia and later, at some point, also Latvia and Lithuania are firmly on the path of transmission to an innovation-based economy only when the decisive post-crisis years are behind us.

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CHAPTER 2

Population changes, life expectancy and health

2.1. Introduction

Mare Ainsaar

This chapter discusses people's lives, the birth of children, family life and mortality in the Baltic states. It explores the similarities and differences between the three Baltic states in terms of population change. In almost all transition countries, the 1990s brought about a decrease in birth rates and life expectancy and an increase in emigration. In the case of the three Baltic states, which are among Europe's smallest countries in terms of population size, the negative population changes will affect the societies for centuries to come.

Problems related to reconciling work and family life might be one of the factors that contributed to the high price that the Baltic peoples paid for their social transition in terms of the worsening of their population indicators. This chapter addresses problems related to family and family policies, points out the connections between the changes in people's professional lives and their opportunities and migration, mortality and the birth rate.

The most distinctive feature of the Baltic countries in Europe at the end of the 20th century and the beginning of the 21st century is short life expectancy, especially among men. Mortality is a composite indicator that reflects people's quality of life throughout their lives, their own ability to take care of their health and their will to live, as well as the capacity of the state's health care policy to preserve people's lives. This chapter consists of three parts, the first of which discusses general demographic changes in the Baltic states over the past two decades, while the second explores the issue of mortality and the third provides an overview of the developments of the Baltic health care system.

2.2. Demographic costs of transition and the future of the Baltic states

Mare Ainsaar, Vlada Stankuniene

Introduction

The majority of European countries enjoyed continuous population growth throughout the 1990s and the first decade of the 21st century, despite low birth rates in the 1990s. This growth was supported both by a greater number of births over deaths and migration inflows. Total population decline has manifested in only a few countries (Figure 2.2.1), including the Baltic states. Analyses from 1990–2009 demonstrate that the Baltic states were in the group with one of the steepest declines in population together with Romania, Ukraine, Bulgaria and Hungary. In this chapter, we analyse why these changes occurred and how population change might influence other areas of life in society.

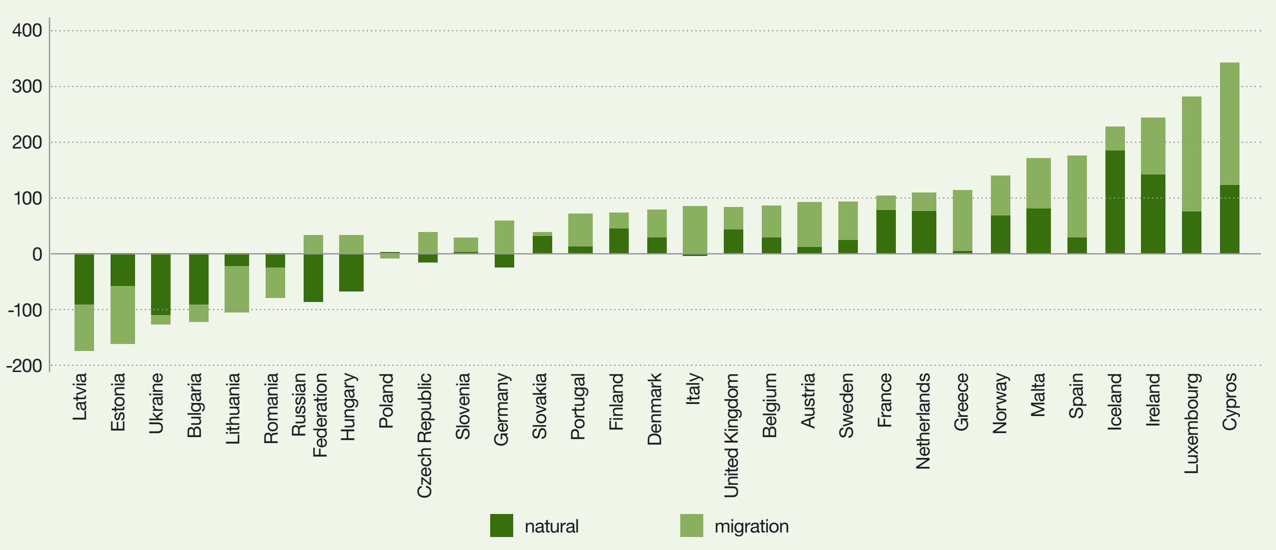
Demographic trends are produced in combination with individual and social factors. The Baltic states had a common social and structural heritage until the beginning of the 1990s. The period after 1990 can be described as a transition period, but the transition outcome varied in different countries and for different population groups.

All the Baltic states, but especially Latvia and Estonia, experienced intensive immigration from Soviet Union territories from the Second World War until the end of the 1980s, and they also had positive natural growth. Although life expectancy was not very high, the birth rate was sufficient to guarantee replacement and an even growth of population. As a result of these processes, all the Baltic states had a comparatively young population, and Estonia and Latvia also contained a significant share of the so-called Russian-speaking immigrant population (Russians, Ukrainians and Belarusians) at the beginning of the 1990s (Table 2.2.2). The analyses of Nobile (1994) from 1980 demonstrated that Estonia, Latvia and Lithuania were the closest countries to each other in the context of child-bearing characteristics in Europe.

Beginning of the 1990s

Population changes at the beginning of the 1990s can be interpreted in the contexts of general social transformation. The transformation period in the 1990s can be described as the reconstruction of new social norms, structures and values. The building up period was associated with higher social mobility and opportunities (Helemäe et al 1997, Helemäe 2010) on the one side, but also with higher risks and adaption difficulties (Milano-

Figure 2.2.1. Sources and intensity of population change 1990–2009 (per 1,000 inhabitants).



vitc 1997, Sanfey & Teksoz 2007). The intensity of changes and the extent of transformation varied from country to country, but the Baltic states paid the highest price in demographic terms. Some authors described the situation as social anomie (Philipov et al 2006). According to this theory, turbulent changes in society can cause a break in existing social ties, confusion and broken social norms, which in turn lead people to destructive behaviour.

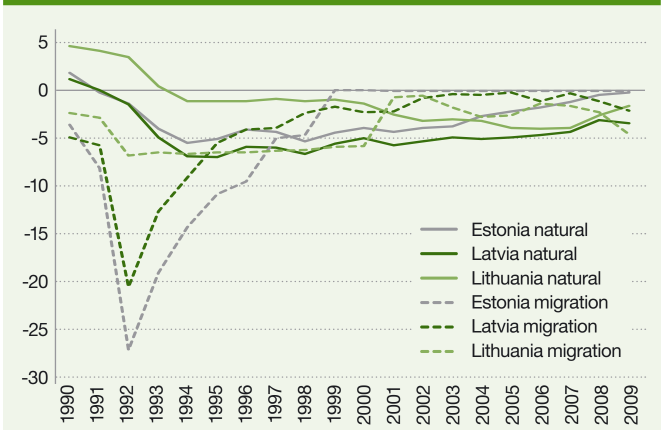
Positive population growth in the Baltic states was replaced with negative net migration and natural growth at the turn of the 1990s. Prior to the start of population decline at the beginning of the 1990s, a short rise in period fertility rates was observed in Estonia, but not in Latvia and Lithuania. This rise is often attributed to the general rise of national and independence aspirations. However, on the wave of those emotions many private firms also supported the birth of children. Support was mainly targeted towards the births of third and higher parity children. Accordingly, the birth rate of third and higher parity children was largely behind the general fertility increase. Such a rise did not occur in Lithuania and Latvia where period total fertility rates were gradually declining. Despite the temporary increase, fertility began to decline and the first five years of the 1990s brought the most severe population decline in Estonia and Latvia since the Second World War, while Lithuania remained less influenced by these developments.

The fall in births and the sharp rise in mortality rates resulted in a sharp decrease in natural growth (Figure 2.2.2). Estonia and Latvia first noticed negative growth numbers in 1991 and 1992, and Lithuania from 1994. The fertility decline was partly explained by economic hardships and insecurity – poverty, hyperinflation, and lack of consumption goods (Kuddo 1997). Economic hardship and efforts to cope with the situation also influenced family formation and mortality. Experiences from transition countries refer to the link between the temporary postponement of births or a reduction of the birth rate in connection with rising education attain-

Table 2.2.1. Ethnic composition of the population 1989–2009 (% at the beginning of the year)

	Estonia			Latvia			Lithuania		
	1989	2000	2009	1989	2000	2009	1989	2001	2009
Estonians	61.0	67.6	68.7	0.1	0.1	0.1	0	0	0
Latvians	2.0	1.6	0.2	52.0	57.7	59.3	0.1	0.1	0.1
Lithuanians	1.7	1.4	0.2	1.3	1.4	1.3	79.6	83.5	84.0
Russians	30.0	25.6	25.6	34.0	29.6	27.8	9.4	6.3	4.9
Ukrainians	3.1	2.1	2.1	3.5	2.7	2.5	1.2	0.7	0.6
Belarusians	1.5	1.2	1.2	4.5	4.1	3.6	1.7	1.2	1.1
Jews	0.3	0.2	0.1	0.9	0.4	0.4	0.3	0.1	0.1
Germans	0.2	0.1	0.1	0.1	0.1	0.2	0.1	0.1	0.1
Poles	0.2	0.2	0.2	2.3	2.5	2.4	7.0	6.7	6.1
Other	0.0	0.0	1.6	1.3	1.4	2.6	0.6	1.3	3.0

Figure 2.2.2. Net migration and natural population increase in Baltic states 1990–2009 per 1,000 inhabitants



ment among women, insecurity during young adulthood years, increasingly difficult access to the labour market and general economic uncertainty (Billari et al 2006). All of these characteristics are relevant and also describe the situation in the Baltic states at the beginning of the 1990s.

The postponement of marriage and childbearing for older age had an influence on the decline in fertility rates in the 1990s. All the Baltic states were very similar in regard to the age of the mother at the birth of a child at the beginning of the 1990s. Part of the declining fertility can be classified as the postponement of births. Although postponement is often explained within the framework of the movement towards feministic or egalitarian attitudes (see Billari et al 2006), in the Baltic states the first years of the 1990s shifted values back to refamilization. According to the new spirit of the changing times, many women, who were forced under the previous system to leave small children and enter the labour market soon after a birth of a child, used the opportunity and decided to become housewives or at least to prolong the stay at home with their children. One obstacle in this, however, was the need for dual income, which excluded many women from living according to the new trend. Motejunaite & Höhne (2008), who studied employment and family reconciliation attitudes, found that high traditionalism was apparent in all Baltic states in the 1990s, although it was most widespread in Lithuania. Traditionalism declined in 1997 and rose again at the end of the 1990s. Also, the number of kindergarten places shrank in all of the Baltic states at the beginning of the 1990s. Part of this was due to the withdrawal of state subsidies for kindergartens, the closure of many kindergartens, including enterprise-owned ones, and the high price for kindergarten services (Kuddo 1997).

The sharp rise in mortality at the beginning of the 1990s, in response to the transition period, was typical for all former Soviet Union states, while, the majority of other transition countries showed remarkable improvements in life expectancy and a quick convergence towards Western levels despite the social changes. A sharp decline in life expectancy and the excessive mortality in the mid-nineties were associated with the difficulties of the transition period, which caused additional stress and alcoholism. The life expectancy of men was particularly hit by the social changes. The drop in life expectancy was sharpest in Latvia, followed by Estonia and Lithuania. The decline in life expectancy in the Baltic states remained for seven years for Lithuanian men and ten years for Estonian and Latvian men. The other remarkable ex-Soviet phenomenon is the large differences in male-female life expectancy. The vulnerability of men during the transition period and the ability of women to adapt better stretch the differences between male and female total life expectancy more and are the most contrasting in Europe. Such a large gap can be explained by different factors. For example, Kristenson et al (1998), who compared men from Vilnius with those from Linkoping, found higher job stress, lower social support at work, lower emotional support, and lower social integration as the main risk factors for Vilnius men. Vilnius men also showed lower coping, self-esteem, and sense of coherence, higher vital exhaustion, and depression.

Despite the prevalence of deaths over births, the main component of population loss at the beginning of the 1990s remained outmigration from the Baltic states. Due to the substitution of immigration with outmigration, the beginning of the 1990s can be labelled as having a migration turnaround in the Baltic states. Migration change with western countries became once again possible after a long period of Soviet Union restrictions. Although Russia and other eastern areas became the main outmigration destination areas, migration flows with western countries started to gradually increase. Although part of the outmigration can be attributed to the declining economic well-being, the prevailing outmigration reasons were complex and for different insecurity- related and political reasons. Because of differences in past immigration history, outmigration was much more intensive from Estonia and Latvia than from Lithuania (Figure 2.2.2). Ethnic Jews, Germans and Finns had the highest emigration rates as a result of the repatriation policies of Finland, Germany and Israel. Russian-speaking Soviet Union military personnel, their families and related population groups formed the main emigrant group at the beginning of the 1990s in the Baltic states. A large share of them left Estonia and Latvia because of the end of their service, better prospects elsewhere and due to foreign military servant status in the new sovereign states. The emigrants also included members of the Russian-speaking population, who felt insecurity towards their future or reluctance about the official language and citizenship requirements. The Russian-speaking group (Russians, Belarusians and Ukrainians) still remained the dominant and rather large non-titular ethnic group in Latvia and Estonia (Table 2.2.1). Rising unemployment and economic hardship likewise encouraged many Estonians, Latvians and Lithuanians to look for opportunities in other countries.

1995–1999

The second half of the 1990s marks the beginning of a gradual adaption of societies and a slow down in population decline processes throughout all the Baltic states. The intensity of outmigration reduced, but it still resulted in about half of total population loss. The second half of the 1990s still demonstrates the largest gap between births and death in Estonia and Latvia (Figure 2.2.2). The situation was comparably better and never achieved such a dramatic level in Lithuania. The lowest point of the total period fertility rate was reached in 1997 (1.13) in Latvia and in 1998 (1.28) in Estonia, while total decrease in Lithuania never dropped below 1.4 during the entire 1990s. Life expectancy began to rise. The main problem of this period was very low fertility, especially in Latvia and Estonia. According to some authors (Billari et al 2006), the first parity births are the most sensitive to period factors. The absolute number of first births and the total fertility rate dropped to its lowest level during the 1990s in Latvia and Estonia (Figures 2.2.3 and 2.2.4). Simultaneously, the age of the mother at the birth of a child started to rise, though mothers in the Baltic states still remained quite young in comparison with Western European countries and the level of childlessness remained low. However, the increase in the age of new mothers in the Baltic states occurred at a quicker pace than in other countries. In the course of 20 years, the mean age at the birth rose 3.5 years in Estonia, and 2.5 years in Latvia and Lithuania, while in Finland, for example, growth was only 1.2 years. Despite the absence of a universal agreement about the influence of the increasing age of mothers to total country level fertility (Billari et al 2006), scientists generally agreed that the postponement of births would be accompanied with several health risks. In the long term, the growing age of mothers will mean that the Baltic states will tackle rising childlessness and increasing maternity-related health risks. The other indirect influence of postponed births may be declining norms about ideal family sizes. Namely, several analyses indicate (Sobotka et al 2010) that the desired number of children might be influenced by the current fertility level. Lasting low fertility can reshape the expected number of children and low fertility will become the public norm. Stankuniene (2009) demonstrates a sharp decline of the desired amounts of children in Lithuania, while several surveys in Estonia (Oras & Unt 2008, Klesment 2010) report stable level of the desired number of children so far.

The birth rate continued to drop in all age groups, but the decline in fertility among younger women was especially obvious. It became more important to attain an education, make a career and be financially secure prior to childbirth. Although, the main reasons for postponing births were usually associated with the combination of different economic reasons – such as a lack of financial means to raise a child, limited living conditions, worry about losing a job, limited social security and the poverty of families with children (Tiit & Ainsaar 2002, Stankuniene 2009) – some analyses also indicates that part of the postponement was due to a demographic behaviour change and the increased use of contraceptives (Tiit & Ainsaar 2002, Ainsaar & Paajanen 2009, Stankuniene 2009).

2000-2009

During the 2000s, the majority of European Union countries witnessed positive natural and migration growth; however, the situation was different regionally. Also, the Baltic states became more demographically diverse. Although the 21st century has marked the recovery and full return to the gradual development towards stable population in all of the Baltic states, Estonia, as the smallest of the three countries, first managed to attain close to the zero population growth, while in Lithuania and Latvia population changes still remained negative. The improvement of the situation in Estonia was first and foremost due to the results of declining morality and rising fertility.

The grouping of countries according to fertility, share of young people and total population change between 2000 and 2009 (Table 2.2.2) demonstrates that Estonia and Lithuania were the most similar to Romania, Poland, Slovakia, and Germany, while Latvia remained together with Hungary, Russia, Bulgaria and Ukraine to the group with the steepest decline and lowest share of young people in society. Fertility and the percentage of young people are rather limited in all Baltic countries.

The Baltic countries witnessed several changes in demographic processes from 2000 to 2009. While birth rates in Estonia and Latvia began to rise, the high birth rate in Lithuania began to decline. The fertility rate in

Figure 2.2.3. Number of first parity births compared with their number in 1987 (1987 =100%).

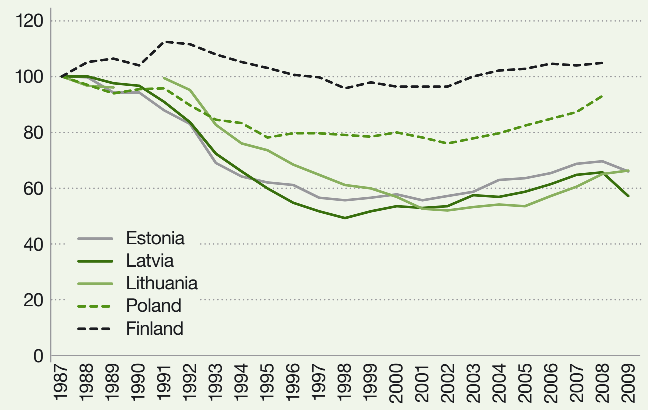
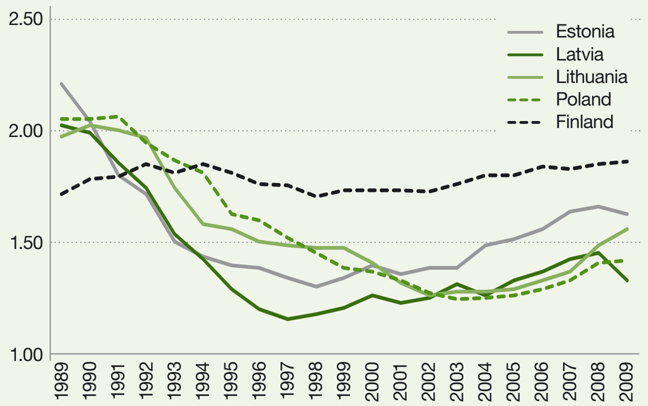


Figure 2.2.4. Total period fertility rate 1989–2009.



Source: Eurostat

Table 2.2.2. Groups of countries according to some demographic indicators 2000–2009

	Total fertility rate 2009*	Share of <20 years 2009	Total population change 2000–2009 per 1,000 inhabitants
Ireland	2.1	27	16.4
Cyprus, Spain	1.5	22	14.6
The Netherlands, France	1.9	24	5.0
Greece, Slovenia, Czech Republic, Austria, Portugal, Belgium, Sweden, UK, Finland, Norway, Italy	1.7	22	4.7
Lithuania, Romania, Poland, Slovakia, Estonia, Germany	1.4	22	–2.2
Hungary, Russia, Bulgaria, Latvia, Ukraine	1.4	21	–4.9

** Expected number of children a woman will have during a lifetime, if the fertility trends remains the same.*

Table 2.2.3. Reasons of postponement of births in 2006 (% people aged 15–39).

	Estonia	Latvia	Lithuania	Poland	Finland	EU25
Financial situation	57	77	77	74	26	60
Mothers work	35	46	52	43	14	49
Housing conditions	69	72	77	71	38	57
Supportive partner	71	70	80	77	72	72
Fathers work	66	77	78	67	35	62
Childcare provision	59	78	64	37	28	46
Costs of children	56	74	69	61.5	13.5	50

Source: Testa 2006, author's calculations

Lithuania even fell below 1.3. One explanation for these developments was the broadening gap between desires and the changes to fulfil them. Also, the absence of the possibility to acquire a home and large increases in prices for accommodation influenced childbearing behaviour in Lithuania. According to a survey in 2001, concern about the future of children was the most frequent reason for not wanting the first child or subsequent children (Stankuniene 2009). Part of this insecurity can also be related to educational system reforms in Lithuania, which did not make families feel certain about the fulfilment of their expectations and about providing their children with a desired education.

A special Eurobarometer survey from 2006 (Table 2.2.3) indicates the broader prevalence of various reasons for the postponement of births in Lithuania. Difficulties with partners, the work of the father, financial situation and housing conditions were the most frequently mentioned reasons for the postponement. Also, fertility in Latvia was predominantly influenced by economic barriers. The lack of child-care provision was the second most important issue in Latvia. Estonia had the lowest level of reported problems in total and this is also reflected in the development of the total period fertility rate (Figure 2.2.4), which was the highest in the Baltic states. Analyses from Estonia revealed that the importance of the economic aspect among the list of reasons for postponement decreased in tandem with the improvement of general economic situation in the country, although new economic problems like housing loans emerged as important fertility decision shapers (Oras & Unt 2008). The increase in fertility in Estonia can also be associated with some family policy measures, which gave parents higher economic security during parental leave and reduced poverty among families with children (Ainsaar 2009).

Since 2006, Lithuania has also shown a speedy recovery in fertility. The total fertility rate in Lithuania has risen close to the Estonian rate. The main reasons for the rise in fertility can be attributed to recuperation after the postponement of fertility and some family policy efforts, namely the introduction of high level parental leave coverage. It is remarkable that fertility in Lithuania continued to increase even during the recent economic recession, during which Latvia and Estonia witnessed a decline.

All together, the natural increase in Estonia remained remarkably higher than in Latvia and Lithuania due to higher mortality and lower fertility in Latvia and Lithuania. As a result of more consistent improvements in life expectancy in Estonia throughout the 2000s, the country had the highest life expectancy among Baltic states at the end of the 2000s. In Europe, the Baltic states together formed their own Baltic mortality group with high, early and external reasons leading to mortality (Niederlaender 2006).

External migration

Negative migration also persisted at the beginning of the 21st century. While negative outmigration was not seen as a particular problem at the beginning of the 1990s, by the 21st century it had already exhausted population resources. Economic and unemployment factors were the main reasons why the highest emigration readiness in the EU persisted in all of the Baltic states (Krieger 2008). The high emigration readiness is not surprising because the Baltic states still remain the region with the lowest incomes in the EU , despite a very quick increase in the income levels of households (Krueger 2010).

Analyses of data from 1995–2009 show that net migration was positively associated with wealth ($p = 0.000$) in all Baltic states.

Migration became more positive together with the rise of wealth and the decline of wealth was associated with negative migration. The gap between in and outmigration was most striking in Lithuania where key factors accounting for migration were the high standard of living and wages in receiving countries as well as the absence of the protection of workers' rights, criminal situation, social vulnerability and limited career opportunities (Sipavičienė 2009). Country comparative surveys (Mental … 2006) demonstrated that people in Lithuania and Latvia also had the highest work stress in Europe. Official outmigration was in decline, when outmigration got a new impulse following EU accession in 2005. The years of the economic recession from 2008–2010 only increased the migration gap.

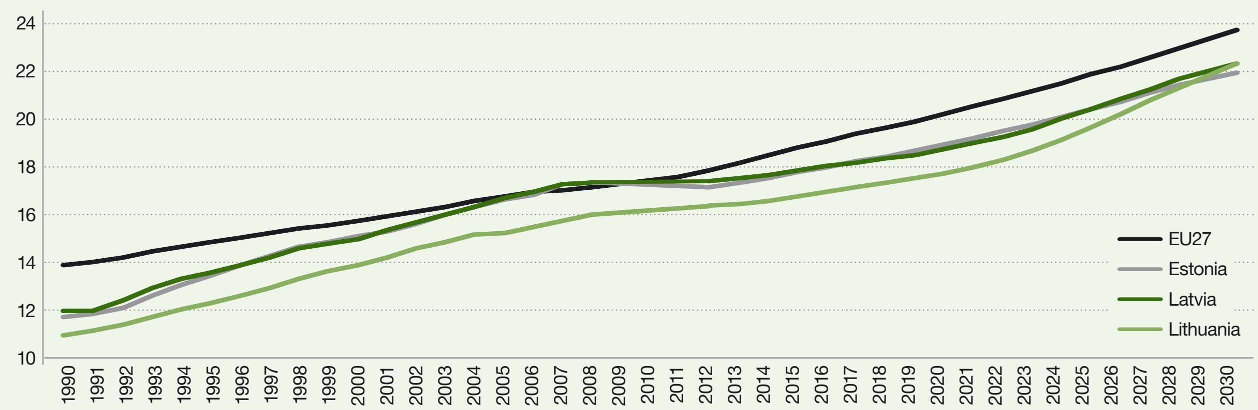
The countries of the European Union, and in particular Germany, the United Kingdom, Sweden and Ireland, as well as the USA, became frequent destinations from the second half of the 1990s. Finland also became an attractive location for people conducted in Estonia. Although public debate about migration was often focused on brain drain issues, a survey form Estonia demonstrated, for example, that the majority of emigrants were non-specialist with secondary education level and working in the construction area, agriculture, transportation sector, services, etc. (Tur & Viilmann 2008). The probability of emigration for manual workers was several times higher than that for highly skilled professionals.

However, the official emigration figures are possibly underestimated by up to 30–60% and real outmigration at the beginning of the 21st century was much higher than numbers from statistics demonstrate in all of Baltic states (Stankuniene 2009, Tammur et al 2009, Eglite 2009). The difference is caused by the fact that many people who left the country did not register it as emigration; often, the outmigration was not even perceived as final emigration, although the stay abroad lasted long-term. Therefore, the truth about external migration will be uncovered after the 2010–2011 population censuses and analyses of their results.

Social implications of demographic change

In the next subchapter, we will analyse the change of the population structure during the transition period and the

Figure 2.2.5. Share of people older than 65 years in the EU and Baltic states 1990–2030



Forecast: Data from Eurostat

possible implications of this change on the social structures. Demographic futures are influenced by events from the past. Because the timing of demographic events in Estonia and Latvia were more simultaneous, we will also see the more similar fluctuation of population structures in the future. Lithuania faces similar trends, but usually with some time lag as the demographic trends emerged during the 1990s.

One of the main concerns of the developed world is the issue of ageing population and the implication of the growing share of old people on social security schemes, employment and family policy. In most countries, ageing is a result of prolonged life expectancy, but the share of old people might also increase as a result of the shrinking youth population.

The three Baltic states had a considerably lower percentage of older people than the majority of European countries at the beginning of the 1990s (Figure 2.2.5). Due to a notable decrease in fertility and emigration in the 1990s, Estonia and Latvia almost caught up with the EU average in 2009 while Lithuania remains with a quite low percentage of old people, despite a modest increase in the number of old people in society. Also, the population forecast for the future demonstrates the remaining gap between Lithuania and the other Baltic states. Despite the increasing percentage of old people, the authors do not believe, however, that the share of old people in the Baltic states will increase as fast as in the old EU countries. In absolute numbers, the increase in the percentage of old people might be the quickest in Lithuania – 42%, compared to 36% in Estonia and 27% in Latvia for 2020 (Table 2.2.4). Consequently, challenges related to the ageing of societies might be less striking in the Baltic states compared with some other European societies. This also means the comparatively weaker influence of seniors in everyday and social life and a less striking demand for future health services than in other EU countries. However, in absolute terms, the share of old people will increase about 1/3 within 20 years. It will mean that the well-being and functioning of old people will obviously have greater importance in societies.

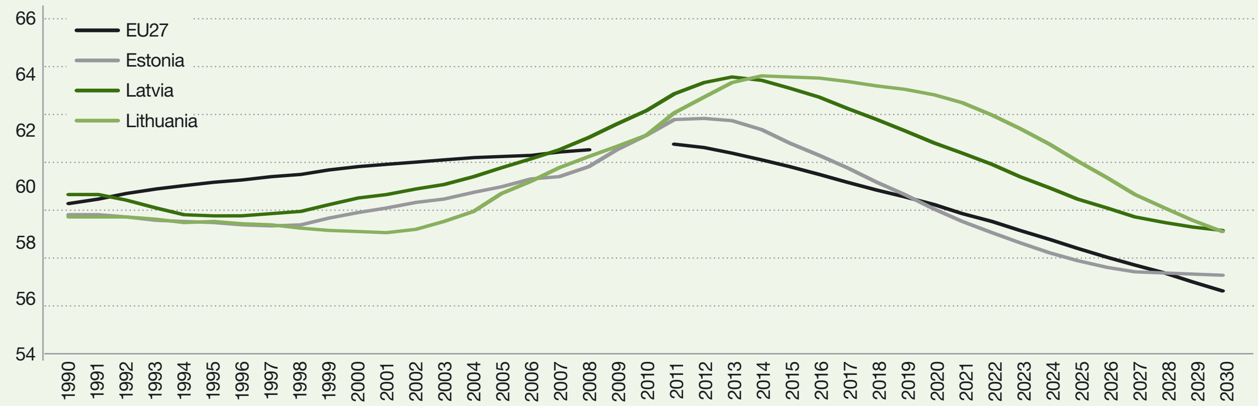
The extent of the working age varies depending on the length of studies and the age of retirement. Therefore, instead of real working age, we use the most common age period for working life for analyses: 20–64. Figure 2.2.6 demonstrates the share of 20–64 year-olds from all populations from 1990–2030. It fell in all of the Baltic states because of emigration at the beginning of the 1990s, but the share of working age people began to recover due to declining fertility and a reduction in the percentage of children, first in Estonia and Latvia and finally also in Lithuania, where the decline was the steepest. The increase of the share will probably continue in the coming years, despite the stabilization of numbers of the working age population (Table 2.2.4). The timing of the decline will vary in the different Baltic states. Estonia will face a shrinking share in its working force in line with that of the EU. Because of the smaller share of younger and older people, the share of working age persons from all population remains higher in

Table 2.2.4. Number of people of certain age groups compared with 1990 (100%)

Total	1990	2000	2008	2020
EU27	100	102.6	105.8	109.2
Estonia	100	87.4	85.4	83.5
Latvia	100	89.3	85.1	80.6
Lithuania	100	95.1	91.1	87.2
<20				
EU27	100	91.0	85.9	83.6
Estonia	100	77.0	64.4	62.4
Latvia	100	80.1	63.4	56.7
Lithuania	100	87.3	70.0	56.2
20–64				
EU27	100	104.7	108.8	109.1
Estonia	100	87.5	87.6	83.7
Latvia	100	89.1	87.7	82.9
Lithuania	100	94.4	94.2	93.0
65<				
EU27	100	116.6	131.1	159.6
Estonia	100	113.0	127.0	135.5
Latvia	100	112.0	123.9	126.7
Lithuania	100	120.8	133.5	141.7

Forecast: Data from Eurostat

Figure 2.2.6. Share of 20–64 year-olds in the EU and Baltic states 1990–2030



Forecast: Data from Eurostat

Latvia and Lithuania than the EU average, at least until 2030 (Figure 2.2.6), if intensive emigration will not correct the trend.

Because of declining share of working people and the higher demand for workforce in the EU, people from Lithuania and Latvia will be especially prone to emigration. Emigration from the Baltic states can also be accelerated because Estonia and Latvia remain among the countries with the highest share of foreign born and non-nationals, respectively 16% and 18%, in the EU (Vasileva 2010), and people in Lithuania have already extensive experience with working abroad. Emigration itself will in turn reduce the demographic sustainability of countries. For Estonia, the greatest danger will be Finland with its enormous workforce demand in coming decades (Ainsaar 2007). At the same time, the Baltic countries, and especially Estonia, will need additional immigration in the future.

The number of young people will continue to decline in all three countries. The decline will be the most serious in Latvia and the birth rate will also remain low in Lithuania. The shrinking number of young people will determine the future of all populations. While the population of Europe will continue to grow gradually, all of the Baltic states will face decline. The Baltic decline, especially in Latvia and Lithuania, will also be the steepest in Europe in the long term (Giannakouris 2008). This, in turn, will be a challenge for many markets including public services like education, health care, local public administration, etc. Estonia, as the smallest, will be mostly influenced by total decline, because the local markets for public services are already with limited capacity.

Conclusions

The three Baltic states not only have some of the smallest populations in the European Union, but they also showed the most rapid population declines throughout the 1990s and 2000s – minus 15% of population. From 1990 to 2010, the three countries together lost more than 1.5 million inhabitants.

The decline of fertility and fluctuating mortality reacted in quite a sensitive way to changes in the political and social reorganization of society in the Baltic states. Estonia and Latvia were the forerunners and Lithuania followed with some delay.

The intensity of political and economic changes obviously contributed to the turn around of population processes, rising insecurity and risk behaviour. Macro level analyses revealed some correlation about the relationship between migration and natural growth trends with economic development, but this relationship was not consistent in all countries. While migration and birth and death rate trends seem to be related to economic development in Estonia and Latvia, the relationship was controversial in Lithuania. Demographic processes can be related to economic development (Myrskylä et al 2009, Rønsen 2004), but the economic development is always mediated by institutional policies (Kantorová 2004) and social factors (Bernardi 2003). All together, we can conclude that three Baltic states had some similarities in their population development, especially Latvia and Estonia during the 1990s, but with time these similarities seems to become less firm and can disappear in the future. Also, some individual aspects of the Baltic countries can be highlighted.

Estonia

Although migration was an essential population change component in all Baltic states between 1990 and 2009, Estonia, being the smallest of the three countries, suffered the most. During the 1990s, outmigration was not considered a problem and in the 21st century the migration discussion was virtually absent from public debate due to a lack of statistics. Estonia is also a country that will need most substantial immigration in future in order to replace the missing labour force. In terms of natural growth, Estonia recovered quicker compared with other Baltic states from the transition period. The most remarkable is the progress of the average life expectancy, especially for women, but also the period total fertility rates are highest in the Baltic states since 2001. However, improved demographic behaviour indicators cannot replace the missing number of persons from transition partners who will determine the population future.

Latvia

The population of Latvia suffered most from the Baltic states from 1990–2009 when natural and migration change are taken together, and it demonstrates only modest signs of recovery. The situation will hardly improve in future because of changes in population structures and the limited number of young people. Latvia will be one of the most quickly shrinking populations in Europe. Furthermore, current low fertility and continuous outmigration does not allow, despite improving life expectancy, for minimal improvement of this situation. Latvia will suffer from the highest population loss from the Baltic states in future.

Lithuania

Lithuania was least influenced by external forces in population development before the 1990s. Lithuania lost only 6% of its working age population in the last 20 years and the demographic history of this country has been the most stable, in comparison to the other Baltic states. Because of its smaller share of immigrant population, the outmigration was less apparent at the beginning of the 1990s. Despite the favourable beginning to the transition period, Lithuania could not hold this position during the 21st century, and there has been very little progress in the past 10 years. Emigration is the main source of population decline in the long term. Also, the hope of the country is in its emigration population. If the majority of them return from the foreign labour market, the demographic situation will improve. In the near future, the country might face high unemployment and accelerated outmigration or economic prosperity because of the increasing share of the working population.

This brief overview revealed that all three Baltic states will also face substantial demographic challenges in the future. The sharp fertility decline in the 1990s will also influence future population development. Namely, smaller birth cohorts for the transition period will define the absolute number of births in the future, and population decline will continue in all three countries. The situation in Estonia will be especially severe due to the small number of total population (1.3 million in 2010), which will set special challenges to the markets and the effective functioning of public administrative systems, but absolute decline will be steepest in Latvia. The economic outlook, population policies and general attitudes have an essential role in the future development of countries.

2.3. Life expectancy and mortality – achievements and challenges

Juris Krumins

Introduction

Life expectancy is a summary measure of health and mortality, and one of the components of human development index. It reflects the overall level of socio-economic development and has an impact on the reproduction of the population, ensuring the vital capacity of the labour force and on security in retirement ages. This chapter gives an overview of factors behind the mortality change in the Baltic states, compared with Poland, Finland, Sweden, Belarus and Russia.

Life expectancy trends

The current diversity in socio-economic trends across Europe has been determined, to a large extent, by diverse patterns of health and mortality since the mid-1960s and with a considerable clear-cut division along pre-1990 political borders (Meslé 2004, Nolte et al 2005). Since the collapse of the former USSR, the renewal of independence and market-based developments, health indicators have undergone diverse patterns between neighbouring countries in the Baltic Sea region and even between the three Baltic states (Katus & Puur 2003). Since the mid-1960s, life expectancy stagnated or even declined in the Baltic states (Krumins 1994). In 1990, the life expectancy in Estonia was 69.9, Latvia 69.5 and Lithuania 71.6 years and was only on the level of the mid-1970s. The fast transition to the market economy, the worsening of the macroeconomic situation and a decline in living standards caused life expectancy to decrease in many countries of the post-communist space at the beginning of the 1990s. The Baltic states and all other republics of the former USSR faced a particularly sharp decline. From 1990 to 1995, life expectancy for both sexes fell by 2.2 years in Estonia, 2.4 years in Lithuania and 3.2 years in Latvia (Figures 2.3.1 and 2.3.2). Psychosocial stress was found as the most plausible explanation for the health crisis in Latvia at the beginning of the transition to the market economy. Also, unemployment appeared to be an important source of stress, particularly because due to its highly unequal distribution across age groups, gender, regions, levels of education, and other socio-demographic characteristics (Krumins & Usackis 2000).

Figure 2.3.1. Female life expectancy at birth

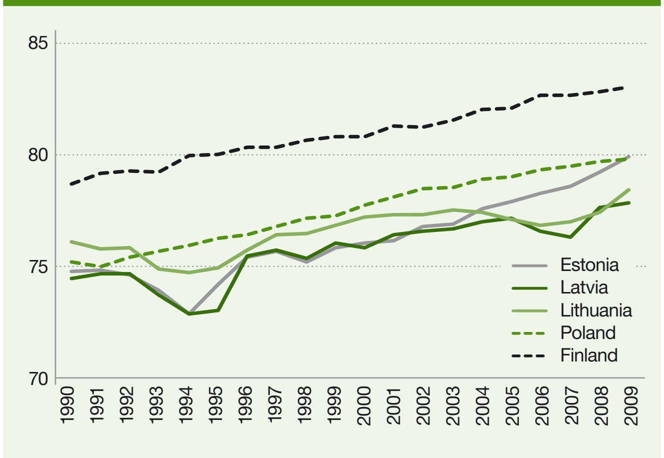


Figure 2.3.2. Male life expectancy at birth

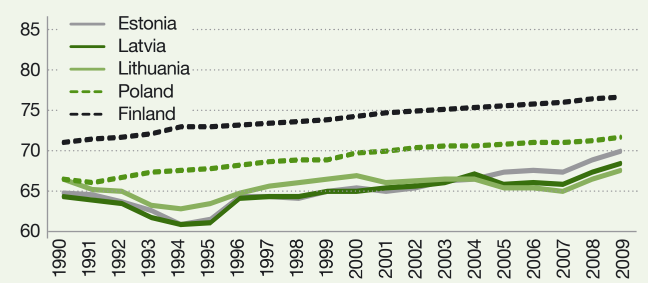


Table 2.3.1. Male life expectancy at birth (Eo)

Countries	Eo, years		Changes 1990–2009	
	1990	2009	years	%
Estonia	64.68	69.84	5.16	8.0
Latvia	64.18	68.31	4.13	6.4
Lithuania	66.52	67.51	0.99	1.5
Poland	66.57	71.34*	4.77	7.2
Finland	71.02	76.74	5.72	8.1
Sweden	74.93	79.29*	4.36	5.8
Belarus	66.26	64.61**	–1.65	–2.5
Russia	63.79	60.47***	–3.32	–5.2
EU members before 2004	73.04	77.97	4.93	6.7
New EU members after 2003	66.76	70.99	4.23	6.3
CIS	64.75	62.77*	–1.98	–3.1

*Note: * 2008, ** 2007, *** 2006*

Calculations based on the European Health for All Database (HFA-DB). WHO Europe; latest data available from the national statistical offices.

Table 2.3.2. Female life expectancy at birth (Eo)

Countries	Eo, years		Changes 1990–2009	
	1990	2009	years	%
Estonia	74.97	80.07	5.10	6.8
Latvia	74.63	78.09	3.46	4.6
Lithuania	76.36	78.56	2.20	2.9
Poland	75.63	80.11*	4.48	5.9
Finland	79.07	83.56	4.49	5.7
Sweden	80.65	83.36*	2.71	3.4
Belarus	75.84	76.25**	0.41	0.5
Russia	74.42	73.27***	–1.15	–1.5
EU members before 2004	79.79	83.47	3.68	4.6
New EU members after 2003	74.92	79.12	4.20	5.6
CIS	74.33	73.63*	–0.70	–0.9

*Note: * 2008, ** 2007, *** 2006*

Calculations based on the European Health for All Database (HFA-DB). WHO Europe; latest data available from the national statistical offices.

In the following years, the situation improved significantly – decline was replaced by growth. The life expectancy level of 1990 was surpassed in Estonia in 1996, in Latvia in 1998, but not until 1999 in Lithuania. The situation continued to improve at the beginning of 21st century, but not so fast as has been expected. A total growth in life expectancy during the last twenty years among the three Baltic states was highest in Estonia, followed by Latvia and Lithuania (Table 2.3.1 and 2.3.2). The life expectancy increase for men and women in Estonia was even higher than the average increase in the new and old EU member states. Lithuania lost the leading position among the Baltic states due to limited improvement in the last twenty years and it had the lowest life expectancy among the Baltic states in 2009. Latvia remained in-between its two neighbours.

The least improvement was achieved in male life expectancy. Male life expectancy in the Baltic states presently is substantially lower (by 8–10 years) than in the old EU member states and is lagging behind, by 1–3 years, the average of the new EU member states that joined the EU in 2004 and later.

The absolute and relative growth in male life expectancy from 1990–2009 exceeds the growth in female life expectancy (see Table 2.3.1 and 2.3.2). This is a general trend for both the old and new EU member states, excluding Lithuania. The life expectancy increase for men in the Baltic states in the past twenty years align a middle trajectory between the most successful Eastern and Central European countries (Slovenia, Czech Republic, Poland) and those lagging behind – Belarus, Russian Federation, Ukraine and Moldova. The increase in women's life expectancy in the Baltic states is more favourable and is approaching the average level of the new EU member states. Estonia has already surpassed the mean of female life expectancy of new EU member states since 2003.

Changes of mortality by age

Trends in aggregate indicators such as life expectancy should be supplemented by age-specific mortality rates demonstrating diverse changes in mortality for different age groups. Nowadays, the traditionally higher impact of infant and child mortality on life expectancy has been replaced by the growing role of mortality in the working ages.

Since the mid-1990s, infant mortality in all three Baltic states has shown a continuous downward trend. Also, the under-5 mortality rate from 1990–2008 has declined in Estonia 2.6 times, and in Latvia and Lithuania 1.9 times. However, its level still exceeds the under-5 mortality rate in Finland and Sweden by 2–3 times, although it is lower than in Belarus and Russia (Table 2.3.3).

The significant impact on life expectancy changes in all transition countries has been determined by age-specific mortality changes in the working ages (Vallin et al 2001). The three Baltic states are not exceptions, but there are some differences among them. In Estonia, both for men and women, the probability of dying during working ages has declined, as in Poland, Finland and Sweden. In Latvia, the slight decline is only observed for women (Table 2.3.4). On the contrary, Lithuania demonstrates an increase in mortality in working ages for both men and women, as in Belarus and Russia.

The impact of recent mortality pattern on life expectancy can be characterized by the reduction of life expectancy through deaths before the age of 65 (in years). Countries according to the descending order of that indicator are as follows – Russia 12.3, Belarus 9.3, Latvia 8.5, Lithuania 8.2, Estonia 7.5, Poland 6.6, Finland 4.6 and Sweden 3.3. These figures reflex inequality to face death among mentioned populations and indirectly demonstrate how achievable lower indexes of mortality can be due to progress in the reduction of avoidable mortality. More favourable socio-economic growth plays a significant role in it.

Healthy life expectancy

From the point of quality of life, it is important to take into account not only fatal but also non-fatal health outcomes. Such an integrated measure of health and mortality is disability-adjusted life expectancy, also called healthy life expectancy, which is based on the life tables for each country, surveys assessing physical and cognitive disability and general health status as well as detailed information on the epidemiology of the major disabling conditions in each country.

The last available indicator of healthy life expectancy in the three Baltic states was below the average of new EU member states by 1–4 years, but the difference with the old EU member states is remarkable: 7–10 years in 2007. Healthy life expectancies demonstrate almost the same sequence as that of conventional life expectancies in the respective year. The value of female and male healthy life expectancy in 2007 is higher in Estonia than in Lithuania and Latvia and is lower than in Finland or Sweden (Table 2.3.5).

Female healthy life expectancy in Estonia, Latvia and Lithuania exceeds significantly – more than 9 years – the healthy life expectancy of men. In Sweden, this difference is 2.6 years, but in Russia it is almost 11 years.

The proportion of healthy life from the total life expectancy in 2007 for the Baltic states ranged from 88–91%. For men, that share was 1–2 percentage points higher than for women. It allows us to conclude that men's self-assessed life is little bit healthier than women's.

Causes of death

The three main groups of causes of death determine the majority of overall changes in mortality and life expectancy – diseases of the circulatory system, cancer and external causes of death. More than 4/5 of all deceased are attributed to these three groups of causes.

Death due to circulatory system illness peaked in the mid-1990s in all three Baltic states (Krumins 2003). From the mid-1990s, a renewed general downward trend of mortality from the diseases of the circulatory system both for men and women (Figure 2.3.3 and 2.3.4) has become apparent in all three Baltic states. The traditionally lower levels of mortality from circulatory system began to increase once again in Lithuania at the turn of the 21st century, and these have only demonstrated a decline since 2006. The Baltic states are holding the medium position in terms of circulatory system deaths between Russia and Belarus with rather high mortality and the old EU member states, which demonstrate a continuing sustainable linear decline in cardiovascular mortality.

The situation is much more varied in the group of malignant neoplasms (Figure 2.3.5 and 2.3.6). Male mortality from this particular cause of death is high and rather stable in all of the three Baltic states, exceeding the average mortality level of the new EU member states and demonstrating an increasing gap with the EU old member states. For women in the Baltic states, mortality trends

Table 2.3.3. Under-5 mortality rate (probability of dying by the age of 5 per 1,000 live births)

	1990	2000	2008	2008 compared with 1990 (%)
Estonia	16	11	6	38
Latvia	17	13	9	53
Lithuania	13	11	7	54
Poland	18	9	7	39
Finland	7	4	3	43
Sweden	7	4	3	43
Belarus	24	17	13	54
Russia	21	20	11	52
WHO European region	32	22	14	44
Global	90	78	65	72

Calculations based on World Health Statistics 2010. Geneva: WHO 2010: 49, 51, 53, 55, 57.

Table 2.3.4. Probability of dying between the ages of 15 and 60 per 1,000 population

	Male				Female			
	1990	2000	2008	2008 compared with 1990 (%)	1990	2000	2008	2008 compared with 1990 (%)
Estonia	301	318	249	83	107	120	84	79
Latvia	311	320	311	100	118	117	115	97
Lithuania	287	293	314	109	107	103	114	107
Poland	263	216	205	78	102	86	77	75
Finland	183	143	129	70	70	63	57	81
Sweden	114	87	76	67	66	56	48	73
Belarus	282	354	330	117	107	125	111	104
Russia	318	445	396	125	117	161	147	126
WHO European region	215	229	208	97	97	98	90	93
Global	246	236	213	87	173	163	146	84

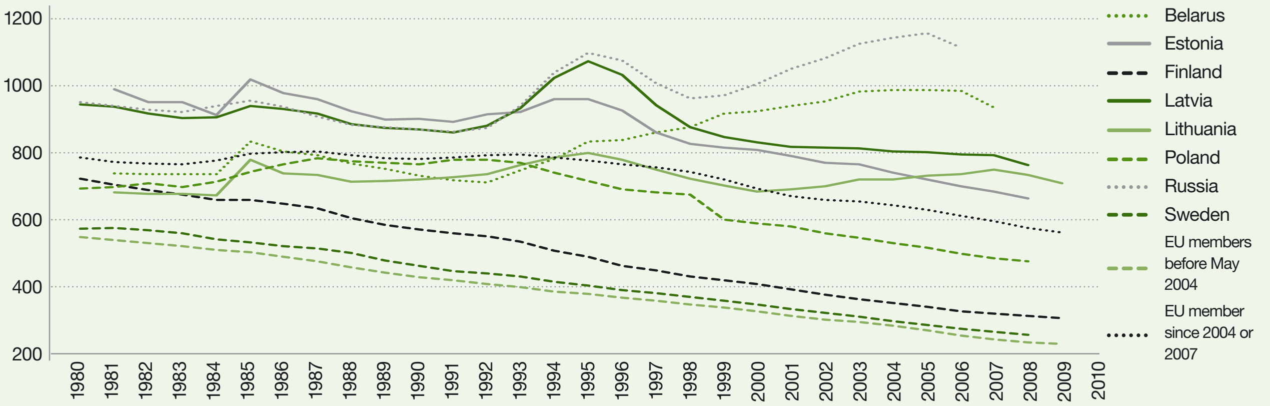
Calculations based on World Health Statistics 2010. Geneva: WHO 2010: 49, 51, 53, 55, 57.

Table 2.3.5. Healthy life expectancy (years), 2007

	Male	Female	Female over male	Average
Estonia	61.3	70.6	9.3	65.9
Latvia	59.2	68.4	9.2	63.8
Lithuania	58.3	67.8	9.5	63.0
Poland	64.1	70.2	6.1	67.1
Finland	69.6	74.7	5. 1	72.1
Sweden	72.3	74.9	2.6	73.6
Belarus	58.3	66.1	7.8	62.2
Russia	54.6	65.5	10.9	60.1
EU members before May 2004	...	...	...	73.0
EU members since 2004 or 2007	...	...	...	66.7
CIS	...	...	...	59.7
WHO European region	64	70	6	67
Global	58	61	3	59

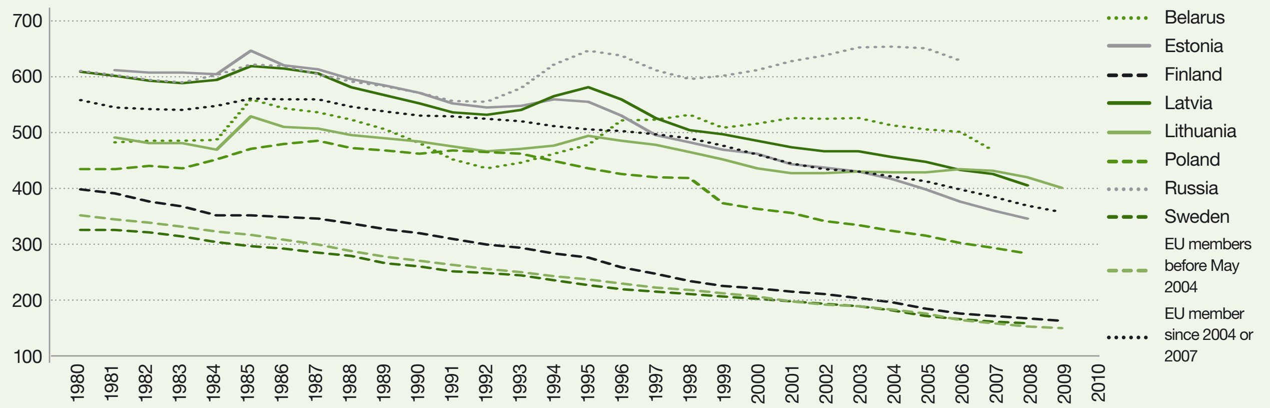
Source: European Health for All Database, latest data available from the national statistical offices. World Health Statistics 2010. Geneva: WHO 2010: 48, 50, 52, 54, 56. Estimates take into account the Global Burden of Disease estimates for the year 2004.

Figure 2.3.3. Standardized death rates for diseases of the circulatory system in selected countries for males



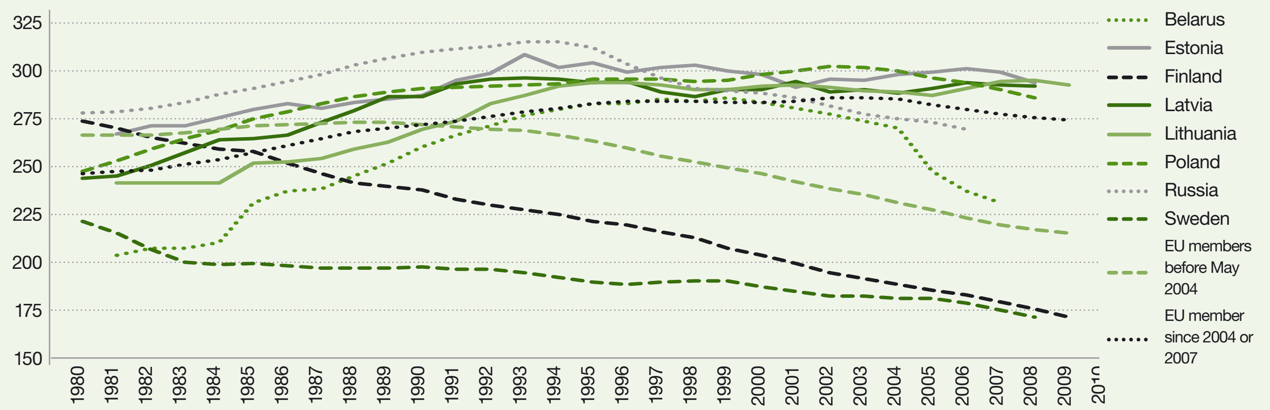
Source: European Health for All Database

Figure 2.3.4. Standardized death rates for diseases of the circulatory system in selected countries for females



Source: European Health for All Database

Figure 2.3.5. Standardized death rates for malignant neoplasms in selected countries for males

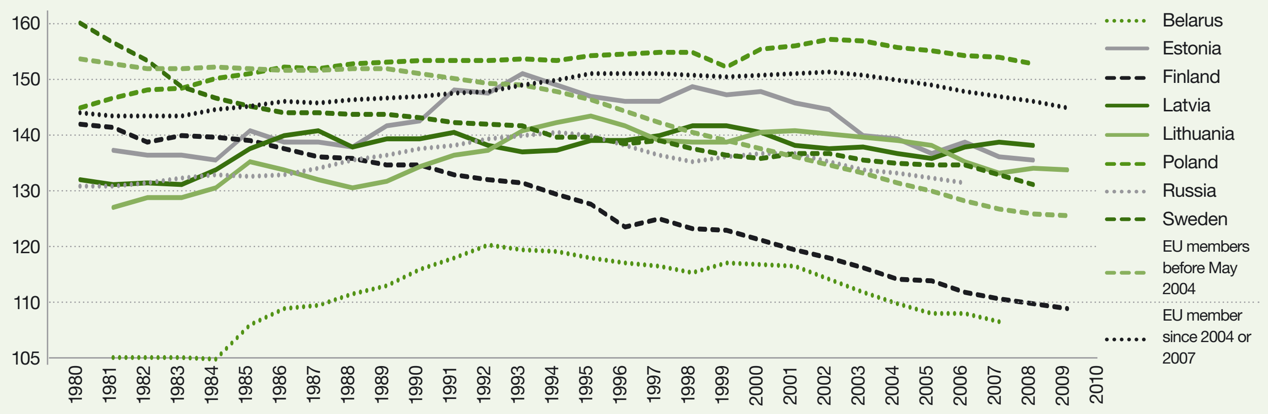


Source: European Health for All Database

from malignant neoplasms are more favourable, especially in Estonia, where achieved levels of female mortality are below average.

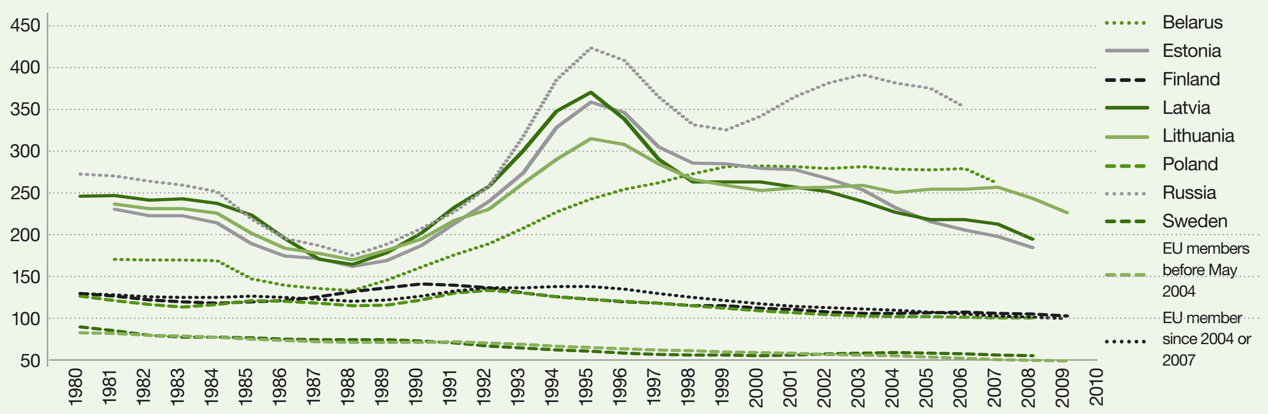
The most significant differences between the Baltic states and the new and old EU member states exist in mortality from external causes of death – injuries, traffic accidents, suicides, homicides and other (see Figure 2.3.7 and 2.3.8). Traditionally, males are more prone to this mortality type (Meslè & Hertrich 1999). Once again, a peak of deaths from external causes was very typical for the mid-

Figure 2.3.6. Standardized death rates for malignant neoplasms in selected countries for females



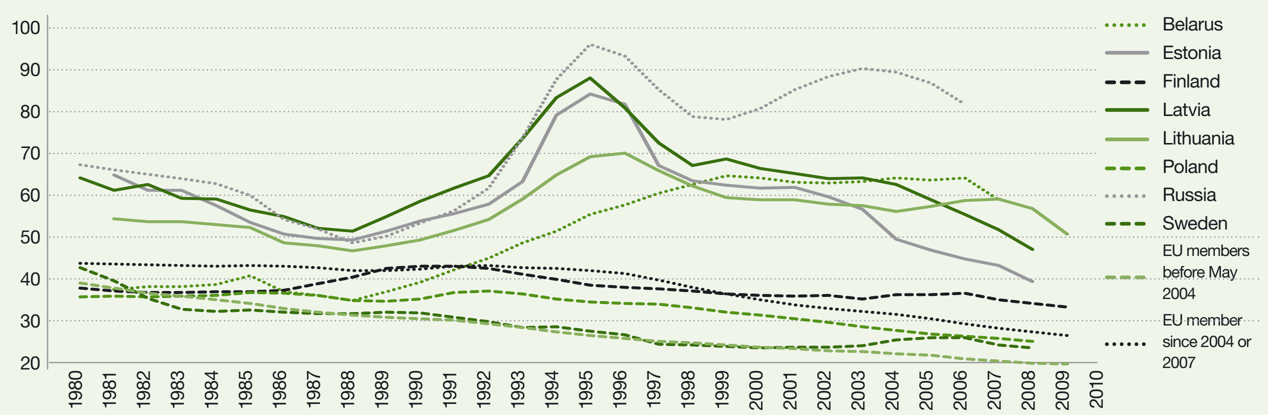
Source: European Health for All Database

Figure 2.3.7. Standardized death rates for external cause injury and poison in selected countries for males



Source: European Health for All Database

Figure 2.3.8. Standardized death rates for external cause injury and poison in selected countries for females

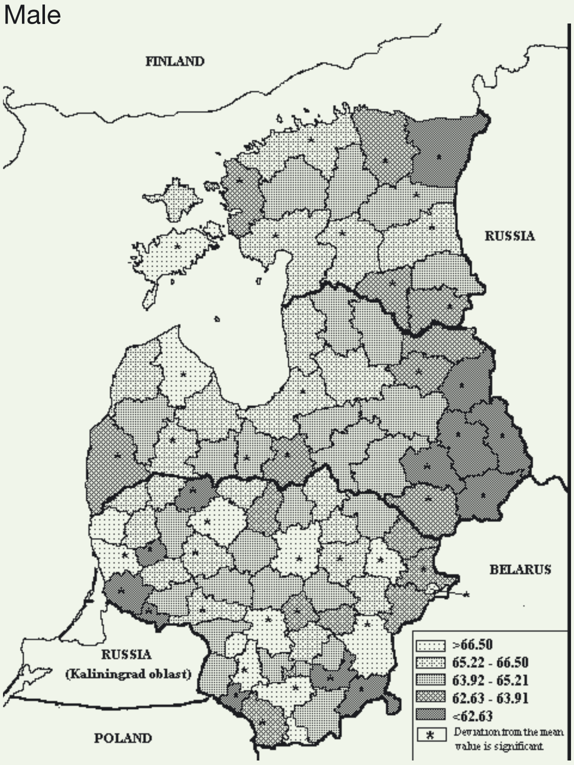


Source: European Health for All Database

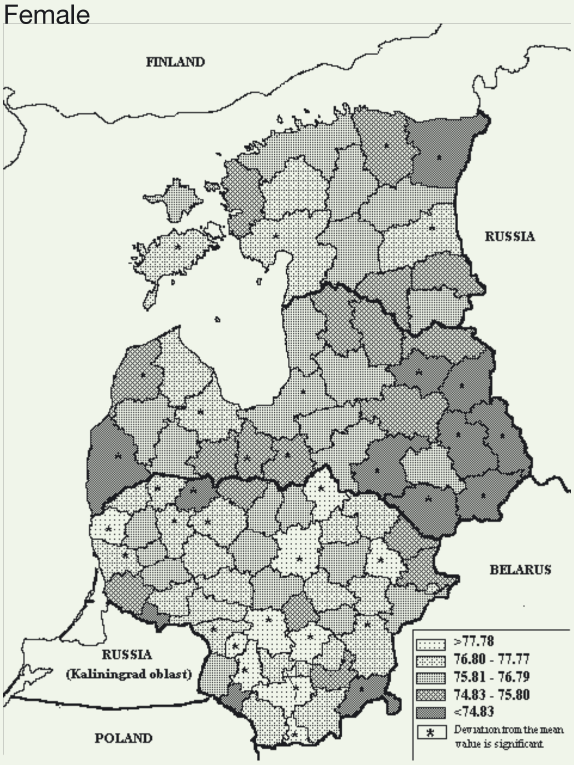
1990s in all the Baltic states. From the mid-1990s, there is a decline among both men and women in mortality from external causes of death in all three Baltic states, which ceased in Lithuania with the turn of the new century. The Baltic states are again holding the medium position between Russia with high violent mortality and the new EU member states. It could take a long time and a significant effort for the Baltic states to reach the mortality level of the old EU member states for external causes of death, especially for the male population.

Figure 2.3.9. Life expectancy at birth for men and women, regional differences

Male



Female



Source: Krumins et al 2009

Geographical differences in mortality and life expectancy

Mortality is regionally quite dispersed in the Baltic states. A long and healthy life differs in accordance with place of residence. There are many factors behind regional differences in life expectancies – unsafe physical environment, socio-economic differences in population composition, material living conditions, behavioural risk factors, availability and quality of health services, amount and composition of in and out migration and other factors (Vallin et al 2001).

The geographical variations in mortality in the Baltic states received insufficient attention until now. Studies have been conducted on the regional disparities of mortality and morbidity in each country, but very little has been published on the three Baltic states together (Zaborskis et al 1995, Jozan & Prokhorskas 1997, Krumins et al 1999, Krumins et al 2006). Atlases on mortality (Eurostat 2002 and 2009) describe mortality at NUTS 2 level from 1994 to 1996 and 2002 to2004, but each Baltic state is represented only by one NUTS 2 region.

Administrative units in the Baltic states vary by surface area, number and composition of population. They also differ by their socio-economic characteristics and level of urbanization. Taking into consideration existing urban-rural differences in mortality, regional analyses of mortality can be performed in two ways. The first approach is based on the entire administrative units including towns. According to the second approach, towns are considered separately.

First, we studied the general mortality level by using the standard mortality ratio (SMR) for all causes of death and life expectancy indicators, followed by cause-specific standard mortality ratio analysis by administrative units. The mortality rates for period around the population censuses of 1998–2001 were taken as reference of mortality to study the geographical variations in the three countries (Figure 2.3.9).

The main conclusions from the regional analysis of mortality in the three Baltic states are the following. Mortality and life expectancy in the Baltic states is structured by a North-East to South-West axis. The eastern excess mortality pattern is rather strong in the eastern part of Latvia and the North-East of Estonia, while the Lithuanian profile finds some extension in Eastern Poland and West Belarus.

The geographical variation of mortality has increased during the period of socio-economic transition in the Baltic states, particularly from diseases of the circulatory system and slightly from neoplasms, but it has declined for external causes of death (Table 2.3.6). Geographical variations of mortality are the largest among exogenous causes of death (infectious diseases, respiratory diseases, violent deaths).

Additional analyses showed that there is a clear continuum running from the regions of high cardiovascular mortality in the north down to the regions of low mortality in the south. The prevalence of mortality from respiratory diseases varies in exactly the opposite direction. Cancer mortality does not reveal a geographical pattern. Cancer mortality is higher in the towns and cities than in the countryside. Everywhere in the towns, mortality for external causes is low, with a very narrow range of differences between them in all of the three Baltic states. The geographical variation of this group of causes is typically shaped by rural areas.

Mortality, as well as the assessment of general public health status by region, still strongly depends on the level of socio-economic development of the regions. Therefore, reforms only covering health care systems could not diminish geographical mortality differences. In order to accelerate the convergence of regional life expectancy levels, greater attention should be paid to the reduction of geographical differences in the health of the population and to the impact of a broad range of policies that are related to public health.

Inequalities in the face of death

Inequalities in the face of death still continue to exist among population sub-groups. Some inequalities are rather stable, while some of them are changing in different ways (Stankuniene et al 1999, Monden 2004). One of the most analyzed and discussed phenomenon is the gap between **male and female** life expectancy. Despite its moderate decline since the mid-1990s, excess male mortality in the Baltic states is still a serious health and socio-economic issue affecting the reduction of the female-male life expectancy gap, which is slowly approaching the average level for the new EU member states, exceeding it by 1.7–2.9 years. In the old EU member states, female life expectancy excess has been systematically declining over the last twenty years – from 6.8 years in 1990 to 5.5 years in 2009. In the new EU member states that excess diminished insignificantly – from 8.2 to 8.1 years during the same period. The three Baltic states have one of the highest male to female life expectancy gaps in Europe. This gap has practically not changed (10.2 years) in Estonia; in Latvia it has decreased from 10.5 to 9.8 years, but in Lithuania it has even increased from 9.9 to 11.1 year over the last twenty years. In Iceland, the European country with the highest life expectancy (81.9 years in 2009), the female-male life expectancy gap has reached 3.9 years, while in Russia (the European country with the lowest life expectancy) it has increased from 10.6 to 12.8 years between 1990 and 2006.

Inherited from the Soviet period, **urban-rural** differences continue to be apparent in welfare, health and mortality. Rural excess mortality results in the urban-rural life expectancy gap, which in Latvia is rather stable: 2.0 years in 1990, 2.4 years in 2000 and 2.2 years in 2008 (CSB 2009). The urban life expectancy gap is higher among men (1.8–3.0 years) in comparison with women (0.9–1.3 years) in Latvia. The advantage of urban life is also observed in Lithuania, where the gap between urban and rural life expectancy in 2000 was 3.3 years, but in 2009 was 3.1 years (Statistics Lithuania 2011). In Estonia, there are no recent life table calculations separately for urban and rural population. In 1989, the urban-rural life expectancy gap for men in Estonia was 2.1 years and 1.7 years for women.

Urban-rural differences in mortality are mainly determined by the higher level of premature mortality due to external causes of death among rural males. For females, differences are caused by the higher mortality in older ages due to cardiovascular diseases in rural areas (Jasilionis 2003). Differences are mainly determined by the higher level of education of the urban population and the lower effectiveness of health care services and health policy measures in rural areas.

Educational inequalities are an important factor in explanations of mortality changes and differences in general and by particular groups of causes of death (Shkolnikov et al 2006, Ezendam et al 2008, Leinsalu et al 2009, Stirbu et al 2010). Large differences by education in mortality and life expectancy are present in all three Baltic states over the last twenty years. On the onset of the transition to the market economy, the gap between the higher educational level and primary education or less were 12.6 years for Latvian

Table 2.3.6. Absolute changes in geographical distribution of SMR in the Baltic states between 1987–1990 and 1998–2001 (+ increase; – decrease)

	Change	Standard deviation	Coefficient of variation
All causes	+0.27	+0.03	+2.9
CVD	+0.54	+0.03	+3.0
Neoplasms	+0.49	+0.01	+0.5
External causes	–0.52	–0.07	–3.3

Source: Krumins et al 2006: 109.

males at age 25 and 7.1 years for females of the same age (Krumins 1993). During the 1990s, the declining mortality of the higher educated and the rising mortality of the lower educated resulted in an enormous mortality gap in Estonia. In 2000, male graduates aged 25 could expect to live 13.1 years longer than corresponding men with the lowest education; among women, the difference was 8.6 years (Leinsalu et al 2003). In Lithuania, on the eve of 21st century, life expectancy at age 30 differed by 11.3 years between men with the highest and those with the lowest educational levels, mainly due to the excess mortality of the latter between 40 and 60 years of age (Jasilionis et al 2007).

Socio-economic and political transformation has affected **ethnic differences** in mortality and life expectancy in multi-ethnic societies, including the Baltic states. The standardized life expectancy (by place of residence) of Latvians surpassed that indicator for the largest minority group – Russians – in Latvia at the end of the 1970s and 1980s by 1.7 years. The mortality gap between Latvians and Russians measured with age-standardized death rates has increased from 10 to 17 per cent for men from 1988 to 1995, and from 13 to 14 per cent for women for the same period (Krumins & Usackis 2000). Increasing ethnic differences are also typical for Estonia. In the period from 1989–2000, the advantage of Estonians in life expectancy increased from 0.4 to 6.1 years among men and from 0.6 to 3.5 years among women (Leinsalu et al 2004). In Lithuania with its more ethnically homogeneous population, the difference in life expectancy at age 30 among Lithuanians and Russians is 1.82, while among Lithuanians and Poles it is 3.15 years (Jasilionis et al 2007). Ethnic differences in mortality are partially attributed to differences in educational level and the urban-rural place of residence. Differences in life expectancy are mostly generated by cardiovascular diseases and external causes of death.

Differences between the most unfavourable and most favourable groups are huge. For example, from 2001 to 2004, the life expectancy gap at age 30 amounted to more than twenty years for men who had a higher education and were married, Lithuanian and living in an urban area (47.7 years) in comparison with men who had lower than secondary education and were non-married, non-Lithuanian and living in an urban area (27.3 years). The results are more than 15 years for women who had a higher education and were married, non-Lithuanian and living in an urban area (55.8), compared with women who had lower than secondary education and were non-married, non-Lithuanian and living in a rural area (40.0 years) (Jasilionis et al 2007).

Concluding remarks

We have reached a point when many of us are finding answers to questions such as: How successful was the advancement of the three Baltic states in the past twenty years in terms of human development, improvement of health and increase in life expectancy? Have we achieved more in comparison with the first decennials of independence during the 1920s and 1930s? Are the recent trends in mortality showing a break up with the Soviet-type excess mortality pattern and stagnating life expectancy? What are underlying factors behind the observed changes and policy implications?

Scholars from different fields and countries conduct intensive research in search of comprehensive answers to these issues. It is clear that one can find many explanations to cumulative process like mortality change in social development and people's health during the preceding decades. The Soviet health care system and social policy together with echoes from wars and post-war Stalinist repressions hindered the decline in mortality. Several countries (like Finland and Portugal) with a comparable or lower level of pre-war life expectancy outpaced the Baltic states during the post-war period.

The renewal of independence and the following period of market-led reforms and social transformations resulted in a further decline of mortality in all three Baltic states. Successive economic growth accompanied by growing social inequality predetermined a lasting or even growing socio-economic and demo-geographic differentiation of mortality.

The change in life expectancy in the three Baltic states in the last twenty years aligns to a middle trajectory between the most successful Eastern and Central European countries and those countries lagging behind. Estonia became a leader among the Baltic states in terms of life expectancy in recent years and Lithuania is lagging behind Estonia and Latvia. Cardiovascular diseases and violent deaths are still playing considerable role in excess mortality, especially for men.

Despite the increasing life expectancy, it would probably take a long time and a significant effort for the Baltic states to narrow the mortality and life expectancy gap with more advanced European countries, especially for the male population. The challenge for the coming decades is to find an answer to this. Let us repeat this comparative analysis in another twenty years!

2.4. Health care policy in the Baltic countries from 1990 to 2010

Ain Aaviksoo, Riina Sikkut

Two decades ago, the Baltic countries emerged from an ineffective centralized system of health care financing and administration, which was mainly characterized by an over emphasis on the hospital-based approach. Since the beginning of the 1990s, fundamental health care reforms have been implemented in all three countries. The reforms have changed health care systems in the same direction, but they have also differed considerably in some key aspects. This paper discusses the health care reforms implemented in the Baltic countries and the health care choices made in regard to financing, infrastructure, the number of employees and the availability of health services.

Health care financing reforms

In Estonia, the Government of the Republic made a decision on 28 May 1990 to implement "insurance-based medicine",[17] and on 12 June 1991 the Republic of Estonia Health Insurance Act was adopted, creating a national health insurance system with the aim of "payment of the costs related to preserving the health of residents of the Republic of Estonia, the costs related to their temporary incapacity for work and their medical treatment as a result of illness or injury, and benefits in the event of pregnancy and childbirth".[18] In the same year, a regulation on the organization of health care services was also adopted[19], and the principles established in these two founding documents have, in essence, endured in Estonia to this day.

In 1991, Estonia had 22 local health insurance funds. In 1994, the number of local health insurance funds dropped to 17, and the Central Health Insurance Fund was established as a type of levelling fund controlled by the Health Insurance Council (made up of 15 members, including the representatives of the state, the employees and the employers). The consolidation of health care financing was finalized in 2002 with the establishment of the Estonian Health Insurance Fund, a public agency fully responsible for providing equal health insurance to all insured individuals. Throughout this time, the main source of financing for all health care services in Estonia has been the 13% tax on wages specifically earmarked for health care (as part of the social tax).

The principles of health care financing have been changed on multiple occasions in both Latvia and Lithuania. Latvia started out with the option of combined financing from the state and local government budgets and then moved on to central financing from the state budget in 1998, although various formulae were still used to combine specific sources of financing and the size of the budget, and 8 regional health insurance funds were

17 Interview with Georg Männik

18 12/06/1991 The Republic of Estonia Health Insurance Act * RT 1991, 23, 272

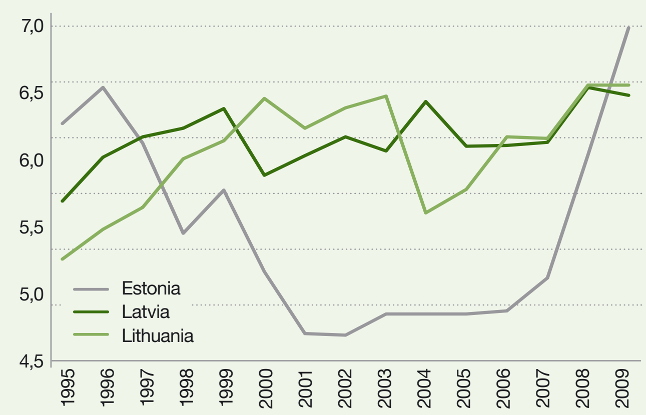
19 In the form of the 8 November 1991 Regulation on approval of the "Statutes of the health insurance fund", the "Procedure for the calculation and payment of compulsory health insurance benefits" and the "Procedure for the payment of health insurance contributions" * RT 1991, 41, 504

used to manage the system. It was only in 2005 when Latvia instituted a system in which health care is uniformly financed based on the social tax through a single National Health Insurance Agency, although health care expenditure is still combined with other forms of social expenditure (pensions, unemployment benefits, etc.), and the specific sum to be provided for health care from the budget is separately agreed upon in parliament on an annual basis.

Lithuania also started out with a system that was funded from various sources at the beginning of the 1990s. Health care institutions were financed from local budgets and the national budget while the expenses on medicines were financed through the State Social Insurance Fund Board (SODRA). In 1997, Lithuania instituted a health insurance system centred around the National Patient Fund and 10 regional funds, which were initially financed using a relatively small insurance payment (3% of wages), supplemented from the national budget based on the imputed income tax. Since 2003, there are 5 regional funds, the size of the social tax collected by SODRA is determined by the parliament on a yearly basis and the budget for health care services is still compiled from various sources, which is decided on through political decision processes.

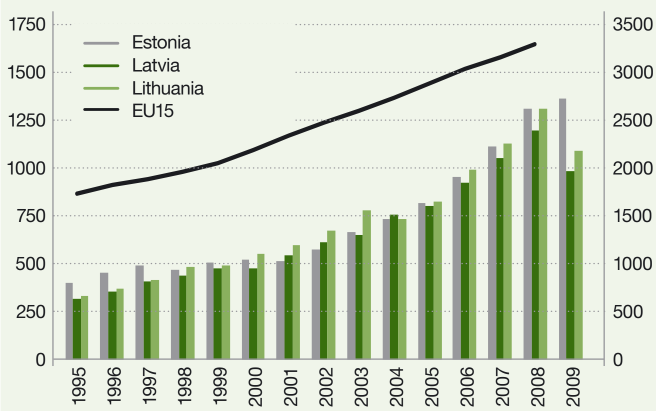
Therefore, over the past 20 years, the main difference in terms of the organization of health care financing in Estonia, Latvia and Lithuania has been the predictability of the health care budget. In other words, the difference lies in the degree to which the financing entities and service providers are able to have an overview of the future finances and plan their revenue and expenditure in the medium term. In Estonia, even if the amount of money available has been insufficient, the health care system has enjoyed a degree of security and clarity regarding the future in the short term, since political events have had relatively little impact on the health care financing decisions. In Latvia and Lithuania, the financing schemes have often been changed and the level of financing provided for health care is determined on a yearly basis through a political process.

Figure 2.4.1. Total expenditure on health in the Baltic countries (% of GDP)



Source: Data from the WHO National Health Accounts

Figure 2.4.2. Total expenditure on health per person (USD PPP)



Source: Data from the WHO National Health Accounts, the data on EU15 is based on the WHO assessment provided in the Health for All database

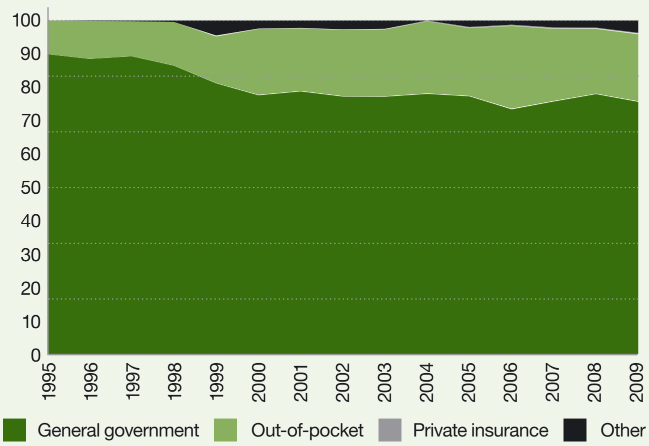
Health care financing

Comparable data on health expenditure is available from 1995. During the period from 1995 to 2008, there was a year-on-year increase in total expenditure on health in all Baltic countries (total growth of more than five times). Although in absolute terms the contribution to health care became increasingly larger, the level of health care expenditure in proportion to all added value has remained at 5–6% of GDP, indicating that health care costs have increased at a rate similar to the general economic growth.

In 2009, the nominal health care costs decreased for the first time. The decrease was marginal in Estonia (1.5%) but amounted to 20% in Latvia and 18% in Lithuania. While health care expenditure in relation to GDP remained at the 2008 level in Latvia and Lithuania (-0.1 percentage points in Latvia), in Estonia the proportion of health care expenditure to GDP experienced an increase from 6.1% to 7.0% of the GDP. This was due to the fact that the Health Insurance Fund decided to use its reserves to alleviate the impact of the decreasing national budget and GDP to the availability of health care services. Maintaining the level of expenditure through using reserves caused the proportion of the health care costs in relation to GDP to increase in Estonia, since the country's GDP fell in 2009 (Figure 2.4.1).

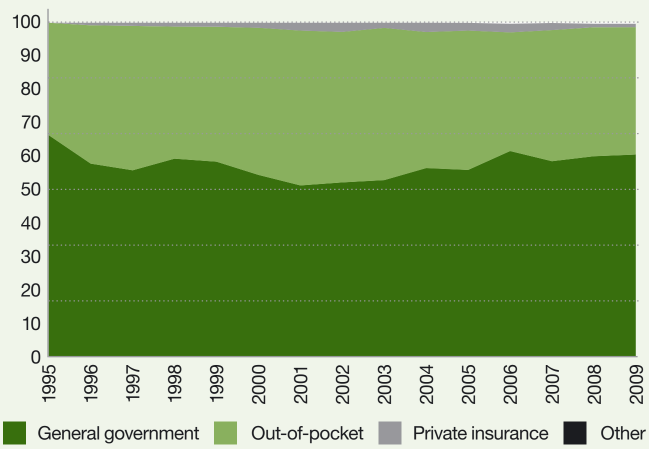
The indicator "total expenditure on health per person", which is often used in international comparisons, has grown consistently and markedly in the Baltic countries: in 2009, health expenditure per person was more than three times as high as it had been in 1995 (Figure 2.4.2). Considering purchasing power parity, Lithuania's health care spending per person was higher from 2000 to 2007 than that of Estonia (the same was true for Latvia in some years). However, the difference in economic development in recent years as well as the availability of sufficient reserves has increased Estonia's health care spending per person in 2009 to 1,373 USD PPP, while Latvia's and Lithuania's spending remained at the respective levels of 996 and 1,097 USD PPP. However, expenditure on health care in the Baltic countries is still significantly lower than the average health care expenditure of the old EU member states.

Figure 2.4.3. Health care financing in Estonia (%)



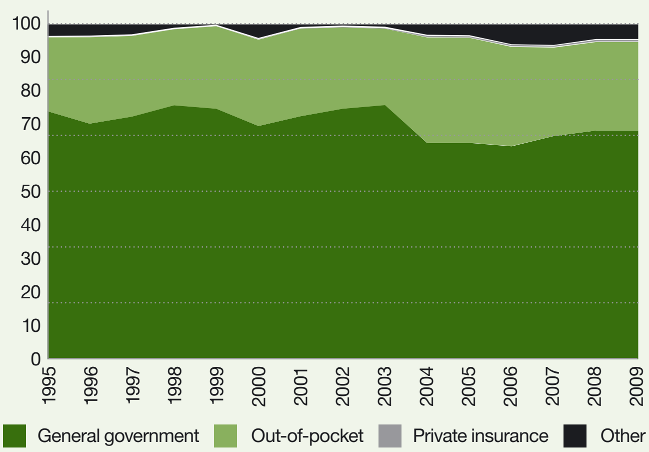
Source: WHO National Health Accounts data

Figure 2.4.4. Health care financing in Latvia (%)



Source: WHO National Health Accounts data

Figure 2.4.5. Health care financing in Lithuania (%)



Source: WHO National Health Accounts data

Contributors to health care financing

In addition to the level of health care spending, another important indicator related to health care policy is the issue of who was responsible for the spending or paid for the health care services. The identity of the party that pays for the health care services is an important aspect in terms of assessing the fairness of the system and the availability of the services. While in most cases the immediate payer at the point of providing the services is a public social insurance institution, the latter usually receives money from taxpayers, regardless of the method of collecting the money. In addition, the patients may be required to make an out-of-pocket payment when using health care services.

In the Baltic countries, the public sector has been responsible for managing and, to a large degree, also financing health care. During the period from 1995–2009, public sector funding accounted for at least 50% of health care spending in all of the three countries. In Estonia, the level of public funding has been approximately 75% for the past decade. In Estonia and Lithuania, the public sector mainly provides financing for health care through the health insurance system, which primarily receives its revenue from the special-purpose tax as well as, to a smaller degree, from general revenues in the state budget. Latvia finances health care more from the general state budget.

In addition to the health insurance funds and the state budgets, some health care spending by the public sector comes from local governments. In Estonia, local governments are not obligated to make specific health care expenditures and their duties are mostly limited to raising public awareness and ensuring the availability of health care to their inhabitants (the measures include covering the health care expenses of non-insured individuals, supporting starting family physicians, etc.). Local governments in Latvia are also responsible for ensuring the availability of health services for low-income individuals. In Lithuania, the local governments play a larger role: they own the hospital buildings and are responsible for the financing of family physician services.

The role of the public sector in financing the health care system has decreased in all three Baltic countries during 1995–2009, although there has recently been a rise in public funding in Latvia after the low point was reached at the beginning of the 2000s. In Estonia, the public sector provided 90% of the financing for health care in the middle of the 1990s, but by 2009 the level had fallen to 75%. In Latvia, the share of public sector financing in health care has been lower than in Estonia and Lithuania. The contribution of the public sector fell from 66% in 1995 to 51% in 2001, rising to just 60% in 2009. In Lithuania, there has been a decrease from 74% in 1995 to 68% in 2009 (Figures 2.4.3–2.4.5).

Although the share of public sector financing in health care has decreased in all of the Baltic countries, the proportion of the total public sector spending directed to health care has remained relatively stable. This means that health care has held a constant position in the priority list over the past 15 years, compared to the government sector's other items of expenditure. However, since the tax burden has generally decreased, people have had to make increasingly large contributions out of their own pockets in order to receive health care. All in all, in 2008–2009 health care expenditures made up nearly 12% of the public sector budget in Estonia, a little over 10% in Latvia and nearly 13% in Lithuania.

Health care financing from the private sector is mainly comprised of the patients' out-of-pocket payments and private insurance. Out-of-pocket payments for some services and pharmaceuticals are used to impact the people's use of health care services (e.g. in order to induce patients to find more cost effective medicinal products and decrease the "non-essential" use of health care services) and to generate additional funds for the health care system. Furthermore, patients have to cover the costs of services and pharmaceuticals that are not compensated by health insurance (e.g. dental treatment). However, high out-of-pocket payments tend to decrease the availability of health care services for people with smaller incomes, which can be detrimental to their health and ability to work and therefore intensify the deterioration of their financial situation. The larger relative importance of out-of-pocket payments also leads to the decrease of solidarity-based redistribution in the health care system.

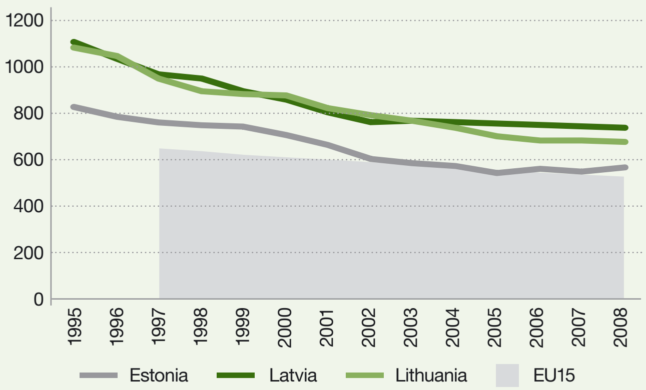
In Estonia, out-of-pocket payments made up 97% of all private sector spending on health care in 2009; private insurance mainly consisted of travel health insurance and its volumes were very small. While the situation in Lithuania was similar, the role of private insurance grew quickly in Latvia in the 1990s, reaching the level of nearly 7% of private sector health care spending by 2006 but once again dropping thereafter. The popularity of private insurance in Latvia was spurred by high out-of-pocket payments, against which people sought protection from private insurance.

Out-of-pocket payments mainly comprise spending on pharmaceuticals and dental care. In Estonia, out-of-pocket payments made up 10% of total health care expenditure in 1995; they rose to 25% by 2006 (the highest level so far) and fell again to 20% by 2009. In Latvia and Lithuania, the out-of-pocket payments have been higher than Estonia's from the beginning. In Latvia, out-of-pocket payments amounted to 34% of health care expenditure in 1995, 46% in 2001 and 38% in 2009. This means that as Latvian society became more prosperous, it moved towards decreasing out-of-pocket payments. Lithuania has exhibited the most stable level of out-of-pocket payments: the rate did exceed the 30% mark between 2004 and 2006, but it has mostly remained between 20% and 30%. In 2009, for example, out-of-pocket payments amounted to 27% of health care expenditure in Lithuania.

In general, all financing schemes based on labour taxes (e.g. social insurance, budgetary financing) are progressive: people with higher incomes pay a larger share of their wages as taxes, compared to people with lower incomes, mainly as a result of gradual tax rates or tax exemptions on small incomes. Fees based on the use of services (e.g. out-of-pocket payments for pharmaceuticals), on the other hand, are usually regressive: people with lower incomes pay a larger share of their income for health care services.

Due to the rise in the out-of-pocket payments, the financing of health care services in Estonia has become more regressive in recent years, although it remains progressive all in all (Võrk 2008). This means that the Estonian health care system is still characterized (although increasingly less so) by the redistribution of resources from higher income groups to lower income groups, from healthier people to less healthy people and from insured individuals to children, pensioners and other groups that are considered equivalent to the insured.

Figure 2.4.6. Hospital beds (per 100,000 inhabitants)



Source: Eurostat – Health care facilities, hospital beds and health personnel by region

The contribution of different income groups to health care financing has not been analyzed in Latvia and Lithuania, although the larger share of out-of-pocket payments does indicate the lower potential of these health care systems for redistributing resources to low-income groups.

Infrastructure and health care professionals

A common feature of the Baltic countries is the hospital over-capacity inherited at the beginning of the 1990s from the Soviet system. The hospital network was characterized by a large number of hospital beds, low hospital bed occupancy and high average length of stay. In the 1990s, all three Baltic countries set upon reforming their ineffective hospital networks: the number of hospitals and hospital beds was cut and investments were made in hospital buildings and medical technology in order to ensure the provision of modern high-quality services.

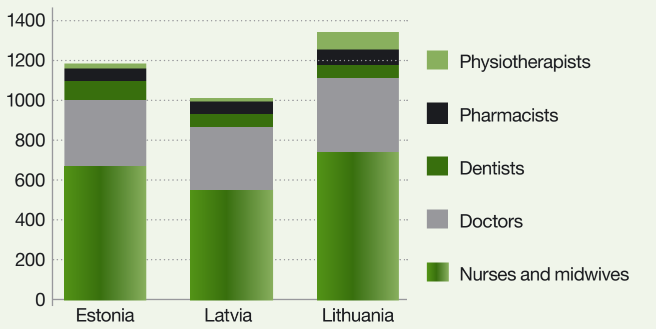
Compared to 1995, the number of hospital beds per 100,000 head of population decreased by 32% in Estonia, 34% in Latvia and 38% in Lithuania. In 2009, the three countries had 572, 745 and 685 hospital beds per 100,000 head of population, respectively. In comparison, the average for the 15 old EU member states is 535 hospital beds per 100,000 head of population (Figure 2.4.6).

In addition to the policy of reducing excess capacity, the decrease in the number of hospital beds is also related to the shift of focus on outpatient and day care.

In Estonia, however, the number of hospital beds has begun to increase again in recent years, mainly due to the rising number of nursing care beds. The changes in hospital bed profiles differ from country to country: In Estonia, the number of hospital beds for active medical care and psychiatric care per 100,000 head of population has dropped while the number of hospital beds for nursing care has increased. In Latvia and Lithuania, the average number of all types of hospital beds (active medical care, psychiatric care and nursing care) has decreased.

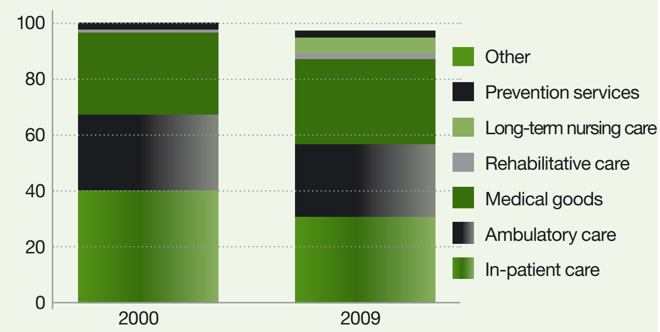
The total number of medical professionals fell in Estonia and Latvia until 2001 and then began to grow, even surpassing the level of the mid-1990s by 2008. Although the number of doctors and nurses in Estonia has decreased,

Figure 2.4.7. Health personnel in 2008 (per 100,000 inhabitants)



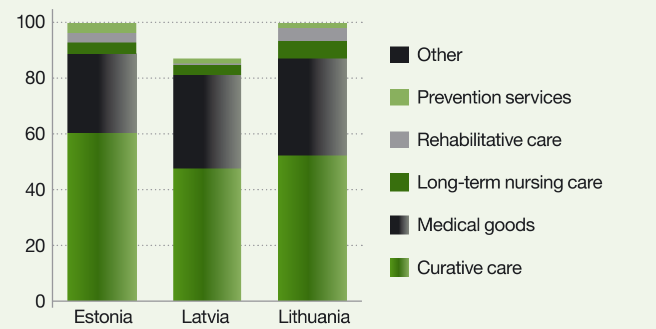
Source: Eurostat – Health care facilities, hospital beds and health personnel by region

Figure 2.4.8. Health care expenditure by functions (Estonia)



Source: The data of the National Institute for Health Development on the total health care expenditure in Estonia; Eurostat data - Health care expenditure by function

Figure 2.4.9. Health care expenditure by functions (2007)



Source: The data of the National Institute for Health Development on the total health care expenditure in Estonia; Eurostat data - Health care expenditure by function

the total number of medical professionals increased as a result of the growing number of dentists, pharmacists and physiotherapists. In Lithuania, where the number of health care professionals per 100,000 head of population was the highest (amounting to 1,503 in 1995, while the corresponding figure was 1,136 in Estonia and 846 in Latvia), the number of medical professionals decreased continuously until 2004 and stabilized thereafter (instead of growing again to the mid-1990s level). In 2008, the Baltic countries still differed in terms of the number of health care professionals per 100,000 head of population. The number of dentists was highest in Estonia, and Lithuania had the highest number of doctors, nurses and pharmacists as well as several times as many physiotherapists as Estonia and Latvia (Figure 2.4.7). Over time, Lithuania has specifically experienced a decrease in the number of nurses. In 2008, Lithuania had an average of 2.0 nurses per doctor, just like Estonia, while the average number of nurses per doctor in Latvia was 1.8. The official forecast for the need for nurses in Estonia is three nurses per one doctor (Koppel et al 2008), but reaching that level has, to date, not gone according to plan.

Compared to Western European countries, Estonia's number of doctors is essentially the same (329 doctors per 100,000 head of population in 2007), while the number of nurses (655 nurses per 100,000 head of population in 2007) lags behind the corresponding figures in the so-called old EU member states (791 nurses per 100,000 head of population in 2007). Unlike Estonian and Latvia, the number of doctors in Lithuania did not decrease in the 1990s and has remained on the same level to this day (nearly 400 doctors per 100,000 head population in 2007). In the near future, the three countries will likely have to face a decrease in the number of health care professionals due to the retirement of a large number of individuals working in the field.

Since the Baltic countries joined the EU in 2004, the pressure on the health care professionals to leave for abroad has increased considerably. In Estonia, the emigration of health care professionals was restrained somewhat by a quick wage increase in 2004–2008 and the incomes of medical professionals also increased in Latvia and Lithuania (Buchan & Perfileva 2006). However, the economic crisis in 2008–2010 and the related wage reduction have, once again, markedly increased the risk of emigration of health care professionals.

Use of health care funds

The importance of the method of financing health care services is mirrored by the importance of how and which health care services are actually provided to the population for the allocated money. Figures 2.4.8 and 2.4.9 provide information on what kinds of services have been rendered to patients for the money directed into the health care system.

A comparison of the Baltic countries reveals that health care expenditure structures of Estonia and Lithuania have more similarities with each other than with Latvia's system (Figure 2.4.9). The main difference is the greater relative importance of spending on treatment and prevention-related activities in Estonia compared to its neighbours, as well as its comparatively lower expenditure on medical products (mainly pharmaceuticals). Compared to Estonia and Latvia, Lithuania spends more on rehabilitative and nursing care as well as medical products. The rate of curative care expenditure is highest in Estonia and is somewhat lower in Lithuania and Latvia.

The relative importance of inpatient care expenditure as the largest expenditure item has decreased in Estonia over the past decade, while the expenditure on medical products has increased, as have the expenses related to nursing and rehabilitative care. However, in absolute terms, the importance of the last two types of treatment is still significantly lower than that of the other treatment types.

The increase in spending on ambulatory care and medical products reflect the increasing role of the family physicians. Estonia was faster and more forceful in developing a primary care system based on family physicians. Since 1997, capitation fees have played an important role in this system as the basis for its financing (Koppel et al 2008). The introduction of capitation fees created the conditions necessary for the financial independence of the family physicians as well as the emergence of a very strong sense of professional dignity. Although similar changes in the primary care system were made in Latvia and Lithuania, there were also a lot of doctors with training in other fields (internists, general physicians, paediatricians), who provided family physician services in these countries. Furthermore, their systems put far less emphasis on capitation fee-based financing. Latvia and Lithuania also retained numerous Soviet-era outpatient clinics, even when the rooms housed independent family physician practices (Tragakes et al 2008, European … 2000). Since the outpatient clinics were funded as independent institutions that had no clear role or responsibility as providers of general medical care or inpatient care, the system generated additional inefficiency and made it impossible for the family physicians to assume full responsibility for providing primary care.

All in all, Estonia's clear-cut organization of health care has made it possible for the country to develop a very effective health care system where access to consultations is good compared to its southern neighbours (see the next subchapter "Use of services") while the number of medical procedures is high (Aaviksoo et al 2009). It can be presumed that the greater efficiency of health care services in Estonia (Björnberg et al 2009) has enabled it to use comparatively more funds on disease prevention and health promotion-related activities than Latvia and Lithuania.

Use of services

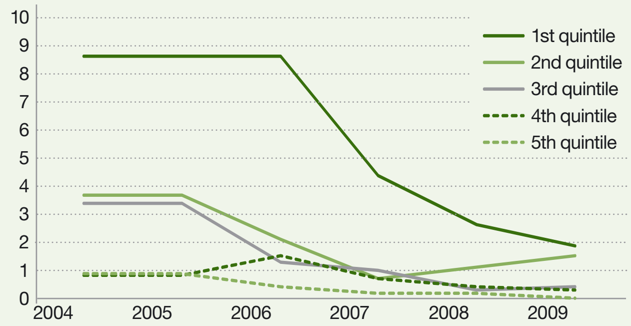
During the period under observation, the use of medical services has increased in all three Baltic countries and the provision of medical services has become more efficient. More people are being treated and more surgeries are being done with the same number of employees and, at times, decreased resources. Once again, the most significant changes have occurred in Estonia.

While the average hospital stay (number of days spent in a hospital bed) decreased by 35–40% in all three countries between 1995 and 2008/9, hospital stays were ultimately shortest in Estonia (7.9 days), compared to Latvia (9 days) and Lithuania (9.6 days).

On the other hand, the number of outpatient consultations per person has increased in Estonia and Latvia (reaching the level of 6.5 and 6 visits per year, respectively). In Lithuania, where the number was the highest in mid-1990s (more than 7 visits per year), the number of visits dropped to 6.4 in 2002 and rose again to 6.9 yearly visits per person by 2009.

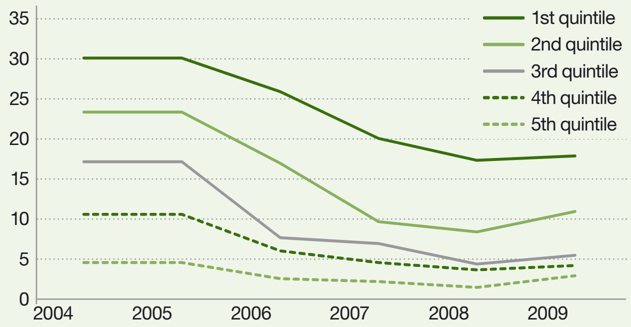
Although the number of outpatient visits per person increased, it is important to know whether medical services are available to all income groups. In the case of social insurance, it is essential to determine the percentage of individuals who are not covered by insurance. In Estonia, the corresponding indicator has remained stable at the level of 5–6% of the total population (according to the information of the Estonian Health Insurance Fund on insured individuals). In general, the uninsured only have access to emergency medical care and medical care for treating life threatening conditions, as well as some public health programmes. According to the principles generally accepted in Europe, this percentage of uninsured individuals is too high.

Figure 2.4.10. Percentage of people with unmet need because care was too expensive (Estonia)



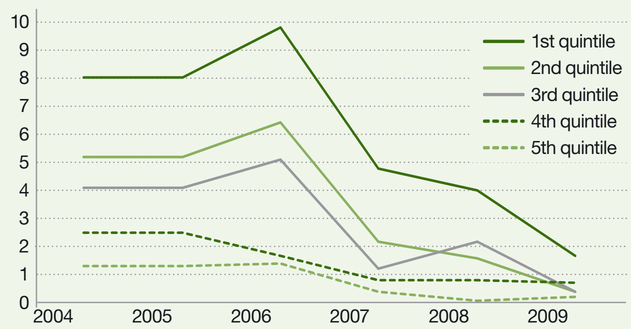
Source: Eurostat indicators from the Survey on Income and Living Conditions

Figure 2.4.11. Percentage of people with unmet need because care was too expensive (Latvia)



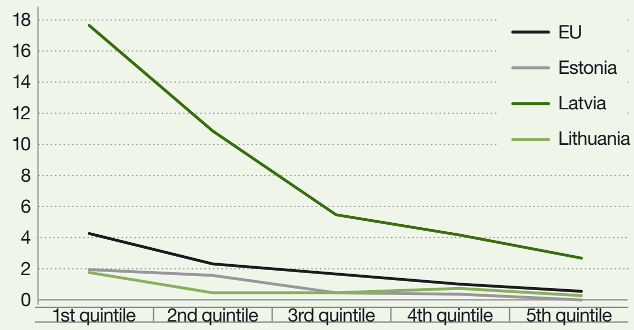
Source: Eurostat indicators from the Survey on Income and Living Conditions

Figure 2.4.12. Percentage of people with unmet need because care was too expensive (Lithuania)



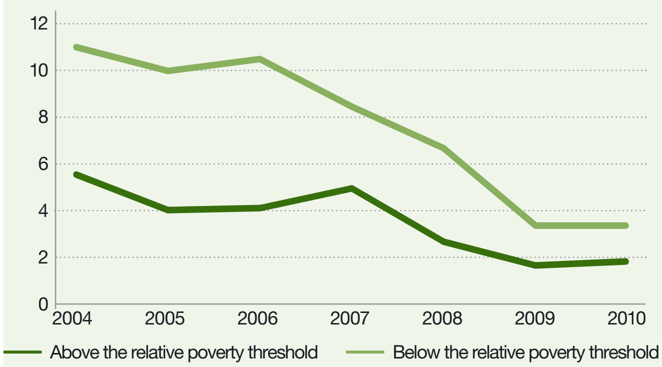
Source: Eurostat indicators from the Survey on Income and Living Conditions

Figure 2.4.13. Percentage of people with unmet need because care was too expensive (2009)



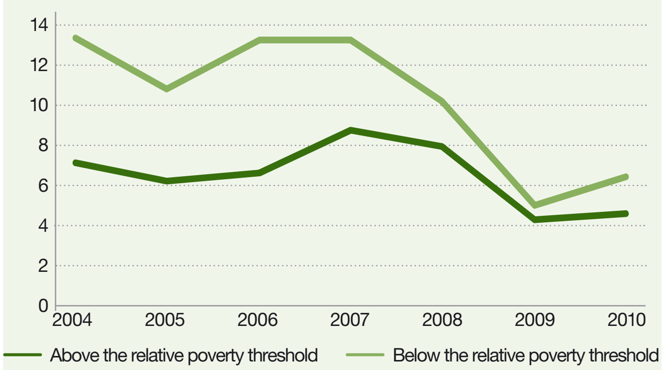
Source: Eurostat indicators from the Survey on Income and Living Conditions

Figure 2.4.14. Availability of family physician's services in Estonia (% of people who had problems receiving necessary medical attention)



Source: Data provided by Statistics Estonia on the availability of health care

Figure 2.4.15. Availability of specialised medical care (% of people who had problems receiving necessary medical attention)



Source: Data provided by Statistics Estonia on the availability of health care

As health insurance in Latvia and Lithuania is not strictly related to employment or any other special conditions defined in legislation, all people legally residing in these countries are nominally guaranteed the right to uniform health care services. However, in Latvia, for example, the ability to use this right is largely dependent on the patient's ability to make out-of-pocket payments, which means that for many the availability of health care services is limited to emergency medical care. Lithuania also does not formally have any uninsured people, since access to various services (emergency medical care, family physician services and specialized medical care) is not limited based on insurance status. The out-of-pocket payment barrier, while higher than the Estonian one, is not as high as in Latvia. Due to this, the volume of services is regulated through waiting lists determined by doctors.

The availability of health care services in the Baltic countries can be compared on the basis of Eurostat data (Figures 2.4.10–2.4.13). The share of high-income individuals whose medical examination needs were unmet because care was too expensive, was significantly lower than that of people with low incomes (i.e. the first income quintile) in all three Baltic countries during the period 2004–2009. As expected, the cost of using health care services prevents people from receiving medical assistance more frequently in Latvia where the out-of-pocket payments are the highest. This applies to all income groups. For example, in 2009 medical examination was unavailable due to its cost to 1.7% of the people in the lowest income quintile in Lithuania, 1.9% in Estonia and 17.6% in Latvia.

At the same time, in recent years the availability of health care services has equalized across income groups in all three countries. In Latvia where the percentage of people who were unable to gain access to medical services due to cost factors was the highest, the equalization of the availability of health care has correspondingly been more modest. According to this indicator, the availability of medical care in Estonia and Lithuania in 2009 was even better than the EU average.

The data collected by Statistics Estonia indicate that the availability of family physician services, specialized medical care and dental care has improved in Estonia and become more equal for different income groups. The percentage of people below the relative poverty threshold, who were unable to gain access to necessary medical services, has come significantly closer to the percentage of people above the relative poverty threshold who were unable to gain access to medical care (Figures 2.4.14–2.4.16). In 2010, 3.4% of people in the lower income group were unable to receive necessary medical services from their family physician and 6.3% were unable to receive specialized medical care (in 2004, the corresponding figures were 11% and 13.3%). The greatest problem is the availability of dental care, which is not covered by medical insurance in the case of adults. In 2004, 22% of the people in the lower income group were unable to receive dental care and in 2010 the figure still stood at almost 15%. In the more prosperous group, 5% of all people were unable to receive dental care.

Despite the situation described above, several studies conducted in Estonia indicate that the increasing out-of-pocket payments will cause problems in relation to the availability of health care services. For example, during the past decade there has been a constant increase in the number of people for whom health care costs make up a dangerously high proportion of their income (more than 20%) or for whom health care costs were the direct cause of their impoverishment (Võrk et al 2009). There was some improvement in the availability of health care in 2007 and

2008, the last years of the economic boom, when incomes and health care spending temporarily reached their maximum levels (Habicht 2010). This can be explained by the improvement of the financial situation of households, but the economic downturn and especially the price increase resulting from the subsequent economic recovery may once again impair the access to health care services for people with smaller incomes. Furthermore, the waiting lists for appointments with family physicians and medical specialists have gradually increased over the past decade, even during the years of fast economic growth. According to the survey "Public opinion on health and health care in 2009", the percentage of people who had to wait for specialized health care for more than one month increased from 19% to 30% between 2005 and 2009.

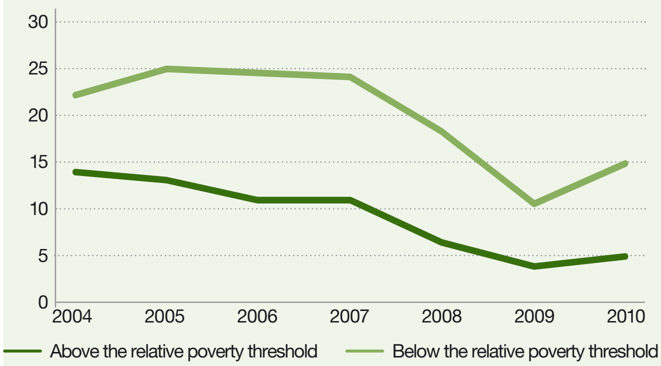
Conclusion

Although the health care policies of the three Baltic countries have generally followed the same path, some significant decisions made during the past 20 years have led to the development of some distinctions between the countries. Overall, the reforms carried out in Estonia have been more clear-cut, decisive and lasting and since 1994 the system has persistently strived to increase its efficiency.

In general, the core of the health care reforms carried out in all the Baltic countries has consisted of three principles: social insurance-based and relatively high financing of health care by the public sector, a strong primary care system based on family physicians and the financial autonomy of the service providers (mainly hospitals). However, Estonia was more forceful than Latvia and Lithuania in its political decisions and their subsequent implementation with regard to all three primary components of health care reform during the 1990s.

As a result of the reforms, Estonia has been able to establish one of the most efficient health care systems: the country is able to ensure a volume and availability of health care services that equals other developed countries, but does so in a manner that is several times less expensive (Björnberg et al 2009). Estonian patients, meanwhile, have to pay less to use health care services than Latvian and Lithuanian patients.

Figure 2.4.16. Availability of dentist's services (% of people who had problems receiving necessary medical attention)



Source: Data provided by Statistics Estonia on the availability of health care

Despite the relative success of the Estonian health care system compared to the other Baltic countries, it is becoming increasingly harder to ensure its continued successful development. There are many burning issues that have to be solved in Estonia in the near future: even extremely large economic growth is not enough to compensate for the insufficient health care financing based on labour taxes; the number of health care professionals will diminish critically due to demographic reasons as well as the growing pressure to emigrate; the demand for health care services will continue to grow at a considerable rate as a result of the expectations of the more affluent population segment as well as the increasing number of elderly people in the society; the organizational rearrangements that halted after 2004 and the possible drop in service quality will cause tensions at all levels of health care service provision, from prevention and family physician services to hospitalization and nursing care.

2.5. Summary

Mare Ainsaar

During the period from 1990 to 2010, the three Baltic countries were the states with the fastest shrinking populations in Europe. In total, the population of the Baltic countries decreased by more than one million people between 1990 and 2010. The population decrease was approximately 15% in all Baltic countries. The population sizes of the Baltic countries were affected by political, social and economic changes. During the past ten years, the demographic developments in Estonia and Latvia have closely mirrored the countries' economic development, while a similar link cannot be identified with regard to Lithuania. This is not surprising, since economic development is mediated by various policies, which have been different in the case of the three countries.

The 1990s brought about fundamental changes in fertility and migration behaviour. The Baltic population tragedy resulted from the fact that all components that influence population size became negative at once: birth rates fell, mortality increased and social changes brought about a simultaneous wave of emigration. Although the drop in birth rates may have been influenced by simultaneous changes in fertility behaviour and the adverse economic situation, in some other transition countries the decrease in birth rates was less drastic. Work-related circumstances played a prominent role in limiting birth rates in Latvia as well as Lithuania.

At the beginning of the 21st century, average life expectancy in the Baltic countries is lagging behind the European average. However, the Baltic countries did manage to restore the level held at the beginning of 1990 by the end of the 1990s, after the drop in life expectancy at the beginning of the 1990s. The only mortality characteristic that took 20 years to restore to the level it was at in 1990 is the number of non-health related deaths (external causes) and in Lithuania, this indicator has not yet reached the level it was in 1990. Another distinctive characteristic of the Bal-

Table 2.5.1. Comparison between the Baltic countries and Europe

	Birth rate		Life expectancy		Migration		Health care	
	2010	1990–2010	2010	1990–2010	2010	1990–2010	2010	1990–2010
Estonia	Satisfactory	Poor	Poor	Poor	Negative	Strongly negative	Good	Poor
Latvia	Poor	Very poor	Poor	Poor	Negative	Strongly negative	Satisfactory	Poor
Lithuania	Satisfactory	Poor	Poor	Poor	Strongly negative	Strongly negative	Good	Poor

tic countries in the European context is the high mortality rate among working-age individuals, especially men. Many studies point to the fact that mortality rates are connected to workloads, work culture and work-related stress. Prolonging the life expectancy of people in the Baltic countries through reducing mortality related to cardiovascular disease and external factors is a key objective for the near future. Since cardiovascular disease and external factors have been linked to stress (including work-related stress) as well as people's health practices, the solutions for these issues may lie in activities pertaining to those fields.

Although an increase in life expectancy is foreseeable in all three Baltic countries, the success in terms of preserving human lives during the past 20 years has varied. In the Baltic context, Lithuania lost its position as the country with the highest life expectancy to Estonia in 2004, which may indicate that Estonia was more efficient in promoting health care and healthy lifestyles. It is possible that the achievements in increasing life expectancy are connected to the choices made by the Baltic countries in the field of health care policy, namely concentrating on a social insurance-based and relatively high financing of health care by the public sector.

Although the Baltic countries seem similar to each other in the European context, a closer observation reveals some important differences between the three states. The demographic developments in Estonia and Latvia were largely similar at the beginning of the 1990s, characterized by sudden and negative reactions to social changes. This chapter does not include an in-depth analysis of how ethnic composition in Estonia and Latvia has influenced population development, although this might be one significant source of differences between the countries. Since 2000, Estonia demonstrated more positive demographic developments than Lithuania and Latvia (Table 2.5.1). By the beginning of the 21st century Latvia had become one of the most demographically problematic countries in Europe. Although Lithuania's demographic indicators for the beginning of the 21st century were similar to Latvia's, the population composition in Lithuania is better due to less drastic changes during the 1990s.

The populations of all three Baltic countries are likely to continue to decrease in the near future. It must also be stressed that despite some positive signs during last decade compared to the 1990s, the Baltic states still lag behind the average European standard in many fields.

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CHAPTER 3

Social policy, the labour market and the subjective well-being of the population

3.1. Introduction

Ave Roots, Mare Ainsaar

This chapter focuses on the Baltic states' social policy, labour markets and their populations' life satisfaction between 1990 and 2009. We are interested in finding out what changes occurred in the labour markets of the three Baltic states during the transition period and how the transition affected the life satisfaction of different people. Life satisfaction is one of the most important aggregate indicators of individual quality of life and subjective well-being, since it expresses people's overall opinion of the various aspects of their lives. As a result, life satisfaction reflects the gap between a good life, as it is perceived, and reality.

The transition processes in Central and Eastern Europe were very fast and radical changes occurred during a very short period of time. Piotr Sztompka refers to these changes as a "traumatogenic change in society" (Sztompka 2000). According to Sztompka (2000: 8–9), traumatogenic social change is characterized by four traits: the change is sudden and rapid, there is a threshold of saturation beyond which the society finds itself in a qualitatively new situation; the change is wide and comprehensive, affecting all members of the society; the change is profound and fundamental, touching the core aspects of life, such as values, power relations, prestige hierarchies, etc.; the change is surprising, unexpected and unbelievable. János Kornai (2008) points out that the people of transition countries experienced a sense of shock and disappointment, in part, due to the fact that the new situation did not meet their expectations: the consensus and selflessness that preceded the transition was followed after the restoration of independence by political struggle for power, accusations and scandals. Furthermore, instead of the economic prosperity of the Western countries that had served as the model for the transition, the countries initially experienced a downturn: the situation in the labour market became unstable, unemployment increased, social inequality grew at a rapid pace and the general standard of living remained at a level significantly below that of Western countries. Traumatogenic change in society may be related to both positive and negative events, and the traumatic nature of the event stems from the fact that people have to become accustomed to a new situation that has developed rapidly and unexpectedly. Changes in the labour market, in the field of social security and in personal well-being are discussed in this chapter.

Will the traumatogenic change in society come to an end at some point? The course of transition may differ from country to country and the process may yield varying results. According to Alan Gelb (1999), the transition process is complete when the countries that underwent the process have to confront the same problems as the non-transition countries at the same level of economic development, i.e. when the problems related specifically to the transition have been solved. Based on Piotr Sztompka's approach (1991, 2003), which sees social change as a part of a historical process where the factors stemming from the previous period affect the development of the subsequent period, each period influences the next one. This also means that Baltic societies will always be affected, to some degree, by the transition period.

3.2. The "Baltic welfare state" after 20 years of transition

Jolanta Aidukaite

Introduction

Numerous studies (Aidukaite 2004, Cerami & Vanhuysee 2009, Fenger 2007) have indicated that, in many cases, the similar outcomes of the transitions of Estonia, Latvia and Lithuania are determined by the legacies of the Soviet Union. Looking back at the 20 years of the Baltic transition, one can observe a pattern of success and failure. The success of the Baltic transition can be seen in the successful transformation of the financial sector, services, private sector, construction, education and communication (see

Commission of the European Communities 2002, Lauristin 2003, **Tiirinen** 2000). All three countries successfully joined the European Union and NATO in 2004. Nevertheless, according to social indicators (e.g. minimum wage, expenditures on social protection, poverty and income inequality), the three countries have, to various degrees, been lagging behind the EU-15, the EU-25 and the EU-27 averages (Aidukaite 2009a, b, Guio 2005, Noelke 2008, Regnard 2007, UNDP 2008, World Bank 2005). The three Baltic states spend the least on social protection compared to the other 10 new EU member states and also the EU-27; the income inequalities measured in 2008 and expressed as a 'Gini coefficient' were also higher in Baltic societies, while in the Visegrad countries the income inequality was below the EU-15 average and amounted to only 25 in the Czech Republic, 28 in Slovenia, 26 in Slovakia and 27 in Hungary. The latter countries spend remarkably more on social protection than the rest of the new EU countries. In regard to the relative poverty rate, again the Baltic States are the leaders, with Lithuania (29 per cent) having the highest relative poverty in the EU at present (see Aidukaite 2009a, b). Furthermore, the Baltic States are among the new EU member states with the highest share of a shadow economy. The share of GDP in the shadow economy in 2005 amounted to 39 per cent in Latvia, 38 per cent in Estonia and 30 per cent in Lithuania. Only Romania (51 per cent) had a bigger shadow economy than Estonia and Latvia (Schneider 2007). However, weak social dialogue between employers and employees in the workplace (low trade union density and representation of employees) and increasing unemployment have been reinforcing outward labour migration as well as discriminatory practices in labour relations within these societies (Woolfson 2007, 2010).

The Baltic states, like other Eastern European countries, have undergone a process of social policy reform since the collapse of the Soviet regime. But social policy issues have never been given top priority by the Baltic governments, which have, instead, focused predominantly on market reforms and political independence (Aidukaite 2004, Lauristin 2003). Negative attitudes towards the paternalistic Soviet state have contributed to favourable conditions for going from a universal form of social provision to one more fragmented in nature (Aidukaite 2003, 2009b). This chapter aims to present a review of major social policy trends in the Baltic States from 1990 up to the present.

Social security systems in the Baltic States: achievements after 20 years

The socio-economic changes took place together with the changes to the social security systems of the three countries. Studies (Aidukaite 2004, Ainsaar & Trumm, 2009, Guogis & Koht 2009, Rajevska 2009) indicate that since 1991 the social protection system of the three Baltic states has been somewhat reformed into a more liberal direction compared than the social democratic one, which means more individual responsibility for its welfare and less state responsibility to ensure a decent standard of living for its population. Some scholars (Bohle 2007, Lendvai 2008) have even grouped Estonia, Latvia and Lithuania as closely falling into the neoliberal model of the welfare state based on macroeconomic indicators of low welfare state spending, high income inequality, low minimum wage and low degree of decommodification in these societies.

Historically, the three Baltic states have been latecomers in the field of social policy. Their first social security programmes are dated as early as in 1919 (Aidukaite 2004, Kõre 2005, Põldma 1999, Rajevska 2009, Trumm & Ainsaar 2009). Social security before World War II (1919–1940) resembled the signs of *Bismarckian* system of social insurance in the Baltics. However, the number of insured persons was low and only permanent state employees had a right to a state pension. The money that went into the Pension Fund was mainly obtained from employer and employee contributions. Farmers were totally excluded from the social insurance system (Macinskas 1971). After World War II, as is well documented, Estonia, Latvia and Lithuania were incorporated into the Soviet Union and were subjects to the same social policy regulations as the whole union. Therefore, the three countries experienced a Soviet social protection system from 1940 to 1991. The legacies of the Soviet protection system can be felt in the Baltic states up to the present day. Therefore, it is worth mentioning some of the major features of the Soviet welfare system. The Soviet system can best be thought of as a form of authoritarian welfare state, based on compulsory employment with a huge redistributive mechanism. The state was the main provider of welfare for its citizens. The coverage of the social security system was universal in the Soviet Union, with rather low benefit levels. Everybody was guaranteed security in all cases of loss of working capacity, old age, invalidity, illness and the loss of the breadwinner. The extensive social policy (full employment, free education and health care) and social security with its huge redistributive mechanism promoted equality within classes and various social groups (for more about the Soviet period, see Aidukaite 2003, 2004).

In all three countries, the system of social protection has become less universal and comprehensive, if compared to the Soviet period model. These changes concern pension insurance funds, housing, health policy, higher education and other social policy domains. Nevertheless, there is still remarkable evidence to claim that the three Baltic states have not developed into a liberal welfare state system, if we study social security programmes in detail. Studies (Aidukaite 2004, 2009b) indicate that when it comes to social policy structures and the coverage of the population, the Baltic welfare state still shows more comprehensive solutions to social problems than residual ones. In all three countries, insurance-based schemes play a major part in the social protection system and this is not surprising seeing as the former Soviet system was based on employment. However, the same programmes cover everyone. In many cases, universal benefits still overshadow means-tested ones. Nevertheless, when it comes to social benefit levels, minimum salaries and the share of GDP spent on social protection, the Baltic welfare state shows disadvantages compared to the well-developed welfare states. The relatively lower levels of social benefits, even if they cover all those in need, do not contribute enough to ensure an adequate standard of living for their population, and they hinder the successful poverty solutions and the expansion of their welfare programmes.

At present, all three countries have means-tested benefits for low-income families, but in Lithuania they are more wide-ranging and more heavily financed. As is

Table 3.2.1. Non means-tested and means-tested social benefits in the Baltic states as % of total social benefits

Year	Estonia			Latvia			Lithuania		
	Total*	Non-means tested	Means-tested	Total*	Non-means tested	Means-tested	Total*	Non means tested	Means-tested
2000	13149	97.5	2.5	705.9	98	2	7013	95.5	4.5
2001	13949	97.4	2.6	726.2	98	2	6953	95.5	4.5
2002	15175	97.6	2.4	773.9	98	2	7105	95.2	4.8
2003	16860	98	2	836.1	98.4	1.6	7457	95.4	4.6
2004	19415	98.7	1.3	913.5	98.5	1.5	8055	96.6	3.4
2005	21646	99	1	1073.6	98.5	1.5	9168	97.9	2.1

** millions of national currency.*

Source: Eurostat and European Commission, 2008, Table B3 Estonia, p. 31; Table B3 Latvia, p. 38; Table B3 Lithuania, p. 39

indicated in Table 3.2.1, Estonia usually spends on average 1.9 percent of total social expenditures on means-tested benefits and Latvia spends no more that 1.7 percent, while Lithuania spends on average 3.3 percent of total social expenditures on means-tested benefits. In Lithuania, means-tested benefits are quite wide-ranging, such as a social benefit, compensation for heating, cold and hot water, free school meals, a lump sum benefit and a benefit for families with three children.

Sickness and family support systems

Sickness and maternity (pregnancy) benefits have not seen as much change since the Soviet period. In the Baltic countries, sickness and maternity benefits were and still are earnings-related, though there is a minimum and maximum ceiling set by the state. The entitlement or qualifying conditions for benefits are based on requirement of social insurance contributions and residency. All expenses are paid from the social insurance money that is financed by pay-as-you-go schemes: in Lithuania, the State Insurance Fund, in Latvia, the Social Insurance Budget, and, in Estonia, the Health Insurance Fund (Aidukaite 2004, 2006).

The financial family-support systems of the Baltic states are similar to those of the Scandinavian countries in their design, especially Estonia's (see Ainsaar 2009). There is quite generous paternal and maternity leave based on previous salary and employment, generous birth grants and child benefits. Latvia and Estonia have universal child benefits up to the child's sixteenth birthday, and if a child continues to study, it is even paid longer. Lithuania, meanwhile, has a universal family support system that only pays benefits up to the child's third birthday. During the period from 2004 to 2008, universal benefits for children had been gradually expanded in Lithuania up to child's 16th birthday. However, due to the financial crisis of 2008, since 2009 the universal benefits, which were paid to every child up to his/her 16th birthday, have become means-tested. The Latvian family benefit system is mainly universal, although some means-tested benefits are also quite extensive, such as, social assistance benefits for low-income families, housing benefit, a benefit for food, meals, a benefit for purposes related to the education and upbringing of children. Estonia, however, has mainly a universal family benefits system.

Pension insurances

In response to the unfavourable demographic situation, Estonia, Latvia and Lithuania have opted for privatization of the pension systems in order to ensure the financial sustainability of the pension insurance. According to the pension reform, the pension system has been established with 'three pillars' in Estonia and Latvia, and Lithuania. The first pillar is a compulsory, state-managed, non-funded scheme based on current contributions or taxes (pay-as-you-go) and it already started to operate in Estonia in 1993, in Lithuania 1995 and in Latvia in 1996. The second pillar began to operate in Latvia (a state-funded compulsory pension scheme) in 2001 and in Estonia (a compulsory privately managed and funded pension scheme) in 2002. In Lithuania, the second pillar is a voluntary privately managed funded pension scheme, which was introduced in 2004. The third pillar is a voluntary funded private pension scheme. It started to operate in Latvia and Estonia in 1998, and, in Lithuania, the third pillar was implemented as late as 2004 (for more details see Aidukaite 2006, Casey 2004). The second pillar is only envisaged for the old-age pension. The first and third pillars are for old-age, disability and survivors' pensions. With the implementation of the second and third pension insurance pillars, the high-income groups can protect their standard of living through private insurance. The implementation of the privatization of pension insurance meant an important shift in the social policy design of the Estonian, Latvian and Lithuanian welfare systems as well as significant implications for their future development. However, at present, the first pillar still bears the burden of the lion's share of the payment for the old-age, in that it comprises the largest share of retirees and is the most heavily financed (Aidukaite 2004). Old-age pensions cover all of those who pay social insurance contributions. In addition, all three have flat-rate pensions for those not eligible for an employment-related pension. This flat-rate pension is financed from tax revenues.

Unemployment insurances

All three countries have implemented unemployment insurance. The unemployment insurances are earnings -related to some extent, but with minimum and maximum ceilings implemented. The qualifying conditions are rather strict for unemployment benefits – in Lithuania at least 18 months in paid employment, social insurance contributions or citizenship for those who do not have a work record, in Latvia labour market participation and the length of the insured period at least 9 months, in Estonia labour market participation and the length of the insured period is at least 6 months. At the same time the duration is short: up to six months in Lithuania, nine months in Latvia, up to 360 days (second tier) or 270 days (second tier) in Estonia. Overall, the unemployment benefits in the Baltic societies are very modest and the duration of the entitlement is short when compared with the practices of several EU member states. Although the expenses on unemployment as a percentage of social benefits has increased slightly in the Baltic states since 2000, Estonia (2.1%), Latvia (4%) and Lithuania (2.5%), in 2008 the three countries still spent much less on unemployment compared to the EU-27 average (5.2%) or the Euro area 16 average (5.9%) (Table 3.2.2).

Major differences in social security between the three countries

Although Estonia, Latvia and Lithuania started with an identical social protection system inherited from the Soviet period, currently one might observe not only similarities but also differences. Differences in the social protection system can be observed if we study the social security programmes in detail. For instance, the three countries differ in how the 'three pillars' pension model was implemented. In Lithuania, the first pillar for the old-age pension consists of two parts: the basic pension, which provides basic security (everyone who was in paid employment for at least 15 years is eligible for a basic security pension), and a supplemental part, which provides an earnings replacement, based on contributions and the accrued salary (see the Ministry of Social Security and Labour 2001). In Latvia, as Casey (2004) points out, pension contributions for the first pillar are recorded in notional individual accounts, the so-called 'Notional Defined Contribution' benefits (NDC). Therefore, the final old age pension from the first pillar will depend on the total national capital in a participant's account and on the life expectancy. In Estonia, the first pillar is an employment-related pension, which is gradually moving from one related to benefits and the pensionable length of service to that of an earnings and contribution-related benefit (the Ministry of Social Affairs of Estonia 2002). The differences could also be found if we study unemployment insurance, sickness insurance, family benefits and social assistance in detail (see Aidukaite 2006). Taking into account slight variations among the three countries in their social security programmes, it is possible to describe the social security system of Estonia and Latvia as a mixture of the elements taken from the basic security (where eligibility is based on contributions or citizenship, and flat-rate benefits are provided) and corporatist (with eligibility based on labour force participation, and earnings-related benefits) models. The Lithuanian social security system can be described as a combination of corporatist and the basic security models; however, it has also much stronger elements of the targeted model in the social security system, with weak elements of the targeted model, where eligibility is based on proven need, and the level of benefits is minimal (Aidukaite 2006).

Generosity of welfare systems in the Baltic countries

In general, the Estonian social security system shows more signs of solidarity and universalism than, for instance, the Lithuanian social security system, especially if family policy is compared. This is confirmed by the social protection expenditure per inhabitant, which has been always higher in Estonia (Table 3.3.3). Estonia also spends more on family and children, as total expenditure of social benefits, not only compared to Latvia and Lithuania, but even compared to the Euro area 16 and EU-27 (Table 3.3.2).

Table 3.2.2. Social benefits by function (% of total benefits), 2000 and 2008

	Estonia		Latvia		Lithuania		EU-27		Euro area 16	
	2008	2000	2008	2000	2008	2000	2008	2000	2008	2000
Sickness/ health care	32.4	32.1	29.5	16.6	29.4	29.8	29.7	27.4	29.7	27.4
Disability	6.6	9.9	8.4	10.4	13.4	11.5	8.1	8.3	7.5	7
Old age	42.3	43.4	43.7	56.5	41	43.7	39.1	29.6	38.8	38.5
Survivors	0.7	2	1.1	1.9	3.5	4.1	6.2	7.1	7.4	8.1
Family / Children	12	11.9	11.2	10.1	11.9	8.8	8.3	8.3	8.2	8.4
Unemployment	2.1	1.3	4	4	2.5	1.8	5.2	6.1	5.9	6.7
Housing	0.2	0.7	1.4	0.7	0	0	2	2.1	1.6	1.4
Social exclusion not elsewhere classified	0.5	2	0.9	0.7	1.3	4	1.4	1.2	1.4	1.1
Total	100	100	100	100	100	100	100	100	100	100

Source: Eurostat and European Commission, 2008

Table 3.2.3. Social protection expenditure per inhabitant and as % of GDP

	Estonia		Latvia		Lithuania		EU-27	
	Per inhab.*	% GDP	Per inhab.*	% GDP	Per inhab.*	% GDP	Per inhab.*	% GDP
1997	-	-	343	15.3	341	13.8	-	-
1998	-	-	402	16.1	426	15.2	-	-
1999	-	-	492	17.2	477	16.4	-	-
2000	623	14	547	15.3	559	15.8	5034	26.4
2001	664	13.1	566	14.3	574	14.7	5265	26.6
2002	725	12.7	590	13.9	610	14.1	5501	26.8
2003	808	12.6	590	13.8	646	13.6	5648	27.2
2004	933	13.1	624	12.9	701	13.3	5870	27.1
2005	1043	12.5	700	12.4	802	13.2	6102	27.1
2006	1208	12.1	883	12.3	948	13.4	6324	26.7
2007	1450	12.3	1042	11.2	1225	14.5	6427	25.7
2008	1808	15.0	1283	12.6	1553	16.2	6603	26.3

**in ECU/EURO. The currency ECU/EURO is obtained by converting the national currency through applying the ECU conversion rates in use until 1998 and the EURO conversion rates as from 1999: 15.*

Source: Eurostat, http://epp.eurostat.ec.europa.eu/portal/ (Accessed: 14 April 2011); Eurostat and European Commission 2008

The three Baltic states spend a higher share of total social benefits on old-age, sickness/health care compared to the EU-27/ Euro area 16 in 2008. However, as noted, the three countries spend very little on unemployment and housing, if compared to the old EU countries.

It also has to be kept in mind that the minimum wages are among the lowest in the EU in the three Baltic states, and old-age pensions and other social benefits are likewise. According to Eurostat (2011) data, currently in the three Baltic states, the monthly minimum amounts to 278 euros in Estonia, 232 euros in Lithuania and 282 euros in Latvia. This is very low according to European standards, with only Bulgaria and Romania having lower minimum wages that the three Baltic states. For comparative purposes, we can illustrate that in Belgium the minimum wage amounts to 1,415 euros per month. However, the minimum wage and average pension have been usually higher in Estonia compared to Latvia and Lithuania (Aidukaite 2004, 2006, Estonian … 2011, Lietuvos … 2011, Latvijas …. 2011, Regnard 2007).

Achievements: on a positive note

One of the achievements of transition is that Baltic women are doing rather well regarding their employment. Their labour market participation rates are high when compared to Western standards. Only the Nordic countries outnumber the three Baltic states according to female participation rates in paid employment in the EU. However, if Baltic women might appear to be winners in the transition in terms of the employment rate, their success does not necessarily stem from social policy. Services for families with children and for the elderly are still not developed enough and family benefit levels are relatively lower, in comparison to developed Western welfare states. Therefore, high employment rates may help the well-developed kinship network in Baltic societies. The necessity of two incomes in the family often also forces women to return to the labour market as soon as possible after giving birth to a child. It should also be kept in mind that birth rates are very low in the Baltic states, which tells us that because of economic hardship, Baltic women often choose paid employment over giving birth to children (Aidukaite 2009c).

Given the reasons for their family policy, Estonia, Latvia and Lithuania look quite akin to the social-democratic model with the overall ideological support of a dual-earner family model. All three countries have rather generous maternity and parental leave. Nevertheless, this conclusion should be treated with caution, since it is difficult to label these countries as having a truly dual-earner family policy. Services are still not developed enough and benefit levels are relatively lower, when compared to developed Western welfare states. The rather well developed legal social protection system for families with children does not replace the substantial loss of income during the child-rearing years (Aidukaite 2009c).

Conclusions

The present-day “Baltic welfare state” is under pressure to adjust its institutions to meet the challenges of the 21st century besides the internal challenges steaming from transition. These challenges include increased migration, deinstitutionalization of the family, ageing of the population and increasing global trade competition. The scope and depth of the social problems discussed in this paper show that the “Baltic welfare state” still has a long way to go in order to meet the appropriate standards of most development countries. After 20 years of transition, the Baltic states are still the laggards of the EU according to their social indicators: income inequality, shadow economy, poverty, and minimum wage. The social protection expenditures in the Baltics are among the lowest in the EU. This shows that the social protection systems in Estonia, Latvia and Lithuania are not able to cope effectively with social problems. Nevertheless, this should not undermine the positive aspects of the 20 years of transition. Without paying too much attention to the shortcomings, it could be claimed that the highly educated labour force, the high rates of female participation in the labour market and the relatively generous parental leave policies can definitely be called “success stories” of the social transition in the Baltics.

The future of social development in Estonia, Latvia and Lithuania will depend on the common efforts of European, global and domestic forces. The social policy-makers in the three countries have to solve the major dilemmas of the current world: which path of social policy development to follow? Is it the one that is propagated by the World Bank, the World Trade Organization and the International Monetary Fund, which promotes a liberal approach to social policy? Or the one that is suggested by the European Union, which promotes generous and universal rights for all through the idea of the rights of European social model?

Yet, on a domestic level, the Baltic policy-makers have to answer question: how do divide social responsibilities between the state, municipalities, private providers (profit and non-profit), families and individuals to make the social protection system more flexible, economical and sustainable in order to make the social protection in the Baltic States more flexible to adapt to the major challenges of the 21st century: the ageing of population, deinstitutionalization of the family, increasing migration and global trade competition.

3.3. Employment, labour market flexibility and the economic crisis in the Baltic states

Raul Eamets

Introduction

The labour market is a mirror of the economy. The changes that occur in the labour market reflect the macroeconomic structural and cyclical changes. When the economy is growing or experiencing a boom, unemployment usually decreases and employment rates are higher, while the opposite is true for periods of economic recession. A job that seems secure and lucrative during a period of economic growth might disappear in times of crisis. However, the economy does not always behave in an orderly fashion. For example, situations in which an economic downturn is sufficiently long or involves rapid structural changes may result in cyclical unemployment becoming structural in nature. This will bring about a situation where people who have lost their jobs may not find new jobs during an economic recovery since their jobs have closed to exist due to structural changes that have occurred in the economy. This may be caused by the fact that companies need fewer employees after increasing their efficiency or the fact that companies have decided to move the jobs to countries with cheaper labour.

This analysis compares the labour market developments of the Baltic states with the developments that have occurred in the Nordic countries: Denmark, Norway, Sweden and Finland. The Nordic countries have been used as a comparison group for three reasons. First of all, in the European context, the Nordic countries are considered to be small and open economies, just like the Baltic states. Secondly, the aforementioned countries are culturally quite similar to the Baltic states. Thirdly, the Baltic states are connected to the Nordic countries by close historical, political and economic ties.

The analysis will focus primarily on the flexibility of the labour markets. Labour market flexibility is an expression of the labour market's capacity for reacting to changes that occur in the economy: the changes in the employment rate, how fast unemployment increases and how people cope with the new situation. In addition to an increase or decrease in the employment rate, the changes can result in a drop in wages or changes in working time. The following analysis considers these (and other) aspects of labour market flexibility. One option for measuring labour market flexibility is the traditional four-factor approach (Atkinson 1984):

1. external (numerical) flexibility is related to the employer's ability to increase or decrease the number of employees when appropriate, which means that the analysis is focused on how easy or difficult it is to hire and lay off people;
2. working time flexibility is related to the availability of various options regarding working time: working part-time, using flexible working schedules, working overtime, etc.;
3. functional flexibility is related to the organization of work inside companies and the rate at which companies are able to reorganize their production processes;
4. wage flexibility is related to how wages react to changes in the economy.

Since it is very difficult to obtain internationally comparable data on functional flexibility[1], the following analysis concentrates on the three other flexibility criteria.

The sources of data used in the analysis include Eurostat databases, ILO's international labour market database LABORSTA and the databases of local statistical institutions. Labour force surveys constitute a significant source of information on the Baltic states. The first Estonian Labour Force Survey was carried out in 1995. Its specific feature was a retrospective section in which past information was surveyed from 1989. In Latvia and Lithuania, the first labour force surveys were carried out in 1997 and lacked the retrospective section. This means that reliable data for Latvia and Lithuania is available since 1997–1998, while reliable data for Estonia is available from 1989 onwards. Regrettably, the statistics collected about the Baltic states during the Soviet era are not comparable, since different classifications and definitions of the economic sectors were used in those days.

Changes in the economies of the Baltic states

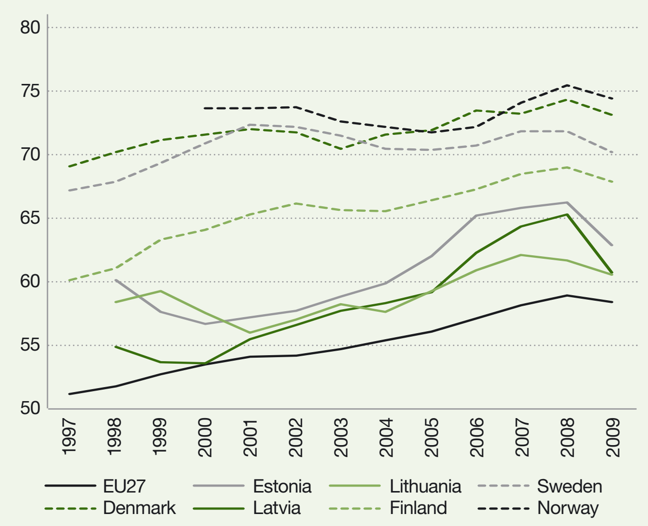
In order to analyze the labour market in more detail, it is good to have an overview of economic development in general. At the end of the 1980s, the Baltic states were characterized by the extremely close connection of their economies to the economic system of the Soviet Union. Compared to the countries of Central and Eastern Europe, the Baltic states lacked their own banking systems, their own monetary systems and their own foreign trade. All of these activities were coordinated centrally from Moscow, the capital of the Soviet Union. The Baltic states were quite heavily specialized in agriculture, producing food for the north-west part of Russia. The three countries had developed manufacturing and energy sectors.

At the start of the 1990s, economic reforms began in the Baltic states. Prices were liberalized, the countries carried out currency reforms and the next step was a rapid privatization process. Privatization was completed by the mid-1990s. The reforms were quickest in Estonia, followed by Latvia and Lithuania. The economies of the Baltic states are relatively open by nature, which means that they are dependent on the developments that occur in international markets. From 2000, the Baltic states were characterized by stable and fast economic growth at an average rate of 8–10% per year. The heavy dependence on international markets and the rapid inflow of foreign investments and finances from Scandinavian banks resulted in the overheating of the economies between 2004 and 2007: Scandinavian banks provided their subsidiaries in the Baltic states with almost unlimited loan resources; this resulted in the creation of a real estate bubble and the prematurely rapid growth of the construction sector. During the boom, economic growth was sustained by a drastic increase in domestic consumption and the cheap labour orientated export sector. EU accession in 2004 also had a positive impact on the economies.

The distinctive characteristic of the Baltic states during the 2008–2010 economic crisis was the fact that their structural economic crisis had began before the global downturn and their economies, overinflated with borrowed money, would have experienced a recession sooner or later. The quick inflow of foreign money had increased wages and there had also been an increase in public sector spending. This was compounded by the need to change the overall structure of the economy, which had relied on low value added production. All of these factors were particularly apparent in the case of Estonia, which had the most open economy among the Baltic states and a relatively small domestic market. The export capability of the country diminished, the public sector grew and, despite the some increase in governmental reserves, the government's pro-cyclical fiscal policy contributed to the acceleration of economic growth. The financial crisis and the resulting crisis of confidence between the banks ended the inflow of cheap loan resources and the economy experienced a sharp downturn. Latvia's singular situation stemmed from the fact that a large share of its banking market was

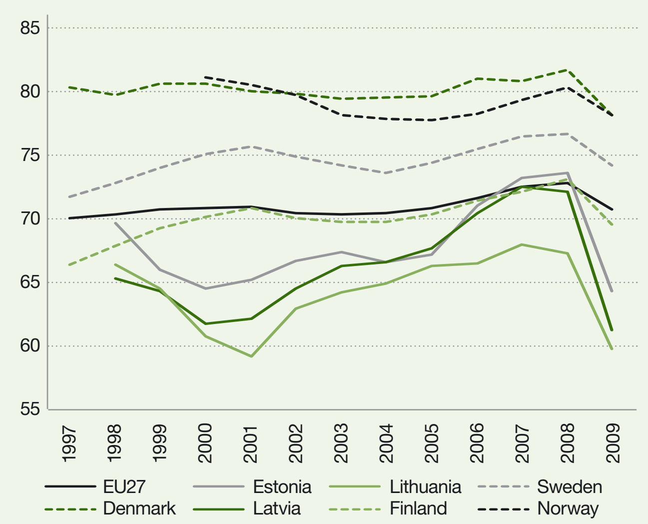
20 If we look at professional flexibility as an approximation of functional flexibility, then according to the overview prepared for the European Foundation by Bukodi and Robert (2007), Denmark was the country with the highest level of professional mobility in Europe, followed by Estonia (according to 2005 data). The top seven countries of the EU-25 included the three Baltic states as well as three Nordic countries.

Figure 3.3.1. Employment rate for women



Source: Eurostat

Figure 3.3.2. Employment rate for men



Source: Eurostat

dominated by domestic banks who could not rely on help from foreign parent companies in times of crisis. Furthermore, Latvia lacked the necessary reserves for alleviating the crisis. The situation was aggravated by internal political conflicts and the instability of the government. In Lithuania, all of the processes occurred somewhat later and, unlike the other Baltic states, the country had a significant domestic market. On the other hand, Lithuania experienced the largest emigration of labour force among the Baltic states.

Changes in employment

We will be looking at the general level of employment, one of the two main labour market indicators. The level of employment has traditionally been high in the Nordic countries, exceeding 75% in Denmark and Norway and 70% in Finland. The average level of employment in the European Union ranges from 60% to 65%. Among the Baltic states, the developments in Estonia and Latvia have been relatively similar. During the period of fast growth from 2004 to 2007, the level of employment in Estonia and Latvia rose to nearly 70%, while the level of employment in Lithuania was approximately five percentage points lower. All three Baltic states are characterized by large fluctuations in the level of employment: the quick fall in the level of employment during the crisis and the fast increase during the boom indicates that the labour markets of the Baltic states are highly flexible.

A look at the dynamics of the employment rates for men and women (Figure 3.3.1 and Figure 3.3.2) reveals that the Baltic states have a lower employment rate among men and a higher employment rate among women when compared to the EU average. The changes in the levels of employment for men and women occurred at similar times in the Baltic states: there were no differences between the countries in this regard.

At the same time, the level of employment among elderly people and women increased since the end of the 1990s in both the European Union as a whole and the Baltic states (Figure 3.3.3 and Figure 3.3.1). This may be related to the restriction of the early retirement pension system and the raising of the retirement age due to the ageing of the population. As a result, in 2008 Estonia and Latvia were among the European countries with the highest levels of employment for people just under the retirement age. Estonia also stands out in terms of the employment rate for elderly women, which is the second highest in the EU, after Sweden. Eurostat defines the elderly as people close to the age of retirement (ages 55–64). Increasing the level of employment of elderly people has been one of the most important labour policy goals set out in various EU programming documents (see, for example, the Treaty of Lisbon).

In Estonia, the employment rate for people aged 55–64 decreased at the beginning of the 1990s (Figure 3.3.3). One of the reasons was the increasing unemployment rate, but it is also probable that the generally accepted career model of the time played a certain role. Employers preferred to hire young people, since the owners of the companies were young themselves and it did not take long for all rungs of the career ladder to be filled with employees between the ages of 25 and 30. Due to this, many older people lost their jobs and the level of employment of seniors only began to increase again after 2000. This development was related to the change in attitudes (see Saar & Unt 2011, Täht et al 2011) as well as the fact that the rapid economic growth generated many new jobs, which made it possible to improve the level of employment of seniors. It is likely that the course of events in Latvia was similar.

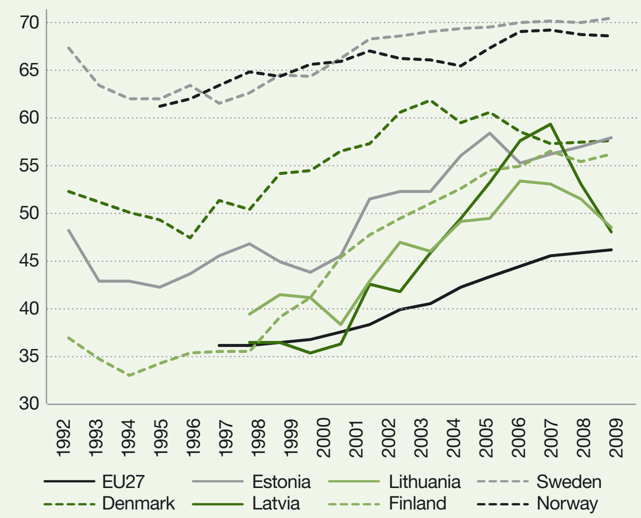
Due to the high level of employment of people in low-value-added industries or service industries based on cheap labour, the high employment rates kept the Baltic states at the lowest end of the value chain in terms of the division of labour in the global economy. Countries with this type of employment primarily tend to export low profitability products or raw materials based on cheap labour (Eamets et al 2009). Therefore, it is also important to analyze changes in employment according to the sectors of the economy.

Generally, a high employment rate in the primary sector indicates that the country in question has a low level of development in terms of GDP per capita. Figure 3.3.4 shows the division of employment between the three main sectors of the economy[21] in the Baltic states and in Finland during the years when the rate of employment in the primary sectors first reached the 20% and 10% marks. The rate of employment in the primary sector has been chosen as the criterion as it generally provides the best overview of a country's level of development. In Finland, the rate of employment in the primary sector first fell below 20% of the general employment rate in 1972. Estonia reached the same mark in 1990 and Lithuania and Latvia in 1998. Figure 3.3.4 indicates that the general structure of employment in Estonia and Finland was relatively similar in the aforementioned years, while Latvia and Lithuania had a significantly larger share of people who were employed in the service sector and a smaller share of people employed in the industrial sector. The next point of time displayed in the figure is the year in which the rate of employment in the primary sector first fell below the 10% mark or hovered just above it (10.4% in Lithuania). This occurred in 1988 in Finland, in 1996 in Estonia and in 2007 in Latvia and Lithuania. We can see that the employment structures of the countries are relatively similar at this point: nearly 30% of all employed people are engaged in the industrial sector and approximately 60% are employed in the service sector. In order to determine how fast the changes were, we can check the time period during which the structural transformations took place. The two stages of development were 16 years apart in the case of Finland, 9 years apart in the case of Latvia and Lithuania, and 6 years apart in the case of Estonia.

The exceptional pace of structural changes in Estonia is also apparent when we compare it to the other Nordic countries. Therefore, for example, the rate of employment in the primary sector dropped from 9.8% (1973) to 5.8% (1986) in 13 years. The corresponding change took place in Estonia in 8 years. It took Estonia 7 years to implement changes that occurred over a period of 16 years in Sweden. This means that the structural changes in the Estonian labour market occurred very quickly, at nearly double the pace of the corresponding changes in the Nordic countries. The progress in Latvia and Lithuania was also faster than in the Nordic countries but slower than in Estonia.

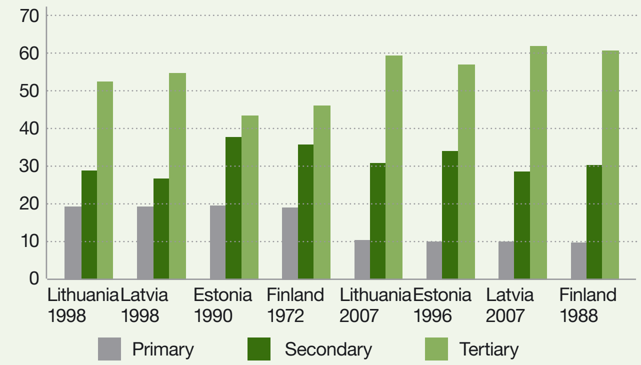
In part, the pace of structural changes was so quick in the Baltic states due to their considerably lower level of development and agricultural orientation resulting from the Soviet planned economy. The third factor that contributed to the rapid development was the fact that the changes in the employment rate percentages resulted primarily from the overall drastic decrease in the level of employment and not the reorganization of the labour force. In addition, the service sector and the industrial sector decreased less than the agricultural sector (especially in Estonia), which led to major shifts in the structure of employment.

Figure 3.3.3. Employment rate for people aged 55–64



Source: Eurostat

Figure 3.3.4. Rate of employment in the three main sectors of the economy in the years when the rate of employment in the primary sector first fell to 10% and 20%.



Source: ILO database

Unemployment

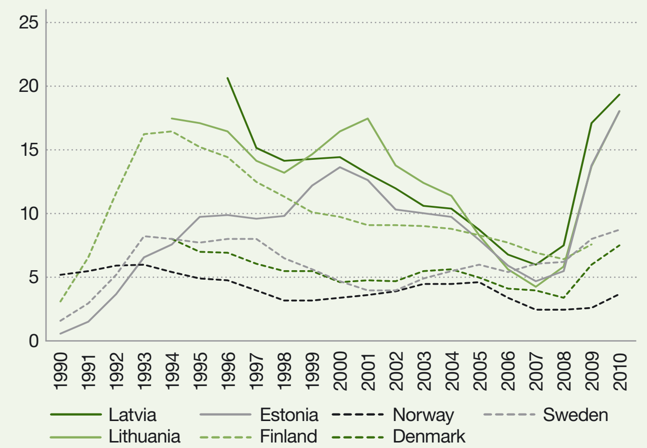
What did these rapid changes mean for the individual? In Estonia, at least, the agricultural reforms, including the restitution of land rights, the dissolution of collective farms and the restoration of traditional farms, left tens of thousands of people unemployed in a very short period of time. Naturally, many people were not ready for such rapid change: they lacked the experience and skills necessary to cope within the context of a market economy. These shortcomings caused the individuals in question to become indifferent and introverted and this contributed to problems in their personal lives. The population was psychologically unprepared for changes to occur at such a pace. Also, the different support systems of the state did not become operational immediately. The traditional unemployment insurance system was only introduced in Estonia in 2002, 10 years after the reforms began. This means that the fast-paced reforms also involved negative aspects from the standpoint of the individual. In Latvia and Lithuania, the unemployment insurance system was established in 1996.

When we look at the dynamics of unemployment rates, we see that Latvia and Lithuania[22] had very high levels of

21 The primary sector includes agriculture, fishing and forestry, the secondary sector includes mining, manufacturing, energy and construction and the tertiary sector is made up of the other service industries.

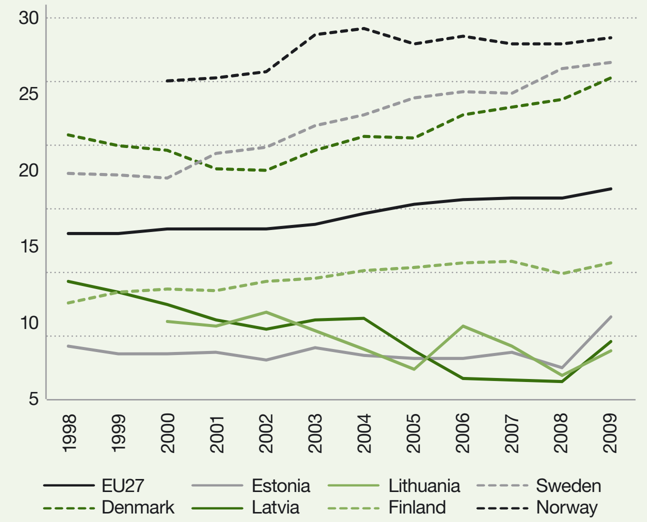
22 Latvia's very high unemployment rate in 1996 must be treated with a certain degree of caution. A comparison with officially registered unemployment data does not corroborate the very high level of unemployment. In this case, the problems may stem from the sample used in the first year of the survey.

Figure 3.3.5. Unemployment rates (annual averages).



Source: ILO database, national statistical offices, data for the first three quarters of 2010

Figure 3.3.6. Percentage of part-time employees of total employed individuals (% of entire labour force)



unemployment in mid-1990s, while unemployment in Estonia grew rapidly during the 1999 economic crisis (Figure 3.3.5). What was the reason behind Estonia's relative success during the 1990s compared to Latvia and Lithuania? One of the breaking points in the economic development of the Baltic states was currency reform. Estonia was the first to carry out currency reform (1992) and, unlike Latvia and Lithuania, it immediately introduced its own convertible currency. The fact that both Lithuania and Latvia initially used transition currencies that were not convertible was a factor that restricted rather than contributed to their economic development. The currency reform set off the economic reform, which brought about structural changes in the economy, directly affecting people's employment and unemployment levels.

The time period from the beginning of the 1990s until 2000 can be described as an era of structural changes that resulted from the reforms. Employment levels fell and the unemployment rate grew regardless of the economic developments. In 1997, the Baltic states experienced a stock market bubble and 1999 was a time of economic standstill, which changed little in the overall unemployment and employment trends. It is only from 2000 onwards that we can see signs of a certain stabilization process occurring. The period of rapid economic growth brought about a stable increase in employment and a decrease in the unemployment rate. The economic downturn of 2009 showed that the labour markets of the Baltic states react to economic crises in ways that are characteristic of market economies: unemployment rates quickly grew and the level of employment dropped in all three countries.

Will the unemployment rate subside to a level equal to the pre-crisis situation and when will this happen? If we compare our situation to the economic crisis in Finland and Sweden at the beginning of the 1990s, we can assume that high unemployment levels may persist in the Baltic states for a further 6–7 years. It is also quite possible that we will be unable to reach the pre-crisis level of employment at all. Long-term high unemployment rates can be caused by structural changes in the economy. In Estonia, for example, there are several sectors of the economy that became unprofitable for entrepreneurs as the labour force became more expensive. As a result, these industries have no future in Estonia in their previous form. The sectors of the economy that have become unprofitable include the textile industry, clothing, the plastics industry, etc. Industries that have suffered also include the construction, the construction materials industry and the transportation industry (Eamets et al 2009). In certain fields, the increase of exports or the recovery of domestic demand may result in an increase in the number of jobs, but there are also industries where the jobs have been reallocated to countries with cheaper labour.

Working time

In addition to the level of employment, the amount of work done in a society also depends on working time. Working time is divided into full time work and part-time work. The option of using part-time work increases the flexibility of the labour market: for example, in the context of the crisis, costs per employee are lower in the case of part-time work and people will not have to be laid off.

Working part-time is a clearly growing trend in Europe (Figure 3.3.6). In Norway, almost 30% of employees are engaged in part-time work – the highest level in the Nordic countries. The popularity of part-time work has also increased steadily in Sweden and Denmark as well as in Finland where, just a decade ago, the percentage of employees engaged in part-time work used to be similar to that of the Baltic states. Compared to the Nordic countries, where the percentage of part-time employees is increasing, the situation in the Baltic states is relatively stable and the number of part-time employees showed signs of declining during the crisis. The fact that the percentage of part-time employees in the Baltic states is comparatively low is not surprising, since the general income level is not high enough for people to be able to ensure their livelihood through part-time work.

Part-time work makes it easier for people to combine work with family life, which is why part-time work is more popular among women in many countries. Compared to the average percentage of employees who perform part-time work, the percentage of women engaged in part-time work is also higher in the Nordic countries. In the Baltic states, on the other hand, the gender differences are insignificant. Estonia falls between Latvia and Finland in this regard, while Latvia and Lithuania are very similar in terms of their percentage of female part-time employees (Figure 3.3.7).

Working time dynamics

One option for reacting flexibly to economic changes at the company level is the reduction of working time. In the case of inflexible labour markets, working time cannot be reduced due to collective labour agreements or working time-related legislation. In the case of more flexible markets, reducing working time is a possibility. When we look back at the period from 1998 to 2008, we see that the number of working hours increased in Lithuania, decreased in Latvia and remained relatively stable in Estonia. Estonia differs from the other Baltic countries in terms of its smaller total number of working hours (Figure 3.3.8). The changes in working time in the Baltic states can be explained by changes in wages. For example, in the construction industry, where wages increased at an especially fast pace, there was a simultaneous reduction in working time (Masso & Krillo 2011).

Our analysis of the changes in working time between 2008 and 2009 is based on Eurostat data, since the timelines of the ILO database end with 2008 (Table 3.3.1). It has to be remembered that due to methodological differences, the working hours provided in the ILO database do not correspond to the ones provided in the Eurostat database. The average number of weekly working hours already decreased in Estonia, Sweden and Latvia in 2008. The change in working hours between 2008 and 2009 was most flexible in Estonia, where weekly working hours were cut in 2009 by 3.8%, on average, and working times changed in all sectors, except for public administration. Working time also decreased in Latvia and Lithuania, although to a lesser degree, which corresponded more to the reduction in working time that occurred in the Nordic countries. In the Baltic states, public administration was the only field in which working time did not decrease significantly. The adjustment of the public administration sector took place in the Baltic states through pay cuts (see the next subchapter). It is likely that the adjustment of working time also continued in 2010, but regrettably no comparable data is available for this period as of yet.

In the case of the Nordic countries, we see certain flexibility in terms of working time in Denmark's construction and hotel industry, in various industries in Finland and in Sweden's manufacturing industry. Working time changed little in Norway.

Wages and wage flexibility

The following analysis addresses the period of the crisis from 2008 to 2010. This allows us to examine the flexibility of wages in the context of a rapid economic recession. In the countries of "old Europe", nominal wages are reduced very rarely (Järve 2011). This is due to the influence and large membership of trade unions. Collective agreements have become unyielding with regard to wage reduction and it is difficult to cut wages. Wage flexibility is also undermined by high minimum wages. The Baltic states are quite exceptional in the European context with regard to wage reduction. Estonia particularly stands out in terms of the high downward flexibility of nominal wages. This flexibility stems from the fact that performance-related pay is relatively common in Estonia among skilled workers and unskilled workers. In many sectors, performance-related pay made up as much as 30% of the wages, which made it possible to keep the basic wages lower. During the economic crisis, it was common for the performance-related pay to be reduced, while the basic wages remained the same (Masso & Krillo 2011). In the old EU member states, performance-related pay makes up a very small percentage of the wages of ordinary employees. Due to this, their wages are also less flexible.

When we analyze the wage changes that occurred in the Baltic states as a result of the 2008–2010 economic crisis, it is notable that in Latvia wages were reduced considerably in the public sector, particularly governmental institutions, while wages in Lithuania and Estonia fell relatively evenly across the board, with the wage decrease in the construction industry being the sharpest. In all three countries, wages began to decrease at the end of 2008 or in the first quarter of 2009. A certain stabilization or even recovery was already apparent in Lithuania, for example, in the first quarter of 2010.

Figure 3.3.7. Percentage of part-time employees; the total labour force and women in the labour force according to 2009 data.

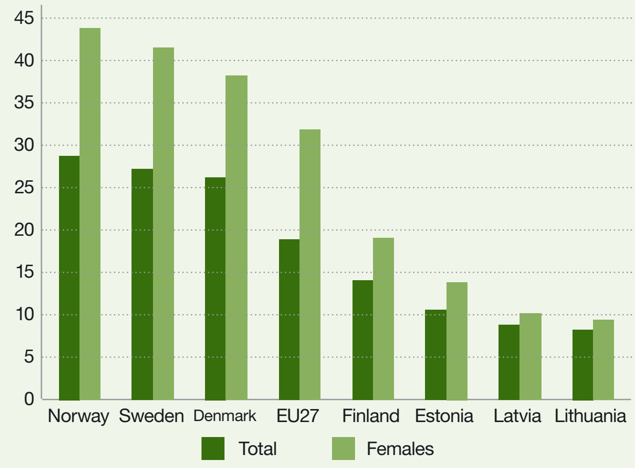
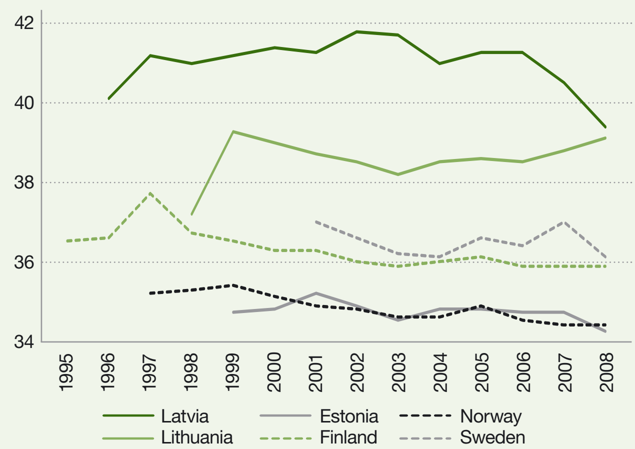


Figure 3.3.8. Total weekly working hours per employee.



Source: ILO, Central Statistical Bureau of Latvia

Table 3.3.1. Changes in working time in selected industries in 2008 and 2009

	Total			Construction			Processing industry			Hotels			Public administration		
	2008	2009	%	2008	2009	%	2008	2009	%	2008	2009	%	2008	2009	%
EU (27)	37.3	36.9	–1.1%	40.6	40.2	–1.0%	39.2	38.4	–2.0%	40.6	40.2	–1.0%	36.8	36.7	–0.3%
DK	34.7	34.2	–1.4%	38.3	37.4	–2.3%	36.5	36.0	–1.4%	38.3	37.4	–2.3%	36.0	36.0	0.0%
EE	39.1	37.6	–3.8%	40.3	38.0	–5.7%	39.5	37.6	–4.8%	40.3	38.0	–5.7%	39.4	39.2	–0.5%
LV	39.4	38.8	–1.5%	41.4	39.1	–5.6%	39.0	38.7	–0.8%	41.4	39.1	–5.6%	39.0	39.1	0.3%
LT	39.2	38.6	–1.5%	40.6	39.6	–2.5%	39.9	39.3	–1.5%	40.6	39.6	–2.5%	40.0	39.9	–0.3%
FI	36.7	36.1	–1.6%	40.0	39.3	–1.8%	38.4	37.6	–2.1%	40.0	39.3	–1.8%	36.7	36.3	–1.1%
SE	35.4	35.0	–1.1%	38.4	38.2	–0.5%	37.2	36.4	–2.2%	38.4	38.2	–0.5%	35.6	35.3	–0.8%
NO	34.1	33.7	–1.2%	37.9	37.5	–1.1%	36.7	36.6	–0.3%	37.9	37.5	–1.1%	35.6	35.7	0.3%

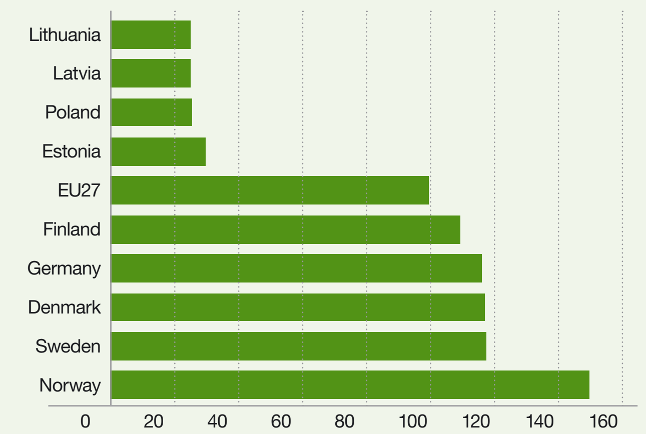
Source: Eurostat.

Table 3.3.2. Annual changes in average monthly wages in the Baltic states (changes compared to the same quarter of the previous year) in selected industries

	Estonia		Latvia		Lithuania	
	q3 09	q3 10	q3 09	q3 10	q3 09	q3 10
All industries	–5.9	0.9	–6.4	–7.0	–7.7	–2.8
Manufacturing	–4.3	3.9	–4.7	–12.5	–7.7	0.9
Construction	–13.8	3.0	–6.7	–9.8	–25.3	–4.5
Wholesale and retail trade	–7.9	–1.7	–6.2	–3.2	–10.0	–2.9
Transport and storage	–6.3	1.7	–0.8	–22.6	–10.5	–2.8
Public administration	–10.3	0.0	–21.3	–6.4	–10.7	–4.7
Education	–0.9	–0.2	–10.3	–7.0	6.1	–6.0
Health care and social welfare	–3.1	–2.9	–13.2	6.5	–8.2	–3.8

Source: Statistical offices of Estonia, Latvia and Lithuania

Figure 3.3.9. Differences between annual net wages (after tax wages) in selected countries (EU 15 = 100); calculations are based on the official exchange rate of the euro



Source: Eurostat; national statistical offices in the case of Latvia and Lithuania; the author's calculations

Just as in Lithuania, the wages in Latvia started to decrease in the first quarter of 2009, but the stabilization of wages occurred even earlier in Latvia. The wages in the public sector underwent the largest reduction. Significant pay cuts were made in public administration as well as in education. Wages were not reduced as much in the field of health care. Latvia stands out among its neighbours due to the fact that the wage correction in its construction did not occur before 2010. In the other Baltic states, the wages in the construction industry changed considerably earlier.

Compared to Latvia and Lithuania, the wage decrease in Estonia began earlier and already started to affect the manufacturing industry in 2008. Wages in the fields of health care and education continued to decrease in the third quarter of 2010, although the downward trend in Estonia's public administration wages had already ended. Wages also fell in the trade industry. The following table presents the annual changes in wages, with the comparisons being provided on the wage changes between the third quarter in 2008 and the same quarter in 2009 and between the third quarter in 2009 and the third quarter in 2010. The data applies to the average monthly wages in the given industry of the economy.

When we compare the wage changes in the Baltic states to the situation in, for example, Denmark (Statistics Denmark), we can identify a similar seasonal fluctuation of the wages, although there was no wage reduction in Denmark. In Denmark, the wage increase in the public sector even surpassed that of the private sector, although wages in both sectors continued to grow between 2008 and 2010. This outcome bears witness to the strength of the Danish trade unions. Denmark is also characterized by a very high level of worker mobility, which means that people are more eager to leave their jobs, since the country's active labour policy measures and sufficiently high unemployment benefits allow them to quickly find new employment. This specific feature of the Danish labour market is known as flexicurity.

The reduction in wages is especially noteworthy due to the fact that when we compare the average annual net wages of the countries of the Baltic Sea region, we see that the wage differences are very large, despite the low tax rates. The wage level of the Baltic states is approximately three times lower than the wage levels of the old EU member states. At the same time, the wage level of the Scandinavian countries and Germany is approximately 20% higher than the average wage level of the old EU member states. Therefore, in the context of convergence, it is essential that the wage levels continue to increase in the future. The harmonization of wage levels would also contribute to the reduction of emigration.

Migration

One option for reducing the difference between labour supply and demand is to look for a job abroad. We will take a look at how flexibly the Baltic states reacted to the 2008–2010 economic crisis in terms of migration. The official migration statistics[23] of the Baltic states indicate that emigration rose sharply in both Latvia and Lithuania as a result of the increase in the unemployment rate and the decrease in the level of employment (Table 3.3.3). Estonia's official migration statistics do not show an equally abrupt change in emigration. This may be related to the prominence of labour migration between Estonia and Finland in the context of Estonia's overall emigration. People from Estonia tend to work in Finland without changing their primary residence, so their migration is not reflected in the official statistics (Tammur et al 2009).

In order to gain a better insight into the work done abroad, we will utilize the data of the Estonian Labour Force Survey (ELFS). The Estonian Labour Force Survey contains two questions that apply to working abroad. One of the questions requires the respondent to state where his or her place of work is located during the week when the survey is conducted. If the respondent is abroad during that week, the question will be answered by other members of his or her household: parents, spouse, etc. If the person lives alone and works abroad, his or her activities will not be reflected in the ELFS database. Furthermore, in order to gather information on the people who work abroad from time to time, the survey contains another question aimed at determining whether the respondent has worked aboard during the 12 months preceding the survey. The statistics gathered in this manner include everyone who has returned to Estonia at the time when the survey is being conducted, but provides no information on people who have moved abroad permanently. The data show that while 15,000–20,000 people from Estonia, on average, were working abroad per quarter in 2007, the corresponding figure had risen to more than 20,000–30,000 people in 2009. This means that at least five times as many people are temporarily leaving Estonia to work abroad as is indicated by the registered emigration data. In Latvia and Lithuania, the actual number of people working abroad is also higher than indicated in the countries' registered migration statistics (Stankuniene 2009, Eglite 2009, Hazans & Philips, 2009). In 2009, unemployment increased more quickly in Lithuania than the level of employment decreased, which suggests that many Lithuanians returned from abroad (Ireland, the UK) and started looking for work at home, thereby increasing the number of unemployed individuals.

Conclusion

In the past 6–8 years, the Baltic states have been characterized by a significant fluctuation of employment levels resulting from the flexibility of their labour markets and the fact that firing people during tough times is a possible option in all three countries.

A very deep economic recession in the Baltic states brought about an explosive increase in unemployment,

Table 3.3.3. International migration in the Baltic states 2007–2009 (official statistics)

	Emigration			Emigration 2000–2009	Migration balance 2000–2009
	2007	2008	2009		
Estonia	4,384	4,406	4,647	31,893	–14,261
Latvia	4,183	6,007	7,388	44,485	–30,228
Lithuania	13,853	17,015	21,970	143,363	–100,045
Finland	12,443	13,657	12,151	128,821	88,961

Source: Philips & Pavlov 2010

while the significantly more modest economic downturn of the Nordic countries also resulted in a smaller increase in the unemployment rate. In addition to laying people off, companies also reacted to the crisis by reducing working time. According to the data for 2009, Estonia experienced the greatest decrease in the number of working hours. In the Baltic states, nominal wages fell in numerous sectors, while Denmark, for example, did not experience a similar wage reduction. The reason for this may be the significantly greater impact of collective agreements in Denmark, which makes the wage system inflexible with regard to economic recessions.

Labour force migration is one of the buffers that allows countries to maintain low unemployment rates and increase the flexibility of the labour market. Among the Baltic states, Lithuania is being affected most drastically by migration: according to official migration statistics, more than 100,000 people left the country from 2000 to 2009. The emigration rate is second highest in Latvia and smallest in Estonia.

All in all, it can be said that the labour markets of the Baltic states reacted to the economic crisis quickly and very flexibly. The implemented measures included the reduction of working time and wages and the laying off of employees. This indicates that the traditional institutional factors that protect workers and also increase the inflexibility of the labour market (labour market regulation, trade unions) are not very strong in the Baltic states and do not have a significant effect on the flexibility of the labour market. The situation may also be affected by the fact that even when there are regulations in force, they are often overlooked (Eamets & Masso 2004). The flexible labour markets are a part of the countries' general economic policy, which is clearly orientated towards the market economy.

For employees, very flexible labour markets entail a certain lack of stability and sense of security. In the Nordic countries, flexible labour markets are accompanied by comprehensive systems of social guarantees, which also provide people with a basic income during the time when they are looking for a job. Furthermore, their well-financed labour policies ensure that people can participate in effective retraining programmes and the unemployment duration is relatively short. The Baltic states are characterized by a comparatively low general level of social protection, under-financed labour policies and a relatively high percentage of long-term unemployed (Masso & Krillo 2011). At the same time, the constantly changing labour market and the creation of new jobs requires people to constantly

23 The official statistical figures misrepresent the actual migration rate by providing a 30–60% lower figure, although they may offer an indication of general migration trends.

educate themselves. In order to remain in good shape with regard to the labour market, it is essential to constantly participate in lifelong learning. The current situation in the EU indicates that the old member states will probably have to change their social policies and reform the European social model. The Baltic states with their liberal economic policies can even be used as an example by the other European countries in this regard.

We can assume that once the economy recovers, the cuts in working time and wages will be undone and the pre-crisis situation will be restored. Increasing the level of employment will be more complicated, however. If the economic crisis brought about structural changes in the economy, made production more efficient and caused the jobs that utilized the cost advantage to be transferred to countries with cheaper labour, high unemployment rates can be expected to remain a long-term problem in the Baltic states.

3.4. Changes in the well-being of social groups in the Baltic states from 1990 to 2009

Mare Ainsaar

Introduction

The development of well-being in transition countries, especially in the Baltic states, has been quite limited. Studies have shown that the trends of public well-being development formed a V-shape: the initial drop was later replaced by an increase in well-being, although the changes in well-being were somewhat different in different transition countries (Easterlin 2009). For example, analyses conducted in Germany and Hungary indicate that public satisfaction began to increase after the drop primarily due to the increase in satisfaction regarding the material aspects of life, although this exacted a price on satisfaction with work, health and family life. Well-being differences grew between different age and educational groups (Easterlin 2009), which is not surprising, since the transition societies were prone to stratification. At the beginning of the transition period, Estonia and Lithuania (along with Ukraine, Bulgaria, Moldova and Russia) belonged to the group of countries with the highest difference in incomes, while Latvia had a somewhat lower level of income inequality (Milanovitc 1997). Students, people with a higher level of education and people with higher incomes, private business owners and people living in countries with lower levels of inequality adapted to the changes in society more easily than other groups at the beginning of the period (Sanfey & Teksoz 2007). Some later studies which also included the Baltic states attempted to classify the transition countries according to factors that impact well-being. Dickes et al (2010) studied people's basic needs that affect well-being. In terms of the structure of needs, Estonia's population was located between that of Latvia and Lithuania. Somarriba & Pena (2009), who studied components of well-being, also found that although Estonia stood apart from Latvia and Lithuania in terms of certain components, the Baltic states mostly belonged to one group in the European context.

In this chapter we analyze life satisfaction based on survey data from 1990 to 2009. People's life satisfaction is studied at five points in time: 1990, 1996, 2002, 2008 and 2009 (Annex 1)[24]. 1990 – the beginning of the transition period – is characterized by economic difficulties. 1996 marks the beginning of the period of stabilization that followed the period of rapid transition. Both 2002 and 2008 are characterized by fast economic growth and an increase in well-being. By 2009, the economic crisis had hit all of the Baltic countries and had caused a drop in incomes as well as social cutbacks.

Life satisfaction is studied in four social groups: students, employed and unemployed individuals, and pensioners. We can assume that life satisfaction for students is affected more by opportunities related to studying and finding one's first job. For middle-aged individuals, on the other hand, life satisfaction is shaped by satisfaction with one's work, family life, health and daily state of affairs, while pension policies and health play an important role in the life satisfaction of the elderly.

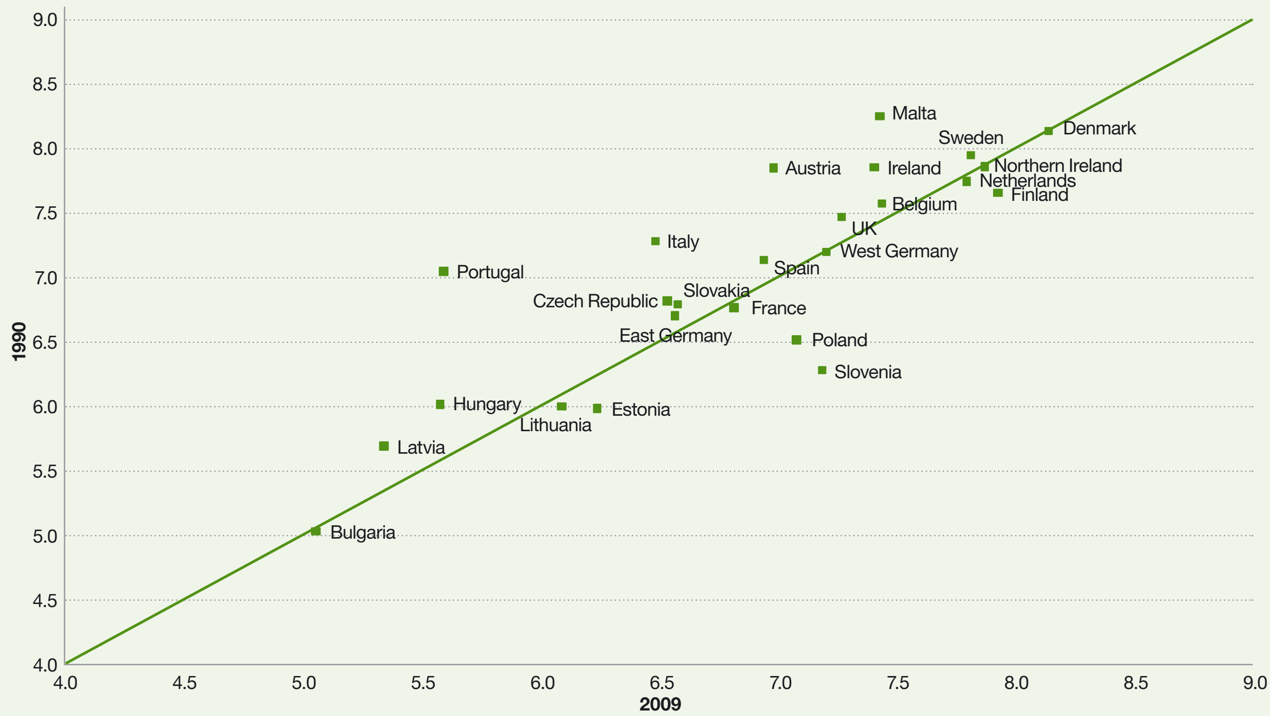
In addition to the illustrative timelines, life satisfaction is also analyzed in conjunction with incomes, self-perceived health and trust in others. Earlier research has shown that a good health status as well as the capacity to trust in people and institutions increases life satisfaction (Suldo & Huebner 2006, Groot et al 2007, Lyubomirsky et al 2005, Veenhoven 2008, Ainsaar 2008, Helliwell 2003, Hudson 2006). Trust in others has been measured with the question "To what degree can you trust others?" and health has been assessed on the basis of people's self-perceived health.

Changes in life satisfaction in the Baltic states

Compared to the countries of the European Union, life satisfaction in the Baltic states was low, both in 1990 and 2009 (Figure 3.4.1). In 1990, the Baltic states constituted a relatively homogeneous group in terms of their level of life satisfaction, with Latvia's indicators falling just short of Estonia's and Lithuania's corresponding figures. By the autumn of 2009, however, Latvia's backwardness in comparison with the other Baltic states had become even more apparent. While Estonia and Lithuania were also ahead of people in Portugal and Hungary in terms of their life satisfaction, only Bulgaria reported a lower level of life sat-

24 Since the surveys from different years use somewhat different scales for measuring life satisfaction, the scales of 1–4 or 1–10 were coded into indicators with two values, where one group includes the people who tend to be satisfied with their lives while the other includes the people who tend to be dissatisfied with their lives. The illustrative timelines show the changes in the percentage of people who tend to be satisfied with their lives among the total population.

Figure 3.4.1. Average life satisfaction in 1990 and 2009 (1 – dissatisfied, 10 – satisfied)

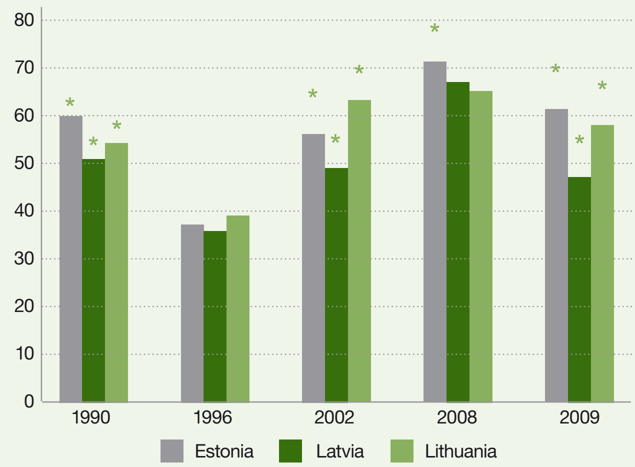


isfaction than Latvia in 1990 as well as 2009. Figure 3.4.1 demonstrates that life satisfaction has remained relatively stable over the past 20 years in many countries, including Estonia, Latvia and Lithuania. There has been a remarkable increase in life satisfaction in only a few countries such as Slovenia and Poland.

The percentage of people who tend to be satisfied rather than not satisfied with their life has been lower in Latvia and Lithuania than in Estonia throughout the period in question (Figure 3.4.2). Life satisfaction decreased in all Baltic states at the beginning of the transition period and only about 1/3 of the population was satisfied with their life in 1996. In 1996, the differences between the Baltic states in terms of their levels of life satisfaction were not statistically relevant. As the countries became wealthier, life satisfaction began to grow again, as did the differences between the Baltic states. The countries were able to reach the level of satisfaction they had enjoyed in 1990 by 2002–2003 but life satisfaction continued to increase until 2006–2008. At this point, more than 65% of the population tended to be satisfied with their lives in all three countries.

The economic crisis of 2009 brought about a new decline in life satisfaction levels. The decrease was especially drastic in the case of Latvia. The decline in life satisfaction resulted in the populations of the Baltic states once again returning to the 1990 level of life satisfaction.

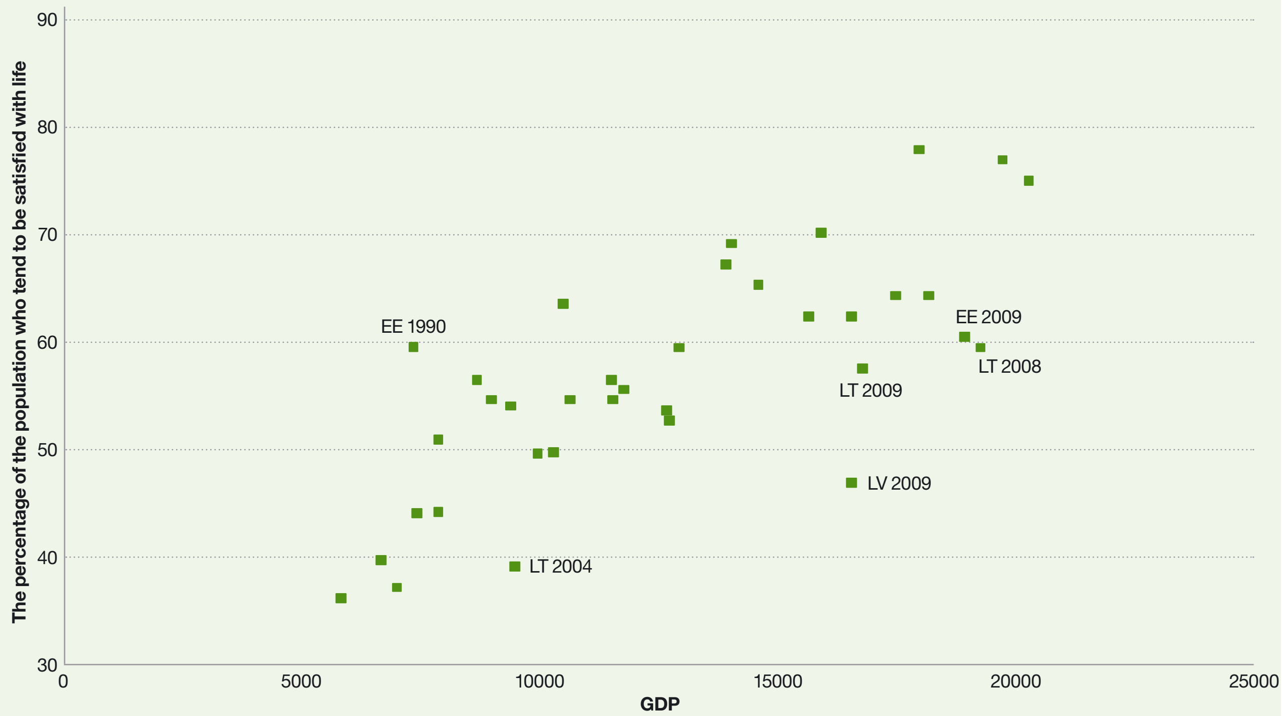
Figure 3.4.2. Percentage of people who tend to be satisfied with their lives (* marks statistical differences between countries)



Prosperity in society, incomes and life satisfaction

Although a country's average satisfaction indicators are often connected to indicators that reflect its economic development, high life satisfaction scores can be seen in countries at very different levels of prosperity (Suldo & Huebner 2006, Bjornskov et al 2008). Reference is often made to the so-called Easterlin paradox (Easterlin 1995), according to which life satisfaction tends to grow in conjunction with an increase in the country's level of prosperity until a certain point, but the connection becomes less apparent in the case of wealthier countries. This outcome points to the fact that although life satisfaction is related to economic means, there are also a number of other factors that have an impact on it. Bjornskov et al (2008) and Degutis et al (2010) have found that the level of life sat-

Figure 3.4.3. GDP and the percentage of people satisfied with their life, 1990–2009



isfaction might be affected less by the absolute level of prosperity and more by the (rapid) increase or decrease in prosperity and the corresponding changes in people's level of optimism. This is explained by the fact that people are able to adapt better to the material aspects of their life, compared to the non-material aspects of well-being, and perceived achievements tend to influence life satisfaction more than losses (Graham 2009). Relative wage increases may also be more important than absolute increases of income, since it is important for people to compare their income with significant others. This means that an increase in income will not necessarily result in an increase in personal satisfaction (Dolan et al 2008). At the same time, life satisfaction can increase purely due to subjective reasons, if others are doing especially badly compared to the individual in question. The impact of economic prosperity may also be reduced by a change in people's value orientations (Hellevik 2003). Often, however, prosperity and incomes do affect life satisfaction, although they have a varying impact in different countries and groups of people.

Another important factor that affects life satisfaction is the ability to cope financially, rather than wealth *per se*. According to Lever et al (2005), the ability to cope financially impacts life satisfaction both directly as well as through various coping mechanisms and changes in people's competitiveness. Based on previous research, Graham (2009) draws the conclusion that countries with a higher level of economic development exhibit more complex and sophisticated relations between incomes and life satisfaction. After reaching a certain level of well-being, people have more freedom to assert their varying preferences. Therefore, some people may wish to exchange their higher income for an increased sense of security or other non-material benefits. The phenomenon of economic prosperity is believed to lie in the fact that higher levels of prosperity provide people with more freedom to make use of the means available to them, while people at lower income levels have to focus mainly on meeting their basic needs (Drakopoulos 2008).

Changes in life satisfaction in the Baltic states from 1990 to 2009 occurred in conjunction with the countries' economic development (Figure 3.4.3). In all three Baltic states, the percentage of people who were satisfied with their life declined as the GDP decreased and grew when the level of prosperity increased. However, satisfaction is not just connected to the level of prosperity of the country, since there were periods when the increase in prosperity surpassed the growth of life satisfaction and *vice versa*. For example, in 1990, Lithuania was the most prosperous of the Baltic states, but the average public level of life satisfaction was higher in Estonia. By 2002, the situation reversed: although Estonia was the most prosperous Baltic state, the level of life satisfaction was highest in Lithuania. The years of the economic crisis (2008–2009) also differ from the usual trends, since the public satisfaction levels dropped more than the objective GDP indicators. This could be explained by the rapid decrease in the population's sense of security and optimism. The extraordinarily high satisfaction with life in Estonia in 1990 was perhaps related to the political situation.

The comparison of the life satisfaction of people with high, average and low incomes in the Baltic states over time indicates that in the past two decades well-being has become increasingly dependent on the level of income (Figure 3.4.4). The gap between the life satisfaction of the wealthy and the poorer members of society became especially wide during the economic crisis in 2009. Compared

Figure 3.4.4. Income and life satisfaction in the Baltic states from 1990–2009 (low: poorest 20% of the population; high: wealthiest 20% of the population; average: 60% or the four intermediate deciles)

to the poorest 20% of the population, the wealthiest 20% were eight times more likely to be satisfied with their life in Latvia and three times more likely to be satisfied with their life in Estonia and Lithuania. It is also notable that the life satisfaction of the wealthier segment of society did not change significantly even during the crisis and instead increased somewhat in Estonia and Latvia. At the same time, the level of life satisfaction of people who belong to the poorest 20% of the population or the intermediate income groups has been sensitive in regard to positive and negative changes in economic growth. Although the changes in life satisfaction have been relatively similar in all three Baltic states, Lithuania does stand out in 2008 due to the fact that the life satisfaction of the poorest 20% of the population had not grown in comparison with 2002 and began to decline earlier than in the other Baltic states.

Changes in the life satisfaction of students, employed individuals, unemployed individuals and pensioners over time

Society provides people with different opportunities. The following subchapter is focused to analyzing the distribution of life satisfaction among young people, people of working age and the elderly. Researchers have often mentioned a U-shaped change in satisfaction in connection with people's age: young people and the elderly are relatively more satisfied with their lives than middle-aged individuals (Blanchflower & Oswald 2007, Easterlin 2006). Realo & Dobewall (2011) have also found signs of a U-shaped life satisfaction curve in Estonia and Latvia and explain it by pointing to period-related as well as generational impacts. At the same time, the empirical results vary according to age group and are different in different countries.

A country's average indicators are affected by the size of the different socio-economic status groups among its population as well as the life satisfaction of the people in those

Table 3.4.1. Differences between the life satisfaction of unemployed individuals, pensioners and students and that of employed individuals (logistic regression risk ratio: employed individual = 1)

Main activity	Estonia				Latvia				Lithuania			
	1990	1996	2002	2009	1990	1996	2002	2009	1990	1996	2002	2009
Employed	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Unemployed	1.00	0.33	0.31	0.29	1.00	0.36	0.43	0.36	1.00	0.46	0.36	0.36
Pensioners	0.55	0.57	0.51	0.66	1.00	0.59	0.54	0.52	1.00	0.66	0.71	0.52
Students	1.00	1.00	3.43	3.21	1.00	2.22	8.50	3.57	2.28	3.48	2.49	5.21

groups. Therefore, for example, a large number of unemployed individuals may quickly reduce the average level of life satisfaction, if life satisfaction is low among the unemployed. The following subchapter is devoted to taking a closer look at the life satisfaction changes of people among different social groups. Students, unemployed individuals and pensioners are compared to employed individuals.

Employed individuals make up the largest population group and their life satisfaction in the Baltic states changes over time according to the general trend: the relatively high life satisfaction of 1990 is followed by a decline during the mid-1990s, after which the level of life satisfaction rises over the course of the 2000s, to fall again in 2009. While the crisis at the beginning of the 1990s had the greatest impact on working people in Estonia, the 2009 crisis was hardest on employed individuals in Latvia. The period of economic growth between 1996 and 2008 had the most positive impact on employed individuals in Estonia.

Figure 3.4.5 shows that the life satisfaction of employed and unemployed individuals did not differ in the pre-market economy society of 1990. The fast economic restructur-

Figure 3.4.5. Percentage of people who tend to be satisfied with their lives in different population groups; Baltic states 1990–2009

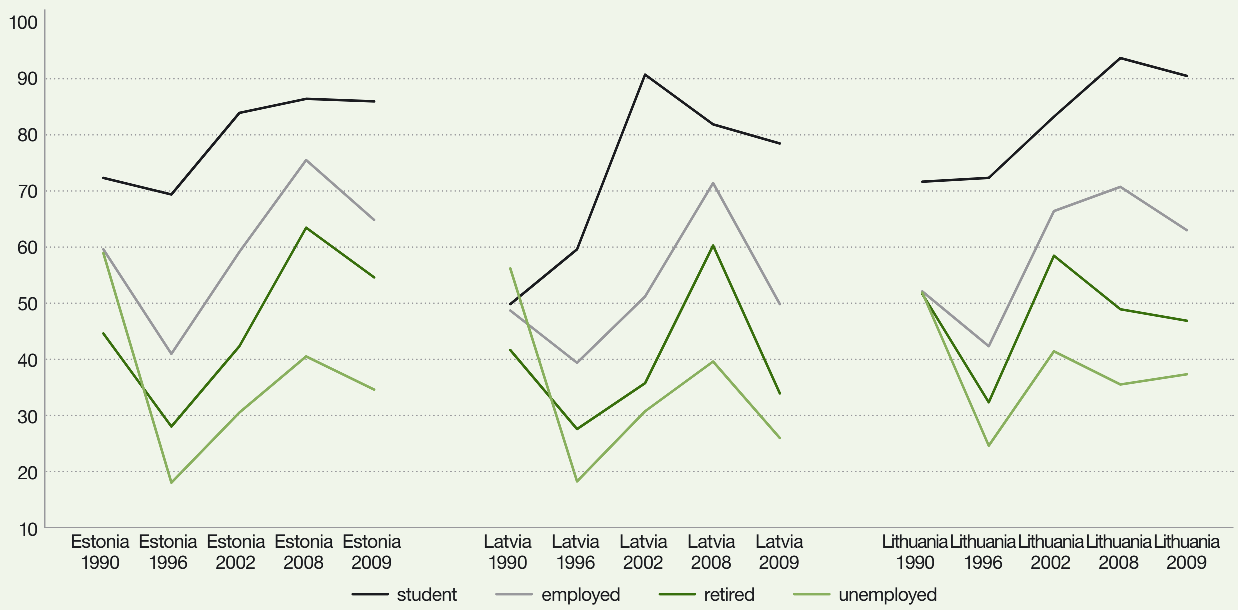


Table 3.4.2. Income, health and trust as factors that affect life satisfaction in the Baltic states (statistically significant risk relations in logistic regression; people who tend to be satisfied with their lives have been compared with people who tend to be dissatisfied with their lives; n/a - data not available)

	Estonia				Latvia				Lithuania			
	1990	1996	2002	2009	1990	1996	2002	2009	1990	1996	2002	2009
Employed	1	1	1	1	1	1	1	1	1	1	1	1
Unemployed	1.00	0.44	0.45	0.42	1.00	0.50	1.00	0.46	1.00	1.00	0.54	0.42
Pensioners	1.00	1.56	1.66	1.71	1.00	1.00	1.00	1.00	1.85	2.13	2.23	1.74
Students	1.00	1.00	2.16	2.10	1.00	1.00	8.35	2.63	1.00	3.16	1	2.90
Income	1.00	1.28	1.21	1.67	1.00	1.12	1.21	1.52	1.13	1.15	1.10	1.45
Health	1.45	1.44	2.77	1.23	1.47	1.48	2.36	1.24	1.46	1.53	2.67	1.37
Trust	1.27	1.29	n/a	1.21	1.42	1.29	n/a	1.26	1.39	1.00	n/a	1.00

ing in the mid-1990s brought about an increase in unemployment. During the same time, a gap developed in the Baltic states between the level of life satisfaction of employed and unemployed individuals (Table 3.4.1) and the percentage of people who tended to be satisfied with their lives was already considerably lower among unemployed individuals than among employed individuals in 1996. This difference persisted in all of the Baltic states also in 2009.

The changes in the level of satisfaction of young people follow the general life satisfaction development curve, although the students experienced a smaller decline in life satisfaction during the crises compared to the other social groups. Compared to employed individuals the life satisfaction of students increased in all of the Baltic states (Table 3.4.2). When in 1990 there was no difference in Estonia and Latvia between the life satisfaction of employed individuals and that of students, in 2009, students in the aforementioned countries were 3.5 times more likely to be satisfied with their lives than employed individuals. Students in Lithuania were already more satisfied with their live in 1990 and by 2009 Lithuanian students were 5 times more likely to be satisfied with their lives than employed individuals.

The pattern of changes in life satisfaction among pensioners was relatively similar to the development of life satisfaction among working age people at the beginning of the 1990s in all three Baltic states. A comparison with the other age groups indicates that the elderly were the least satisfied group in Estonia in 1990, while the level of life satisfaction of the elderly did not differ from that of employed individuals in Latvia or Lithuania (Table 3.4.1). After a decline, in 1996 the life satisfaction of the elderly began to rise again. In 1996, employed individuals were twice as likely to be satisfied with their lives as the elderly in all of the Baltic states. The 2009 economic crisis decreased the life satisfaction of the elderly in all three Baltic states, but the decline was the sharpest in Latvia, the difference between the life satisfaction of pensioners and employed individuals remained the smallest in Estonia.

Incomes, health, trust and life satisfaction

In order to analyze the impact of incomes, health and trust on the life satisfaction of people with different primary activities, all of the aforementioned attributes were used as inputs in a logistic regression analysis model. Table 3.4.2 demonstrates the results for the 1990, 1996, 2002 and 2009 analyses. We will focus on the impact of income, health and the trust of other members of the society on the life satisfaction of the pre-defined population groups. In order to investigate this issue, we have to compare the results provided in Table 3.4.1 and Table 3.4.2. The absolute numbers (Table 3.4.1) indicated that young people and students were generally more satisfied with their lives and pensioners were less satisfied with their lives than employed individuals. On the other hand, when we take into account the effects of incomes, health and trust, it becomes evident (Table 3.4.2) that pensioners are even more satisfied with their lives than employed individuals. Furthermore, the difference between the student group and the employed individuals becomes smaller and the gap in the life satisfaction of unemployed people and employed people also grows smaller, although it does not disappear completely.

Table 3.4.3 also shows that health and incomes have had a significant effect on the life satisfaction of people in all three Baltic states throughout the years. Trust in others also increased people's life satisfaction level, only correlation between trust and life satisfaction in Lithuania in 1996 and 2009 were missing. The models revealed that the lower life satisfaction of the elderly in comparison to employed individuals is largely due to the impact of lower incomes, health assessment and trust.

While in Latvia and Lithuania the lower life satisfaction of the unemployed in 1990, 1996 and 2002 primarily resulted from a lower income, in Estonia the unemployed remained dissatisfied, regardless of their level of income. This leads to the conclusion that unemployment itself can be a factor that causes dissatisfaction with life.

Conclusion

The years from 1990–2009 brought about significant changes in the life satisfaction of people in the Baltic states. Due to the similar overall course of development of the Baltic states, the changes related to life satisfaction have also been relatively similar in all three countries. The decline in satisfaction at the beginning of the 1990s was replaced by an increase in life satisfaction after 1996. During the 1990s, the population of Estonia exhibited the highest level of life satisfaction, followed by the people of Lithuania and Latvia. The countries were ranked in the same order in 2009, although Latvia had fallen further behind Estonia and Lithuania.

The life satisfaction indicators for the entire country are determined by the satisfaction of various population groups. Although young people and students were more satisfied with their lives than employed people in all three countries from 1990 to 2009 and unemployed individuals and pensioners were less satisfied, research has shown that these differences are significantly affected by income, health and trust.

In the past 20 years, the differences between the life satisfaction of young people and older people have increased, as have income-based differences. Compared to 1990, unemployment has become a factor that has a significant negative effect on life satisfaction. Since 1996, there have been considerable differences in the opinions expressed by employed and unemployed individuals regarding their life satisfaction. This satisfaction gap did not only stem from the difference in the incomes of unemployed and employed individuals: in certain years and in Estonia, unemployment as a status has had an independent negative effect on life satisfaction. A more detailed analysis is required, however, of the variations in the life satisfaction of different population groups. Knowing the sources of dissatisfaction will enable the countries to strive towards increasing the life satisfaction of their populations.

Annex 1. Databases used and the measurement of well-being

Year	Survey	Number of respondents			Characteristic of life satisfaction	Measurement system
		Estonia	Latvia	Lithuania		
1990	European Values Study	1008	903	1000	All things considered, how satisfied are you with your life as a whole nowadays?	1 extremely dissatisfied – 10 extremely satisfied, coded: 1–5 dissatisfied, 6–10 satisfied with life
1996/LT 1997	European Values Study	1021	1200	1009	All things considered, how satisfied are you with your life as a whole nowadays (on a scale of 1–10)?	1 extremely dissatisfied – 10 extremely satisfied, coded: 1–5 dissatisfied, 6–10 satisfied with life
2002	EU Candidate Countries Eurobarometer	1010	1000	1015	Please indicate whether you are very satisfied, fairly satisfied, not very satisfied or not at all satisfied with the following [...your life in general...]?	1 not at all satisfied – 4 very satisfied, coded: 1–2 dissatisfied, 3–4 satisfied with life
2008 June–October	European Values Study	1512	1498	1468	All things considered, how satisfied are you with your life as a whole? Are you ...?	1 extremely dissatisfied – 10 extremely satisfied, coded: 1–5 dissatisfied, 6–10 satisfied with life
2009 August–September	Eurobarometer 72.1.	1000	1011	1023	All things considered, how satisfied are you with your life as a whole nowadays (on a scale of 1–10)?	1 extremely dissatisfied – 10 extremely satisfied, coded: 1–5 dissatisfied, 6–10 satisfied with life

We would like to thank our critics and partners Avo Trumm and Kairi Kasearu.

3.5. Age, unemployment, and life satisfaction in Estonia, Finland, Latvia and Sweden

Anu Realo ja Henrik Dobewall

Introduction

In the current subchapter, we will examine life satisfaction in Estonia and Latvia over the past 20 years in comparison to two neighbouring Northern European countries – Finland and Sweden.

We will examine whether life satisfaction changes with age and what the effect of unemployment is on life satisfaction in four geographically and culturally close, yet politically and economically different countries. The current study focuses on age and unemployment as predictors of life satisfaction.

In psychology as well as in other fields of social sciences, happiness is conceptualized via subjective well-being that refers to people's emotional and cognitive evaluations of their lives (Diener et al 2003). Researchers distinguish between two interrelated but not identical components of subjective well-being: a global cognitive evaluation of the satisfaction with one's life as a whole as well as of the satisfaction with important domains such as work satisfaction, satisfaction with one's marriage, etc. (Andrews and Withey 1976), and an affective component that refers to positive and negative emotionality (Bradburn 1969). In this chapter, we will focus on life satisfaction, which refers to a judgmental process, in which individuals assess the quality of their lives on the basis of their own unique set of criteria (Pavot and Diener 1993). When making judgments about life satisfaction, hedonic balance (i.e., the proportion of positive/pleasant emotions to negative/unpleasant emotions experienced) serves as an important source of information, suggesting that people rely on their emotional experiences to form judgments of how satisfied they are with their lives (Schimmack et al 2002, Schimmack et al 2002, Schwarz & Strack 1991, Suh et al 1998). As shown by Kuppens, Realo & Diener (2008), culture moderates the relationship between the two components of subjective well-being – what represents the good life in an emotional sense is dependent on the values that characterize one's society. Although across nations the experience of positive emotions is related to life satisfaction judgments twice as strongly as the experience of negative emotions, positive emotions play a larger role in life satisfaction judgments in societies in which people's basic physiological and safety needs are fulfilled and self-expression is valued (Kuppens et al 2008).

We use data from the European Values Study, World Values Survey, and the European Social Survey. The data were collected over a period of 18–19 years (1990 to 2008–2009) in the four abovementioned countries. The total number of participants in the analyses was 38,473, consisting of six different nationally representative samples of Estonians, eight nationally representative samples of Finns, five different nationally representative samples of Latvians, and eight nationally representative samples of Swedes. Ages of 15 to 100 years and birth cohorts from 1901 to 1994 are represented. Life satisfaction was measured with a single item asking "*All things considered, how satisfied are you with your life as a whole these days/nowadays*?" on a ten-point scale from 1 '(Extremely) Dissatisfied' to 10 '(Extremely) Satisfied'.

Possible determinants of subjective well-being

It has been believed for a long time that subjective well-being depends mostly on external, demographic variables (e.g., Wilson 1967). Yet, research in the last decades has shown that social and demographic factors such as income, education, and marital status have a smaller effect on people's well-being than previously thought (Argyle 1999, Diener et al 1999). Happiness seems to be a matter of personal(ity): subjective well-being is strongly linked to two major personality traits – neuroticism and extraversion (Costa & McCrae 1980, DeNeve & Cooper 1998). People with higher levels of neuroticism tend to experience more negative affect whereas people with higher levels of extraversion are more inclined to experience positive emotions (Allik & Realo 1997, Watson & Clark 1992). A number of studies have shown that genes account for about 50% of the variation in people's personality traits (Bouchard & Loehlin 2001) as well in their levels of happiness (Lykken & Tellegen 1996, Nes et al 2006, Weiss et al 2008). Yet, although happiness is 50% heritable and exhibits moderate stability even over long periods of time, certain life events and circumstances have an effect on life satisfaction, some of them such as divorce, death of a spouse, and disability being associated with lasting changes in subjective well-being (Lucas 2007). Therefore, subjective well-being seems to be best explained by integrative models that consider both the effects of biologically rooted dispositions as well as of people's aspirations, life events, and cultural-sociopolitical circumstances (Diener 2009, Suh et al 1996).

Does life satisfaction change with age? Cross-sectional as well as longitudinal studies of life satisfaction and age have yielded mixed results (see Realo & Dobewall 2011), recently finding a curvilinear relationship with happiness and life satisfaction being lowest among those in middle age and higher among younger and older people (Blanchflower & Oswald 2008). Also, people's work-related status is significantly related to their life satisfaction. In Estonia, employment is one of the seven key drivers of life satisfaction (Realo 2009): **unemployed people** tend to have much lower levels of **life satisfaction** than people in other workforce categories. Previous research has shown that individuals who experience unemployment report a longlasting (if not permanent) decrease in the level of life-satisfaction following the event (Lucas 2005, 2007, Lucas et al 2004).

Life satisfaction in Estonia, Latvia, Finland, and Sweden from 1990 to 2008–2009

As seen in Figure 1, the reported country means of life satisfaction for Estonia and Latvia over the years are constantly at a lower level than for Finland and Sweden. The mean level differences between the four countries are most likely due to political and social circumstances. Lower levels of life-satisfaction in Estonia and Latvia are often seen as an inheritance of 50 years of Communism – although Communist rule is not necessarily related to lower levels of SWB, its legacy seems to have had detrimental effects on people's subjective well-being, especially in Eastern Europe (Inglehart et al 2008). The differences in national levels of SWB have also been closely associated with economic development: people in affluent countries appear to be much happier and satisfied with life than people in poorer countries are (e.g., Diener & Biswas-Diener 2002, Inglehart et al 2008). Yet, one should also remember that wealthy nations usually score higher on democratic governance, individualism, and perceived free choice (Inglehart & Welzel 2005), all of which are important predictors of SWB at a national level. Therefore, it is not easy to disentangle the effects on SWB of income and the various other social variables that may co-exist in wealthier versus poorer nations (Diener et al 2003).

In Finland and Sweden, the mean levels of life satisfaction have stayed relatively stable in the last two decades. In Estonia and Latvia, however, the mean levels of life satisfaction have varied considerably over the twenty-year period. During the years of rapid social, economic, and political changes after regaining independence in 1991, a number of social issues such as public health, social inequality, and social protection policies were largely neglected (Lauristin & Vihalemm 2009). This was reflected in a dramatic drop in the satisfaction rate in Estonia and Latvia, followed by a steady increase until the slope slightly dipped again in the last 2008–2009 study wave (see Figure 3.5.1).

Figure 3.5.1. Mean levels of life satisfaction in Estonia, Latvia, Finland, and Sweden from 1990 to 2008–2009

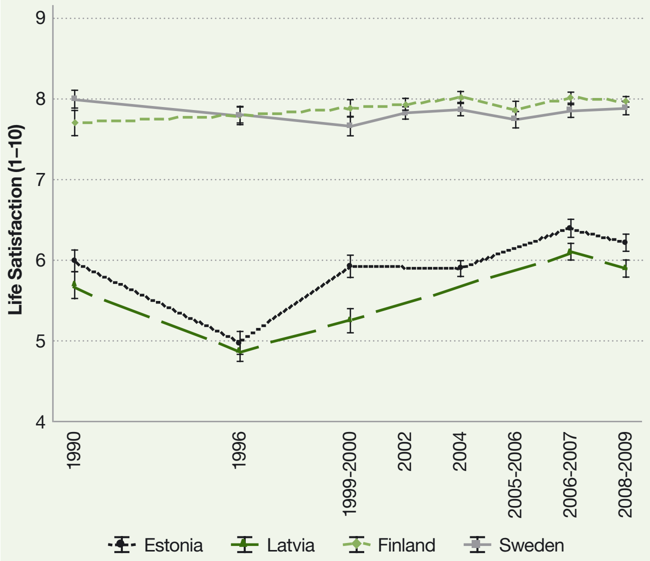
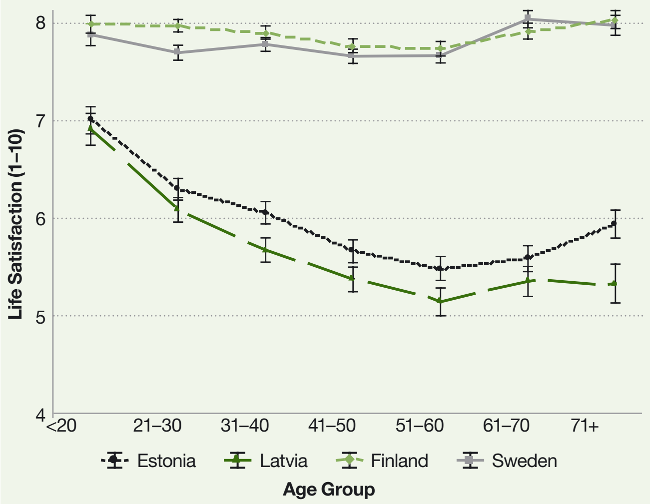


Figure 3.5.2. Life satisfaction and age by country (pooled data from 1990 to 2008–2009)



Source: Realo & Dobewall 2011

The relationship between age and life satisfaction across a lifespan

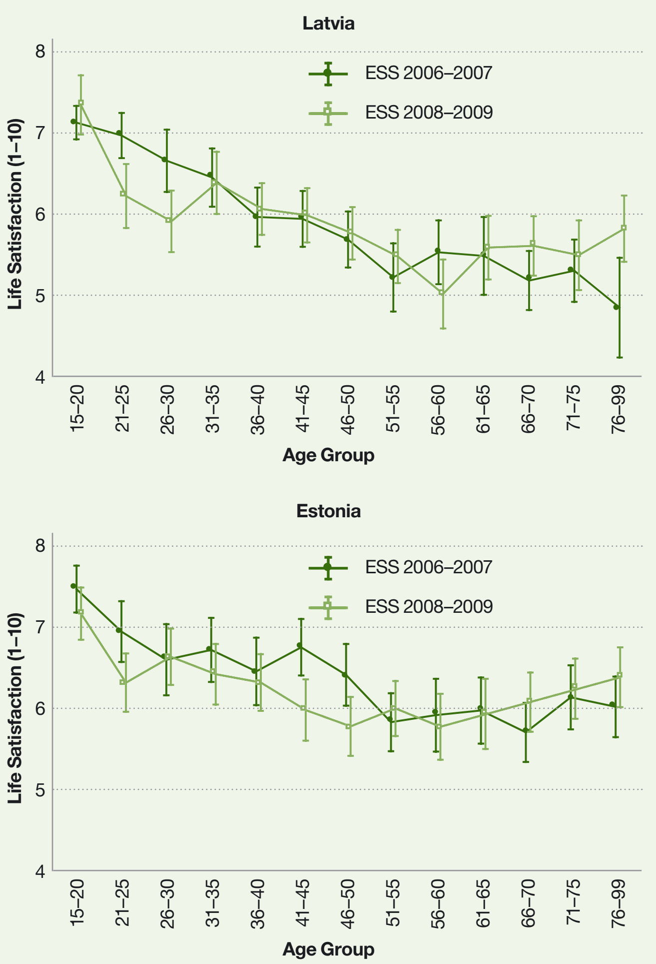
Does life satisfaction change with age? As said above, there is mixed evidence regarding the association between age and life satisfaction. Some studies have not found any relationship between age and subjective well-being (Diener and Suh 1998); some have reported a weak positive linear relationship (Hansson et al 2005), others a weak negative association (Chen 2001) and still others a curvilinear relationship with subjective well-being highest (Easterlin 2006) or lowest (Blanchflower & Oswald 2004, 2008) among those in middle age. Furthermore, age trajectories in life satisfaction may considerably vary across nations (Baird et al 2010, Deaton 2008).

Realo & Dobewall (2001) found that the difference between age-groups in life satisfaction scores was statistically significant in all four countries. The trajectories of life satisfaction over a lifespan, however, showed that differences between age-groups in life satisfaction were relatively unpronounced in Finland and Sweden: life satisfaction was lowest among those in their late middle age (41–50 and 51–60-year olds) and highest among the youngest and oldest (differences significant at $p = .05$). However, in general, all age-groups in those two countries reported high, stable scores in life satisfaction, supporting earlier findings that did not indicate any age-group differences in the levels of life satisfaction (Karvonen 2008, Martikainen 2009). The younger people in Estonia and Latvia, however, were indeed remarkably more satisfied than older people, especially those in their 50s and older. As can be seen from Figure 3.5.2, life satisfaction displayed a slight *U*-or *J*-shaped curve in Estonia and Latvia, steadily decreasing from young adulthood until the age of 60 and then levelling (Latvia) or slightly increasing (Estonia). The observed age differences in life satisfaction in Estonia and Latvia, however, seem to be due to an interaction of cohort and period differences (Realo & Dobewall 2011).

The negative effect of unemployment on life satisfaction

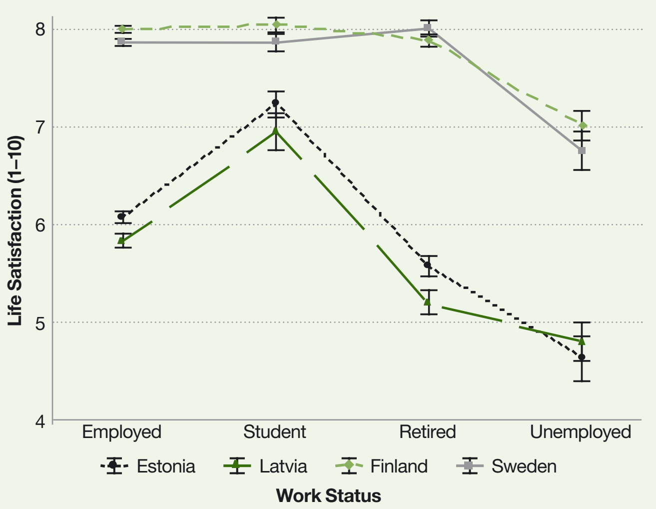
The happy years for the young generation in Estonia and Latvia, however, might be over as young people throughout the world, but most notably in southern and eastern Europe were hit hard by the economic crisis in 2008 with unemployment rates for young people rising dramatically.

Figure 3.5.3. Life satisfaction in Latvia and Estonia



Source: 3rd (2006–2007) and 4th (2008–2009) rounds of the European Social Survey

Figure 3.5.4. Life satisfaction and work status by country (pooled data from 1990 to 2008–2009)



The crisis had more of an impact on young people in Estonia and in Latvia than in many other European Union (EU) countries – in the second quarter of 2010, Latvia had the EU's second and Estonia the third highest unemployment rate among people younger than 25 years of age with 39% and 37.5% unemployed, respectively. The near fourfold steep increase in the employment rate among young people in Estonia and Latvia since 2007 (10% and 11.5%, respectively) may be one of the reasons why young people's (aged 21–25 years) level of life satisfaction has dramatically dropped between the 2006–2007 and 2008–2009 surveys (Figure 3.5.3).[25]

As mentioned above, studies about the relationship between life satisfaction and work status have consistently found a large effect related to individual unemployment (Dolan et al 2008, Lucas 2007, Lucas et al 2004, Lucas & Donnellan 2007). Also, in Estonia, work status has been found to be one of the key drivers of life satisfaction with unemployed people having significantly lower levels of life satisfaction than employed people even when the differences in family income were considered. In our analyses, we separated unemployed people from those individuals who were doing paid work (including self-employed), studied or were retired. When pooling data over the period of nearly 20 years (see Figure 3.5.4), it is clear that there are significant differences between groups with different work status, with unemployed people being significantly less satisfied with their lives than other people both in Estonia and Latvia as well as in Finland and Sweden (all differences significant at $p < .000$). It is also interesting to note that in Finland and Sweden people doing paid work, studying, or retired had very similar levels of life satisfaction, whereas in Estonia and Latvia, students had remarkably higher levels of life satisfaction compared to those doing paid work or retired. This is in line with findings reported above about the relationship between age and life satisfaction with younger people being considerable happier than older people in Estonia and Latvia.

Conclusions

Our findings indicate that life satisfaction in Estonia and Latvia over the period of the past 20 years has constantly been at a lower level than in Finland and Sweden with the mean level differences between the four countries being most likely due to political and socio-economic factors. In countries with stable political and economic environments (such as Finland and Sweden, for instance), life satisfaction is quite stable across the lifespan. In Estonia and Latvia, however, the youngest people (those aged 15–20 years) are remarkably happier than older people, and are almost as satisfied with their lives as their contemporaries in Finland and Sweden. Unemployment has a detrimental effect on life satisfaction – the dramatic upsurge in the (aged 21–25 years) unemployment rate among young people in Estonia and Latvia may have affected young people's life satisfaction, which has noticeably dropped since the economic crisis hit the countries in 2008. Future research will show in which direction the life satisfaction trends will develop over the next years.

25 Unlike all previous analyses, the categorical age-group variable here was computed in five-year intervals (e.g., 21–25) in order to better illustrate the age and period-related changes in life satisfaction (altogether 13 values).

3.6. Summary

Mare Ainsaar

Indicators at how successful certain countries may be in the future can be found through the analysis of their past activities. Two decades ago, the Baltic states had to meet the challenge of building societies and social protection systems based on foundations that differed completely from what their populations were familiar with. The countries carried out their tasks with different speed and according to different principles. Jolanta Aidukaite believes that Estonia has had the most success of the three Baltic states in terms of making strategic choices, especially in terms of family policy. The outcome of these choices is being reflected in the development of the population and people's well-being. Estonia's social policy as a whole shows more signs of solidarity that the social policies of the other Baltic states. However, the Baltic states still remain below the average European standard for social expenditures and all three countries have a long way to go in the 21st century until they manage to achieve the average level of security and sense of confidence that are characteristic of European countries.

Employment, income, health and trust are the factors that shape an individual's life satisfaction. Furthermore, analyses indicate that the importance of employment and income in determining people's life satisfaction has grown. Having a job and an income is an important source of satisfaction for people in the Baltic states. The Baltic states have very flexible labour markets, which causes the employment rates to fluctuate considerably, depending on the economic situation. The crises have had an especially noticeable effect in terms of the decrease in labour demand. Unlike the Nordic countries, the crises have caused a rapid decrease in the number of jobs and in wages in the Baltic states, which, in turn, makes the people of the Baltic states more vulnerable than the populations of certain other countries. This difference is revealed clearly by the analyses conducted by Realo & Dobewall, which demonstrate the distinct effect of the economic crisis on people's well-being in Estonia and Latvia, but not in Sweden and Finland. At the same time, the flexibility and distinctive nature of the Baltic labour market has allowed the countries to go through structural economic changes very quickly. In more stable countries, such changes occur at a pace that is several times slower.

However, life satisfaction is not determined solely by income: we must also acknowledge the importance of factors such as people's health and level of trust. Over the course of two decades, differences have grown between the levels of life satisfaction of the wealthiest and the poorest members of society, unemployed individuals and employed individuals, as well as young and old people. It is characteristic of the Baltic states for groups with lower levels of life satisfaction, such as unemployed individuals and the elderly, to react especially quickly to social problems, while life satisfaction may even increase among some social groups during the crisis.

The countries' general level of well-being may be effectively increased by increasing the well-being of the groups that are characterized by lower levels of life satisfaction. In the case of groups whose well-being is very strongly tied to their income (e.g. pensioners), even a small change in incomes would have a relatively large effect. At the same time, analyses showed that although economic prosperity is an important component of life satisfaction in the Baltic states, health and employment are also very important independent factors. For example, unemployment functions as a separate source of dissatisfaction in Estonia.

Although the opinions of the people in the Baltic states regarding their own level of satisfaction have improved over the years, the countries still lag behind many others in terms of people's level of satisfaction. This gap may stem from economic and socio-political differences. While many studies indicate that life satisfaction is connected to an individual's natural level of optimism or pessimism, the timelines provided clear proof of the fact that social change does play a role in affecting life satisfaction. Life satisfaction is also related to people's social status (whether they are unemployed, pensioners, etc.) and therefore a country's average level of satisfaction is impacted by a change in the relative importance of various social groups (the wealthy, poor, unemployed, employed, pensioners) in society as well as socio-political choices.

The development curve of satisfaction in the Baltic states since 1990 would probably be W-shaped: following the decline of the level of satisfaction at the beginning of the 1990s, the indicator began to rise after 1996 and this increase lasted until the 2008–2010 economic crisis. Since the level of life satisfaction is partly connected to the income component, we can hope that satisfaction will begin to increase again as the economic recovery progresses. In 2009, the level of satisfaction in the Baltic states had once again reached approximately the same level as it had been in 1990. Among the Baltic states, Estonia had the population with the highest level of life satisfaction, followed by Lithuania and Latvia. However, Latvia has fallen further behind the other two countries over the past two decades.

One fascinating question for which the current analyses offer no simple answer pertains to the issue of why the life satisfaction of some (wealthier) groups continues to increase even during the bad times. The fluctuations in the life satisfaction of separate social groups should therefore be analyzed further based on individual countries. However, it is certain that life satisfaction in the Baltic states tends to increase when people feel healthier, have more reason to trust each other and experience an income increase as a result of the growing prosperity of their country.

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CHAPTER 4

Education

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Developments in the field of education in Estonia, Latvia and Lithuania following the restoration of independence in 1991 will be analyzed in this chapter. We will begin with a brief historical overview of the main reforms, continue by comparing the current situation in the three countries, as well as including a wider international context, and conclude by examining the future prospects and challenges for education in the Baltic countries.

4.1. Historical perspective: 20 years of reforms

Historically, education has been an important element in the mindset of all three Baltic states. As early as 1211, the Catholic School, established by the Riga Dome Cathedral, was opened, and it was most likely the first educational institution in the Baltic region (Kestere 2009). In Lithuania, the first schools were opened in the 14th century; these were manor schools and later became parish schools. From church and village schools to a wide network of general comprehensive and vocational schools up to national higher education institutions – this has been the historical path of education in this region. According to the 1897 census carried out in the Russian empire, almost all (96.7%) adult Estonians were literate, which at that time was not the case among many larger, independent nations. The foundations for the national education systems were laid by the pre-war independent republics from 1918 to 1940. During the Soviet period, the Baltic states succeeded in maintaining some unique qualities in their educational systems compared to the rest of the Soviet Union. This included the use of the indigenous language as the language of instruction from primary to university level, having one extra year of secondary education, and having original textbooks for several subjects (not just translations of Russian textbooks). Therefore, the education system in particular can be viewed as being one of the mechanisms of cultural resistance and sustainability during the Soviet period, while vocational education, being more closely related to the Soviet highly industrialized economy, primarily served the interests of the Sovetization of the younger generation. Also, a number of important reforms were enacted in those times. An obligatory seven-year education was established in 1949, which was extended to eight years in the 1970s, and secondary education was made obligatory. As a result, in Estonia by the early 1980s, 99% of 18-year-olds had acquired general or vocational secondary education (Ruus & Reiska 2010). The educational system inherited from Soviet times, as well as the main reforms since regaining independence, will be further examined in each of the three countries.

Estonia

The comparatively high educational level of the whole population, and an ideologically determined content of education with a rapidly growing Russian sector in education (due to massive immigration from the 1950s) formed the legacy of the Soviet past, providing a departure point for the reforms of the 1990s. The transition from the Soviet educational paradigm after regaining independence in 1991 involved deep structural reforms, the implementation of new management and financing schemes, curricula renewal and the opening up of the whole educational establishment to international cooperation and exchange. The strong domination of a liberal and market-driven social model constituted the political context for educational reforms in Estonia in the early 1990s.

The first wave of changes in Estonian education began as early as the late 1980s, when the Estonian Teachers' Congress of 1987, which brought together almost 1,000 participants, demanded more autonomy for Estonian education. A framework for the new national curriculum for general education was proposed, including suggestions to decentralize education and give schools the opportunity to develop their own study profiles within the national framework, as well as reduce the volume of Russian studies and transform education into a more child-centered process. In the context of such grass-roots pressure, the first governments of independent Estonia began to reform education. During the early years, the emphasis was on liberalizing the whole system and on weakening governmental control over educational affairs.

The first practical steps were focused on curricula design: as early as the 1989/90 school year, the new secondary school curriculum for Estonian language schools was completed and implemented. In 1996, the Estonian government approved a second version of the national curriculum for general education and, in 2000, the third phase of the national curriculum development process started, which centered on the integration of cross-curricular themes and study realms and the relationships between the curriculum and extracurricular spheres (school and home relationships, students' out-of-classroom and out-of-school activities, etc). The introduction of a higher education standard in 1996, and the signing by Estonia in 1999 of the Bologna Declaration meant the introduction of a two-tier (3+2 years) Bachelor-Master's study structure beginning with the 2002/2003 school year, which inevitably shaped the whole study process in higher education and shifted Estonian higher education away from Soviet-type university studies.

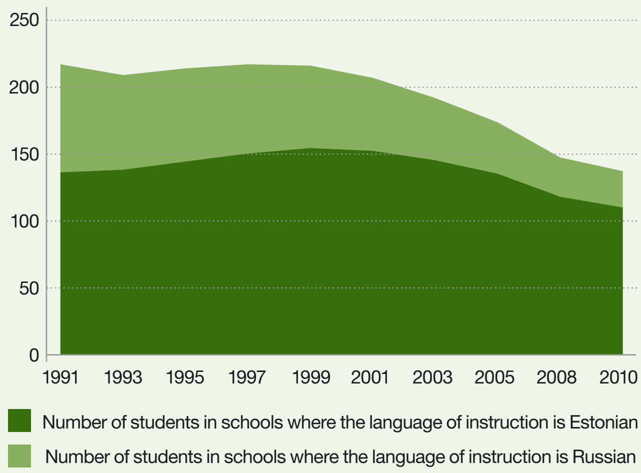
In 1998, the ISCED categorization of educational levels was implemented and study programmes were adjusted to ISCED. As a result, structural reforms took place; for instance, a new, non-university type of higher education (ISCED 1997 5 B) was introduced in 2002. Therefore, professional higher education institutions and vocational education schools together with universities started to provide higher education. In vocational education, a transformation from the Soviet dual system to a school-based system took place. The new concept of vocational education was stipulated by the government in 1998. In 1999, the initial qualification criteria for vocational teachers were implemented and, in 2006, vocational qualification standards for vocational teachers were established. In addition, the curricula were restructured according to ISCED, and general requirements for vocational school curricula were established (including a prescribed share of practical training, the demand to follow national vocational standards and the involvement of social partners in curricula development).

To integrate Russian-language schools into Estonian education, amendments to the law on basic and upper secondary schools were introduced in 1997, which required Russian-language gymnasiums to begin the transition to the Estonian language in 2007, with the final aim of involving at least 60% of the entire curriculum in 2011. Due to the low birthrate in the early 1990s, the overall number of schoolchildren (grades 1–12) declined. An especially steep decline in the number of pupils occurred in schools with Russian as the language of instruction – see Figure 4.1.1.

In the university sector, former state universities were transformed into public institutions, and were given a great deal of autonomy: universities became fully responsible for their teaching and research development, and they became owners of their real estate and authorized to operate in the real estate market. During the reform of the Estonian Academy of Sciences in the mid-1990s, the former research institutes of the Academy were merged with the universities, which considerably strengthened the research capacity of Estonian universities. The door was open for private schools and, as a result, the private sector in Estonian education mushroomed, especially in higher education. In financing Estonian higher education, the state commission system was introduced in 1995. The state commission involves a contract between the Estonian government and a higher education institution for the financing of a certain number of graduates; higher education institutions began to receive funding from the public budget for the provision of graduates. Universities were authorized to admit students who would cover their study expenses themselves. As a result, students in Estonia now fall into two distinct groups: either they hold state-commissioned places and pay nothing for their tuition or they pay the full costs of their tuition. Such a black-and-white model has been criticized for many years, but it remains unchanged.

A new system of quality assurance meant the introduction of quality control at the primary and secondary levels (state exams), as well as special quality procedures (accreditation) in higher education. In 1997, the Higher Education Quality Assessment Council was established, which was initiated to carry out the accreditation of study programmes in all higher education institutions. During the first round

Figure 4.1.1. Enrolment (number of pupils, thousands) in general schools in Estonia by language of instruction, 1991–2010



Source: Statistics Estonian

of accreditation (1997–2007), more than 1,200 study programmes were evaluated: 76% of them were awarded full accreditation, 21% conditional accreditation and 3% were not accredited (Heidmets 2008). Studies of the impact of the established quality assurance procedures indicate that, despite some impact on the curricula design, the overall influence of the procedure (especially in promoting the expected quality culture in higher education institutions) was minor (Vilgats 2009). In vocational education, the external evaluation of schools, as well as national vocational standards, served as the main means of quality assurance.

Three waves of reform

Looking back at the last 20 years of reforms in Estonian education, three main periods can be discerned. During the first stage of change (the early and mid-1990s), rapid liberalization of the whole educational system took place. The old Soviet-type regulations were eased, while the new ones were not yet established. This period involved a contradictory legal framework and weak governmental regulation, on the one hand, and a number of new initiatives, including the emergence of the private sector in education, on the other. This period provided opportunities to many new participants in education, but also resulted in a number of negative outcomes such as the bankruptcy of some universities and the loss of money invested by students. Demands for the establishment of more precise quality control mechanisms in the field of "liberalized" education began to gain more momentum.

The second period, starting in the late 1990s, involved a step-by-step "returning of the state": the introduction of a more sophisticated legal framework, with steps taken towards strategic planning and management in the field of education. This was the period when compulsory state exams for secondary school graduates were introduced, the Examination and Qualification Center and the Qualification Authority were established, and the Estonian Higher Education Accreditation Centre started accreditation of Estonian higher education. Financing tools, as well as quality control measures, were utilized more decisively by the government in shaping the education sector. The first grassroots attempts to create a national education strategy were also made from 1999 to 2000, although they were not successful. However, after years of movement towards freedom in education, the elements of centralized regulations and strategic planning were in place by the late 1990s.

The third period, which approximately began at the beginning of the 21st century, can be labelled "networking with Europe". This stage involved more and more intense harmonization of Estonian education with European standards and frameworks, including the Bologna process, following standards and guidelines in quality assurance, implementing learning outcomes, an increase in the number of students, staff mobility and the participation of researchers in EU framework programmes. In addition, participation in international comparisons in the field of education (PISA, TIMSS, TALIS etc) considerably increased the importance of analytical tools in Estonian educational decision-making and public debate.

Contemporary Estonian education reflects all three of the waves of change the country experienced during the last two decades, an effort to find our own way by combining the national traditions in education with the challenges of the emerging European common educational space.

Latvia

The period following the restoration of the independent state of Latvia in 1991 was a time rich in challenges and changes in the system of education. Many components were radically changed during this process: legislation on education, shifting the education paradigm from simply teaching to active and conscientious learning, etc. The key features of the first stage were democratization and decentralization of the education system. The adoption of the Law on Education in June 1991 ensured the initial legal basis of the educational reforms. The following systemic changes were implemented:

- abolishing the state monopoly in education and guaranteed rights by law to establish private and non-governmental educational institutions, returning to the market economy and democratic society and creating a greater diversity of opportunities, and developing competition among educational institutions;
- de-politicization of education: re-establishing democratic principles in the political and social structures brought to an end strict ideological control over the content of education and teaching methods;
- opportunities for choice in regard to the acquisition of education ensuring the rights of the students and their parents according to the interests and abilities of the students;
- decentralization of the management of education and delegating several of the key decision-making functions to local governments, schools and their principals, strengthening the autonomy of higher education institutions and partly decentralizing the financing system of education.

After regaining independence, the number of children in preschool education institutions (kindergartens) rapidly decreased, and the number of kindergartens also went down. While in 1990 almost 75 per cent of children in Latvia up to age 6 attended kindergarten, in 1998 the proportion had fallen to only 40 per cent. Being aware of the huge role of pre-school education for the all-round development of the child's personality, the strengthening of the child's health and for preparing for acquiring basic education, reforms in the sphere of pre-school education were implemented – the compulsory preparation of all five and six-year-olds for school was mandated and local governments were made responsible for this preparation. Also, stricter requirements were established for pre-school teachers. The Latvian Law on Education states that the preparation of five and six-year-old children for the acquisition of basic education, and nine-year basic education, or attending basic education until 18 years of age is compulsory in Latvia. The state or the local municipality education institution is responsible for the financial support of pre-school, basic and secondary education, within budget restraints, but private educational institutions may determine their own tuition fees.

The curriculum of basic and secondary education was significantly changed, especially concerning social and humanitarian subjects, and new textbooks and study aids were developed. The organization of implementing the curriculum was also significantly changed. The requirements for the subject aims, content and the assessment of student achievements were defined in the subject standards. Their development and implementation began in 1992. After that, the standard for the whole education system (basic education, secondary general education, and vocational education) – the "umbrella standard" – was introduced, the place and role of the subject standards and subject syllabi were clarified and the concepts of the curriculum were introduced.

The Latvian Ministry of Education and Science issued the new National Standards of Compulsory Education (grades 1–9) in 1998, which defined a strategy for improving basic education, including the aims and main objectives, general didactic principles, content, and student achievement and assessment. The goal was to complete the fundamental curriculum reform in basic education, changing the emphasis from knowledge acquisition to knowledge application, placing more emphasis on problem solving and ensuring better interdisciplinary links. The new standard of the general secondary education and subject standards for upper secondary school education (Grades 10–12) were developed and adopted in 2008. As a result, each teacher may develop his/her own syllabus according to the demands of the Standards, or use the sample syllabus approved by the Ministry of Education and Science.

It seems that too much emphasis was put on freedom of choice within the curriculum during the initial stage of the education reforms; for instance, secondary level students had to master only 5 out of 12 compulsory subjects: Latvian language and literature, mathematics, a foreign language, history and sports. Students could choose the remaining seven subjects from a rather vast spectrum of possibilities. This, however, led to a situation in which secondary pupils on a mass scale refused to study natural sciences (physics, chemistry, etc.). Such choices in secondary school severely limited the options open to students if they went on to higher education and this inhibited the successful continuation of their studies.

In order to solve this problem, the continuation of the reforms introduced the principle of education programmes in secondary education, which replaced the free choice of subjects with a choice of four directions of general secondary education programmes. This gave the education institutions the right to develop programmes in four possible directions: 1) general comprehensive, 2) humanities and social studies, with particular emphasis on the subjects of humanitarian and social sciences, 3) mathematics, and natural and technical sciences, where the focus is on mathematics and science subjects and/or subjects of technical sciences, and 4) professional programmes, in which the general comprehensive strand is supplemented with vocational studies (for instance in art, music and sports). The education programmes of all directions include the same eight compulsory subjects. Besides that, each programme direction has another three to six compulsory subjects. The school can also offer some optional subjects covering 10–15% of the teaching/learning time, or offer more advanced studies of some of the compulsory subjects.

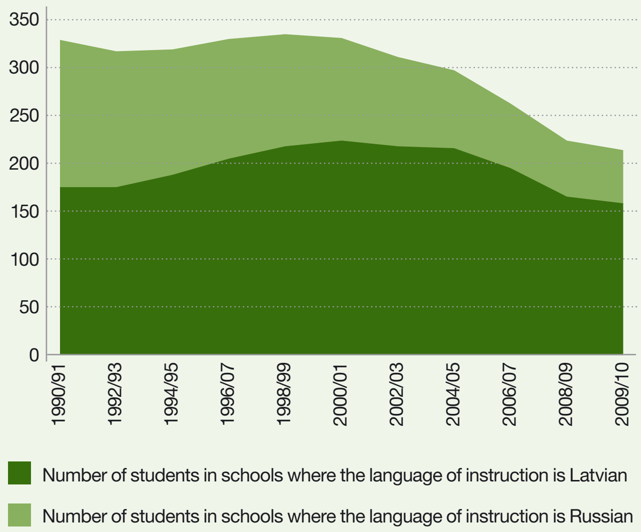
In addition, the transition from a five-point assessment scale to a ten-point scale has taken place. In grade 1 of elementary school, children's knowledge and skills are not assessed with marks but in a descriptive way. In grades 2–4, there is a gradual transition to assessment on the ten-point scale: in grade 2, learners receive marks in mathematics, the Latvian language and minority language, and then in grade 4 in science. From grade 5, students' knowledge and skills in all subjects are assessed on a ten-point scale.

Considerable changes in minority education were introduced, both covering the interests of minority children and promoting social integration and the acquisition of the state language. From September 2004, 60% of subjects had to be mastered in the state language (Latvian) in state and local municipal Russian-language instruction secondary schools (grades 10–12). This is deemed necessary in order to ensure the competitiveness of those students whose mother-tongue is Russian in the job market and in public life. As in Estonia, the number and share of pupils in Russian-language schools decreased considerably – see Figure 4.1.2.

Quality assurance in education was introduced both at the system level (Latvia's participation since 1991 in international programmes for assessing the quality of education – IEA RLS, COMPED, TIMSS, LES, SITES, CIVIC, PIRLS, ICCS and OECD PISA) and at the level of the education institution and the education programme (licensing and accreditation of education institutions and education programmes), as well as at the level of students, teachers and school principals (centralized examinations and state tests, attestation of school principals, assessment of teachers involving professional qualification degrees and improvement in the continuing education system). Still, Latvia has not been successful in establishing a fully coordinated and unified system of quality assessment. The economic recession put the brakes on the implementation of several measures in 2009. Regular national assessment of the quality of education is applied in many countries and is usually based on the testing of a statistically significant sample of students in order to determine, for example, the effectiveness of introducing new learning content, but this has not yet been introduced in Latvia (Scheerens et al 2003).

Introduction of the accreditation processes has not been smooth; these processes were separately developed in the fields of general and vocational education. Between 2007 and 2008, recommendations for assessing the quality of teachers' professional skills and for a system of five degrees of quality of professional skills were developed within a large-scale ESF-funded project. Up to this point, the main indicator in assessing the teacher's work was only his/her length of service and, to a certain extent, the assessment of the school administration.

Figure 4.1.2. Enrolment (number of pupils, thousands) in general schools in Latvia by language of instruction, 1991–2010



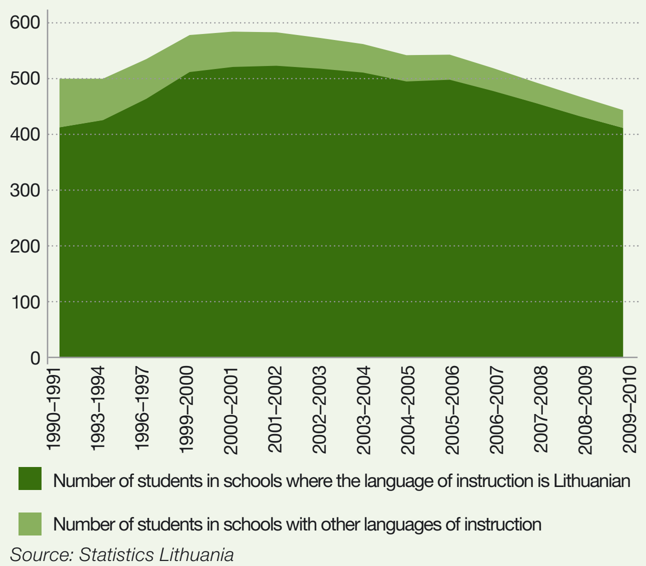
Source: Central Statistical Bureau of Latvia

One of the measures for assessing the quality of education, introduced from 1997 to 2005, is centrally prepared and centrally assessed examinations. A uniform examination system has been established at the completion of secondary education (grade 12) and basic education (grade 9), and state tests are organized at the end of grades 3, 6 and 9. The centralized examinations in grade 12 are carried out in 13 subjects and it is not planned to increase their number. It is compulsory for grade 12 graduates to pass four centralized examinations out of those 13: in Latvian language and literature, the first foreign language, mathematics and at least one examination in the subject of the learner's choice, the scope of which in the curriculum is not less than 105 lessons. Since 2004, applicants to higher education institutions have been selected based on the results of these examinations.

Latvian institutions of higher education were transformed into legal entities with the status of "derived public entity" to ensure their self-government. The constitutions of universities are approved by the parliament, and the constitutions of the remainder of the higher education institutions are approved by the Cabinet of Ministers. In higher education, several essential reforms have been implemented:

- introduction of tuition-fee-based studies in higher education, which has been implemented along with state-funded studies;
- in 1995, Latvia began the transition to a system of three cycles (Bachelor, Master and Doctor) in academic study programmes;
- introduction of a higher education quality assessment system; state standards in academic education and higher professional education have been developed, including consistent and uniform requirements for ensuring and controlling the quality of study programmes. Also, standards for teachers have been developed;
- establishment of a system of academic and professional degrees, comparable to the European education system;

Figure 4.1.3. Enrolment (number of pupils, thousands) in general schools in Lithuania by language of instruction, 1991–2010



Source: Statistics Lithuania

- introduction of a system of credit points to measure the student's study load, but the introduction of the European Credit Transfer System (ECTS, 60 credit points per year) has not yet been implemented;
- establishment of a system of study loans, which increases the accessibility of higher education to less well-off citizens and facilitates student interest in the quality of education;
- students are admitted to higher education institutions according to the results of the centralized secondary school graduation examination.

At present, the reforms for introducing learning outcomes and qualification frameworks are in the process of development.

According to the McKinsey study (Mourshed 2010), Latvia was among 20 education systems where the improvement of the school system has been most significant. According to this study, Latvia is one of the countries in which the school system increased its level of quality from fair to good between 1995 and 2007. The improvement includes obtaining high quality data about student and school achievement, the responsibility of schools and teachers for introducing (ensuring) the results of student work, developing an appropriate organizational structure, and using appropriate pedagogical models. In spite of the improvements in quality, there are still a number of urgent issues that need to be addressed in the coming years in Latvia, especially strategic management, clear policies in financing and management of education, and the creation of an appropriate school network.

Looking back on the last two decades, three stages of reforms, as in Estonia, can be outlined in Latvia: 1) democratization and decentralization of the education system (from the regaining of independence until the mid-1990s), 2) development of the normative basis of the system and the implementation of corresponding reforms (from the mid-1990s until the beginning of the process of Latvia joining the EU, which took place in 2004), and 3) further development of the education system following Latvia joining the EU, promoting the formation of a knowledge-based democratic and integrated society in Latvia as an EU member state and increasing the competitiveness of the population and the national economy, while at the same time preserving and developing the cultural values that are characteristic of Latvia.

Lithuania

The incorporation of Lithuania into the Soviet Union was followed by the introduction of a new educational model: the previous system of progymnasiums and gymnasiums was eliminated, and several classic disciplines (logic, psychology and Latin) were discontinued. Pedagogical personnel were mistrusted: about 1,200 teachers were deported from Lithuania during the deportations of 1945–48. As a large Polish minority lives in Lithuania, Polish people began to enrol their children in Russian language schools during the Soviet time and, as a result, the Russian sector in education emerged. On the positive side, a great deal of attention was paid during the Soviet time to vocational education, and gifted children had the opportunity to study in special classes (especially mathematics and languages) or schools. The whole educational system was centrally controlled and regulated. Vilnius University was the only university that was allowed to function in Lithuania.

After the restoration of Lithuanian independence, the educational system went through fundamental systemic and structural changes. As was stressed in the Concept of Lithuanian Education, "... changes in public life are possible only through radical reform of Lithuanian education, which presents fundamentally new tasks. Education is a fundamental factor in social development and social reforms, but education is only able to play its proper role when its development stays ahead of the development of society in general. Therefore, it is necessary to make education a priority of the State of Lithuania. The main objective of the reformed education is the independent and creative personality that maximally develops its capacities in school."

The reforms affected all areas of education, changing both educational content and organizational forms. In 1991, the Law of the Republic of Lithuania on Education was adopted, and it has been continuously improved. The first private schools were founded in the same year, and the first gymnasiums were established in 1992. The Centre for Quality Assessment in Higher Education was established in 1995, and the National Examination Centre in 1996. Ten years of compulsory basic education was introduced in 1998, and profiled education harmonised with the state exams started in 2000.

Lithuania's general education system (grades 1–12) was transformed into a new system including primary schools, progymnasiums, basic schools, secondary schools and gymnasiums. Teaching is conducted in the Lithuanian language, but there are also schools with instruction in Russian, Polish, Hebrew and Belarusian. In 2011, the Lithuanian parliament adopted the Amendment of the Law of the Republic of Lithuania on Education to improve the proficiency of creating better opportunities for further youth activities. The Law gave more importance to the Lithuanian language in non-Lithuanian-language schools. As a result, a paradoxical situation arose in the Vilnius region, where Lithuanians are a minority. The local authorities gave priority to the organization and financing of Polish-language schools. These schools use textbooks issued in Poland, and naturally the emphasis is on the Republic of Poland's statehood. Therefore, sometimes education issues become an arena of political intrigue. The changes from 1990 to 2010 in enrolment in schools through the medium of Lithuanian or other languages as languages of instruction are presented in Figure 4.1.3.

Lithuanian education follows the concentric and spiral principles: topics and problems that are analyzed in primary grades in suitable ways for the age group are also analyzed in higher grades, but at different levels of analysis. The four concentres of educational contents match the new structure of the general education school: 4+4+2+2.

The first concentre – the primary school level – is oriented to an integrated world-view. In the primary grades, the aim is to open up the world and environment close to the child, to develop moral sensitivity, to provide basic knowledge about humans, nature and the native land, to develop the native language, reading, writing and mathematics skills. The second concentre – basic school grades 5–8 – is an objective system. The third concentre – basic and secondary school grades 9 and 10 – continues the subject teaching, but a greater emphasis is placed on the development of abstract thinking. The fourth concentre – secondary school grades 11–12– focuses on profiled instruction.

The higher education system in Lithuania has undergone core reforms. The Law on Science and Studies was passed in 1991. In 1999, Lithuania joined the Bologna process, and participation in the Erasmus and Socrates programmes for student exchange began. A two-tier system of higher education was introduced and university and non-university types of higher education institutions were established. Several higher education institutions were transformed into universities or academies.

Following the general scheme of the European Union, all former technical schools were renamed colleges or non-university institutions of higher education, and they began to offer bachelor's degrees. For example, the higher music schools became conservatories, and the former higher schools of arts were elevated to academies. Although changing a name is easy, changes in the quality of education and achievement at a higher level have been very difficult. This is due to a lack of teachers (particularly those with degrees), an inadequate scientific level, and relatively poor material resources.

In 2009, a reform of science and education was started in Lithuania and in 2009/2010 the "student basket" was introduced. The "student basket" involves public funded study places, which are allocated according to the results of the Maturity Exams. Receiving a "student basket" means that the student does not pay a tuition fee at a higher education institution. After two years of studies, the "basket" (funding) may be transferred to another student, someone who has received higher ratings in the same institution of higher education.

Due to financial reasons, higher education schools began to recruit more and more students. By increasing the number of students, universities tried to compensate for low state financing, in an effort to maintain the number of teachers and the level of their salaries. As a result, more and more young people are attending universities instead of choosing the vocational track of studies.

In Lithuania, the twenty years of reforms are usually divided into a preparatory and three implementation phases: preparatory (1988–1990), curriculum reform (1990–1997), organizational restructuring (1998–2002), and implementation, beginning in 2003, of the National Education Strategy for 2003–2012.

Despite some unique features in handling reform, during the last two decades all three Baltic countries have survived deep and rapid changes in their educational sectors. The next subchapter of the chapter will focus on the outcomes of the changes, and will place education in Estonia, Latvia and Lithuania into a wider international context.

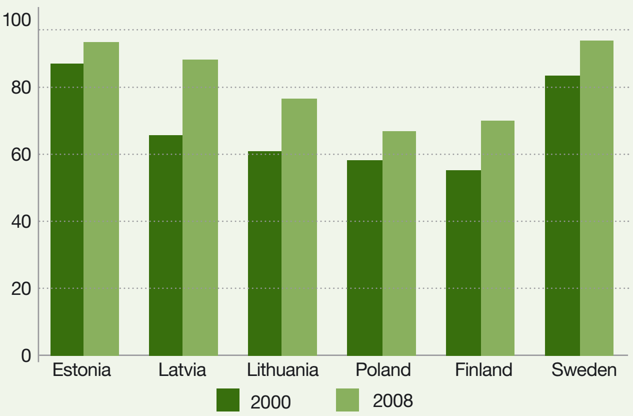
4.2. Current situation: strengths and challenges

Participation in education

The deep demographic decline during the 1990s (see also chapter 2 of the Report) resulted in a considerable decrease in school-age children throughout the Baltic states while, at the same time, participation in education (enrolment rates) increased. The data on participation in *preschool education* compared with some neighbouring countries are presented in Figure 4.2.1. The European Union has set the goal of achieving 95% participation in preschool education, and both Latvia and Estonia (as well as Sweden) are already very close to reaching this benchmark.

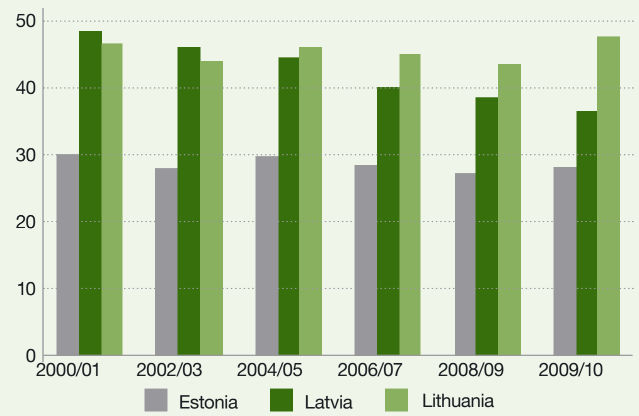
Due to the low birth rate in the early 1990s, the overall number of schoolchildren in general schools (grades 1–12) decreased, as is shown in Figures 4.1.1, 4.1.2 and 4.1.3. An especially steep decline in the number of pupils occurred in schools with Russian as the language of instruction, especially in Latvia and Estonia. This was due to several factors: a portion of the Russian-speaking population left for Russia in the early 1990s (mainly military per-

Figure 4.2.1. Participation in preschool education in 2000 and 2008 (%)



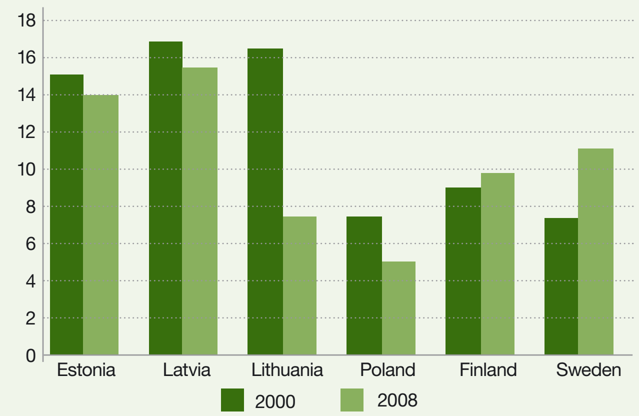
Source: Progress towards Lisbon objectives in education and training. Indicators and benchmarks, 2009

Figure 4.2.2. enrolment in vocational education in 2000–2010 (thousands of students)



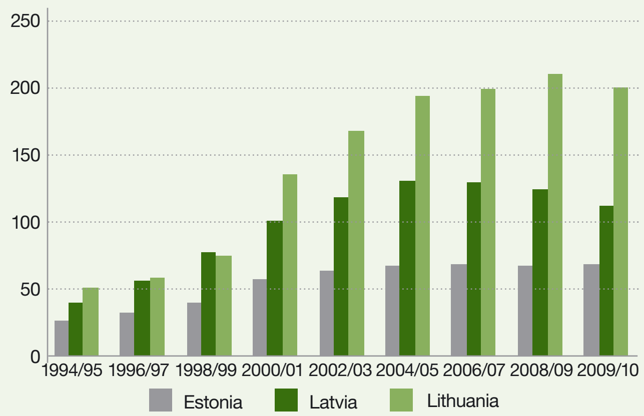
Source: Statistics Estonia, Central Statistical Bureau of Latvia, Statistics Lithuania

Figure 4.2.3. Early leavers from education and training (age 18–24, %)



Source: Progress towards Lisbon objectives in education and training. Indicators and benchmarks, 2009

Figure 4.2.4. Number of students in higher education: Estonia, Latvia, Lithuania 1994–2010 (thousands)



Source: Statistics Estonia, Central Statistical Bureau of Latvia, Statistics Lithuania

sonnel and their families), there was an even lower birth rate among Russians than the native population, and the decline was partly a result of the policies promoting wider usage of state languages as the languages of instruction at primary and secondary levels.

Upper secondary attainment (of those aged 20–24) has been high in all three countries; in 2008, it was 82.2% in Estonia, 80.0% in Latvia and 89.1% in Lithuania (Progress towards …2009). At the same time, a rather small percentage of basic school graduates continue their studies in vocational education: for several years, this share has been about 26–30%. The total number of students in vocational schools from 2000 to 2010 is presented in Figure 4.2.2. There are still prejudices in society concerning vocational education: according to survey data, 69% of parents recommend that their kids continue in a gymnasium after basic school, while only 9% of parents recommend vocational schools (Kutseharidus ... 2008: 65).

The drop-out rate in the first two educational levels has been comparatively high in all Baltic states. The share of *early school leavers* (young people in the 18–24 age group who have not completed secondary education and are not currently in school) is presented in Figure 4.2.3. Only Lithuania has succeeded in making notable progress in this field in the past seven or eight years; in Estonia and Latvia, the proportion of "undereducated" has remained more or less the same. In vocational education, the number of students discontinuing their studies is also high, ranging from 18–22% in Estonia during the last four years. The drop-out rate is highest in a special branch of vocational education in which students enrol in vocational programmes after basic education, or without even completing basic education.

In the past two decades, the number of students in *higher education* has dramatically increased in all three countries (see Figure 4.2.4). The emergence of private HE institutions and the admission of fee-paying students by public universities can be seen as sources of this growth, as well as the high birth rate during the late 1980s. Governments have not been able to cover the study expenses of the rapidly growing student body and, as a result, there are now two categories of students in both public and private HE institutions: those who have to fully cover their study fees and those whose expenses are covered by the state. The share of students whose study fees are covered by taxpayers (students in state-commissioned study places) has dropped in all three countries, falling in Latvia to less than one-third of the whole student body (see Figure 4.2.5). In the coming years, another challenge will face the higher education sector in this region. When the rather small cohorts from the 1990s enter higher education, the universities, which are used to a massive influx of students, will need to find ways to survive when the number of secondary school graduates drops almost 50%.

A growing gender disparity among students and higher education graduates is typical of the Baltic states, especially for Estonians (see Figure 4.2.6). Female students are dominant in almost every study field; for instance, their share among students in education programmes has reached 90% in Estonia, 86% in Latvia and 78% in Lithuania, while in social sciences the corresponding figures are 66%, 67% and 68%. Only in the fields of natural and technical sciences are male students still dominant (Key data … 2009: 120).

In addition, the distribution of students between study fields has changed: the share in social sciences has increased while the proportion in natural sciences and engineering disciplines has decreased. The establishment of private higher education institutions primarily began in order to offer study programmes in social sciences. The social sciences boom, especially in the nineties, can also be explained by a decrease in the strong political control over those disciplines exercised during the Soviet period. As sociology, political science and public administration became free of political pressure, they became extremely popular among the younger generation. To balance this tendency, governments started to support (including financially) students studying natural sciences and technology.

During the 20th century, the educational *attainment level* in all Baltic countries impressively increased. While in pre-war Estonia about 4% of persons aged 10 years and older acquired secondary education and less than 1% had completed higher education, the corresponding figures for 1959 were 15% and 2.5%, for 1979 32% and 7.5% and for 2000 38% and 22% (Ruus 2011). In spite of the fact that higher education attainment among the adult population has been traditionally high in the Baltic countries, the attainment figures among the younger generation (age group 30–34 years), especially for Estonia and Latvia, have not been as impressive: only Lithuania has been able to reach a level comparable with our Scandinavian neighbours (see Figure 4.2.7).

Considering adult participation in continuing education, all three Baltic states are still far behind our northern neighbours (see Figure 4.2.8). Transforming continuing education into an element of people's lifestyle will be one of the most challenging issues for Baltic education in the coming years.

Institutional landscape

The demographic decline, in combination with the liberalization of the educational sector and the economic recession during the transition period (in Estonia, real GDP dropped by almost 40% from 1989–1994) resulted in considerable changes, both in schools and universities. Many smaller schools were closed: while the number of primary schools in 1995 in Estonia was 200, only 75 of them remained in 2010. More than 100 schools in Estonia used Russian language as the language of instruction in 1995, but in 2010 only 61 of those schools were still operating.

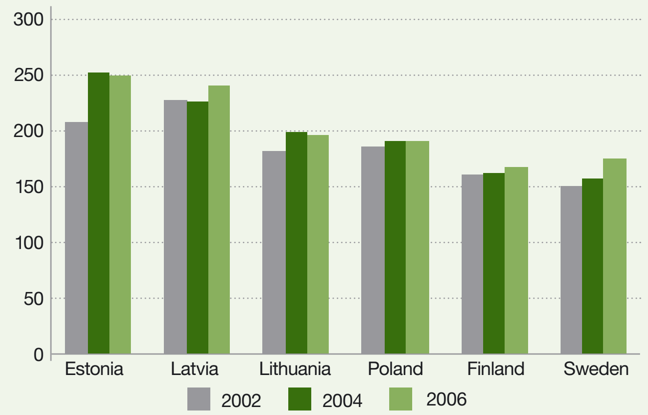
In Latvia, the changes in the school network have not been as rapid, in spite of the fact that researchers in 2000 stated that, "The ratio between students and teachers in Latvia is among the lowest from the countries that participated in international studies, and schools in Latvia are considerably smaller than the international average" (Kangro 2000). The recommendation was: "… when making decisions about the optimization of the school network, one should certainly consider situating the primary school closer to the child's residence; the secondary school could be further away, but it should be large enough and well provided with all the necessary material and human resources. That may mean reorganizing country schools into primary schools..." (Geske & Kangro 2004). Unfortunately, there has not been noticeable progress in this field; the ratio between students and teachers in Latvia has dropped lower and lower (about 8 students per teacher in 2010).

In addition, the sector of vocational education in Estonia experienced a rapid consolidation: the number of vocational schools decreased from 91 in 1996 to 51 in 2009. In Latvia, the number of vocational schools decreased from 143 in 1990 to 85 in 2009.

Figure 4.2.5. Share of students in a state commissioned study places in Estonia, Latvia, Lithuania 1995–2010 (%)

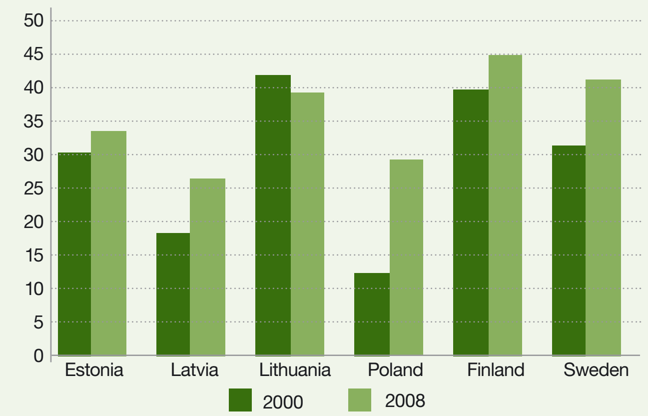
Source: Statistics Estonia, Central Statistical Bureau of Latvia, Statistics Lithuania (Note: Lithuanian data include only students at the BA level)

Figure 4.2.6. Number of women per 100 men graduating from tertiary education (ISCED 5 and 6), 2002–2006



Source: Key data on education in Europe 2009. European Commission. Published by the Education, Audiovisual and Culture Executive Agency. Brussels 2009: 249 http://www.eurydice.org

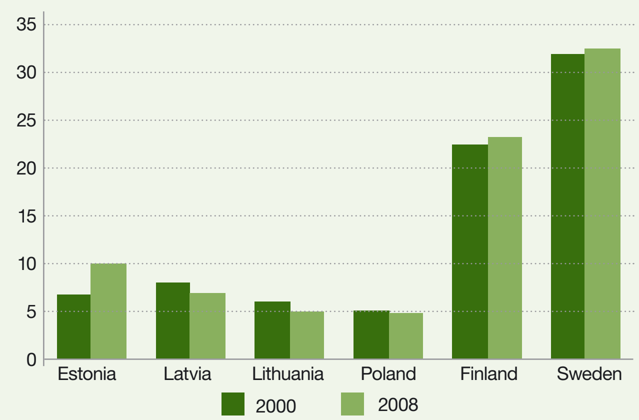
Figure 4.2.7. Higher education attainment in 2000 and 2008 (ages 30–34)



Source: Eurostat

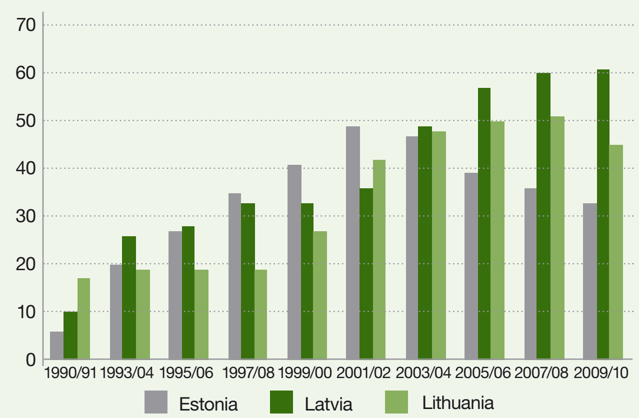
While the number of schools providing education at the first two levels decreased, the higher education sec-

Figure 4.2.8. Adult participation in lifelong education 2000 and 2008 (ages 25–64, 4 week period)



Source: Eurostat

Figure 4.2.9. Number of higher education institutions in Estonia, Latvia and Lithuania 1990–2010



Source: Statistics Estonia, Central Statistical Bureau of Latvia, Statistics Lithuania

Table 4.2.1. Students' level of knowledge, PISA 2009

Country	On the overall reading scale	On the mathematics scale	On the science scale
Estonia	mean score 510, 13th position	mean score 512, 14th position	mean score 528, 5th position
Latvia	mean score 484, 30th position	mean score 482, 36th position	mean score 494, 27th position
Lithuania	mean score 468, 40th position	mean score 477, 37th position	mean score 491, 32nd position
Finland	mean score 536, 3rd position	mean score 541, 5th position	mean score 554, 2nd position

Source: OECD (2010). PISA 2009 results: What students know and can do: 15

tor expanded in all three countries. Data on the number of institutions providing higher education in Baltic countries are presented in Figure 4.2.9. While only six state universities provided higher education in 1992 in Estonia, in 2000 the number of higher education institutions reached 49! Due to stricter requirements, quality control and voluntary mergers, the number of Estonian higher education institutions dropped to 30 in 2011, which is still considered too many for a nation of 1.3 million. However, while in Estonia and Lithuania the number of institutions providing higher education began to decrease at the beginning of the new century, this hasn't been the case in Latvia, where more than 60 institutions are still issuing higher education diplomas.

Over the last 20 years, the institutional landscape consolidated at the primary and secondary level, as well as in vocational education. At the same time, in higher education a number of new, mainly private universities, colleges and schools were established. The landscape became more diverse, which in turn shifted public concern in higher education to issues of quality. As a result, national quality assurance agencies were established, and accreditation procedures were introduced.

Educational outcomes

To assess the educational outcomes, we are using the results of one of the most influential educational assessment programmes – the OECD Programme for International Student Assessment (PISA) – which evaluates the quality, equity and efficiency of school systems, measuring 15-year-old students' performance in reading, mathematics and science. The rankings of the Baltic states and Finland in PISA 2009 (65 countries participated) are presented in Table 4.2.1.

The share of the **top performers** in reading (i.e. the share of students who attained the highest proficiency levels) was below the OECD average in all the Baltic states: 6.0% in Estonia, 3.0% in Latvia and 2.9% in Lithuania (OECD average: 7.6%, and Finland: 14.5%). Also, in mathematics the share of top performers in the Baltic states was below the OECD average: the share in Estonia was 12.5%, in Latvia 5.7% and in Lithuania 7.0% (OECD average: 12.7%, Finland: 21.6%). On the science scale, the share of the top performers was 10.4% in Estonia (which was above the OECD average of 8.5%), Latvia was at 3.1% and Lithuania at 4.7% top performers. The corresponding figure in Finland was 18.7%.

The share of students who performed **below** the level of proficiency in reading (which indicates that they were not qualified to participate effectively in contemporary society) was 13.3% in Estonia, 17.6% in Latvia and 24.3% in Lithuania (OECD average: 18.8%; Finland: 8.1%). On the mathematics scale, the share of students who performed below the baseline level was 12.6 % in Estonia, 22.5% in Latvia and 26.3% in Lithuania (OECD average: 22.0%; Finland: 7.8 %). On the science scale, the share below the baseline was 8.3% in Estonia, 14.8% in Latvia and 17% in Lithuania (OECD average: 18 %; Finland: 6%).

Substantial gender differences were evident on the reading scale: in all participating countries, girls markedly outperformed boys. Also, in all the Baltic countries the difference between boys and girls surpassed the OECD average (where the average difference between boys and girls was 39 points). Lithuania, which showed the most dramatic difference (59 points), was followed by Latvia (47 points) and Estonia (44 points). In Finland, the gender difference was also very high (55 points).

PISA 2009 also studied the role of the students' **economic, social and cultural status** (ESCS) in defining their performance. The corresponding index combines information on parents' education, occupation and home possessions. By this index, Estonia deviates from the other two Baltic states: its ESCS (0.15) is above the OECD average, and identical to that of the USA (0.15), while Latvia's ESCS is below average (-0.13, which is exactly the same as in France). Lithuania's index (-0.05) is slightly below average (similar to that of Greece: -0.02). The percentage of students with low ESCS is 6.7% in Estonia, 18.3% in Latvia and 18.8% in Lithuania.

It is important to note that, generally, top performers in reading tend to come from homes with high economic, social and cultural status, and the lowest performers from homes with the lowest ESCS. In Estonia, the status of the lowest performers (ESCS equal to -0.16) was slightly better than in Latvia (-0.50) and Lithuania (also -0.50). Generally, the PISA 2009 results demonstrate that there is no direct causality between student performance and economic, social and cultural status. Many disadvantaged students scored well above what was predicted by their background. In Estonia and Latvia, the percentage of such "resilient" students was slightly above the OECD average; the share of resilient students in Lithuania was below the OECD average.

Data from PISA 2009 also provided an opportunity to evaluate how **exclusive-inclusive** the national education systems were. In the international context, the Estonian, Lithuanian and Latvian education systems seem to be rather inclusive: the point difference in reading associated with one unit on the ESCS in Estonia and Latvia was 29, and in Lithuania 33, but the OECD average is 38 points (PISA 2009 Results: 102). This means that, in spite of considerably high inequality in these societies, the impact of socio-economic background on student performance is low; it is below the OECD average, which means that the schooling in those countries functions rather as a social equalizer.

PISA 2009 also analysed the **reading habits and preferences** of the younger generation. The share of 15-year-olds who reported that they did not read at all for enjoyment was 38.6% in Estonia, in Latvia 29.7% and in Lithuania 28.1% (the share was 50% in Austria, 48.6% in the Netherlands, 44.2% in Japan, 42% in the USA, 41.3% in Germany and 39% in the UK). Based on the self-reports of students, there were similarities and also differences between the Baltic states in the repertoire of texts that they read for enjoyment (see Table 4.2.2).

The most important difference between the Baltic states lay in the reading of fiction. Fiction seemed to be very unpopular among Estonian youth (and also in Finland, Austria, Belgium, the Netherlands, Poland and Slovenia). This evidently contributes to the result that Estonia performed remarkably better in reading non-continuous texts than in reading continuous texts. One can hypothesize that this is a sign of a cultural shift in Estonia. At the same time, Lithuanians seemed to preserve the high status of fiction.

Based on the reported learning strategies used by the students in reading texts and on the diversity of their reading materials, PISA 2009 also differentiated between the profiles/groups of readers (see Table 4.2.3).

The Lithuanian results seem to be the best in this area, while Estonia needs to enhance the popularity of fiction

Table 4.2.2. What students read for enjoyment in the Baltic states

	Fiction OECD average 31%	Comic books OECD average 23%	Non-fiction OECD average 18%	Magazines OECD average 58%	Newspapers OECD average 61%
Estonia	considerably below OECD average (57th position)	considerably below OECD average (54th position)	considerably above OECD average (13th position)	considerably above OECD average (7th position)	considerably above OECD average (9th position)
Latvia	approximately OECD average (35th position)	considerably below OECD average (62nd position)	above OECD average (31st position)	considerably above OECD average (9th position)	approximately OECD average (36th position)
Lithuania	above OECD average (23rd position)	below OECD average (43rd position)	considerably above OECD average (15th position)	considerably above OECD average (3rd position)	considerably above OECD average (20th position)

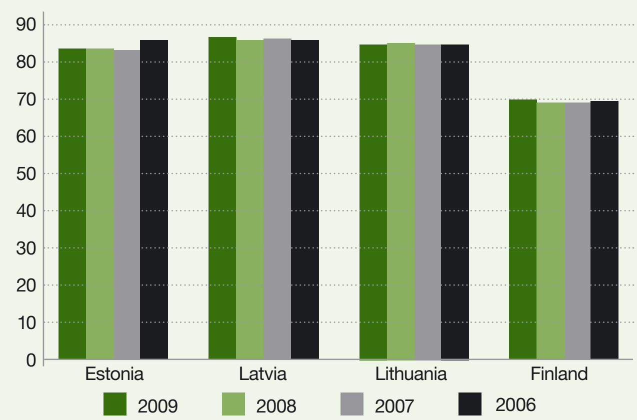
Source. OECD 2010. PISA 2009 Results: Learning to Learn: 71–72

Table 4.2.3. Profile of the readers

Profiles of the readers (%)	Group 1 (deep and wide readers)	Group 2 (deep and narrow readers)	Group 3 (deep and highly restricted readers)	Group 4 (surface and wide readers)	Group 5 (surface and narrow readers)	Group 6 (surface and highly restricted readers)
Estonia	17.8	43.1	19.3	3.1	10.5	6
Latvia	20.3	25.1	17.5	10.1	14	13
Lithuania	27.6	25	13.4	9.4	15.2	9.4
Finland	20.4	39.3	17	2.1	13.4	7.9
OECD average	18.8	25.2	29.2	4.6	9.6	12.5

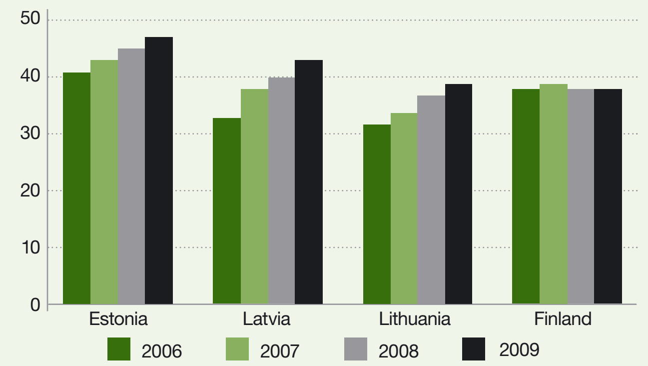
Source. OECD 2010. PISA 2009 Results: Learning to Learn: 52–55, 176

Figure 4.2.10. Women teachers in ISCED levels 1–3 as % of total teachers working at ISCED levels 1–3



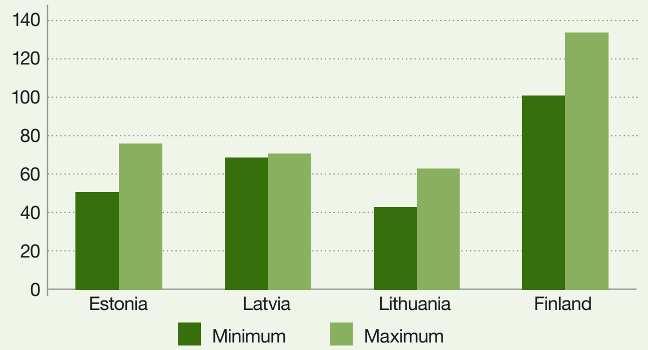
Source: Eurostat

Figure 4.2.11. Over 50 years old teachers working at ISCED levels 2–3 (%)



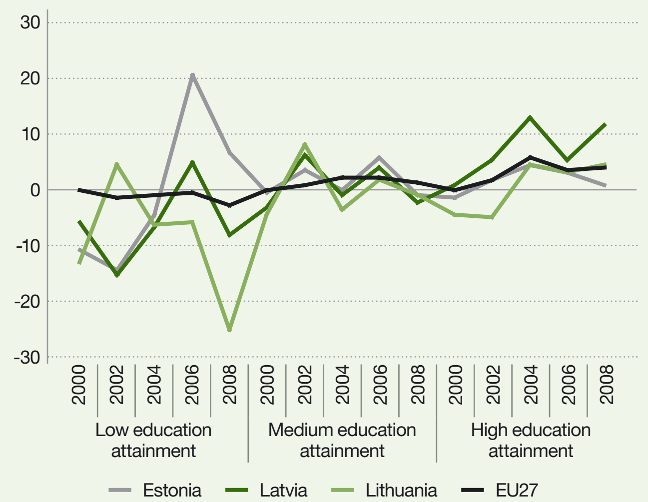
Source: Eurostat

Figure 4.2.12. Minimum and maximum gross annual salaries of ISCED 2 teachers, relative to GDP per capita, 2006/ 2007 (%)



Source: EU Progress Report, Eurostat

Figure 4.2.13. Number of employed people (15–64) by the level of education attainment[26] as annual change (%)



Source: EU Progress Report, Eurostat, adjusted

in order to widen students' reading repertoire and Latvia maybe needs to decrease the share in group 6.

The index of **online reading activities** (also based on students' self-reports) revealed a curious fact: Lithuania was in 1st position among 65 countries, Estonia in 3rd, and Latvia was also placed considerably above the OECD average. At the same time, a high level of online activities didn't decrease the overall reading performance. Online reading was the only reading activity in which boys outperformed girls (most significantly in Estonia). This might be a sign that reading is not vanishing but is taking place in new settings and using other types of texts.

Teachers and resources

Teachers' share among the active population in the labour market constitutes about 3% in EU countries overall, while in the Baltic states the corresponding figures are 2.5% in Estonia, 2.6% in Latvia and the highest in Lithuania at 3.3%. There is a considerable gender and age imbalance in the teaching community, both in general and vocational education. In Estonia, the share of male teachers is only 14.3 % overall and is 3.9% in vocational education. The percentage of female teachers in primary and secondary education (ISCED 1, 2 and 3) in all three Baltic counties is almost 85%, which is the highest rate among EU countries (Key data …, 2009: 183). The share of female teachers can be observed in Figure 4.2.10.

In addition, the share of teachers over 50 has increased in recent years in all of the Baltic countries (Figure 4.2.11), and Estonia seems to lead the way in this area.

Data on teacher salaries in the Baltic states and Finland are presented in Figure 4.2.12. The salary levels, especially in Lithuania, remain low, and are considerably below each country's average salary. The low salary level is obviously one of the main reasons why the teaching profession has lost its attractiveness and why the average age of teachers is so high. Restoring the valued position of teachers in society is one of the most urgent challenges for the Baltic states in the coming years.

Education and the labour market. In all three countries, the employment level and employment stability strongly depend on the level of education. Employment has been highest among people who have a tertiary education and is lowest among those with a primary education. Although this tendency is common for all EU countries, in the Baltic states, where fluctuations in the labour market are considerably higher than in the EU generally, the stability and positive dynamics of employment of people with higher education attainment is even more obvious. There are some exceptions, such as in Estonia in 2006, when the employment of people with low education attainment rose considerably, and in Lithuania from 2000 to 2002, when the employment of people with higher education attainment decreased, but these were only short-term fluctuations in the general trend (see Figure 4.2.13).

It seems that education is the best guarantee of securing a job: while the unemployment rate among people with low education attainment in 2008 was 12.2 (Estonia), 14.6 (Latvia), 13.7 (Lithuania), and 11.6 (EU27), the corresponding rates for people with high education attain-

26 Low education attainment: pre-primary, primary and lower secondary education – levels 0–2 (ISCED 1997); medium education attainment: upper secondary and post-secondary non-tertiary education – levels 3–4 (ISCED 1997); High education attainment: Tertiary education - levels 5-6 (ISCED 1997)

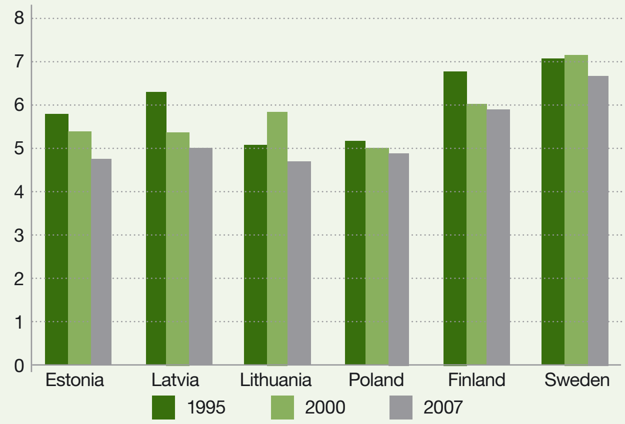
ment was 3.0 (Estonia), 4.2 (Latvia), 3.0 (Lithuania) and 3.8 (EU27).

Investments in education. Public expenditure on education has been around 5% of GDP in all three countries, and it has decreased slightly in recent years (see Figure 4.2.14). This is less than our northern neighbours invest in education, and is also less than the average among OECD countries. The recent economic depression complicated the situation even more. For instance, in Latvia in the last number of years, state funding for higher education was cut by more than 50 per cent and further cuts are possible. In such a context, structural reforms in education are debated, including optimization of the network of educational institutions, avoidance of the duplication of study programmes, and improvement in the quality of study programmes. However, there have still been no practical steps taken to optimize the whole system.

Concerning the **classroom climate**, there have been some positive developments in the Baltic region. According to the recent IEA study CIVED, the classroom climate has become significantly more open to discussions and exchanges of ideas, compared with the situation ten years ago. In 2009, 80% of students in Estonia declared that teachers encouraged them to make up their minds and openly debate their viewpoints (Toots 2011: 6), which was not so much the case in 1999. In spite of this good news about the classroom climate, some problematic aspects of school-life, such as violence and bullying, still remain (see Figure 4.2.15).

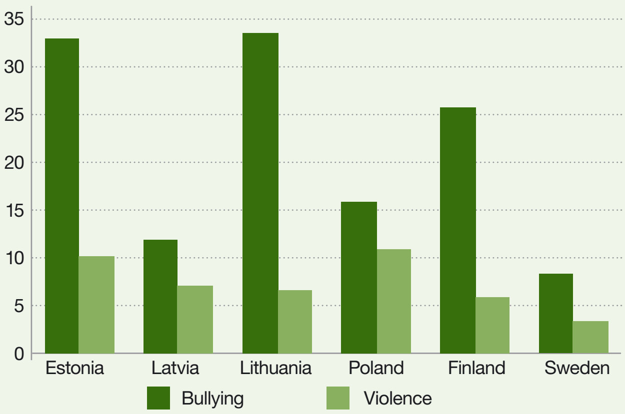
It is clear that two decades of independence have considerably changed the whole educational paradigm in the Baltic states. Decades of change have revealed both the strong aspects and weak sides of education in all three countries, also indicating the common features of Baltic education, such as the huge gender disparity, both among teachers and among higher education graduates, and the comparatively high drop-out rates. In spite of a low level of resources, the Baltic countries are able to invest in education, and the outcomes of the education process (in terms of participation and student knowledge) are still quite competitive in the international context.

Figure 4.2.14. Public expenditure on education as percentage of GDP on 1995, 2000 and 2007



Source: Education at a Glance 2010: 243, Central Statistical Bureau of Latvia, Statistics Lithuania

Figure 4.2.15. Teachers responses to the question *How often there is bullying or violence in your classroom?* (The percentage of teachers who answered "Often" and "Very often").



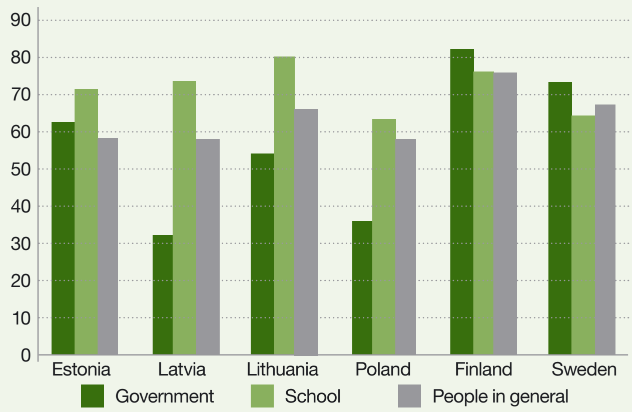
Source: IEA International Civic and Citizenship Education Study (Toots 2011: 52)

4.3. Shaping the future

"Freedom" enthusiasm, renewing and liberalizing curricula, establishing new educational institutions, establishing university autonomy and a rapid growth in the number of students in higher education – these factors marked the beginning of two decades of educational changes in the Baltic countries. Also, a wide range of new constructs and concepts have been introduced: stakeholders and benchmarking, evaluation and accreditation, learning outcomes and teacher efficiency, fitness of purpose, value for the money, etc. Later, the step-by-step establishment of national legislation followed, which attempted to channel the overwhelming sense of freedom into purposeful actions, including the creation of quality control mechanisms and promoting international networking. This hasn't been easy, as it has occurred in the context of a deep and permanent lack of finances. Producing comparatively good results in the context of very limited resources – this is a distinct feature of education in the Baltic countries. While in the fields of economics and democratic governance the *catching up* with older Europe was foremost on the agenda, in education the focus was more on structural reforms. Educational outcomes, in terms of participation and knowledge level, in the Baltic countries have been quite similar to the rest of Europe for a long time.

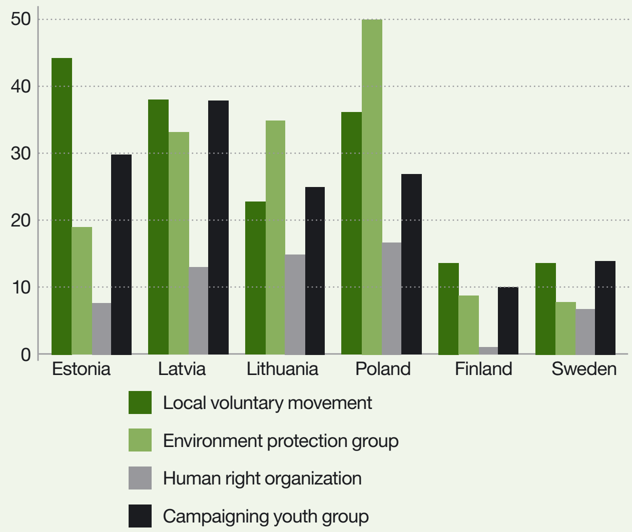
Today, the education systems of Estonia, Latvia and Lithuania are becoming more and more incorporated into European educational structures, programmes and networks. In spite of the persisting problems and controversies, the educational institutions in the Baltic countries have gradually become more mature and trustworthy. According to the recent IEA Civic and Citizenship Edu-

Figure 4.3.1. 8th grade student´s responses to the question *Do you trust your government, your school, people in general?* (% of responces "fully" or "much")



Source: IEA Civic and Citizenship Education Study (Toots 2011: 72)

Figure 4.3.2. 8th grade student´s responses to the question *Have you ever participated in the following groups/ activities?* (The percentage of students who answered "Yes")



Source: IEA International Civic and Citizenship Education Study (Toots 2011: 79)

cation Study (Toots 2011), the majority of students in the Baltic states trust their schools and education systems; this trust is even slightly higher than that in neighbouring countries (Figure 4.3.1). And, compared with other institutions, schools stand out as one of the most trusted institutions in those societies.

The same study also indicated a quite high level of participation of schoolchildren in the Baltic states in grassroots and voluntary activities, a level even higher than that of our Nordic neighbours (Figure 4.3.2).

The level of trust and participation provides a basis to conclude that education, which has historically been one of the main engines of development and sustainability in the Baltic region, will also be able to serve this role in the coming decades.

One may conclude that the period of radical paradigm change is over in this region, and some stability has occurred, which makes it possible to focus on the future, create future strategies and have more balanced long-term planning.

Lithuania, in 2003, adopted the National Education Strategy 2003–2012, which was developed to promote a knowledge society, secure social cohesion and increase competitiveness in the Lithuanian economy. The Strategy has several objectives: 1) to integrate Lithuania into the Western cultural and business environment, 2) to develop democracy, 3) to nurture the solidarity of civil society, 4) to strengthen national security, 5) to preserve the national identity, 6) to establish and develop a knowledge-based competitive economy, 7) to ensure the employment of people, and 8) to substantially reduce social exclusion and poverty (Lietovos Respublikos ..., 2003).

The main challenges for Lithuanian education are embedded in demographic changes. More than 600,000 people emigrated from Lithuania between 1990 and 2010. At the beginning of 2011, Lithuania had 3.245 million inhabitants – 84,000 fewer than in 2010. Though a considerable number of emigrants were less qualified people in the first years of independence, today the number of highly skilled professional emigrants is increasing, including physicians, researchers, etc. This means that at least some part of Lithuania's educational system is working to benefit other European Union countries. Also, the age structure of the population is changing rapidly: the share of children is decreasing and the number of elderly people is increasing. Paradoxically, the decrease in the number of school-age children has led to some improvement in the quality of education, due to the opportunity to reduce class sizes and the number of students in various groups.

In response to the demographic changes, Lithuania has tried to optimize the network of general schools and higher education institutions. While the consolidation of educational institutions might seem to be a good measure, its long-term impact is not yet clear. For instance, in the regional perspective, villages are also losing younger population and income sources by losing schools, which means villages are in danger of disappearing.

Yet one more challenge for the Lithuanian education system is that young people value social status more than particular professions or crafts. Such an attitude is sometimes encouraged by higher education institutions, which are still using the model of extensive development. The country already has a shortage of skilled workers, while the over-abundance of some professionals, e.g. managers, is obvious.

The central challenge is to increase the share of GNP allocated to education (especially to general education) and not be lured into short-term savings in the system. Also, Lithuania needs to formulate clearer strategic future plans: finding its niche in a globalized world, by taking into account its small size, national and cultural sustainability, especially in the context of the neo-liberal economy and open society is questionable.

In 2010, the **Latvian** Saeima adopted the "Sustainable development strategy of Latvia until 2030" (http://latvija.2030.lv/upload/latvija2030_en.pdf), which includes a chapter on education titled *Change of paradigm in education. Qualitative and available lifelong education.* The document establishes the goal of creating one of the best educational systems in the EU and of making Latvia one of the leaders in the availability and use of adult education. It also states several long-term action directions and possible solutions in the field of education: access to education and changes in the organization of the educational process, the school as the centre of social networking, contextual education and a shift in the profession of the teacher, e-school and the use of information technologies, and improvement in adult continuing education. Also, the document outlines a number of key indicators to achieve. For example:

- The number of children in pre-school institutions at the age of four should rise from 76% to 95% by 2030;
- Participation in adult education (25–64 age group) should rise from 6.8% to 14%;
- The share of early school leavers should drop from 15.5% to 10%;
- The proportion of foreign students in institutions of higher education should increase from 1.2% to 10%;
- The proportion of individuals who have acquired higher education in the 30–34 age group should increase from 27% to 40%.

There is an ongoing debate in Latvia on how to optimize the school network, which is not an easy task because the local governments are the founders of schools and remain responsible for their operation. Local governments are not very interested in "optimization". Universities, higher education institutions and other educational institutions in Latvia are still subordinated to six different ministries, which complicates management efforts. There are still many small private higher education institutions, which are not able to implement research-based studies. A number of reforms are still lacking – the reform of the Academy of Sciences has not been completed, and therefore there are still some independent research institutes that are not collaborating with the universities. As a result, the abilities of the researchers working at those institutes are not being used in educating young scientists and in teaching students. Also, Latvian universities have not yet been delegated the power to take action regarding their real estate, which is a considerable obstacle considering that the number of students is decreasing. The necessity of recruiting foreign students is under discussion though the law on the state language states that studies in state higher education institutions must be mainly organized in Latvian.

Estonia has not yet succeeded in elaborating and adopting its national education strategy. The first version of the strategy was prepared in 1999–2000 by the Estonian Education Forum, but it was not accepted by the ruling political coalition in the parliament. However, there is a development plan by the Ministry of Education and Research for 2010–2013 (*Tark ja tegus rahvas* 2009), which deals with the main areas of the Ministry's responsibility: education, language policy, youth issues, and research and development. Also this document defines Estonian development aims in the context of EU education and training policy for 2020.

A second attempt to prepare a national education strategy is currently underway, initiated by the Estonian Cooperation Assembly in 2010. The draft version of this document outlines several challenges Estonian education will face during the next decade:

- Strengthening the orientation to **personality development** in schooling. Estonian schoolchildren have had excellent results in international comparative studies (e.g. PISA), but the results are not as impressive in creativity, entrepreneurship and leadership. Therefore, more attention should be paid to schools as settings for personality development with more value attributed to personal differences, and an increase in individualized approaches to teaching. Also, the role and importance of social competencies (e.g. communication skills and critical thinking, entrepreneurship and creativity, leadership and cooperation) should be increased.
- **The position and public image of teachers** in society needs considerable improvement. The situation is paradoxical: Estonian teachers have succeeded in preparing the very best students, but their own job satisfaction and efficiency is low; teachers are not happy with the profession's public image or their position in society. As a result, the teaching profession is not popular enough among university entrants (especially among males), and the profession has been largely feminized.
- **Fewer dropouts and early leavers.** About 12–14% of Estonian young people are not completing secondary education, creating a high risk for social deprivation and unemployment. Estonia, as a very small nation, cannot afford such a considerable loss of human capital. The aim is to reduce the number of "undereducated" as much as possible.
- **Access and quality of higher education.** As there are still barriers in access to higher education (economic, regional and language-based), as well as the fact that not all Estonian higher education institutions are, in the eyes of young people, trustworthy enough places to study, steps should be taken to reduce the barriers to access to higher education (especially economic barriers), as well as to tighten the quality requirements for higher education institutions.
- Linking education more closely with the **needs of the knowledge society and an innovative economy.** Today, a large part of the Estonian labour force (about 1/3) does not have any professional training (either in vocational or higher education), which has led to emotional debates between employers and educators. The aim is to make the curricula, both in vocational and higher education, truly act as engines of the development of an innovative economy and knowledge-based society, involving local and foreign experts and researchers on future trends in society and the labour market in curricula development besides only employers.
- Integrating **new digital culture into the Estonian cultural space**. There are emerging tensions between the national cultural heritage and the rapidly emerging and enlarging digital world. The challenge is to integrate new technologies into the education processes, as well as to transform and translate the Estonian cultural heritage so that it may be used and understood in the context of digital technologies.

4.4. The international framework of educational reforms during the last decades

Comments by Tero Autio

One of the most dramatic transitions during the last decades has been the end of the Cold War and the division of the political globe into the two competing models of society. All the Baltic states – Estonia, Latvia, and Lithuania – have experienced that world historical shift in a most thorough way and the full realization of that change is still an ongoing process at a cultural level at least. Education is always entering the core when radical historical changes are taking place. The Baltic states are not exceptions to that rule. In order to understand the respective national reflections and refractions of how international educational influences have come to be interpreted locally (without going into national idiosyncracies), I will draw on a historical and theoretical big picture in terms of increasingly inter or transnational educational policy, curriculum theory and practice. For reasons of limited space and my limited local knowledge, I do not draw conclusions in regard to respective Baltic countries but present them to the reader on the basis of (shifting) main international trends presented in this short review.

The collapse of the Soviet Union was soon interpreted in the United States in a politically purposeful way. In the aftermath of the Cold War the world seemed then, in the early 1990s, ready-made – as Francis Fukuyama's book *The End of History* suggested. The competition between the grand ideologies and big political visions seemed to be over, free market economy had won the ideological race and what was now needed was only 'managerial' arrangements and rearrangements in different locales of human action and institutional lives. One logical consequence was that alternative political discourse was reduced to become substituted by economic ones as to how to organize society and social life. Also, even more radical interpretations about the diminishing role of 'political' politics and society were heard. One of the main architects, the then UK Prime Minister Margaret Thatcher, even claimed that "there is no such thing as society": the market would replace the religious, moral or national narratives as sources of morality and proper life conduct: "It is not the material goods *but all the great virtues* exhibited by individuals working together that constitute what we call the market place" (italics added; cf., Autio 2006: 153). These words and the whole agenda behind them have proved prophetic since the 1980s. By emphasizing the transnational market over the nation-state accelerated globalization and the managerial and economic stress on politics, this agenda has also strongly influenced the provision of education. Paradoxically enough, liberation from the Soviet type of collectivism was replaced by a new form of collectivism, as pressure towards uniformity and standardization was dictated by the globalizing economy. The former U.S. foreign minister Colin Powell put the new "millenial" agenda this way: "A major challenge for the millenium is to install freely elected democracies all over the world, *under one standard for the world, which is the free market system … practiced correctly*" (italics added) (Smith 2003: 494). The big political picture infusing such maxims is a vision of the world united by standardized, normative and even coercive notions of One Subjectivity, One History, One Humankind, One Politics – and consequently, One Curriculum. Globalization in those neoliberal and neoconservative terms have, instead of recognizing diversity and "celebrating difference and individuality", denoted pressures toward increasing uniformity, intellectual colonization and the standardization of all spheres of human action, with education being no exception (Autio 2009: 69–70).

This provocatively received big political picture of the world has been adopted more or less consciously in different (trans)national educational policies, curriculum theories and practices since the late 1980s. Hargreaves with his international fellow "researchers of educational change in several countries and over three decades" believe that educational change and reform strategies and their accompanying research directions have become *Bigger, Tighter, Harder and Flatter*. These trends are evident in the grand designs of political reform strategies but also in the ways that teachers and educational leaders in schools have developed and performed their work (Hargreaves at al 2011: xii, italics added). There is an emerging widespread consensus among the most prominent educational scholars that the Bigger-Tighter-Harder-Flatter educational reform strategy is more than problematic amidst the challenges posed by the knowledge economy and society – and living in the globalized world in general. Instead of fostering creativity, diversity, genuine problem-solving skills, curiosity, intellectual and moral alertness, the BTHF strategy and its curriculum would offer a myriad of competing, controlling, and surveillance systems camouflaged as "quality" discourses – and ideologically not very dissimilar with the previous Soviet system – and, in a word, with a deeply detrimental effect on the intensified educational needs for fostering intellectual, moral, and practical knowledge, sensitivities and skills in late modernity. The German social theorist Ulrich Beck (1999: 22) refers to the shared ideological affiliations when he argues that "… ironically the neoliberal and original Marxist positions share the same basic assumptions; …".

The Bigger as an ideology and mechanism of educational change has meant "the introduction of market competition and league tables of performance between schools, a return to traditional models of curriculum and teaching through closely prescribed curriculum contents and standards sometimes accompanied by script and paced models of literacy and mathematics instruction, pervasive systems of educational testing that were tied to the curriculum basics and to the criteria for market competition, and intrusive systems of surveillance by external inspection" (Hargreaves at al. 2011: xii).

The large-scale reform in terms of large-scale standardization, "Bigger is Better", has been followed by the large-scale principle of "Tighter". Here, though, "the greatest problem of the tight focus on tested and standardized basics, …, is that the efforts and activity of teachers and schools concentrate overwhelmingly on these high-stakes areas and neglect developing curriculum or a pedagogy that will prepare students with the 21st century skills and capacities that are essential if we are to transform our economies and communities into creative, competitive, and inclusive knowledge societies" (ibid.: xiv-xv).

The "Tighter" is closely related to test and evidence-driven education reforms. The movement towards the shift of *outcomes* – that has spread like a bushfire worldwide – already took place well before the rise of neoliberal politics during the Thatcher and Reagan era. One of the most influential turning points was 1966 when the University of Chicago sociologist James S. Coleman submitted his huge report "Equal Educational Opportunity" to the U.S. Congress. It was then the "second largest social science survey in history" and included, for instance, the test scores of 570,000 children. Despite its innocuous name, it was argued by the prominent American sociologist and politician Daniel Patrick Moynihan to be "… the most dangerous report in the history of American education". What was so dangerous in this report? Simply put – but today's perspective with far-reaching and profound global impacts – it was the shift in educational reform *from inputs to outputs, from resource investment to learning outcomes*. The Coleman Report challenged earlier definitions of educational "quality" as largely dependant upon the "inputs" (the quality of school buildings, the size of classes, the opportunities for extracurricular activities, the support for families, …). After Coleman, equal opportunity was measured by outputs and among them the test scores of children were to become the most important. *Coleman insisted that we could conclude there was equal educational opportunity only if students from differing groups scored roughly the same scores* (see Pinar 2006: 123–124, italics added). In the hands of conservatives, as Pinar observes (ibid.: 188), the emphasis upon the "outputs" becomes a rhetorical tactic to distract the public from the studied failures of government to ameliorate unequal opportunities by scapegoating teachers, making teachers responsible for "outputs". Now that, presumably, "inputs" matter less, additional support for schools is not only unnecessary, but it is, in effect, throwing good money after bad. Instead, funds are transferred to the test-making-and-administering industry. In so doing, conservatives link curriculum to tests and thereby control its content, further eroding what limited intellectual-academic freedom teachers enjoy, rendering them "managers of learning".

This logic in Anglo-American education policy is just the contrary to many best-achieving countries (Finland, Singapore, some Canadian provinces) in numerous international educational comparisons – the same countries that perform well on international ratings of economic competitiveness too. This educational logic spreading from the Anglophone world and creating broader international interest to large-scale reform on the basis of outcomes, tests and standardization has exposed its systemic shortcomings in international comparisons:

> The ironic effect of international interest in large-scale reform is that it has exposed how the countries and systems that have actually been most successful educationally and economically are ones that provide greater flexibility and innovation in teaching and learning, that invest greater trust in their highly qualified teachers, that value curriculum breadth, and that do not try to orchestrate everything tightly from the top (Darling-Hammond; McKinsey in Hargreaves et al 2011: xv).

The space here doesn't allow for us to go into the details of the U.S. and U.K. mainstream curriculum theory and practice (I have critically scrutinized some of the Anglophone tenets of curriculum in Autio 2006) – and their detrimental effects on nationwide quality education! High performing Singapore emphasizes "Teach less, Learn more" and mandates 10% "white space" for teachers to bring individual initiative and creativity into their teaching. Finland (the home country of the author) "avoids national standardized tests altogether and reaches high levels of achievement by attracting highly qualified teachers with supporting working conditions, strong degrees of professional trust, and an inspiring mission of inclusion and creativity" (Hargreaves et al 2011: xv).

The "Harder" would create the third internationally recognizable feature in the last decade educational reforms. It is related to the former intellectual and political myopia of "Tighter" of large-scale reforms and to the *systemic replacement of experience by evidence*: … hard data have pushed aside (…) intuition and judgment. Data-driven instruction and improvement have become de rigueur elements of Anglo-American approaches to educational reform" (xvi). The sole reliance on data may prove misguiding without complemented with knowledge and the intuitive judgment of practitioners: "… a data-driven intervention strategy can nip performance problems in the bud, but it can also diverts teachers' attention and energy on to short-term tasks in easily measurable indicators of achievement and away from longer-term engagement with teaching, learning, and students within more complex sets of lasting relationships"(ibid.). In short, if the tail of assessment wagged the dog of curriculum it would narrow the scope of education proper for the new millenium with demands of broad-based creativity and innovation that the standardization and top-down, one-sidedly evidence-driven administration can badly depreciate.

The Flatter is a kind of logical conclusion of the de-intellectualization of teachers' work and back-to-basics kind of curriculum structured by intensive testing industry and intellectually flat evidence-based research – all these manoeuvres are strongly advocated by the alliance of neoliberal and neoconservative education policies. "The test-score metrics by which educational performance is measured are not appropriate to knowledge society goals or many valuable educational goals more widely" (ibid., xvii). At its best, evidence-based research can inform but not prescribe educational practice (cf. Biesta 2005).

> Even in the Anglo-Saxon nations, the tide of narrow standardization appears to be in retreat. Many parents and teachers in England object to young children being the most tested in the world, that country's government has put an end to all standardized testing in secondary schools, and Wales has abolished national testing altogether up to the age of 14. We are at the end

> of a decade of large-scale limitations. The question is: What might come next? (Hargreaves et al 2011: xvi).

In the USA, the emergence of the post-standardized 'New Times' in education is most dramatically present in the total turn of mind in one of the most powerful and authoritative proponents of the movement of standardization and privatization of schools. In the past decade Diane Ravitch has strongly advocated, as one of the designers of the political right-wing and most notorious "learning outcomes" approach in general education, for the No Child Left Behind (NCLB) accountability programme that in practice meant: no child left untested and the respective intellectual narrowing of the curriculum and teachers' practice. Ravitch wrote in the Wall Street Journal on 9 March 2010, which deserves a lengthy citation as an authoritative sign of changing times in education:

> By the time I left government service in January 1993, I was an advocate not only for standards but for school choice. I had come to believe that standards and choice could co-exist as they do in the private sector. As No Child Left Behind's (NCLB) accountability regime took over the nations' schools under President George W. Bush and more and more charter (private) schools were launched, I supported these initiatives. But over time, I became disillusioned with the strategies that once seemed so promising. I no longer believe that either approach will produce the quantum improvement in American education that we all hope for. … In short, accountability turned into nightmare for American schools, producing graduates who were drilled regularly on the basic skills but were often ignorant almost everything else. Colleges continued to complain about the poor preparation of entering students, who not only had meager knowledge of the world but still required remediation in basic skills. This was not my vision of good education. …. The current emphasis on accountability has created a punitive atmosphere in the schools. … schools are often the anchor of their communities, representing values, traditions and ideals that have persevered across decades. … the best predictor of low academic performance is poverty – not bad teachers.

Ravitch's conclusion as a strong supporter of business-orientated, right-wing politics, of privatization and freedom of the market exhibits an astonishingly powerful account against accountability, privatization, and testing in the provision of education – and an equally astonishing apology for the reconsideration of the genuinely educational, communal and social values as a sign of the emerging post-standardization era and the ending of teaching to the test:

> What we need is not a marketplace, but coherent curriculum that prepares all students. And our government should commit to providing a good school in every neighbourhood in the nation, just as we strive to provide a good fire company in every community. ... On our present course, we are disrupting communities, dumbing down our schools, giving students false reports of their progress, and creating a private sector that will undermine public education without improving it. Most significantly, we are not producing a generation of students who are more knowledgeable, and better prepared for the responsibilities of citizenship. That is why I changed my mind about the current direction of school reform.

In summary, it seems from the counter-evidence of large-scale, accountability, evidence-based, test-focused educational reforms that we need a new vision of reforms based on the reconsideration of the role of families and communities and also on the renewed role of curriculum and pedagogy. Schools alone cannot – contrary to conservatives' insistence – contradict class and disadvantage, and schools are not entirely responsible for "learning outcomes". Despite "conservative nonsense, parents, not to mention psycho-social, economic, and political conditions, structure (even if they do not fully determine) the child's capacity to study" (Pinar 2006: 186). Pinar also pinpoints against the grain of teaching and learning the "Lost World of Study" (ibid. 111; 188) that, ultimately, "study, not pedagogy, is the site of education". To teach and learn for the preparation for continuous study would mean optimal preparation for the present and future cultural, social, and economic challenges of genuine knowledge societies. Policy-makers will have to concede that innovation and creativity require different, more flexible conditions for learning, teaching, leadership and study than those that have prevailed in the managerial era of test-driven and data-obsessed educational reform.

4.5. Summary

After the restoration of their independence, the primary objective of all three Baltic states was to catch up to old Europe, both in terms of economic development and increasing well-being as well as promoting democratic social organization. However, the situation was different in the field of education. As we can see from the analysis of the education component of the Human Development Index (see Figure 1.2.4 and Figure 1.2.5 in Chapter 1), the Baltic states had already achieved a level similar to the rest of Europe both in terms of expected years of schooling and mean years of schooling for adults in 1980s. No significant disparities have developed in the field during the subsequent decades. Although PISA surveys were not conducted during the earlier decades of the period under observation, there is reason to believe that the Baltic states have been equal to the rest of Europe not just in terms of years of schooling, but also the level of knowledge in a number of fields (for example, natural sciences and exact sciences, but also overall reading). The Baltic states were "poor but educated". While the economic reforms have been (and are still) focused on increasing wealth (or, in the words of the party leading the current government coalition in Estonia, "making Estonia one of the five richest countries in Europe"), the challenges encountered in the field of education at the beginning of the 1990s were of a different nature. Although the content of curricula had to be changed in some fields (especially those related to the state and society), the main focus and energy was devoted to structural reorganization: taking care of the development and orientation of the curricula, determining the rights and obligations of various parties in the education process, restructuring the network of schools, etc.

Structural reforms in education in the Baltic states occurred during a time when education was being reformed globally with the aim of making it Bigger, Tighter, Harder and Flatter, as Tero Autio points out in his comments to this chapter. What was later named the BTHF strategy grew out of the global movement in the 1980s towards standardization and ranking, study results and scoreboards, testing and evaluating. This movement introduced the factors of increasing market regulation, competition and total quality assessment to the field of education. For the Baltic states, BTHF became the political and intellectual environment for education reform – it was a school of thought that served as a source of ideas and learning, which were adopted with enthusiasm. The Baltic states were definitely eager to introduce the globally dominant education paradigm, although at times their approach to the process might have been lacking in critical thinking. Many principles that are currently characteristic of the education systems of the Baltic states, especially the Estonian education system, stem directly from the BTHF paradigm: the ranking of schools based on state examination results along with the belief that these lists are what determine the quality of a school, the eagerness of universities to monitor their positions in the Times list, the Shanghai list and other rankings, the belief in the effectiveness of external quality assessment and the healing effect of learning outcomes, etc. In Estonia, BTHF was a perfect match for the emphatically liberal view of society that was dominant at the time when the reforms were implemented. In fact, the most heated education debates in the spring of 2011 were also related to the world of BTHF, be it the arguments for and against school entrance examinations, which are used by many schools to select the best candidates to enrol in the first grade, or the transition assessment in higher education, which is used as a means to measure the quality of education provided by different educational institutions and thereby regulate the field of education.

Walking in tandem with the rest of the world was an inevitability for the Baltic states. It is unlikely that, for example, we would have been able to adopt a course of educational development during the 1990s that differed significantly from the logic of BTHF. Estonia had neither the time (the reforms had to be quick and thorough) nor the capability (the local education policy elite was still in its developmental stage) for considering other approaches. The intellectual impulses for changes inevitably came from outside sources, rather than proceeding from local convictions and in-depth analyses of the local situation. At the same time, the ideological context of BTHF along with its pressure for market-based exaggerations and total belief in measuring probably helped the Baltic states speed up the transition process and made explaining the situation to the public less painful: this applies, for example, to the logic behind developing a pronouncedly diverse and autonomous higher education sector in Estonia. The Baltic states, having become more mature and self-aware, must now adopt a somewhat more critical approach to shaping the future of their education systems, including the process of entering the so-called post-standardization era, and pay more attention to their own distinctive historic and social characteristics. A substantial increase in mutual cooperation is also recommended for the purpose of achieving the aforementioned goal.

Can some common elements of the educational future in Baltic countries be envisaged? The answer is yes – as the cultural context and historical background of these nations is very similar, as well as in light of the content and format of the two decades of reforms, there is a good foundation for more substantial cooperation in the future. Joint degree programs in higher education, sharing the best practices in quality assurance in education, models and the experience of language immersion for minority schools – a number of joint Baltic challenges in the field of education are waiting for actors, promoters and new leaders.

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CHAPTER 5

Language space and human capital in the Baltic states

5.1. Introduction: language skills as a factor in human development

Triin Vihalemm, Maarja Siiner, Anu Masso

For the first time, the Estonian Human Development Report contains a chapter dedicated solely to language issues[27]. How are language competence, acquisition, attitudes and habits related to human development?

Language policy in the Baltic states has been widely discussed and analysed over the past 20 years; however, the main focus has been on the importance of national languages as part of the state formation and normalisation processes of the post-Soviet period. In the official language, the language of political discourse has therefore been perceived as a separate entity, and politicians have been worried about the life and survival of national languages. Language users and their reasons for using language in particular ways have been somehow ignored. Yet language has no existence separate from human beings and its main function is to fulfil language users' social and psychological needs (Jespersen 1964).

Languages are not only used to convey messages but also to (re)establish social norms, identities, values and power relationships. An individual's access to certain goods in society and to social mobility is dependent on both the individual's linguistic resources in general and on competence in certain languages with high status in a given context. For example, an increasing number of the decisions affecting the majority of the world's population are taken in English, creating an invisible border between the "world of the English-speaking haves and the non-English-speaking have-nots" (Phillipson 2001: 2). Knowing or not knowing English is becoming a new kind of functional literacy/illiteracy that has an impact both on people's personal prospects and on the human capital of countries.

It is, however, important to bear in mind that it is never language itself that has a high or low status: language gains its position and market value via the socio-economic position of its speakers, and the language policy activities that form its status in a given society. This position is therefore subject to change due to changing political and socio-economic conditions. The speakers of Estonian, Latvian and Lithuanian have, since the re-establishment of their independence, gained a good position in the local "linguistic market" (Bourdieu 1991), as speakers of national languages and official languages of the EU, in spite of their small number. A social space that functions in one's mother tongue is a valuable asset that gives speakers a certain "guaranteed" social capital compared to those to whom the national language is not their native language. The numerous Russian-speaking populations in the Baltic countries have lost this "guaranteed" position. Today, they have to learn Estonian, Latvian or Lithuanian, not as a foreign language but as a second language after their mother tongue. Foreign language learning differs from second language learning in its basic principles. While foreign language learning is never supposed to result in language usage comparable to a native's usage, second language use is always measured against the ideal of a native speaker's use of the language and will therefore always remain imperfect. While a foreign language is a means of exploring and getting to know the world *outside*, competence in a second language is an obligatory means of achieving a higher social status and gaining access to the labour market and education system *inside* the society of permanent residence (Risager 2003). Therefore, learning a second language also means that learners have to acquire new patterns of understanding and communicating as well as a new social identity, and they may feel that they are losing their "old" identity and habits (Kramsch 2002).

The adaptation of the Russian-speaking population to the new situation has been one of the most important challenges of language planning and national policy in the three re-established national states.

A survey conducted in the Baltic states in spring 2011 indicated that the knowledge of a second language and foreign languages has significant relations to the perceived quality of one's life and the social and economic positioning and expectations for the future, especially in Estonia (see Table 5.1.1).

The "development patterns" were different in each of the Baltic states. In Estonia, the knowledge of Estonian as the second language was statistically significantly related to self-estimated quality of life and social and economic status. In Latvia and Lithuania, such a connection was not

27 The preparation of Subchapters 5.1., 5.2., 5.3.1., 5.3.4., 5.5.1 and 5.5.3. was supported by grant No. 8347 of the Estonian Science Foundation. The editor and the authors would like to thank Tõnu Tender and Maie Soll from the Estonian Ministry of Education and Research for their kind help in providing data about language teaching at schools; Livia Ruszthy from the European Commission (EAC) for providing the database of the Eurobarometer survey "Europeans and their languages" (2005) and Gabrielle Hogan-Brun and Robert Phillipson for their suggestions for the improvement of the manuscript.

Table 5.1.1. The knowledge of languages as a factor affecting the quality of life, social and economic positions and expectations for the future among the populations of the Baltic states.

Relations found in regression analysis[28]. A plus sign indicates the statistical significance of relationships (+++ = p≤.001; ++ = p≤.01; + = p≤.05); a blank box indicates that there are no statistically significant relationships.

	How satisfied are you with the quality of your life?			How do you assess the economic situation of your household at present?			How do you assess the economic situation of your household in five years?			In which layer of society are you? (10 imaginary steps)			Do you associate your future and the future of your children with Estonia/Latvia/Lithuania?		
	Estonia	Latvia	Lithuania	Estonia	Latvia	Lithuania	Estonia	Latvia	Lithuania	Estonia	Latvia	Lithuania	Estonia	Latvia	Lithuania
Ethnicity		++	+			+++			+					++	+
Knowledge of national language *	+			+++			++			+					
Knowledge of English **		+++	+++		+++	+++		++	+++		+++	+++		+	
Knowledge of another foreign language **			++			+++		+	+			++			+

** Connections are similar for both the total population and the Russian-speaking population*

** * Connections for the total population. In the case of the Russian-speaking population, the statistical significance of the relationships is lower or there is no statistically significant relationship.*

Source: Baltic Human Development Survey 2011. Estonian Cooperation Assembly & TNS Emor

evident – assessments of people's quality of life and their position in society were differentiated by ethnicity, regardless of the knowledge of languages. This means that in Estonia inter-ethnic issues do not equate to language issues. The problems that need to be addressed are more specific and are related to population groups that have different (national) language capitalization. The problems related to learning and using Estonian have a very strong social security dimension, which requires a comprehensive analysis of the impact of language political interventions.

Table 5.1.1 also indicates that another socially differentiating factor is the knowledge of foreign languages, particularly English. In Latvia and Lithuania, the knowledge of English (and in Lithuania also the knowledge of other foreign languages) is related to people's assessment of their quality of life, social and economic position, and expectations for the future. In Estonia, the knowledge of languages alone does not have such a "direct" impact, i.e. it has to be accompanied by other favourable factors, such as age and education.

Therefore, language issues are related to the issues of human development of both individuals and the state. In the Baltic states, the knowledge of a language is an important asset that creates preconditions for self-realization and facilitates self-confidence and assurance.

The main focus of the present chapter is on whether changes in language competence, acquisition and habits aimed at language political interventions provide better access to social benefits and opportunities for participation in society and decision-making. Seen from this perspective, is there a need to adjust parts of the present norm- and protection-orientated language policy? How can we combine the creative usage of languages with the requirement to comply with standards? The aim of the following macro-sociological analysis is to identify problem areas that need to be analysed more profoundly and critically.

Policies and institutional structures may change quickly, while people's everyday thinking and behavioural habits are more inert. An attempt to change daily practices through political and institutional intervention is a complex art that has been learned by the Baltic states through trial and error. Models of linguistic integration used elsewhere are not particularly useful for this purpose, as each country has its own unique cultural, historical and socio-economic context. Comparative surveys and analyses are very welcome here to identify to what extent the individual Baltic states can learn from each other's language managerial practices. A valuable example is the volume by Hogan-Brun, Ozolins, Ramoniene and Rannut (2009), which provides comparative insights into the formation, principles and processes of Baltic language policies.

The current chapter of the Human Development Report offers sociological analysis of the language situation, focusing on the facilitating and hindering conditions contained in the economic and socio-cultural structures of the Baltic states. The present analysis, however, does not focus on the everyday practices of language use, since the analysis is mainly based on sociological and quantitative surveys that paint the picture of the language situation with "broader strokes". The few qualitative studies of everyday language practices cited in the chapter were included in order to identify the causes of problems and to suggest new hypotheses.

The analysis begins with an overview of the general socio-demographic and political context (Subchapter 5.2), which is used as a framework for the following country-specific overviews. Subchapters 5.3 and 5.4 analyse the dynamics of knowledge, usage and value of the Estonian, Latvian and Lithuanian languages as second languages. The analysis in Subchapter 5.4. on education reform is based on results from relatively new surveys, since the relevant analyses are in the initial stage and distributed mainly through specific institutional channels. The knowledge of the national lan-

28 Regression analysis makes it possible to establish a "pure" connection between two variables, such as the knowledge of language and quality of life, by controlling the impact of other factors, such as age, education and ethnicity.

guage as a second language is especially strongly related to the perceived quality of one's life and social coping in Estonia (Table 5.1.1). Estonia, rather than Latvia or Lithuania, is therefore the focus of the analysis of the processes, risks and opportunities related to the national language. Subchapter 5.5 provides a comparison of the knowledge and usage of foreign languages in the Baltic states and EU member states. What new challenges has the growing openness of the Baltic societies and their accession to the European Union brought about, and are the language competences and the adopted language planning strategies sufficient to meet these challenges? This analysis will focus on Lithuania, since the connection between competence in foreign languages and social and economic differentiation is manifested more clearly there (see Table 5.1.1).

Subchapters 5.3 to 5.5 have conclusions including issues that need to be discussed and recommendations for forming (sub)policies. In order to avoid repetition and to save space, the chapter does not have a general final summary. Instead, Subchapter 5.6 provides an outlook from the perspectives of two outsiders. The language situation in the Baltic states and the present and future challenges of the language-planning activities are outlined by Gabrielle Hogan-Brun, Senior Research Fellow at Bristol and Basel Universities and who, as the Director of the British Academy funded Baltic Language and Integration Network (2003–2007), ran several research projects on language processes in the Baltics; and Prof. Robert Phillipson, from the Copenhagen Business School, who has analysed language policy issues related to the supremacy of English in Europe. Both analyses indicate clearly that there is a need for more systematic comparative study of the effects of language political intervention on the matter of language. Moreover, broader cooperation between Estonian, Latvian and Lithuanian socio-linguists, social psychologists, educational scientists, sociologists and practitioners is needed to complete this task. The everyday language practices in the Baltics have received relatively little attention from scientists, and incentives from the states are needed to conduct micro-level interdisciplinary studies in this field.

5.2. Language and integration policies of the Baltic states in the EU context

5.2.1. Integration issues of the Baltic states in the EU context

Maarja Siiner and Triin Vihalemm

Immigration to Europe has long been non-selective by nature, in contrast to the "green-card" policies of the classic immigrant nations, such as Canada, Australia and the USA. Immigrants came from the empires or former colonies beginning soon after 1945 and the educational needs of children became an issue from the 1960s in such countries as the UK. However, integration became a hot issue in most European states about twenty years after the mass recruitment of "guest workers" began. EU policies are not legally binding in the areas of education, culture and language. There is no European directive on integration policy that compels member states to go in a particular direction but, rather, there are generally formulated basic principles established by the European Council (2004) and by such instruments as the "Handbook on integration for policy-makers and practitioners" (Niessen & Schibel, 2004). Since the end of the 1990s, many European countries, including the Netherlands, Denmark, Austria, Finland, Sweden, France, the United Kingdom, the Flanders region of Belgium and Germany, have introduced language teaching for migrants, which is always accompanied by civic courses and often also by courses in history and culture. In some countries, the courses are linked with a test and non-compliance is sanctioned in some way; in other countries, non-participation is sanctioned (Jacobs and Rea 2007; Hogan-Brun et al 2009b). In Danish, Dutch and German regulations, there seems to be a goal of acculturation and (linguistic) assimilation, which is articulated in the content of the integration courses, where newcomers are expected not only to know but also to respect or even obey cultural norms (ibid 10). Therefore, the Baltic language policy initiatives are no longer an "abnormality" in the European context.

Despite the large number of critical analyses, the Baltic states are generally seen as unique in the European context because of their integration and language policies resulting from their ethnic composition (Appendix 1, Table 5.2.1) and the Soviet-era Russification policies.

The share of the titular population is highest in Lithuania (Table 5.2.1). In Lithuania, the two main minority groups, Russians and Poles, are almost equal in number (Table 5.2.1). In Lithuania, the knowledge of the national language among linguistic minorities is better than in the other Baltic states (Table 5.2.2). The analysis below addresses the question of how the re-establishment of Lithuanian has been achieved in combination with supporting socio-demographic and political factors. Estonia and Latvia differ most from other EU countries in terms of their ethno-demographic composition (Appendix 1) and in the somewhat limited space of the functioning of the national languages. In Estonia and Latvia, approximately one-fifth of the population are not able to participate in the common social space, which means functioning in the national language, due to their insufficient linguistic skills (Tables 5.2.1 and 5.2.2). There are still Russian-medium sub-spaces in education, mass media, services, business, local government, etc. If we not only look at the knowledge but also at the real usage of national languages, the Russian-medium space is even larger, because the Baltic titular nations are unique in the European context in that they generally have a good knowledge of the main minority language, Russian (further in Subchapter 5.5).

At the end of Soviet rule in Estonia and Latvia, 14 and 21 per cent of Russians, respectively, reported having some command of the titular languages; of the representatives of other ethnicities, 12 and 18 per cent knew (some) Estonian/Latvian, respectively. In Lithuania, the situation was better: 33.5 per cent of Russians and 17 per cent of other ethnicities spoke Lithuanian (Druviete 1997). The situation has improved significantly, but in Estonia and Latvia national language competence among the Russian-speaking population is still lower compared with other Western European countries who host significant shares of immigrant minorities (Tables 5.2.1, 5.2.2).

5.2.2. Language policy initiatives in relation to social structure

Triin Vihalemm and Maarja Siiner

The linguistic policies of the Baltic countries, especially those of Estonia and Latvia, have been thoroughly explored in many publications, which explain the reasons for the emergence of a "thick" language policy in the Baltic countries (Hogan-Brun et al 2009, Rannut 2008, Schmid 2008, Galbreath 2006, Siiner 2006, Hogan-Brun & Ramoniene 2005 and Druviete 1997, to name a few). The integration problems of the Russian-speaking population have been discussed in even more numerous publications (Estonian Human Development Report 2007, Integration of Estonian Society: Monitoring 2008, Muiznieks et al 2010, Kasatkina 2007 and Potashenko 2010, to name a few of the most recent). Therefore, this subchapter draws schematically on the legal and institutional framework for language management in the Baltic states, together with an overview of the peculiarities of social structure and civic integration (see Table 5.2.3) in order to provide a context for the subsequent country-specific analyses.

In order to restore all functions of national languages, the Baltic countries have exercised "thick" and "control-orientated" policies (Spolsky 2002 and Siiner 2006). While a thin policy appears only occasionally in a few isolated regulations, the thick language policy explicitly appears in repeated laws and regulations, with agencies designated to carry out regulating functions (ibid). In the Baltics, the national language laws are supplemented by a number of amendments and by-laws, strategic documents and lower-level legal and normative acts that define the status, teaching and use of languages in the state. Language management is based on the view that the standard language is expected to be "unspoilt" and that the relevant institutions work to maintain and develop the standard language. For such a view of bilingual practices, code switching and borrowing may become a problem.

Lithuanian, Latvian and Estonian became official languages in the last years of Soviet rule, and that primarily "signalled the redistribution of power" (Rannut 2008: 427). New language laws which de-legalized Russian as an official means of communication and established professional linguistic requirements were approved in 1990, 1992 and 1995 in Lithuania, Latvia and Estonia, respectively. Systems of language requirements and control were established at the beginning of the 1990s in all three states.

Lithuania began to create and implement its state language teaching system at a very early stage, in 1990. Testing began in 1993 and the majority of adults managed to learn the language, pass tests and receive proficiency certificates by approximately 2003. Since 1992, graduates of upper secondary schools in the Republic of Lithuania have received certificates of sufficient knowledge of Lithuanian when they pass state examinations (Ramonienė 2006). Lithuanian is a compulsory subject in all schools; beginning in 2011, it is compulsory to teach some Lithuania-related subjects in two languages in the minority schools

Table 5.2.1. Share of non-titular populations in Estonia, Latvia and Lithuania, based on their ethnicity and mother tongue.

Percentage of total population;	Estonia	Latvia	Lithuania
Absolute numbers according to the last Census[29]	1,370,052	2,377,383	3,483,972
Share of people whose mother tongue is different from the national language	33 448,235	42 1,066,290	18 628,192
Share of people whose self-defined ethnicity is other than the titular nation	32	42	16.5
Main minority groups (> 1%) according to self-defined ethnicity	Russians 25.6 Ukrainians 2.1 Belarusians 1.3	Russians 29.6 Belarusians 4.0 Ukrainians 2.7 Poles 2.5 Lithuanians 1.4	Poles 6.7 Russians 6.3 Belarusians 1.2
Share of non-titular groups (> 1%) by self-defined mother tongue	Russian 29.7	Russian 37.5 Latvian 3	Russian 8 Polish 5.6 Lithuanian 1.3
Change in the share of titular ethnic group from 1989–2000/1	61.5 – 67.9	52 – 57.7	79.6 – 83.5
Change in the share of Russians from 1989 – 2000/1	30.3 – 25.6	34 – 29.6	9.4 – 6.3
Change in the share of other ethnic groups from 1989 – 2000/1	8.2 – 6.5	14 – 12.7	4 – 3.5
Change in the self-estimated competence in national language among total population 1989 – 2000/1	67 – 80	62 – 79	85 – 94

Data sources: 2000 census data in Estonia and Latvia; 2001 census data in Lithuania.

Table 5.2.2. Self-estimated knowledge of the national language by non-titular ethnic groups in selected European Union countries in 2005

Percentage of the whole ethno-linguistic minority group*	Able to communicate	Uses almost every day	Very good	Good	Basic
Estonian Russian-speakers	73	64	23	50	26
Latvian Russian-speakers	81	67	24	48	28
Lithuanian Russian-speakers	90	81	49	41	10
Lithuanian Poles	90	80	36	58	7
Minorities in the UK	88	85.5	64	26	10
Minorities in France	90.5	78	70	25	4.5
Minorities in Germany	90	87.5	45	49	6
Minorities in the Netherlands	83	74	68	32	0
Minorities in Sweden	91.5	89	72	26	2

** In this analysis, a minority group is comprised of people who reported their mother tongue to be other than the national language in the relevant state.*

Source: Eurobarometer 2005

29 The table uses the latest census data. According to the resident register data, the share of titular populations has increased.

(which do not use Lithuanian as a language of instruction).

Estonia and Latvia established strategic language teaching programmes and state-coordinated and financed teaching systems at a much later date: Estonia in 1998 (Tomusk 2010), the Latvian government took over the programme from UNDP in 2001 (Rozenvalds 2010), and the state programme of teaching Latvian as an L2 was launched in 1999 (Šalme 2006). Language management during the first decade of independence was mostly rule setting and controlling, with no systematic integration policy. In Estonia, an integration policy was drafted and the relevant institutions (ministries and the Integration Foundation) were established from 1997–2000; in Latvia, this was done somewhat later, at the beginning of the 2000s. At the beginning of the 2000s, programmes that aimed at a more holistically designed language environment in Estonia were developed and approved (i.e. the Estonian Language Development Strategy 2004–2010[30], and the Estonian Foreign language Strategy up to 2015).

The plan for switching over to Estonian/Latvian as the language of instruction in Russian-medium secondary schools was drafted in Estonia in 1993 and in Latvia in 1998, but in both countries it was later changed to a 60/40 requirement. The implementation process of the education reform has been much longer in Estonia: for political and pragmatic reasons, the deadlines were postponed (to 1997 and then to 2007) and now the switchover should be completed by the 2010/2011 academic year[31]. In Latvia, the Russian-medium schools had to teach at least 60 per cent of subjects in Latvian beginning in 2004/2005 (see Subchapter 5.4.3).

Latvia also uses a bilingual education model and some subjects are also taught in Latvian at primary school level (Priedite 2005). Estonia has adopted voluntary language immersion programmes at primary school level (see Subchapter 5.4.2).

Despite various differences in the time-schedules and methods of implementation of the reforms, the current situation in both states is similar: the secondary schools that earlier instructed in Russian are now required to teach at least 60 per cent of subjects in the national language. The increase in the competitiveness of young people of the linguistic minority in the labour market and in higher education institutions has been stated as the main purpose of the reforms.

Language management and ideologies are quite similar at the macro level in Estonia and Lithuania (despite variations in management details and timing), as are the secondary education policies, which both have the 60/40 requirement (to be discussed in the next subchapter). Latvia has also established a bilingual education system in primary schools, which may provide certain advantages in further language management. However, the linguistic (non-)integration processes are influenced by several structural factors, which vary to a certain extent in both countries.

Estonia and Latvia also differ in structural factors that shape the linguistic practices and integration in general. Many researchers have pointed out that in Estonia the non-titular population is spatially and socially more segregated than in Latvia. A large part of the Russian-speaking population is concentrated in north-east Estonia, where they outnumber ethnic Estonians. Therefore, they have very few opportunities to practice Estonian. This area also faces higher unemployment risks, as the previous employers, the Soviet-era industrial enterprises, have been only partly restructured to comply with the new conditions. At best, this socio-economic environment can provide mainly passive language knowledge. In Latvia, the most problematic regions are Riga and large industrial cities such as Daugavpils (Table 5.2.3). In Lithuania, the linguistic practices have also changed in favour of Lithuanian in places where Russian speakers constitute a majority (Subchapter 5.3.3).

The Russian-speaking population faces a higher unemployment risk compared to the titular population in all Baltic states, and an insufficient national language competence limits wage and career opportunities (Potashenko 2010, Hazans 2010 and Lindemann & Saar 2008). However, the socio-economic differentiation along ethno-linguistic lines seems to be highest in Estonia: according to calculations provided by Hazans, the ethnic pay gap was almost two times lower in Latvia than in Estonia during the period 2000–2004; occupational segregation is also greater in Estonia (Hazans 2010)[32]. In order to have equal opportunities for promotion, Russian speakers have to demonstrate a very good command of Estonian in writing skills (Lindemann & Vöörmann 2009, more in Subchapter 5.3.1). Therefore, language requirements and labour market developments are closely interconnected. On the one hand, this is likely to promote language learning in an effort to get equal opportunities but, on the other hand, strict hiring practices can also hinder linguistic development: the experience of Latvia has shown that the temporary liberalization of hiring requirements in periods of economic growth has had a positive impact on the linguistic practises there (Hazans 2010, more in Subchapter 5.3.2).

A Baltic survey conducted in 2011 indicates that the Russian-speaking population's subjective satisfaction with their current economic situation and personal economic optimism are slightly higher in Estonia than in Latvia and Lithuania: 66 per cent consider their situation as satisfactory or good (in Latvia and Lithuania 53 and 50 per cent, respectively). 37 per cent expect their (household's) economic situation to improve in the next five years (in Latvia and Lithuania 27 and 23 per cent, respectively).

Both Estonia and Latvia are characterized by an ethno-linguistically divided information sphere: the Russian-speaking population most intensively follows television broadcasts from Russia (Šulmane 2010 and P. Vihalemm 2007). In Lithuania, 65 per cent of Russian speakers watch TV or listen to the radio in Lithuanian; in Estonia and Latvia, this practice is more infrequent (44 and 46 per cent respectively)[33]. This strengthens the commu-

30 Followed now by a new version for the period 2011–2017

31 In spring 2011, several Russian-medium schools are demanding postponement of this requirement.

32 There are no relevant data on Lithuania

33 The calculations are based on the data from Eurobarometer 2005

Table 5.2.3. (Linguistic) integration and structural factors in the Baltic states: summary

	Civic integration	Educational arrangements	Language management	Inter-ethnic contacts	Geographical distribution	Labour market differentiation
Estonia	Earlier start compared to Latvia; lesser "vacuum" in legal status. Smaller number of non-citizens compared to Latvia, but more Russian citizens	60 per cent of subjects taught in Estonian at upper secondary level; planned* completion of switchover in 2011/2012; long process of implementation Language immersion programmes at primary level Some subjects taught in Estonian at primary level on a voluntary basis	First half of the 1990s: principal requirements and control system established 1997–1999: State-coordinated language training system and strategy created; integration programme approved, implementing institutions established. Preliminary language examination system changed in 1999 and 2008 Holistic development programmes concerning national language (including L2) and foreign languages	Social structure more separated. About 3 per cent of Estonians married to a non-Estonian**; 60–80 per cent of non-titulars have an Estonian friend or colleague***.	Russian speakers concentrated in the north-east (overwhelming majority in towns) and Tallinn (about half of the inhabitants)	Relatively high: occupational differentiation, equal career opportunities only in the case of the highest level of language proficiency. Unemployment risk higher among minorities. The non-titular population's subjective satisfaction with their current economic situation is relatively higher than in Latvia and Lithuania: 34 per cent evaluate their economic situation as bad, 66 per cent as satisfactory or good.
Latvia	The establishment of citizenship legislation took a long time. More people with undetermined citizenship compared to Estonia, but fewer Russian citizens.	60 per cent of subjects taught in Latvian at upper secondary level; completion of switch-over by 2007; short period of implementation At least two subjects taught in Latvian at primary level (from 1997); models of bilingual education 1999	First half of the 1990s: principal requirements and control system established Language training system created (1995–2001 under UNDP, later state-coordinated); Integration programme and implementing institutions at the beginning of the 2000s	Frequent contacts in private and professional sphere; 20 per cent of Latvians married to a non-Latvian**; 75–90 per cent of non-titulars have a Latvian friend or colleague***.	Less concentrated compared to Estonia, but in Riga and the big cities of eastern Latvia, the Latgale region, Russian speakers constitute a majority	Relatively modest: occupational differentiation less than in Estonia. Language knowledge corresponds with pay. Unemployment risk higher among minorities. Among non-titular population, 47 per cent evaluate their economic situation as bad, 53 per cent as satisfactory or good.
Lithuania	Zero-option	Lithuanian as a compulsory subject in all schools; from 2011, also compulsory bilingual education for some Lithuania-related subjects. Bilingual models for minority schools since 2001.	The regulations, testing system and reforms of the language teaching system were mostly completed in the first half of the 1990s.	Frequent contacts in private and professional sphere	Less concentrated than Estonia and Latvia, although most of the Russian speakers live in the cities	According to estimations, the gaps in salary and occupation are more modest than in Latvia and Estonia. However dissatisfaction with their economic situation is highest among the Russian-speaking population: 50 per cent evaluate their situation as bad; only 22 per cent of Lithuanians feel likewise

** Several Russian-medium schools in Tallinn and north-eastern Estonia applied for postponement of the switchover in spring 2011*

*** Different data sources: Estonian calculations are based on the 2000 census; Latvia – data of the surveys of Baltic Institute of Social Sciences*

**** Data about Estonia from Integration of Estonian Society: Monitoring 2010, data about Latvia from survey "Language" 2009*

nication barrier between two ethno-linguistic communities: the theoretical possibility that ability to follow the local media motivates language acquisition and usage has not been realized, at least in Estonia, for various reasons (Vihalemm 2002).

Although there is no directly comparable data, the existing research results (Potashenko 2010, Tabuns 2010, Vihalemm & Kalmus 2009, Vihalemm & Masso 2007 and Vihalemm 2007) suggest that there are four basic patterns of identity development regarding the Russian-speaking population in the Baltic states:

- ethno-cultural (minority) identity, which mainly refers to such commonly shared and distinctive cultural attributes as language and religion;
- emerging civic identity, which in Lithuania is based more on the combination of ethnic elements, but in Estonia more on the combination of territorial loyalty and local identity;
- diaspora identity, fed by Soviet nostalgia and the Russian imperial attitudes and world view;
- transnational, cosmopolitan identity, which is constructed on European or global references and is correlated with emancipatory values in Estonia and Latvia.

The interplay of native tongue and second language has a big impact on the formation of the first three forms of self-identification. The low integrative value of the second language in the eyes of Russian speakers can support the formation of ethno-cultural identity as a defensive minority identity, or strengthen the cosmopolitan, transnational identity as a kind of "escape identity". The increasing integrative value of the second language can support the formation of civic identity or create a civic dimension in the formation of ethno-cultural identity or cosmopolitan identity.

The above-mentioned processes are schematically summarized in Table 5.2.3. The next subchapter presents country-specific analyses of the process of coping with the formal and informal establishment of Estonian/Latvian/Lithuanian as a second language among the non-titular populations in the Baltics.

5.3. The implementation of language policy in the context of the integration of the Russian-speaking population

5.3.1. Language policy initiatives in Estonia and their influence on actual language use

Maarja Siiner and Triin Vihalemm

Dynamics of attitudes towards the Estonian language and the practices of inter-ethnic communication

During the first decade of the transition period, the task of dealing with the issue of language was delegated to individuals; the required supportive infrastructure was mainly developed during the second decade of the transition period (Table 5.2.3). Therefore, the essential communication to the Russian-speaking population concerning the necessity to learn Estonian was done mainly in a sanctioning and ideological way[34]. As is evident from Table 5.3.1, Estonia has been rather successful in convincing the Russian-speaking population that knowing Estonian is an important and almost inevitable means of social mobility. The "alternative routes" to competing in the labour market have not been very credible (Table 5.3.1).

Table 5.3.1. Beliefs about learning Estonian among the Russian-speaking population 1990–2008

Percentage of the Russian-speaking subsample*	1990*	1995	2005	2008
One needs to know Estonian first and foremost in order to get a good job	9	66	75	79
If you are a good specialist or if you are well-connected, you will get a good job regardless of your language skills	38	43	53	37
Once you know the Estonian language, it makes no difference whether you are an Estonian or not	29	49	64	23
Learning Estonian increases mutual trust with Estonians	–	–	68	38
So far, I have not had any problems with communicating only in Russian	65	56	ek	9

** Russian-speaking subsample refers here and further to respondents who answered the survey questionnaire in Russian*

*** The data from 1990 is comprised of the retrospective answers of respondents who participated in the 1995 survey. na – not asked*

Sources: Emor Ltd 1990, 1995; Survey "Me. The World. Media" 2005; Integration of Estonian Society: Monitoring 2008

Table 5.3.2. The use of languages by Russian speakers in communication with Estonians

Per cent of the Russian-speaking subsample	1995	2008
In Estonian	13	33
In Russian	51	34
In turns: Russian and Estonian (as well as English)	36	33

Source: Emor Ltd 1995; Integration of Estonian Society: Monitoring 2008

Edwards (1985) distinguishes between two types of motivation in learning the dominant language. The instrumental value of another language is mostly connected with perceptions regarding better achievement of personal aims so that language is acquired for rational reasons. The language of the dominant group can also be acquired for emotional reasons, springing from the desire to be part of another group (integrative or symbolic motivation) (see also Gardner 1985). The trend from 1990 to 2008, as presented in Table 5.3.1, reflects the fact that the Estonian language quickly gained labour-market value in the first half of the 1990s, although the alternative opportunities to gain a good job – favouritism, deficit speciality or well-developed skills – have been acknowledged in parallel. Integrative motivation[35] has risen gradually since the restoration of the Republic of Estonia, but it has currently been replaced by a more sceptical attitude. The conflict over the World War II Bronze Soldier monument and the economic recession are the most likely reasons for the decline in integrative motivation to learn Estonian.

The integrative motivation to learn and use Estonian – mutual trust and sense of community irrespective of ethnic/linguistic background – has declined considerably since 2005 (Table 5.2.3). The importance of integrative motivation in learning the second language (Gardner 1985) has also been confirmed by the findings of surveys conducted in Estonia: the better the knowledge of Estonian, the stronger the learner's integrative motivation (Vihalemm 2008, 2010). The lack of integrative motivation and having only a few direct inter-ethnic contacts may, on the other hand, have a negative impact on the Estonian language, leading to its pidginization[36] (Tender 2010).

Table 5.3.2 shows that there has been a significant shift towards the self-reported preference of the usage of Estonian at the expense of Russian. One reason for the change may be the poor knowledge of Russian among Estonian youth but also the higher status of the Estonian language in the public sphere.

Estonian linguists have expressed clear disappointment with the results of language political interventions so far. Rannut blames policy makers for slowing down language normalization because they focused on the accession to NATO and the EU (Rannut 2008). Tomusk (2010)

34 People have also interpreted proficiency in Estonian as an indication of personal excellence or laziness/lack of will; therefore, using Estonian conveys a message about the speaker's personal traits.

35 The integrative motivation is reflected in the statements "Once you know the Estonian language, it makes no difference whether you are an Estonian or not" and "Learning Estonian increases mutual trust with Estonians".

36 Pidginization is a process of linguistic accommodation in which speakers utilize an innate ability to simplify their language in order to communicate with people who do not share their mother tongue (Bryam 2004).

has stated: “Based on my 14-year experience in language inspection, I can say that we expected more from the Language Acts of both 1989 and 1995.”

Scientific evidence is still lacking on whether making the penalty system for those who do not comply with language laws more severe is the best way to regulate language usage. On the contrary, there are indications that the opposite is true – thick and control-orientated policies aimed at unifying complex language practices that are not in consensus with the official language ideology tend to work very slowly, as is the case in France and Israel (Spolsky 2002). The same tendency can be observed in Estonia, despite the certain historical and political differences between Estonia and the mentioned states. There are many people with a mainly passive knowledge of Estonian whose further linguistic integration is hindered by several historical-cultural, structural and political-ideological reasons, which the language law alone is incapable of solving. Those factors, discussed briefly below, have to be solved under the auspices of other forms of legislation.

Normative view of language and its influence on linguistic integration

As stated above, the language policy initiatives in Estonia have been guided by the normative and protective view of the national language. There is a tendency among Estonians to consider the incorrect use of the national language by linguistic minorities as a threat to the survival of the Estonian language and culture (Kõnno & Seliste 2005, Ehala et al 2006). The Russian-speaking population have, for their part, adopted the view that they should not use Estonian unless they speak it well, which has become a serious obstacle in linguistic integration in Estonia, reflected by the more critical self-evaluation of their competence in Estonian[37].

Influenced by the normative paradigm, the teaching of a second language in Estonia also used to give precedence to the symbolic code and to the graphic mode of Estonian, guided by the ideology that there exists a grammatically correct language norm that language learners can acquire and use separately and unspoiled from other languages they might know. But as a longitudinal study of the language acquisition and use of Danish among Turkish young people in Denmark (Jørgensen 2010) shows, this ideal bears little relationship to human language. Human beings do not use (separate) languages, but are involved in a purposeful activity that Jørgensen calls “languaging” i.e. they use the linguistic resources that are available to them to manage the social or communicational situations they encounter. Jørgensen therefore suggests that bilingual language practice should be considered an integration of elements or skills from each of the involved languages. Thus, there are features of the bilingual behaviour that do not belong to either language, but only to their combination – to poly-lingual practice.

Recent studies of code switching and contact-induced changes in the Estonian language used by Russian-speaking youth (Zabrodska 2008, Verschik 2009) also demonstrate that the acquisition of a second language is a gradual and dynamic process. Exhibiting different degrees of integration/phonetic adaptation and in-between realizations rather than items strictly attributable to one or the other monolingual variety, those studies predict the emerging of a variety of Russian with a mixed grammar, consisting of a combination of L1 and L2 grammars. At the same time, Estonian media, education and the vast majority of public arenas keep on stressing very strong monolingual norms, turning this quite normal and gradual linguistic adoption and absorption process into an abnormality that has to be fought. There are indications that this has strongly discouraged acquisition, especially in cases where it is complicated due to age, as well as social and demographic factors.

The area of second language teaching needs a conceptual makeover, involving the reconsideration of the claim of inseparability between language and ethnicity, which is an implicit and indisputable part of teaching Estonian as the first language. In the Soviet period, Estonian was in principle taught as a foreign language in schools for Russian-speaking children, as their future and social position, or job and education opportunities were in no way dependent on their competence in the Estonian language. There is, however, a considerable difference between foreign and second language teaching: while the first is a tool to experience and explore the world *outside*, the latter is an obligatory tool to come *in*: a key to a higher social status, job, education and mobility *inside* one’s own society (Risager 2003). Linguistic integration is not only about activating a standard linguistic code, but also, and especially, about redefining oneself and gaining a new social identity.

Structural factors

The situation in Estonian-language teaching and learning has now improved compared with the start, when acquisition of the Estonian language by Russians was restricted to reading and learning texts by heart (Vare 1998,1993). Today, the problem is not so much the lack of qualified teachers, course books or methodological material, but mostly that both Russian-speaking teachers and students lack communication experience with native speakers, especially in north-eastern Estonia, where the problem is compounded by spatial segregation, in which linguistic integration takes place at an even slower rate (Verschik 2005).

Social and spatial segregation (Subchapter 5.2.2) is one of the main reasons why Estonian instruction as a second language teaching strategy implemented in Russian schools has not brought about the desired results. The majority of high school and vocational school graduates from Russian-language schools do not have sufficient Estonian language skills to be competitive in the labour market or to continue their studies in institutions of higher education (Verschik 2004, 2005: 304, Rannut 2004). This, in turn, has led to ethnic gaps in employment, salaries and career opportunities (see Subchapter 5.2.2) The divided school system, both reflecting and fuelling socio-political segregation, has, on the other hand, supported assimilative strategies: a growing number of socio-economically advanced Russian-speaking parents send their children to mainstream Estonian-medium schools. This trend has brought about a number of unexpected challenges in the school system (see Subchapter

37 The self-assessments of Russian speakers in Estonia of their speaking, writing, understanding competencies are considerably lower compared to the self-assessments of Russian speakers in Latvia and Lithuania. For example, 45% of Russian speakers in Lithuania and 23% in Latvia assessed their knowledge of Latvian/Lithuanian as fluent but only 8% of Russian speakers in Estonia gave such a high evaluation of their language knowledge (Source: Human Development Survey 2011).

Table 5.3.3. Income, education, social status and subjective self-positioning among the Russian-speaking population, categorized by national language competence 100% in columns indicates all respondents estimated their language knowledge at the relevant level

	Does not know Estonian	Mainly passive knowledge of Estonian	Active knowledge of Estonian
Net monthly income per family member in 2011			
Higher ≥385 EUR	10	33	37
Lower ≤ 250 EUR	30	30	30
Education level			
Higher	0	18	37
Secondary	70	65	53
Primary	20	17	10
Social status			
Self-employed (entrepreneur etc.)	2.5	7	3
Top manager	4	3	4
Specialist, project manager, clerk, service staff	5	9.5	33
Manual worker	30	28	17
Student, pupil	9	8	18
Unemployed	12.5	19	9
Retired	30	22	9
Self-positioning at the imagined 10-level hierarchy of society in 2011[38]			
Higher (10th–7th level)	5	35	49
Lower (4th–1st level)	62	40	18

Source: Baltic Human Development Survey 2011

5.5.2), necessitating the formulation of appropriate educational policies to address the particular needs of teaching Estonian as a second language mentioned above, as well as in mixed first language settings.

The role of the national language in social differentiation and identity formation

Both objective data and subjective self-positioning show that competence in the national language among non-titulars is connected with higher social status and better pay opportunities compared to those non-titulars who have poorer command of the language. Therefore, the power elites have achieved, via language management, the desired goal: raising the status of the national language and creating operative reasons for its acquisition and active usage. However, this achievement has had some side effects. Some people may fall into "social closure": due to spatial or other types of structural separation, they lack the opportunity to practice the language and, due to insufficient language knowledge, they struggle to find employment or are offered lower paid jobs, which do not require high communication skills and where co-workers are usually similar people – non-titulars with poor knowledge of the national language. This may strengthen the feeling of personal inefficiency and hopelessness in general and discourage the acquisition process.

A good command of Estonian does not give the Russian-speaking population the same opportunities as ethnic Estonians to get a higher position or to be a part of the higher salary group – for that, one has to have very good writing skills (Lindemann & Vöörmann 2009). This situation indirectly demonstrates that recruiting and promoting practices are based on the ideal of grammatically correct standard language; other forms of language usage create distrust and give a good reason for the establishment of power relations (Vihalemm 2010). These practices can hinder integrative motivation (Table 5.3.3) and promote a suspicion that after language acquisition further acculturation will be demanded until they reach the "unacceptable low", such as changing one's surname (Vihalemm 2010). Russian speakers who are fluent in Estonian hold a rather pragmatic and even consumerist view of language acquisition (ibid). Following the simple model of acculturation offered by Berry (1992)[39], we offer the hypothesis that the instrumental-liberal view of linguistic integration may lead to "unwanted" results – separation or even marginalization, or cultural and linguistic assimilation.

In general, the Estonian language and integration policy has put acquisition of the state language at the core of integration, seeing it as the key to social mobility, higher status and participation in the democratic processes of the country. Although the last version of the Integration Programme 2008–2013 places significantly more stress on civic participation and the economic dimensions of integration than in the previous programme, the "language first" view is dominant in day-to-day political and general public discourse and activities. While the development of a normative and control-orientated language policy at the end of the Soviet rule was to some extent unavoidable (Hogan-Brun et al 2007, Smith 2003), it seems that it is no longer capable of addressing the challenges of the present and future in the context of globalization. As explained in Subchapter 5.2, Estonia is not the only nation-state in Europe struggling with these problems. The size of Estonia's population and the demographic composition of the inhabitants, however, make it difficult to adopt solutions that have been implemented elsewhere. Innovation in this area will likely come from initiatives at the grass-roots level, from language users.

5.3.2. Linguistic integration in Latvia

Svetlana Djackova

Dynamics of the knowledge and use of Latvian

Latvian language skills among non-ethnic Latvians have been gradually improving. In 1996, 41 per cent of Russian speakers in Latvia were monolingual, but by 2008 their share had diminished to 10 per cent. The share of people whose self-assessment of Latvian language skills corre-

38 The original wording of the question: "People are divided into different strata of society. It can be imagined as stairs – you can go up to the top and down to the bottom. The uppermost, tenth step represents the cream of society, the wealthiest and most influential people. The first and lowest step is for those who feel that they have been rejected by society. On which step (in which stratum of society) are you currently?"

39 Berry (1992) offers four models of acculturation as a combination of two criteria: does a person wish to develop contacts with the majority group and does he/she wish to maintain his/her (minority) group identity? The four options, respectively, are: integration (contact with other group, with maintaining identity), assimilation, separation (strong minority identity contacts with the majority avoided) and marginalization (cultural contact with both groups avoided).

sponded to the highest or intermediate level of language proficiency[40] has increased by 29 per cent during the same time period (Figure 5.3.1). Today in Latvia, more than half of those with a different mother tongue are able to speak in Latvian at the highest or intermediate level. The knowledge of Latvian is higher among young people – 73 per cent of respondents aged 15 to 34 reported the highest or intermediate level of language knowledge.

The share of people with a high or intermediate level of language knowledge particularly increased between 2004 and 2008 (see Figure 5.3.1). This rise has been explained by the ethno-linguistically more liberal hiring standards due to the preceding economic boom: Hazans (2010) argues that, in the short term, the representation and quality of usage of Latvian became worse, but in the medium-term perspective the liberal hiring standards resulted in improved Latvian language skills, because they offered a chance of employment in the Latvian-language environment and increased inter-ethnic contacts (Figure 5.3.2).

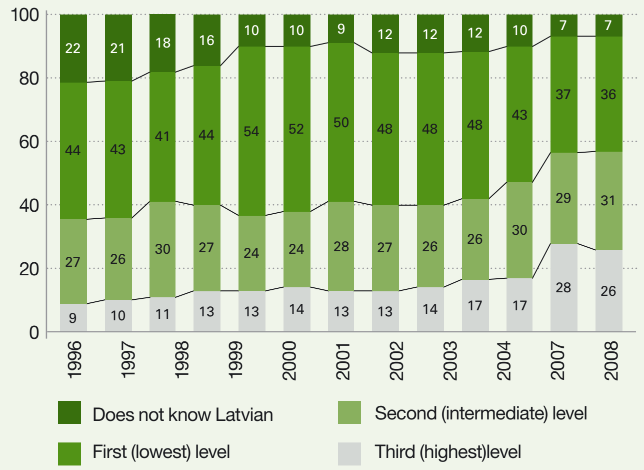
The asymmetrical bilingualism promoted by the Soviet policy has been declining gradually, partly due to the improving competence in Latvian but also due to a decrease in Russian-language skills among young ethnic Latvians: only 54 per cent of young ethnic Latvians assessed their Russian language as good, 38 per cent possessed a poor language knowledge, and only 8 per cent could not speak Russian in 2008. There is less probability that English will become a language of inter-ethnic conversations in Latvia compared to Estonia, as Latvian language skills among minorities are considerably higher than their English language proficiency (see Subchapter 5.5.1).

The Russian language was still recognized as a language of inter-ethnic communication in Latvia in 2009. Most Russian-speaking respondents claimed that in state and municipal institutions everything was conducted only in Latvian (47 per cent) or mainly in Latvian (36 per cent) (Ministry of Education and Science 2010). But at the same time, 62 per cent of Russian speakers stated that over the last 5–6 years they have not faced a situation in which they would not have been provided service in the Russian language in an institution or a shop; 21 per cent faced such situations sometimes and 3.5 per cent often (Ministry of Education and Science 2010).

The share of ethnic Latvians who believed that a good command of Russian was important rose from 62 per cent in 1997 to 73 per cent in 2008. Frequent inter-ethnic contacts (Table 5.2.3) may explain the high evaluation of Russian and also its actual usage. Quantitative and qualitative analyses showed that the number of Latvians who favoured a switch to Russian was growing, including among the younger generation, i.e. Russian and Latvian recruits in the Latvian Army tended to use Russian more often by the end of the recruitment period (Priedite 2005).

The increase in the usage of Latvian is most remarkable in the professional sphere: the share of people who spoke only Russian or spoke more Russian than Latvian at their workplace has decreased (Figure 5.3.2). "Language" monitoring reveals that at workplaces the mixed usage of Latvian and Russian has increased and monolingual communication (either only in Russian or only in Latvian)

Figure 5.3.1. Knowledge of Latvian (summary of index of knowledge, percentage of respondents whose native language is not Latvian)



Source: Monitoring survey "Language" 1996–2008, Baltic Institute of Social Sciences & Latvian Language Agency

has diminished (Hazans 2010). Therefore, the change of linguistic practices among Russian speakers has also demanded more frequent code-switching from Latvians.

Although 29 per cent of non-titulars had Latvians as family members (BISS[41] 2004), only 9 per cent spoke predominantly Latvian at home (Figure 5.3.2).

Moreover, a survey on attitudes towards the Latvian language conducted by BISS in 2010 indicates that the prospect of having better access to education and employment are the main motivators for improving linguistic skills: 64 and 58 per cent, respectively, mentioned that they needed Latvian in order to get an education and/or to find a job. The possibility that in some situations a conversation partner might not know Russian was acknowledged by half of the non-titulars (46 per cent mentioned the need "to understand what other people say if they do not speak Russian").

The integrative motivation to know Latvian was less widespread: only one-fourth of non-titulars mentioned that they needed Latvian in order to make contact and become friends with Latvians; the sense of being a part of Latvia was very rarely mentioned (by only 8 per cent).

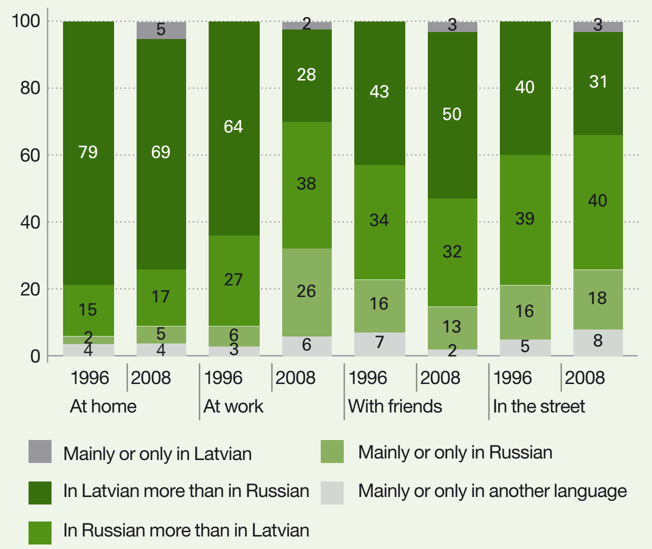
Therefore, the patterns of informal or semi-formal communication did not create sufficient "natural" reasons for using or improving the knowledge of Latvian. In the opinion of the non-titular inhabitants of Latvia, the factors that facilitated the more frequent use of Latvian were Latvians speaking Latvian with minorities together with the self-initiative of non-Latvians and the provision of a friendly environment (BISS 2010).

The concentration of the Russian-speaking population is highest in the capital city, Riga, and in two towns, Daugavpils and Rezekne, in the region of Latgale, where ethnic Latvians constitute a minority. The improvement in language proficiency has been uneven there: while in Riga the share of people with a high or intermediate level of profi-

40 In this survey, respondents were asked to give a personal assessment of their Latvian language skills in speaking, reading and writing. The questionnaire included multiple choice answers that correspond to language proficiency levels. The common indicator of language proficiency was obtained by calculating the mathematical average of the answers given by the respondents.

41 Baltic Institute of Social Sciences, here and in the following BISS

Figure 5.3.2. What language do you speak …? (per cent of respondents whose native language is not Latvian)



Sources: Baltic Institute of Social Sciences, Latvian Language Agency, Language report, March–April 2008

ciency in Latvian increased by 30 per cent between 1999 and 2008, in the Latgale region the rise was only about 10 per cent (data of BISS). This can be partially explained by the peculiarities of the labour market (in Riga, there are more attractive jobs that demand good communication skills), but also by socio-demographic factors (education and age). At the same time, in the Latgale region Latvian is used in communication with local administrative bodies and in written business communication more frequently than Russian (Kļavinska 2009). Also Latgalian, which is an historical variant of the Latvian language, is used to some extent (ibid.).

Language attitudes and identity formation

The general attitude towards the Latvian language has remained positive, although there was a certain backlash in 2002–2004 in connection with the protests against minority education changes (Subchapter 5.4.3). According to the BISS language report of 2008, 94 per cent of Russian speakers considered knowledge of Latvian very important or important.

Language issues in general seemed to be signified in more instrumental terms among non-titulars compared to ethnic Latvians. When the Russian-speaking population protested against the education reforms (Subchapter 5.4.3), the main concerns were related to academic advancement, not with identity. Nearly two-thirds of Russians and other non-titulars did not consider their ethnicity important and they did not raise concerns about identity loss (BISS 2010). Considering that the symbolic value of language is connected with the feeling of group-belonging (e.g. Anderson 1983), the indifference of Russians towards identity issues makes it difficult to communicate to the Latvian Russians the concerns of the Latvians about the vitality of Latvian as a symbol of their ethnic identity.

In general, the position of the Latvian language has strengthened in Latvia in terms of significant improvement in the Latvian language skills of the non-titular population, especially among young people. Although the patterns of language use are changing quite slowly, the increase in the usage of Latvian has occurred primarily at work, in communication with state bodies. At the same time, the Russian language is also likely to remain quite a widely used language, particularly among the elderly and middle-aged people. In the long-term, inter-ethnic communication among young people may occur predominantly in Latvian due to the increase in Latvian language proficiency among minorities and the constantly decreasing level of Russian-language skills among young ethnic Latvians. The poor (and declining) knowledge of Russian is acknowledged relatively often as a need to know Latvian among the non-titular population.

The issue of the extent to which the legal acts and language proficiency requirements have promoted Latvian language proficiency has been the subject of continuing debate. While state authorities and some experts believe that Latvian language use has expanded due to the regulations in the law (Ministry of Education 2010), econometric studies of the labour market suggest that the improvement in Latvian language skills in all age groups of the population was to a large extent caused by the labour market liberalization during the period of economic growth (Hazans 2010). Given the continuing disadvantages of minorities in the labour market due to the Latvian language barrier, it is important that the language proficiency requirements, particularly in the private sphere, do not cause significant obstacles for employment. The list of more than 1000 professions and the required levels of language proficiency in private employment should be reviewed to assess the extent of "legitimate public interest" in more detail. Moreover, there is a need to continue and widen language-training activities, particularly for socially disadvantaged people, in order to facilitate the integration of society.

5.3.3. Adaptation to Lithuanian as the second language among minor ethnolinguistic groups

Meilute Ramonienė

Language competence and attitudes

By the time of the restoration of independence in 1990, the Russian language was considered to be the first language by 59.5 per cent of Belarusians, 49 per cent of Ukrainians, 14.5 per cent of Poles, and a small number of Jews and other ethnic minorities who used it in both public and private life (Vaitiekus 1992). Minority groups who did not speak Lithuanian or did not speak it well enough to use it confidently were mainly living in certain areas in the biggest cities of Lithuania with higher concentration of minorities. After Lithuania regained political independence, the majority of the ethnolinguistic minority population were able to acquire citizenship due to the "zero option", which generated an overall positive attitude towards linguistic integration amongst the minority groups. Russian speakers have increasingly become bilingual or multilingual. Poles have re-discovered the Polish language and an increasing number have switched their language choices in favour of Lithuanian, and many Poles have become multi-lingual, with proficiency in Polish, Lithuanian and Russian (and sometimes Belarusian). The vast majority of adults from the communities of ethnic minorities who need Lithuanian in their work settings have already passed the state examinations and received certificates indicating their proficiency in Lithuanian (Ramonienė 2006).

Without a doubt, the opportunity to use Lithuanian in everyday life, both in the private and professional spheres, provides valuable support to language learners and improves the general level of proficiency in Lithuanian. Lithuanian also tends to be used as the home language in communication with the youngest family members, such as children or grandchildren.

The overall attitude towards the titular language has changed considerably amongst the ethnic groups of Lithuania since 1990. The attitude towards Lithuanian has become very positive. Research data from the largest cities shows that integrative motivation stimulates the learning of the Lithuanian language (Table 5.3.4).

Table 5.3.4. Reasons to know Lithuanian among non-titulars in the largest cities (%)

Why it is important to know Lithuanian	agreed %
Citizens of Lithuania have to know Lithuanian	67
In order not to be cut off from the society	35
In order to be treated equally	29
In order to be accepted by the society	20
Other	3
Did not indicate	0.4

Source: TNS-Gallup, 2008/2009

Linguistic practices in ethnically heterogeneous cities

Remarkable multilingualism can especially be observed in the biggest cities. Among the pupils at primary school level living in cities, 37 languages are reported as home languages. The share of people not knowing Lithuanian is 1 per cent or less in the ethnically most heterogeneous cities of Vilnius and Klaipėda (Ramonienė 2010)[42].

The usage of Lithuanian is more frequent in Klaipeda because the number of non-ethnic Lithuanians is smaller in comparison to Vilnius. In Kaunas, which is a very Lithuanian city, Russians use more Lithuanian than Russian in all public and semi-public spheres (Table 5.3.5).

Table 5.3.5. The usage of Lithuanian by Russian speakers with different partners and in different situations (%)

Usage of Lithuanian	Vilnius 42.5 per cent of non-ethnic Lithuanians		Klaipėda 28.7 per cent of non-ethnic Lithuanians		Kaunas 7.1 per cent of non-ethnic Lithuanians	
	Often	Sometimes	Often	Sometimes	Often	Sometimes
Speaking with neighbours	41	39	54	42	90	10
Speaking with friends and acquaintances	43	35	51	38	76	20
In the service sector	71.5	20	77	18	94.5	5.5
In medical institutions	69	17	75	19	94	5.5
In administrative institutions	73	14	76	15	91	8
Writing	51.5	33	39	40	65	27.5
Reading books	28.5	32	24	33	50.5	28
Reading newspapers, magazines	48	33	38	39	62	28
Listening to the radio	43	42	47	41	64	26
Watching TV	56	36	55	39	73	25
On the Internet	37	15	31	18	40	15

Source: TNS-Gallup, 2008/2009

A special interest in a change in linguistic practices is apparent in the city of Visaginas, which was established in 1975 with the primary purpose of providing accommodation for the Ignalina nuclear power plant workers and their families. Lithuanians constitute just 15 per cent of the total population of the city; the remainder belong to 40 different nationalities that mainly speak Russian. Most of the people who settled in Visaginas during the Soviet times were highly educated professionals whose children also attained higher education. While Visaginas was a Russian-speaking city in the Soviet time, the sociolinguistic situation has rapidly changed in favour of the Lithuanian language since the restoration of independence. The importance of Russian is gradually decreasing in the public sector; it is mainly used in the private sector. It is compulsory to know and use Lithuanian at work. The number of Russian-medium secondary schools and pupils attending them is decreasing, with some Russian-speaking families sending their children to Lithuanian primary schools and Lithuanian kindergartens. Most likely, this is due to a desire for higher education: more than 65 per cent of secondary school graduates from Visaginas continue their studies in institutions of higher education (Konickaja 2009). One explanation for this relatively quick change of linguistic practices may lie in the level of higher education of the inhabitants of Visaginas: general learning skills and the motivation to maintain the previous social status may have made the acquisition of Lithuanian more effective.

The teaching of Lithuanian as a second language

Comprehensive reform of the teaching of Lithuanian as a second language has been carried out in schools and adult teaching institutions to ensure a coherent approach. In 1990, the new Department of Lithuanian Studies at Vilnius University was established with the main goal of developing a new methodology and materials for teaching Lithuanian as a second language. In 1995, the specialists from this department, in cooperation with experts from the Council of Europe, developed the "Specifications of Lithuanian as a Second Language", which are in compliance with the Council of Europe levels of language proficiency and the "Common European Framework of Reference for Languages"[43]. "The Threshold Project", supported by the Council of Europe, produced curricula, textbooks and language tests for both schools and adult teaching institutions. An overall concept for the teaching of Lithuanian as a second language was developed, which included revising the content of learning according to the requirements of the changing society. Supported by the Open Society Fund, from 1996–2006 a team of university and schoolteachers developed a set of new textbooks for all grades of non-Lithuanian schools.

The 20 years of reforms have produced substantial results. Ethnic minorities, both school students and adults, have been learning Lithuanian effectively. The only obligatory examination is Lithuanian as a Second Language for Minority Students. In general, pupils whose mother tongue is other than Lithuanian are prepared to

42 Source: Language Use and Ethnic Identity in Lithuanian Cities, carried out in 2007–2009.

43 Common European Framework of Reference for Languages: Learning, teaching, assessment 2004. Cambridge University Press.

continue their higher education studies in Lithuanian and to use Lithuanian in all spheres of life.

The main minorities in Lithuania (Russians, Poles and Belarusians), according to the Law on Education, can enrol their children in Russian, Polish or Belarusian-medium primary or secondary schools, or choose Lithuanian-medium schools. Schools of linguistic minorities follow the general curricula for general education approved by the Ministry of Education and Science, which includes such subjects as mother-tongue instruction (in the same proportion of the school day as in Lithuanian mainstream schools) and Lithuanian as a state language. All the textbooks of Russian and Polish language and literature for grades 1–12 are published in Lithuania. Other textbooks are translated from Lithuanian.

Currently, there are 36 Russian-medium schools (2.6 per cent of all schools) and 62 Polish- medium schools (4.5 per cent); 54 schools use several languages (Lithuanian, Russian and Polish) and one school has Belarusian as the language of instruction[44]. The share of pupils studying in Lithuanian-medium schools increased from 82.4 to 92.8 per cent from 1990–2010. The share of pupils attending Russian-medium schools declined from 15.3 to 4 per cent during the same period. In order to enable children to master the titular language, parents from the ethnic communities have increasingly begun to send their children to Lithuanian schools. Poles are an exception in this regard: the share of pupils in Polish schools has increased from 2.3 to 3.4 per cent and new Polish schools have been established since 1990. However, in the past decade, the number of pupils in Polish schools has decreased due to lower population growth and an increasing inclination to send children to Lithuanian schools.

Different adaptation strategies of Lithuanian Poles and Russians

During the past 20 years, Lithuania's largest ethnic minority communities, Russians and Poles, have, on the whole, been well-disposed towards their own integration into Lithuanian society, yet they tend to display different adaptation strategies (Kasatkina & Leončikas 2003).

Poles, who live predominantly in the south-eastern region and in Vilnius, and who largely adopted the Russian language in the Soviet time, are now keen to retain their ethno-linguistic distinctiveness and to emphasize their links to the Polish tradition (Juozeliūnienė 1996: 200). The relatively tight-knit Polish community has attempted to foster Polish identity and ethnic origin traditions in a variety of ways, including sending their children to Polish schools. While in Soviet times Lithuanian Poles tended to use Russian rather than Polish as their language of communication and send their children to Russian schools, currently they prefer Polish or Lithuanian-medium schools (Hogan-Brun, Ramonienė 2005: 434–436). Most of the Poles in Vilnius use all three languages (Lithuanian, Russian and Polish) on a daily basis. Their identity is multifaceted, as is typical in borderline areas and with people exposed to the juncture of different cultures. The living space (Vilnius and Lithuania) seems to offer a certain umbrella identity.

A somewhat different trend can be observed in the case of the Russian minority. Russians living in cities display less group cohesiveness. Sociological studies suggest that Russians tend to be politically more passive and less integrated into civil society than Lithuanians or Poles (Kasatkina & Leončikas 2003). Many Russian families have sent their children to Lithuanian-medium schools, as shown above.

Despite the different strategies of Polish and Russian families, sociologists have noticed that both young Russian and Polish people tend to easily and effectively assimilate into the Lithuanian ethnic majority (Leončikas 2007). The assimilation tendency among young Poles may be (partly) explained by the fact that after graduation from Polish-medium schools very few pupils continue their studies in institutions of higher education in Poland; most of them pursue their studies in Lithuania (Smok….2010; Ranking….2009).

5.3.4. Conclusions: linguistic integration and the establishment of Estonian, Latvian and Lithuanian as second languages

Triin Vihalemm and Maarja Siiner

Linguistic integration is at the centre of the integration policy in the Baltic states – sometimes being equated with it. Introducing a common language after regaining independence was seen as a necessary tool to normalize the situation after decades of Russification and one-sided bilingualism. Lithuania has demonstrated the best results in the linguistic and social integration of non-titular populations among the Baltic states, generated most likely by the combination of such favourable factors as its ethnic composition and a better "starting" level of the knowledge of Lithuanian (Subchapter 5.2.1). However, as discussed above, the early and appropriate rearrangement of the system of teaching/learning Lithuanian as a second language has definitely been of utmost importance in achieving the quick changes in linguistic practices, even in places where the titular population is in the minority.

The most important outcome of language management has been an improvement in competence in Estonian/Latvian and some shift towards the more frequent usage of those languages in inter-ethnic communication, especially in the professional sphere. However, both Estonia and Latvia still face the challenge of further changes in linguistic practices.

In Latvia, the share of the non-titular population is higher and the position of the Russian language is stronger than in Estonia. Although established job requirements, rearrangement of minority education, adult language training and control have significantly increased the knowledge of Latvian, the linguistic practices of both Russian speakers and ethnic Latvians have been quite slow to change: despite a clear decrease, Russian is used rather extensively in semi-public and private spheres and its usage in inter-ethnic oral communication in the public sphere is seemingly not often seen as a problem. Although inter-ethnic marriages are seen as a sign of a *vouloir vivre ensemble* according to the Council of Europe's integration measurements, since they reveal a rapid absorption of immigrants, the Latvian experience shows that families are not the strongest agents in linguistic integration (but certainly may support other dimensions of integration).

Paradoxically, the liberalization of the linguistic requirements in the labour market may have a positive effect on active language competence, as it provides opportuni-

44 There are mixed schools in small towns or villages with separate classes with different languages of instruction.

ties to practice the language. While structural segregation is weaker in Latvia than in Estonia, the labour market and career opportunities may start to gradually work as incentives for (further) language acquisition and usage: once access has been gained, the next steps seem to be attainable. The development of bilingual education at primary school level is an important factor here, as it will enable youngsters who are interested in quickly entering the labour market to get a job and start practising Latvian outside the classroom.

In Estonia, where socio-economic and spatial segregation is stronger, official language requirements may be reinforced unofficially and the ideal of a single, "right" and standard language offers a good basis for symbolic boundary making. This, in turn, de-legitimizes the idea of successful integration via the Estonian language for the non-titular population, a factor that has become especially critical due to the economic recession. This may strengthen the desire of more talented or entrepreneurial Russian speakers to leave Estonia: about 40 per cent of Russian-speaking youth wish to leave Estonia (more in Subchapter 5.4.2; see also Aptekar 2009). Therefore, the elite will be "thinner" in the future and there will be more pressure to import a qualified workforce (which, in turn, will strengthen the position of English as a means of communication between managers and specialists). Language competence also means communicative competences and integrative motivation to use these skills, which can only be achieved in actual communication, with the help of partners who are interested in communicating with each other and whose relationships are more or less free of tension.

Estonia should more seriously consider what to do with the economically deprived, mainly Russian-speaking and spatially isolated part of its population, for whom the current language and education policy and integration ideology obviously do not work. It is not realistic to hope that this group will gradually "become extinct", because the mechanisms of the socio-cultural reproduction of such a lifestyle and ideology have already begun to function. Therefore, Estonia faces the problem of many western European cities that have notable socially and economically marginalized immigrant communities.

Here, an important means is general education, which is rather "democratic" in Estonia: pupils' language knowledge does not currently depend on their parents' socio-cultural capital (Subchapter 5.4.2). However, Estonian-medium instruction at secondary level may no longer help: pupils from lower strata (monolingual) families may not attend secondary school. Therefore, the effectiveness of language teaching/learning at primary school level is crucial in order to avoid the deepening of ethnolinguistic social polarization.

5.4. Minority education in the context of language and integration policy

The education system is intertwined with language political interventions. The basic characterization of the educational arrangements connected with the teaching and learning of Estonian and Latvian as second languages is described above (Subchapter 5.4.2). The course of the education reform and the different models of bilingual education have been thoroughly explored by Hogan-Brun et al (2009). This Subchapter aims to explain the risks and opportunities of national language teaching and the transition to instruction in the titular language in the former Russian-medium schools in Estonia and Latvia. The analysis will focus on about a fifth and a fourth of all Estonian and Latvian pupils, respectively, who currently learn in minority schools and streams[45].

5.4.1. Estonian as a second language – as a separate subject and as a medium of instruction in the Estonian general education system

Anu Masso and Katrin Kello

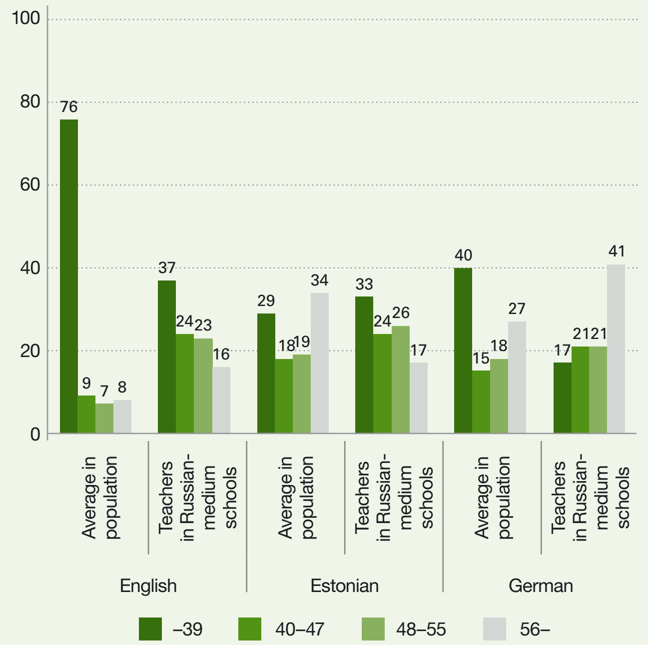
The implementation of the transition to teaching as a second language

In Estonia, the changeover to Estonian as the language of instruction in secondary schools should be completed by the 2011/2012 school year. Estonian-medium teaching is not compulsory in basic schools, but many Russian-medium schools offer one or more subjects taught in Estonian. In addition, the state has supported the implementation of language immersion programmes, which follow the example of the Canadian French immersion model. Approximately one-fifth of non-titular pupils currently either take part in an immersion programme or learn Estonian in depth at the basic school level (Estonian Ministry of Education and Research).

In Europe as a whole and in other Baltic states, different versions of bilingual teaching are used, including a concurrent use of two languages in the classroom (see e.g. Housen 2002). In Estonia, a bilingual approach in the latter sense is not recommended, and "content and language integrated learning" is preferred as a term referring to the classroom level. The officially declared principle is that the teacher should persist in using Estonian as much as possible, using Russian only as a spontaneous secondary aid, according to the pupils' lack of comprehension: "The aim of the transition is Estonian-medium instruction; hence, bilingual lessons are not the solution" (Estonian Ministry of Education and Research). Both at the basic and upper secondary levels, mostly Estonian-medium learning materials should be used when instructing in the Estonian language, by combining the same textbooks as used in Estonian-medium

45 Legally, and within the present chapter, these minority streams are considered together with minority schools – i.e. pupils attending the Russian streams are required to have the same amount of Latvian/Estonian-medium instruction as pupils of "pure" minority schools. The number of pupils has decreased in the past twenty years, both because of demographic changes and because many minority parents send their children to titular language schools. Both in Estonia and Latvia, the share of pupils studying in Russian-medium schools has decreased by 14–17 per cent since the Soviet period (for Lithuania, see Subchapter 5.3.3).

Figure 5.4.1. Language proficiency by age among teachers and the average among the Russian-speaking population



Source: data about teachers: project "The Russian Child in the Estonian General Education School"; data about Estonian population: the project "Me, the World, and the Media" 2008. Language teachers, except for Estonian language teachers, were excluded from the survey sample

Table 5.4.1. Pupils' proficiency in foreign languages by background variables (association coefficient Cramer's V)

	Estonian	English	Other
Citizenship	.155**	.136*	.117**
Gender	.114*	.108*	.071
Advancement	.341**	.217**	.099
Mother's education	.104	.190**	.088
Father's education	.096	.144**	.102*
Location of school	.050	.137**	.143**
Amount of Estonian language instruction in basic school (standard curriculum or bigger number of lessons of Estonian/ language immersion)	.151*	.167**	.149**

** p≥.01*

*** p≥.001*

Source: Project "The Russian Child in the Estonian General Education School" 2009

schools with specifically designed worksheets and other materials, such as subject-specific dictionaries. Teachers are also expected to adapt or create additional facilitating materials by themselves, in order to meet the pupils' needs. However interviews and conversations with teachers reveal that many teachers have not yet accepted this new creative task as part of their job, and there is a diversity of interpretations about what is officially envisaged. Sometimes, the interpretations seem to be more restrictive than are the actual official positions – including the myth that *any* usage of Russian (mixing of languages) is either detrimental or officially not allowed in an Estonian-medium lesson.

Therefore, there is a need for systematic and two-way communication of the requirements and opportunities of Estonian-medium teaching, including the provision and discussion of different models, method descriptions and materials designed specifically for pupils in transition areas including a variety of approaches that the teacher could choose and adapt for particular pupils. Also, collegial support is crucial in the process of transition.

Indeed, a survey[46] revealed that according to the opinion of teachers in Russian-medium schools, the best way to facilitate the implementation of Estonian-medium instruction was cooperation with teachers of the Estonian language (93 per cent agreement), with other subject teachers teaching in Estonian (89 per cent), as well as cooperation with other schools (79 per cent).

Conditions of change: Language proficiency in Estonian Russian-medium upper secondary schools

According to the prescript of the Estonian Ministry of Education and Research, all basic and secondary school teachers should at least have Estonian-language proficiency according to the European common reference level B2, but the language proficiency of teachers of Estonian and those who teach a subject in Estonian must be at the higher level of C1, so that they are able to understand long and complex texts and express themselves "fluently and spontaneously without much obvious searching for expressions". In 2009, 56 per cent of the teachers in Russian-medium schools (except for teachers of Russian and foreign languages) reported having more or less fluent knowledge of Estonian, which could enable them to teach subjects in Estonian. A similar share of teachers either had taught or were teaching a subject in Estonian (37 per cent) or intended to do so in the future (20 per cent).

Figure 5.4.1 shows a comparison of the self-estimated competences in the foreign languages of teachers and the Russian-speaking population in general, according to age. The results show that the knowledge of languages among the youngest teachers (up to 39 years old) is below the average, in contrast with the older generation of teachers, who received their education during the Soviet time. In the middle age groups (40–55), language proficiency among teachers is slightly higher compared to the general population. Among teachers themselves, the younger generation still performs better in Estonian and English (association coefficient between variables, Cramer's V = .255 and .230, p ≤ .001).

A statistical analysis of the association of language proficiency with the main socio-demographic variables among teachers revealed that, compared to pupils, the proficiency in the Estonian language among teachers was more heterogeneously spread, but still the geographical location was an influencing factor (coefficient Cramer's

46 If not noted otherwise, the data referred to in this subchapter derives from surveys among teachers (N=683) and 11th grade pupils (N=1132) in Estonian Russian-medium upper secondary schools conducted in spring 2009, within the project "The Russian Child in the Estonian General Education School", carried out by the Centre of Educational Research and Curriculum Development of the University of Tartu and commissioned by the Estonian Ministry of Education and Research.

V = .251, p ≤ .001), i.e. Estonian language knowledge was lower among teachers from north-eastern Estonia.

As for the pupils, the most influential variable connected with their proficiency in Estonian was advancement in school (marks on report cards): "better" pupils estimated their Estonian language proficiency as higher (Table 5.4.1). Indirectly, this demonstrates the importance of language acquisition in the school environment: Estonian is studied as assiduously as all other subjects. The higher association coefficient with gender can be explained by the fact that girls tend to be more diligent in their studies. The spread of competence in the Estonian language is more "democratic" compared to competence in English, which is connected with the higher education level of parents and the location of the school. Better English and other foreign language proficiency was connected with the amount of Estonian language instruction in basic school, which can be explained by the schools' general emphasis on languages (there are significantly more language immersion classes in Tallinn), as well as the pupils' experience and ability in studying languages. The latter relationship could be explained by the pupils' self-selection in language immersion classes, which is confirmed by the higher education levels of the parents of those pupils.

Table 5.4.2 shows that the everyday usage of English and Estonian among pupils was almost equal – girls used more Estonian on a daily basis, but boys used more English, which can be explained by the boys' slightly more frequent usage of the Internet. As expected, more frequent everyday usage of Estonian was found in southern Estonia (33 per cent used it everyday), followed by Tallinn (24 per cent). In north-eastern Estonia, only 14 per cent of pupils used Estonian every day.

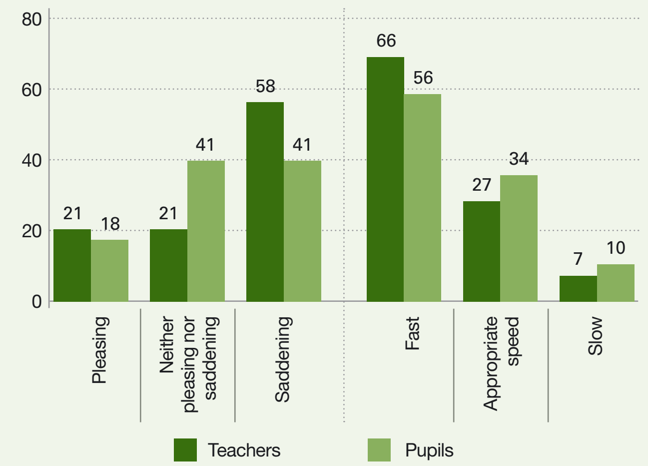
Both Estonian and English-language proficiency was dependent on general school advancement (Table 5.4.1), whereas the actual use of Estonian and English was proportionally represented in all groups of advancement. However, in the survey the response variants were not clearly defined; therefore, "usage" may mean active interaction as well as reading product labels, using *Google*, superficial reading of news titles, using software programmes in English, etc.

Table 5.4.2. Language use of teachers and students in Russian-language schools

	Teachers				Pupils			
	Not at all	Rarely	Sometimes	Every day	Not at all	Rarely	Sometimes	Every day
Estonian	3	16	27	54	10	30	39	21
English	23	36	30	12	10	26	41	23
German	66	25	8	1	73	19	6	2
French	92	6	2	0	88	8	3	1
Finnish	76	18	5	1	89	9	1.5	0.5
Other	92	4	3	1	88	6	4	2

Source: Project "The Russian Child in the Estonian General Education School" 2009

Figure 5.4.2. Teachers' and pupils' evaluations of the nature (left) and speed (right) of the transition to Estonian-medium instruction (per cent; teachers' n = 683, pupils' n = 1,132)



Source: Project "The Russian Child in the Estonian General Education School" 2009

Attitudes and differing perspectives on the transition to Estonian-medium instruction

According to the surveys, schools were rather homogeneously spread regarding the pupils' and teachers' factual readiness (e.g. learning materials, language proficiency) for Estonian-medium instruction. The variation was larger in terms of attitudes, which were related to individual (e.g. family background), regional (e.g. opportunity to use Estonian in everyday situations) as well as school characteristics.

The pupils' survey also revealed that there was only partial agreement on the transition to Estonian-medium instruction. Among pupils who receive some Estonian-medium subjects at the basic and upper secondary level was the mode of Estonian-medium instruction, which was supported by two-thirds of the pupils, while the required 60 per cent of Estonian-medium instruction was supported by only one-sixth of the pupils.

The teachers evaluated the educational changes that had occurred during past the two decades as "saddening" and as being rather fast or too fast (Figure 5.4.2). Compared to teachers, the pupils were more positively disposed to educational changes, regarding both the speed and nature of the changes. However, there was a relatively high proportion of pupils who chose the answer "neither pleasing nor saddening" regarding the educational changes in general, which was the expected result and showed that pupils focussed on the reforms less, since they were in school for a shorter time period (Figure 5.4.2).

More specifically, the attitude towards the change in the language of instruction was strongly connected with teachers' experience in teaching subjects in Estonian, and with pupils' experience in learning subjects in Estonian in basic school (association coefficient Cramer's V = .191 and .100 respectively, p ≤ .001): teachers and pupils who had had such experiences had fewer problems when beginning to learn subjects in the Estonian language. Also, teachers (as well as pupils) who followed Estonian-language media

Table 5.4.3. Pupils' future plans by background variables[47] (association coefficient Cramer's V)

	Future related to Estonia	Future related to Russia	Future related to another country	Wish to leave Estonia
Citizenship	.065	.166**	.083	.043
Gender	.019	.015	.057	.047
Advancement	.057	.049	.052	.035
Mother's education	.071	.043	.069	.062
Father's education	.114*	.032	.089	.063
Location of school	.175**	.016	.060	.094*
Number of subjects learned in Estonian at basic school	.106*	.034	.075	.084*
Number of subjects learned in Estonian at upper secondary school	.102	.086	.140**	.086
Amount of Estonian language instruction in basic school	.112*	.071	.098	.093*

** p≥.01*

*** p≥.001*

Source: Project "The Russian Child in the Estonian General Education School" 2009

evaluated the changes more often as pleasing and, on the other hand, those who followed mainly Russian media evaluated the changes more often as being too fast.

The analysis also shows that the satisfaction with Estonian-medium teaching varied significantly depending on the teacher's subject field and the study materials available in the field (Masso & Kello 2010). For example, a higher degree of dissatisfaction with textbooks was expressed by history and social studies teachers (among them, four in five teachers were dissatisfied, compared to one in two teachers of Estonian language and literature, and teachers of natural sciences). This indicates that the relative sensitivity of some topics could be an obstacle in teaching Estonia (for example, when official views on some historical events might differ significantly from the teachers' and pupils' group views). The ethnocentricity of Estonian history textbooks has been pointed out by several authors as being problematic from the perspective of Russian-speaking pupils (Ahonen 2001, Golubeva 2010, Kirss 2010). Therefore, presumably, curricula and learning materials should more effectively address the identification problems of non-titular pupils, by dealing with the ethnocentricities in the representations of society, state and history, or by offering help to teachers in dealing explicitly with the nation-state's occasionally ethnocentric self-representations.

Other factors influencing the transition

The transition from two different segregated education systems to a unified system is difficult due to practical, political and historical factors. In Latvia, the obstacles to the transition have included a lack of trust and openness as well as reluctance to change (Silova 2002, Galbreath et al 2005). Without a specific study, it is hard to tell whether the same applies to the transition in Estonia, but indeed there are signs of a lack of trust in the state's actual goals (Kirss & Vihalemm 2008). As in Latvia, the future of the Russian-speaking schools is also connected with the political struggles in Estonia, albeit in more institutionalized forms (election campaigns of parties, and public and political/legal pressure to allow more time for the transition).

Despite contrasting views about the state's final goal (support versus the fear of the dissolution of Russian schools), in a survey conducted in 2008, Russian-medium school leaders agreed in general that the transition would positively influence the level of Estonian among Russian-speaking school-leavers, and that more of them would enter Estonian universities as a result (Jakobson 2009). On the other hand, both school leaders and teachers were concerned that the transition would worsen subject knowledge and Russian-language competence among school leavers. Pupils were less worried about that (the difference was 29 to 26 per cent).

Other studies (e.g. Masso & Vihalemm 2005) have indicated a relationship between language learning and social cohesion. There are even findings that those who are linguistically better "capitalized" tend to abandon their home country more often (Masso & Vihalemm 2005). However, the results of the survey among 11th grade pupils in 2009 only partially confirmed this thesis. The experience of having studied subjects in Estonia was connected with both the intention to stay in Estonia and to leave Estonia (Table 5.4.3). In general, about 40 per cent of Russian-speaking youth wished to leave Estonia to study in order to advance their employment goals, to Russia or to another country. Pupils who related their near future with Russia (i.e. those who planned to go to Russia to work or study over the next two years were represented to some degree more among Russian citizens (the difference was 10 per cent). Still, the relationship was statistically not very strong, i.e. there were also a large number of Russian citizens who saw their future in Estonia. Pupils from the capital city of Tallinn saw their future as being in Estonia significantly less (the difference with those wishing to move abroad was 12 per cent) than pupils from southern Estonia. Surprisingly also, pupils from north-eastern Estonia saw their future as being slightly more in Estonia (the difference was 7 and 9 per cent, respectively, from the sample mean).

5.4.2. Latvian experience – first outcomes

Svetlana Djačkova

In Latvia, the implementation of the education reform was much quicker compared to Estonia: at the beginning of the 2004/2005 school year, the general secondary education establishments had to implement education programmes in which at least 60 per cent of instruction was in Latvian, including classes of foreign languages.

The current 60/40 model is the "softened" version of the earlier requirement that instruction in secondary school should be exclusively in Latvian, a requirement that was

47 In the table, the associations between the pairs of variables are calculated. The size of the association coefficient varies from 0 to 1, with the bigger value indicating a stronger relationship between particular variables (e.g. in the table, the strongest relationship occurs between the location of the school and the future related to Estonia; the association coefficient is 0.175 and the association statistically significant).

drafted in 1998. Close observers of integration and minority rights criticized the political process in elaborating and introducing the reform and the lack of effective participation by minority representatives in the development of the reform and definition of its goals (Alternative...2008). Although Russian speakers in Latvia have been politically rather passive, the education reform mobilized the community significantly. Due to relatively low civic engagement (Rozenvalds 2010), the resistance to the Latvinization of secondary schools took the form of "street democracy". The adoption of the Education Law in its preliminary form was followed by unprecedented large-scale protests against the planned methods of achieving better competence in Latvian among the Russian-speaking youth. The involvement of minority politicians and the broad participation by pupils themselves reached an estimated number of between 6,000 and 10,000 participants (Minority….2004: 16). The main fears of minorities included the possible worsening of the quality of education and the possible negative impact on the ethnic and linguistic identity of pupils (Minority…2004: 19). Fifty-three per cent of pupils in grades 10–12 at schools implementing minority education programmes participated in at least one protest activity during a six-month period in 2004 (Alternative….2008: 35).

In 2005, the Constitutional Court ruled that the education reform in secondary schools was in accordance with the Constitution of Latvia, but pointed to the need for flexibility in implementation of the norms and for monitoring the quality of education. There have been no large-scale public protest actions against the education reform since 2005.

The first experience of schools varied, according to interviews with school directors conducted by BISS (*Vidusskolēnu…2010)*. In practice, the subjects that schools have selected for teaching in Latvian are often taught bilingually or primarily in Russian, due to the insufficient Latvian language skills of pupils and teachers. To a large extent, the choice of subjects for teaching in Latvian is dependent on their complexity and their importance for students, as well as on the level of the teachers' Latvian language skills.

There have been some preliminary or partial analyses of the possible impact of learning subjects bilingually or solely in Latvian. For example, a study analysing the impact of reform on pupils' academic advancement, based on the results of national final exams in minority schools, found no lower average results compared to schools in which Latvian was the language of instruction (Izglītības…2010); the same conclusion was reached by the BISS analysis of results of exams over the last three years (Centralizēto….2009. Also, the language of instruction seems not to have had a negative impact on the PISA test results of minority school pupils. It should be noted that there is a lack of information as to what extent Latvian is actually used in lessons. In general, the lack of systematically collected data and the detailed evaluations of school results make it impossible to draw conclusions about the impact of education reform on minority youth (Zepa 2010: 193). The results of more comprehensive long-term monitoring and studies are unclear.

The recent survey of BISS indicates that students' attitudes towards the reform have become more positive: the share of pupils supporting the reform increased from 15 per cent in 2004 to 35 per cent in 2010. The share of pupils who would prefer to study solely in the Russian language decreased by 20 per cent compared to 2004. However, the majority, 58 per cent of pupils, still preferred a fully bilingual curriculum at secondary level. According to the pupils' estimations, the share of parents supporting the reform also increased from 16 per cent in 2004 to 32 per cent in 2010. According to the survey "Language", there is also an increasing number of minority parents (43 per cent in 2008) who choose schools with Latvian as the language of instruction. The integrative motivation to learn Latvian has therefore increased among minority school pupils of 10th–12th grade: more pupils speak Latvian outside of school, and more of them point towards the need for communication in Latvian with people who do not know Russian, as well as speaking with Latvian friends (*Vidusskolēnu*….2010: 5).

One argument in favour of the reform is that it ensures more equal opportunities for entering higher education institutions and for effective study in those institutions. Hazans highlighted the fact that before the education reform, in the 1990s and the first half of the 2000s, the young generation of ethnic minorities in Latvia, in comparison with Estonia and Lithuania, was less successful in catching up with the majority in terms of achievement in institutions of higher education during the transition. According to analyses, there was a somewhat lower probability (8–10 per cent) of completing higher education among minority youth and the gap increased during the first half of the 2000s (Hazans et al 2010). The influence of Latvian-medium instruction on the readiness of young Russian-speaking people to study in Latvian-medium universities has not been directly studied yet. However, the 2009 survey of graduates of minority schools studying in public universities revealed that the majority of respondents assessed their Latvian language skills as "sufficient" (45 per cent) or "sufficient with some difficulties" (46.5 per cent) for their studies (Latviešu….2010). Most difficulties were encountered by first year students in terms of ability to speak and write study exercises; almost one-fourth of respondents mentioned the need to improve their Latvian language skills. Students of private universities, particularly graduates of professional schools, reported lower levels of Latvian language skills in comparison to students in public universities.

The BISS survey revealed that the sense of belonging to Latvia among pupils significantly decreased after 2004 and the desire to leave Latvia in the future increased. This cannot merely be explained by the economic recession because the emotional attachment to Latvia also decreased: only a third of respondents stated that they felt they belonged "very closely" or "closely" to Latvia in 2010, compared with 70 per cent in 2004. Some young Russian speakers have gone to Russia to receive a higher education, and therefore the transition to Latvian-medium secondary education has weakened the highly educated human capital in Latvia (Zepa 2010: 194).

5.4.3. Conclusions: risks and opportunities in the establishment of second language in secondary education

Anu Masso and Katrin Kello

At present, there is no evidence of how the transition could influence the quality of instruction and the pupils' learning outcomes in Estonia. It is likely that, at least in the initial phase, the educational results of pupils who have no previous experience of learning a subject in Estonian will drop (Hausenberg and Saarso et al 2008). On the other hand, in Latvia, the transition to Latvian-medium instruction seems not to have had a negative impact on the minority school pupils' PISA and national final examination results, although it is argued that the depth of comprehension has decreased (Gluhova 2010). However, little is known as to what extent Latvian is actually used formally in Latvian-medium subjects (Cara 2010 and Gluhova 2010). Therefore, the lesson from Latvia should be applied with caution: second-language-medium instruction does not necessarily worsen the quality of education and subject-specific learning outcomes, which is widely feared among Estonia's Russian-speaking population.

However, at least one hope that is expressed by both countries' ministries seems to have proven well founded in Latvia: Latvian-medium instruction has indeed enhanced the Russian-speaking pupils' courage to study further in Latvian-medium higher education institutions (Subchapter 5.4.3, and Gluhova 2010).

The attitudes towards education reform in Estonia are somewhat comparable to the relevant attitudes at the beginning of the reforms in Latvia (about one-fifth or one-sixth of pupils support it). Similarly to the Latvian experience, attitudes may become more positive in the course of the reform process. Surveys have shown a correlation between the personal experiences of learning through the medium of Estonian in basic school with positive attitudes towards the change (Vaiss 2009). Therefore, the fear of change may diminish gradually with growing experience.

However, it must be noted that the experience in one country will not be identical to that of another. The socio-economic differentiation along ethno-linguistic lines is stronger in Estonia, which may have an impact on the later socialization of pupils.

In general, the studies suggest that if the aim is the actual success of the transition to Estonian-medium instruction in the hitherto Russian-medium school (as opposed to political or legal assertion of reform), there is a need to implement the transition to second-language education calmly, gradually continuing the change in the instruction language according to the opportunities at the schools, and to avoid prescribing the speed and nature of transition to second language acquisition in the same manner in different socio-linguistic regions in the transition of the study language. Also, in implementing the change in schools, Estonian-medium instruction at basic and lower secondary level should certainly be encouraged, to avoid academic decline caused by a sudden change in the instruction language, especially in those subjects that are also studied by pupils in Estonian at the upper secondary level. This is an aspect of transition in which the Estonian schools should follow the example set by the Latvian schools. At the same time, caution is called for since a mechanical change in the instruction language, without due interaction and mutual support between language and subject teachers, may indeed be detrimental to the pupils' learning (Mehisto 2009: 47).

In a situation in which the number of pupils is decreasing and policies are mainly applied to upper secondary schools, schools that disagree with the policies are forced to keep up appearances, in which case the actual problems and concerns of the schools and teachers may remain hidden. The main target group of the Estonian education ministry's communication strategy has been school leaders, who, evidently, have diverse motivations for change in instruction language, such as the need to follow the law, and the opportunity to gain additional financing, in addition to increasing their pupils' language skills and competitiveness.

Improving the linguistic skills of teachers of several Russian-medium schools is of utmost importance. The overwhelmingly negative attitude towards change in general also does not support high quality in teaching subjects in Estonian. The solving of these problems has been mainly delegated to the leaders of the schools (headmasters and other persons in managerial/decision-making positions). Therefore, it is apparent that school leaders need some training in the field of change management (Mehisto 2009). Teachers may need not only linguistic training but also methodological consultation and emotional support. Through their pupils, teachers' worries and their "psychological barriers" may easily become societal problems. Although some stress is inevitable in cases of innovation, it must be kept in mind that experiencing constant stress and ambivalent, even conflicting demands (ibid.) can have negative effects on the teacher's efficiency. In addition to teaching and learning materials and theoretical knowledge acquired at training courses, teachers seem to need more individualized support that is more attentive to the particular needs of the moment. Personal mentoring and collegial support groups may offer considerable help for teachers in dealing with the transition, both emotionally and professionally (Ugur & Raudvassar 2011). Support groups, especially if they bring together teachers from Russian-medium and Estonian-medium schools, can also facilitate the integration of Estonian and Russian-medium school teachers, a need that was indicated as one of the solutions by teachers themselves in the survey.

Also, specific preparation is necessary for teachers whose mother tongue is Estonian and who are willing to teach in Russian-medium schools. At the same time, ethnic Estonian teachers switching to former Russian-medium schools (in the context of decreasing numbers of both Russian and Estonian-medium schools) is probably not the main or the sole solution to the shortage of Estonian-speaking and competent minority school teachers. On the one hand, especially in north-east Estonia, this solution would take more than a few years. This solution, at least in ethnically more sensitive subjects, might also be problematic for cultural reasons.

In general, national language teaching/learning does have an integrative and "democratic" potential (as a function of decreasing the segregation of the education system). However, this potential could be lost if schools have to compete (in terms of who will survive in the event of declining pupil numbers, and who is capable of preparing better titular-speakers). Besides clear communication between ministry and target groups and support in effecting Estonian-medium or bilingual education (e.g. effective cooperation between teachers, study materials, support groups, etc.), there is a need to take into consideration the inherently long duration of educational changes – the results may only be seen in the course of generational change.

5.5. The changing patterns of foreign language use and attitudes in the Baltic states

5.5.1. Individual multilingualism in the Baltic states within the European context

Maarja Siiner and Triin Vihalemm

The linguistic diversity of the EU is considered to be one of its strengths and characteristics. The responsibility for guaranteeing and supporting linguistic diversity and individual multilingualism rests on the governments of the member states. However, the European Commission is concerned about the uneven distribution of language competences in different member states and among different groups, as well as the limited range of foreign languages studied and spoken, with clear dominance by English.

Knowledge and use of foreign languages

There are virtually no monolingual titular nationals in the Baltic states, mainly due to the Russification policies of the former Soviet regime. There are virtually no monolingual people in the Baltic states: almost all Estonians, Latvians, and Lithuanians speak at least one foreign language and one in two people speak two foreign languages (Eurobarometer 2006). The main foreign languages are English and Russian; one in five Estonians, Latvians, and Lithuanians speak German (ibid.). People in the Baltic states also speak the languages of their neighbours quite well (languages similar to the national language of the respective Baltic country): one in five Estonians speak Finnish and one in five Lithuanians speak Polish (Table 5.5.1)[48]. Although the Estonians, Latvians and Lithuanians are today less proficient in English than the Dutch and the Swedes, for example, (Table 5.5.1) the situation is likely to change with the upcoming generations. The study of 2011[49] indicates that one in two Estonians, Latvians and Lithuanians can speak at least a little English and only one in three people cannot speak English at all. Compared to the ethnic minorities living in the UK, France and Germany, the linguistic capital of the Baltic Russian-speakers was good, while their knowledge of English was lower compared to the titular population (Table 5.5.1).

At the basic school level, pupils usually learn two foreign languages while Russian-speaking children learn Estonian, Latvian or Lithuanian as a second language. At the upper secondary level, it is usually possible to choose

Table 5.5.1. Self-estimated knowledge of foreign languages: Baltic states compared to selected other European countries. The languages that are regarded are being spoken well enough to be able to have a conversation

Per cent of population in the relevant country	Estonia	Latvia	Lithuania	Germany	France	UK	Nether-lands	Sweden
English	41	36	27	58	36	–	87	89
French	1	**	2	14	–	23	29	11
German	22	21	14	–	8	9	70	30
Spanish	**	**	1	4	13	8	5	6
Russian	78	93	84	5	**	1	**	1
other widely spoken foreign languages*	21.5	–	14		5			
Percentage of the relevant ethno-linguistic minority group	**Estonian Russian speakers**	**Latvian Russian speakers**	**Lithuanian Russian speakers**	**Minorities in Germany**	**Minorities in France**	**Minorities in UK**	**Minorities in Netherlands**	**Minorities in Sweden**
English***	40	32	32	47.5	18	–	78	91.5
French***	2.5	1	1.5	7	–	20	7	11
German***	21	10.5	13	–	16	7	39	21
Spanish	**	**	**	2	19	7	2	11
Russian	–	–	–	7.5	1	3	**	**
other widely known foreign languages*	7		40					

**Other languages: Finnish in Estonia; Polish in Lithuania.*

*** less than 0.5 per cent*

**** The data is indicated for countries where the listed language is not the national language or the mother tongue of the relevant group*

48 The criterion of carrying on a conversation used in the Eurobarometer survey is excessively vague according to language experts. Robert Phillipson argues that conversation has nothing to do with active competence in studying in the medium of a foreign language, nor with any cognitively demanding functions.

49 The questions and answer variables used in the 2005 Eurobarometer survey and the Baltic Survey in 2011 were different so no direct comparisons can be drawn

Table 5.5.2. The attitudes among the titular population and minorities towards foreign languages in the Baltic States. Question: Which two languages, apart from your mother tongue, do you think are the most useful to know for your personal development and career?

Percentage of the relevant ethno-linguistic group	Estonia		Latvia		Lithuania		European average
	Ethnic Estonians	Estonian Russian-speakers	Ethnic Latvians	Latvian Russian-speakers	Ethnic Lithuanians	Lithuanian Russian-speakers / Poles	
English	71	77	70	76	87	78/64	68
Russian	56	-	71	-	52	-/50	3
German	14	13	19	14	29	23/16	22
French	2	3	3	2	4	0/6	25
Spanish/Italian	0.5	1	0.5	1	1	0/0	19
Language of neighbour or state of close region (except Russia) – Finnish, Polish, Estonian, Latvian, Lithuanian and Swedish	12*	8	1	1	3	0/3	-
Estonian/Latvian/Lithuanian as national language of a relevant state	-	65	-	70	-	43/46	-

** The vast majority of Estonians indicated Finnish here*

Source: Eurobarometer 2005

a third foreign language. The main foreign languages offered in schools are widely used languages with the highest market value, as the local teaching resources are often supplied because of the possibility of gaining some support from the relevant country[50]. However, the free choice of languages is often illusionary, as it depends on the teaching resources available in the particular school and on the number of pupils willing to learn a particular language. At the same time, offering a wider and more exotic variety of foreign languages is a great opportunity for a particular school to attract pupils and gain a competitive advantage as schools are funded by fees[51].

Although the domains and use of Russian are decreasing in all post-Soviet countries (with the exception of Belarus), Russian is still used almost on an everyday basis by one in two Latvians and one in four Estonians. The more frequent use of Russian in Latvia can be explained by Latvia's larger Russian-speaking population and the typological similarities between Russian and Latvian (compared to Estonian). As many Estonian Russian-speaking youngsters are more confident in their knowledge of English than in their knowledge of Estonian, English is used as a supplementary means to make oneself understood in inter-ethnic conversation (Vihalemm 2001). It is the proficiency in English rather than a positive instrumental attitude toward Estonian that determines to what extent it is used (Ehala et al 2006: 217). However, the importance of Russia's big market will likely sustain the status of Russian in the Baltic states as the *lingua franca* in the future (Table 5.5.2). For example, many young Estonians who graduate from secondary school with a rather poor command of Russian regret this later on, as they discover that a good command of Russian is an advantage in the labour market. There is also certain "comeback" of Russian in Lithuania despite the relatively lower share of Russians in the population (see Subchapter 5.5.2).

"Market value" of foreign languages

Individual multilingualism is generally accepted as a valuable trait in the Baltic states: about two-thirds of the inhabitants of the Baltic states agree that every EU citizen should be able to speak two foreign languages, while the European average is only 50 per cent (Eurobarometer 2006). Also, foreign languages are seen as a prerequisite for being able to work abroad and for attaining a better job at home and are ranked higher than the European average (Table 5.5.2).

English has the highest market value ("usefulness of language") in Estonia and Lithuania, while in Latvia its position is equal to Russian. German had an equal status with English during the Soviet period, but its importance has been decreasing since then[52] (Kuzmina 2010, Tender 2010). There is a clear discrepancy between the languages studied at school and the languages used. For example in Estonia, German is often chosen as the third foreign language at school after English and Russian, but it is seldom used after graduation, either for professional or for personal reasons, while Finnish, which can be studied as a third or fourth language in only a few schools (Tender

50 For example, in Estonia in 1991, 33.8% of pupils at all school levels were studying English, compared to 82% in 2010/2011. The number of pupils at all school levels studying Russian decreased during the 1990s and was 29% in 2000; in the new millennium, the number has been steadily increasing and reached 38% in 2010/2011. The largest share – 22.4%– of pupils studying German at all school levels in Estonia was reached in 1998, but this has been slowly decreasing, and is at 14% in 2010/2011. The share of pupils studying French is at 3% in 2010/2011. While the importance of English and Russian (after a decline in its popularity during the 1990s) is increasing, the importance of German has been steadily decreasing in the past decade. Data from Ministry of Education and Science.

51 For example, in Estonia, in addition to English, Russian, German and French, the following foreign languages were offered in formal education in the 2010/2011 academic year (the number of pupils is given in parentheses): Finnish (1,022), Spanish (992), Latin (415), Swedish (389), Hebrew (252), Chinese (106), Italian (84), Japanese (46), Greek (26), Danish (14), Norwegian (10), Latvian (3), Lithuanian (1), and Romanian (1). Data from Ministry of Education and Science.

52 The largest share – 22.4% – of pupils studying German at all school levels in Estonia was reached in 1998, but this has been slowly decreasing since.

Table 5.5.3. Motivation to learn a new language: Baltic countries and European average

Percentage of the relevant ethno-linguistic group/all-European sample	Estonian Russian speakers	Latvian Russian-speakers	Lithuanian Russian-speakers	Ethnic Estonians	Ethnic Latvians	Ethnic Lithuanians	European average
to use at work	46	39	26.5	38	27	23	32
to be able to study abroad	32	24	16	24	20	13	14
to be able to work abroad	44	39	44	37	31	38	27
to get a better job in home country	56	34	38	32	32	26	23
for personal satisfaction	45	14	13	28	17	20	27
to be able to understand people from other cultures	27	15	13	24	13	11	21
to use on holidays abroad	39	18	10	26	18	17	35

Source: Eurobarometer 2005

2010), is the third most valued foreign language (Masso & Tender 2009), emphasising the higher utilitarian value of territorially and linguistically related languages (ibid).

Compared to the EU average, both the titular groups and the Russian-speaking minority in the Baltic states show high motivation to learn a foreign language in order to study or get a job abroad, as well as being able to remain competitive in the local labour market. Compared to Latvia and Lithuania, both Estonians and Russian speakers in Estonia frequently mentioned personal cultural curiosity and openness as a motivation to learn a foreign language.

As discussed at the beginning of this chapter, the knowledge of foreign languages, in particular English, is strongly related to people's assessment of their quality of life, social and economic position and expectations for the future (Table 5.1.1). Since the connection between competence in foreign languages and social and economic differentiation is manifested more clearly in Lithuania, the following subchapter focuses on this country with the aim of elaborating on the question of whether language competences and the adopted language planning strategies are sufficient to meet the new challenges that have emerged due to the accession to the European Union?

5.5.2 Foreign languages in Lithuania

Ineta Dabašinskienė and Violeta Kalėdaitė

In the context of the EU multilingualism policy, inhabitants in Lithuania score high compared to the European average: 92 per cent say they can converse in at least one, 51 per cent claim to be able to communicate in two, and 16 per cent say they can speak three languages; only eight per cent have no command of any other language except their mother tongue. As in Latvia and Estonia, Russian is the most widely known foreign language, followed by English and Polish (Table 5.5.1). The respondents also reported skills in German, but less frequently compared to Estonia and Latvia (Table 5.5.1). Although the current knowledge of English is below that of Russian, it is steadily increasing: according to the latest surveys, 59 per cent of the younger generation (15–29-year-olds) in Lithuania report a good knowledge of English (Vaicekauskienė 2010: 184–5). On the other hand, 83 per cent of the respondents over 60 claim not to know English at all, and this is in line with the language teaching situation during the Soviet period. Also, the knowledge of Russian differs considerably among age groups. Only half of 15–19-year-olds can speak Russian, while virtually every respondent over 30 claims to know Russian, at least in the biggest cities of Lithuania (Ramonienė et al 2010).

Dynamics of attitudes towards foreign languages

Joining the EU opened up enormous opportunities for Lithuanians for different kinds of mobility, including academic, professional and cultural. It was believed that political freedom would encourage people from Lithuania and other Baltic countries to begin learning not only English, but also other traditional European languages, French and German in particular, which were part of the pre-Soviet (and part of the Soviet, though to a lesser degree) educational landscape. However, this has not happened (Dabašinskienė 2011). More research is needed in order to explain this situation but it seems that economic factors and the prestige of English may play a crucial role here. English is the preferred option as the first foreign language; if two foreign languages are studied, the choice is usually English and Russian.

The latest surveys (see Table 5.5.2) reveal that English in Lithuania is seen by 87 per cent as the most useful foreign language, while Russian is viewed as the most useful by 52 per cent of the respondents. The data reflect the changing prestige of the two languages and the pragmatics of everyday life. The status of the Russian language in Lithuania has been very dynamic. After the Baltic states declared their independence, Russian lost its position as a second language. The number of schoolchildren and university students studying Russian dropped considerably, in favour of a more attractive option, the English language. Recent years, however, have seen a certain comeback of Russian. It has been on school curricula since approximately 2004, and it is now the second most often chosen foreign language and as such is studied by the younger generation along with other traditional first foreign languages, i.e. English, German and French. The recent need to rediscover Russian can be explained by Russia's geographical proximity, its long-lasting historical influence and economic ties, as well as its expanding trade and employment market. A study of job advertisements in Lithuania (Dabašinskienė et al 2010) revealed that the language combination most required for jobs at international (but not only) companies is English and Russian; this combination was expected in 90 per cent of all studied job advertisements.

Two-thirds of Lithuanians report Russian (as a culturally "closer" foreign language) as being used from time to time. Despite the fact that Russian is not very actively used by Lithuanians in their everyday lives, around 40 per cent (depending to a great extent on the city of residence) of them sometimes watch Russian TV programmes, and about 30 per cent listen to Russian programmes on the radio. Far fewer, however (from 10 to 16 per cent), sometimes read books or newspapers in Russian (Nevinskaitė 2010: 272).

Foreign Languages in Formal Education

The new curriculum framework for primary and basic (lower secondary) education in Lithuania was approved in 2009. It mandated that the teaching of the first foreign language should start from the second grade and a second foreign language should be introduced in the fourth grade. About half of schoolchildren learn two foreign languages and only one per cent of children study three foreign languages.

The statistics of the Ministry of Education and Science for 2010 showed that, in comparison to 2004, one-seventh more pupils studied English, while five times less studied German and French. Eighty per cent mentioned Russian as the second most popular language. Only a very small number of schoolchildren studied other languages, such as Spanish, Polish and Italian as their second and third foreign languages. It seems that the preferred English–Russian combination has emerged at the expense of the traditional linguistic diversity of foreign language teaching and learning; even when there is an opportunity to take other foreign languages, Russian is preferred over others. The choice of foreign languages to be studied depends on what parents see as important for their children's future. Opinions regarding which two foreign languages children should learn show that English is an absolute priority in all three Baltic states. The majority of Lithuanians think that better job opportunities motivate young people to learn languages best. One cannot help noticing that English recently has been acquiring the status of a general learning skill, along with basic literacy and mathematics, and is being taught to ever-younger learners.

The prestige of English becomes apparent when parents are asked to express their opinion regarding a possibility for their children to study at bilingual schools. The motives for choosing an English-Lithuanian school, if they had such an opportunity, first of all reflect the parents' concern about the future of their children. Almost half of parents saw it as a necessary condition for their children to take up studies abroad and over seventy per cent of parents believed that such schools would be very beneficial for their future careers (Vaicekauskienė 2010: 196).

Foreign languages in higher education

Lithuanian students who have a relatively good command of a foreign language are eligible to attend other European universities on exchange programmes. However, most high school graduates enter universities with English as their first foreign language, and this, to a certain extent, limits their options in the choice of Erasmus programme countries. A much wider variety of studying options may be one reason why in recent years there has been a notable rise in the number of students studying Spanish, French and Italian. The improvement in the opportunity to learn other foreign languages at university/college level seems to have increased the number of Erasmus countries: in 2009–2010, large numbers of Erasmus students went not only to northern European universities (which traditionally offer courses in English), but also to other European countries.

Most foreign LLP/Erasmus exchange students come to Lithuania from southern Europe and Turkey (VMU Reports 2010). There has been a steady increase in the number of Erasmus students coming to Lithuania: from 11 students in 2002 to 1,101 in 2008/2009. In addition to European and other educational study programmes, individual motives also lead young people to visit Lithuania (Savickienė, Kalėdaitė 2005). While in the past quite a few of them studied in Lithuania due to their Lithuanian roots, now the number of those who are interested in Eastern Europe in general, and the Baltic countries in particular (for cultural and economic reasons), is increasing. It is true that Lithuanian, along with other lesser-used languages, such as Latvian and Estonian, will never become a top priority for language learners because of its limited international influence. However, neighbouring and regional language policies and programmes, as well as economic activities (including tourism), may encourage interest in these languages.

5.5.3. Conclusions: Perspectives for (real) multilingualism in the Baltic states

Maarja Siiner and Ineta Dabašinskiene

Personal multilingualism among EU citizens is considered "a key feature of Europe". The Baltic states are linguistically relatively well "capitalized" compared to Europe in general. The drawback of personal multilingualism, however, is the tendency for people to shift either to Russian or English in inter-ethnic conversations. With the exception of Finnish in Estonia and Polish in Lithuania, the languages used are mostly the bigger languages with high market value. Therefore, regional Baltic cooperation will continue to be performed in English and Russian.

The status of individual multilingualism is high: the position of top manager is associated with proficiency not only in English and Russian but also in at least one additional language (Dabašinskienė et al 2010).

Russian is still the de facto *lingua franca* in domestic inter-ethnic communication in Latvia and, to a lesser extent, in Estonia and Lithuania. There is a possibility that in the long term the role of *lingua franca* in inter-ethnic conversations will be taken over by English in Estonia.

There is an urgent need for special measures to promote innovative and user-friendly methods of teaching, but there is also a need for a change in linguistic behaviour, to make it attractive to learn and use lesser-used languages, such as Lithuanian, Latvian and Estonian, both among newcomers in the Baltic states and citizens in other EU-countries. The number of foreign languages taught in primary and secondary schools will probably remain limited. Despite the positive attitude among Baltic inhabitants towards learning foreign languages, both individual and state multilingualism probably remains a challenge for the Baltic states, due to the size of their populations. The ability of Estonians and Latvians to embrace or accommodate other language groups through Estonian and Latvian and to create a multilingual and polylingual-friendly atmosphere will probably take a long time, as it demands revision of the view that the speakers of other languages "distort" the language and an acceptance of language change as a natural part of language usage.

5.6. Views from outside: language constellations across the Baltic area – two decades on

5.6.1. Discussion by Gabrielle Hogan-Brun

The country-specific contributions to this collection demonstrate how, across the Baltic area, the central focus on language management (Spolsky 2009) has resulted in altered language constellations over the last twenty years. But, while the means of re-establishing the official status and sociolinguistic functionality of the titular languages were similar in Estonia, Latvia and Lithuania, this has, perhaps not surprisingly, produced different interim results on the basis of the diverging demographic compositions existing in each country. Overall, however, the use in the public sphere of the titular languages and their prestige has clearly increased throughout the region.

The following questions naturally arise:

What would be realistic achievements with current language policies in the coming decades?

Generally, the language management practices adopted so far have been centralist, involving a coercive approach, as was suggested in the introduction to this subchapter. While this tendency is likely to persist for the foreseeable future, there may emerge fresh sets of local, bottom-up practices with new multilingualisms as a result of migration, as is the case in the West. A good example has been set in the Baltic countries to couple a decision on language status with language management activities in education that support existing multilingualisms. This may continue to ensure that members of the main language communities and their children know and are capable of using the national language, while also being provided with an opportunity to develop their own language(s).

What needs to be changed?

It would seem natural for the three national languages, given the rise in their prestige, to fully assume all their functions *de facto* in due course. The top-down approach adopted for their maintenance (and modernization) may in time need to become more sensitive to developments from below, in order to embrace linguistic innovation and encourage acceptance of neologisms. The previously experienced type of asymmetric bilingualism is likely to decrease over time, with people's language competences changing through the process of globalization and ease of mobility throughout Europe. In fact, the Baltic region is extremely well placed in this respect in being able to face both West and East linguistically, as the widespread learning of English has turned out not to have precluded a renewed uptake of Russian as a foreign language. This development would seem to be in line with moves across the EU that promote the acquisition of both a neighbouring and a global additional language.

How unique is the situation in Latvia and Estonia?

In terms of language policy and its management, a complicating factor in Latvia and Estonia is that both countries are hosts to large, often self-sufficient and monolingual communities of Russian speakers. This presents considerable challenges, bilaterally, in terms of attitudes to integration, both linguistically and socially. However, it is a phenomenon that also persists elsewhere in the post-Soviet space. By contrast, the situation in Lithuania is quite favourable, with around 18% of almost equally split speakers of Polish and Russian. This compares well with the situation found in some western European countries, many of which host up to 20% of speakers of other languages. What is unique in the Baltic countries is that state language assessment systems have been put in place, not just for school leavers, but also for non-nationals wishing to gain citizenship and access to work. This will no doubt ensure a continuous uptake of the national language for the greater part of the resident population.

Can we compare the situation in the Baltics with processes that have taken place elsewhere in (linguistic) history?

In terms of the history of linking language and collective identity, much has been written about this originally western European idea (Barbour and Carmichael 2000; Wright 2000; May 2001). Over time, this notion gradually spread, leading to the establishment of systems favouring linguistic homogeneity in numerous nation-states. More recently, in acknowledging a largely heterogeneous linguistic reality of populations within states, multicultural policies were advanced in Western Europe (starting in the UK), initiating a politics of recognition but not multilingualism in general education. However, in the wake of recent EU enlargements, a reverse shift has been observed in many western European countries towards stricter (and at times hotly debated) conditions for newcomers that focus on language proficiency, involving language testing, which had already been practised in Eastern Europe. Amidst the criticisms being levelled at this, it seems pertinent to stress that, because of the diverse state-formation histories in Europe, the socio-political context in which language conditions have been set up and language tests developed differ widely. Obviously, the motivation in the Baltic states differs from that in, say, the Netherlands, Germany or Spain. While the nation-states in central and Eastern Europe generally remain concerned with re-consolidating use of their own national languages, the challenge perceived by western European states relates to dealing with the increasing impact of multiculturalism resulting from extensive in-migration (for further details, see Hogan-Brun et al 2009).

Who might be the model for language planning and minority policy?

National language policy can aim at establishing official monolingualism in various shades (e.g. in France, Austria, Greece, Norway and Poland), recognize bilingualism (Canada, Finland and Ireland), or multilingualism (South Africa and Singapore), with English being assigned different roles. When there are two or three significant languages involved, the solution tends to be territorial: in both Belgium and Switzerland, the main languages have been made official according to their demographic distribution. Addressing the issue of transferability of a particular model naturally requires caution, as any viable model would need to be contextually embedded in particular historical, cultural, and demo-linguistic conditions and configurations. Application of the territoriality principle, for example, can be successful if rooted in an uninterrupted geo-linguistic historical tradition, as is the case in Switzerland. It is unlikely that it would be productive in countries in transition generally or in the Baltic states where an external language had in the past been used to impose a changed language hierarchy.

To summarize, there has been a degree of socially motivated linguistic accommodation among speakers of minority languages across the Baltic region. However, hard choices will always arise due to the unavoidable incommensurability of diversity and political community. With persisting challenges, language policy management is likely to be deployed as a central vector for change across the Baltic area for some time to come.

5.6.2. Discussion by Robert Phillipson

The documentation of ongoing language policy initiatives and results in the Baltic countries is impressive. Historical factors explain why locally appropriate solutions were needed, which could not copy experiences elsewhere. The process is far from complete, but nor is the management of multilingualism elsewhere.

Since there are encouraging symptoms of stabilization, perhaps the time has come for consolidating the infrastructure for language policy issues in the Baltic states. Expertize is needed in governments, in the civil service (the relevant ministries), and in universities, and this requires national coordination. This could be a priority in the interests of ensuring social justice, economic wellbeing and political harmony.

Future research would benefit from familiarity with the wealth of ethnographic research into language policy that is currently being developed in several parts of the world (i.e. McCarty, 2011). Such research aims to explore many aspects of language policy through linking top-down approaches with bottom-up realities (as revealed in interviews and various types of fieldwork), by connecting overt and covert policies, by exploring how language issues are experienced and responded to, and by clarifying how explicit policies may or may not achieve the desired results. These are relevant for understanding the complexity of the issues in multilingual societies, the limitations of quantitative studies, and for documenting best practice. The experience of the Sami in Norway and Finland also exemplifies how a politically explosive issue can be handled effectively (Skutnabb-Kangas & Dunbar 2010).

Research on the hybridity of the speech of the Danes of immigrant background and on the dynamic variability of Estonian-Russian is cited. Folk linguistic beliefs are dangerously misleading. The French are supposed to act as though anyone not speaking French perfectly should avoid it, whereas the British are more tolerant of variation. In reality, attitudes vary considerably, and people are extremely sensitive to phonetic variation due to regional, social, and cross-linguistic factors. One generalization that seems valid – and relevant for Russian L1 users of Estonian – is that tolerance is likely to increase if there is greater exposure to variation and if monopolistic ideas of native speaker 'ownership' of the language are counteracted.

Citizens in a democracy are more likely to respond to carrots than to sanctions. Efforts need to be made both in Estonia and Latvia to identify and market relevant carrots. The challenge of ensuring the integration of ethnic minority groups into full participation in the economy, higher education, and civil society remains, and the education systems plays a key role in facilitating this process.

Raising awareness about language variation needs to be promoted in general education. The authors make a convincing plea for a re-analysis of fundamental attitudes to Estonian target-language norms, because of the fundamental redefinition of the role of Estonian for people of Russian L1 background. However, education will maintain a focus on socializing users into normatively correct written forms. Insisting on a completely monolingual approach in the classroom (Estonian or Latvian only) is not pedagogically justifiable for people whose first language is different. No educational research substantiates a rigid policy of this kind; it is also in conflict with what is known about how bilingualism functions in the brain. A change of attitude is needed by both language communities, if greater social justice, better integration, and improved access to higher education and employment are to be achieved.

Is the current practice of 60–40 bilingual education in Estonia and Latvia optimal, in the light of the international experience of successful mother-tongue based bilingual education worldwide (Skutnabb-Kangas et al 2009)? Such issues are technical and complex. An analysis of current Baltic higher education practices, including teacher training, is required. Issues are complicated by tricky terminology, such as how bilingualism and immersion education are understood.

There is an increasing recognition worldwide that changes in the global economy mean that education should ideally equip graduates to be multilingual. Recommendations from the European Union advocate 'mother tongue plus two', but governments are not legally obliged to implement such mantras. The bilingualism of many in the Baltic countries in the national language and Russian could therefore be a pivotal axis for language policy – languages as human rights as well as resources. Lithuanian attitudes seem to be moving in this direction.

Laissez faire language policies in many European countries have led to a significant increase in the use of English without the implications for national languages or other foreign languages being addressed. By contrast, a 2006 *Declaration on a Nordic Language Policy* commits the Nordic countries to maintaining the vitality of national languages while promoting other languages. It specifies the language rights of all residents, and stipulates goals for language policy. It encourages key institutions such as universities to develop long-range strategies for choice of language, and the parallel use of languages (Phillipson 2010). The underlying focus is not on a single medium of instruction or on a mythical monolingual nation but diversity. The declaration has definite limitations, not least so far as implementation is concerned, but could serve as a model for the Baltic states to build on.

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Appendix 1. Approximate share of people who reported their mother tongue as different from the official language of the relevant state, and knowledge of foreign languages in EU states

Percentage of total population (except the next column)	Population (in millions)	Approx. share of population whose mother tongue is other than the national language***	Knowledge of at least one foreign language	Knowledge of at least two foreign languages	Knowledge of at least three foreign languages
Luxembourg	0.5	***	99	92	69
Slovakia	5.4	12.1	97	48	22
Latvia	2.3	42*	95	51	14
Lithuania	3.4	18*	92	51	16
Malta	0.4	***	92	68	23
Netherlands	16.3	4.5	91	75	34
Slovenia	2.0	4.9	91	71	40
Sweden	9,1	4,5	90	48	17
Estonia	1.4	33*	89	58	24
Denmark	5.5	3.2	88	66	30
Cyprus	0.8	***	78	22	6
Belgium	10.5	***	74	67	53
Finland	5.3	5.1	69	47	23
Germany	82.5	8.3	67	27	8
Austria	8.3	4.3	62	32	21
Czech Republic	10.3	2.5	61	29	10
Bulgaria	7.7	10.2	59	31	8
Greece	11.2	**	57	19	4
Poland	38.1	**	57	32	4
France	63.4	7.3	51	21	4
Romania	21.6	5.1	47	27	6
Spain	44.5	11.1	44	17	6
Hungary	10.1	**	42	27	20
Portugal	10.6	**	42	23	6
Italy	59.1	4.5	41	16	7
United Kingdom	60.8	6.8	38	18	6
Ireland	4.2	***	34	13	2

** Census data*

*** Below 2.5 % (further calculations statistically unreliable)*

**** Data not calculated for countries with several official languages*

Sources: Eurobarometer Survey 2005, population data Eurostat 2007

CHAPTER 6

Political development

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6.1. Introduction

Understanding and evaluating political development in post-communist countries can take many different forms. For years, the basic question among scholars was, when and how will democracy become "consolidated" in these countries? While this was a fundamental question, it was also simplistic in the sense that the answer was basically dichotomous, either consolidated or not. It left the impression that there was some magic line a country would cross and then enter into a long-lasting world of democratic safety.

Subsequent analyses have become more fine-grained, breaking down the political system into smaller parts and asking how these components operate interactively and as a whole in order to make democracy work as a true political regime. These elements include constitutional institutions, but also party systems, political attitudes, social trust, corruption and good governance. All of these play a central role in human development. They form the basis for socio-economic welfare, they influence people's satisfaction with democracy, they contribute to building inter-personal trust and cooperation.

In this chapter, our focus will similarly be on evaluating a wide range of political development indicators in order to understand the similarities and differences that have emerged across the Baltic states over the last two decades. For example, many scholars have pointed to an apparent lead in political development that Estonia has achieved in comparison to its two southern neighbours. In the foregoing analysis, we will also see that Estonia has reached higher levels of government stability, trust in institutions and party system consolidation. However, this success also masks a number of important problems that continue to plague Estonian democracy. If to take but a single example, Estonia has yet to undergo a clear post-electoral alternation between government and opposition parties in parliament. The centre-right has basically won every single election with the exception of one in 1995. For some theorists of democratic consolidation (such as Samuel Huntington), it is a key criterion that parties on opposite sides of the political spectrum switch places in government. This has yet to happen in Estonia, whereas in Lithuania it has.

The events in Latvia during the summer of 2011 have clearly raised the most concerns about the state of democracy in the Baltic states. Our analysis will show that the roots of this crisis are deep and that solutions for it will be difficult. However, it is of note that so far the conflict has transpired in strict accordance with constitutional rules. It will therefore be a test of Latvia's constitutional system to shepherd this crisis to a final conclusion, much like Lithuania's 2004 impeachment of President Rolandas Paksas was successfully resolved following proper legal procedures. Such crises are perhaps the best indicators of democratic consolidation in that they test the real rigour of the system, and not just its routine functioning.

6.2. General democratic development

Modern democracies are founded on the principle of constitutionalism, effective government and a broad array of civil rights and freedoms. The first pertains to respect for constitutional rules (including checks and balances), the second to government stability, and the third to realizing each individual's human potential. If these three components are not adhered to, democracy as a political regime begins to falter. It is for this reason that many scholars of Central and Eastern Europe have begun to examine such macro-level variables as key to understanding democratic development. (Zubek & Goetz 2010; Jahn & Müller-Rommel 2010)

Constitutional stability and change

Constitutional institutions form the internal structure of a political system. They represent a fundamental agreement in society as to how political power will be distributed and how it will be exercised. Such accords are meant to be solid and long-lasting, yet they can also be constraining and the cause of political deadlocks.

In the context of post-communist democracies, an evaluation of constitutional development involves taking into consideration a number of issues. It begins with the most straightforward question of whether a country adopted as part of its transition an entirely *new constitution* or simply amended its communist-era document. In the midst of such wholesale political upheaval as the collapse of communism, it was not always practical for a country to sit down and re-draft an entirely new constitution. In order to keep the process of political change going, it was sometimes preferable to make only gradual changes. Yet, what effect might this strategy have on long-term democratic development?

The second question concerns substance or the choice between *presidential and parliamentary regimes*. While many studies in political science have indicated that parliamentary systems are preferable in terms of consolidating democracy, often the sentiment among the public is that presidentialism is better. What lessons can the Baltic states offer us on this score?

Both parliamentarism and presidentialism divide political power up in different ways. Yet, this does not prevent controversy and sometimes *outright conflict* from erupting between institutions such as the prime minister and the president or the president and parliament. A successful constitution will allow such crises to be resolved in an orderly manner, maintaining the system of checks and balances. However, where disputes are recurrent and destabilizing, political performance is diminished.

This is why constitutional arbiters such as *constitutional courts* also play a role in democratic development. They may be the institutions political actors look to in order to resolve constitutional disputes. Lastly, and where all else fails, *constitutional amendments* may be needed, a final indicator of stability that is important to examine in the case of the Baltic.

Constitution-making across post-communist Central and Eastern Europe took many forms. While some countries such as Hungary and Poland opted in the early years merely to amend their communist-era documents, other countries such as Slovenia and the Czech Republic undertook the creation of entirely new constitutional systems. The Baltic states were in this respect in a curious intermediary situation. Throughout their struggle for an escape from the Soviet Union, they had insisted on the principle of legal continuity or the fact that they were restoring their pre-war statehood, not creating a new state. An indirect implication of this, however, was that they should also restore the constitutional systems that existed before their take-over by the Soviet Union in 1940. Yet, this was not readily possible, since all three countries had had authoritarian regimes in place before 1940. Hence, following such a formalistic path would have defeated the entire purpose of a democratic transition.

Indeed, the Baltic states were the only post-communist countries to face a predicament, in which the historical dimension of their democratic transition seemingly called for one solution, but practical circumstances required greater flexibility. In the end, Estonia and Lithuania opted for a pragmatic solution by adopting wholly new constitutions, while Latvia remained partial to a form of restorationism by reinstating its 1922 constitution with certain amendments.

The advantage for countries such as Estonia and Lithuania has been that entirely new constitutional jurisprudence could evolve around the novel political systems. Admittedly, drafting constitutional structures from scratch meant entering into an institutional unknown. At the same time, however, the two countries were at greater liberty to reflect on the precise balance of powers they were enacting. The choices they were making were more conscious and goal-orientated.

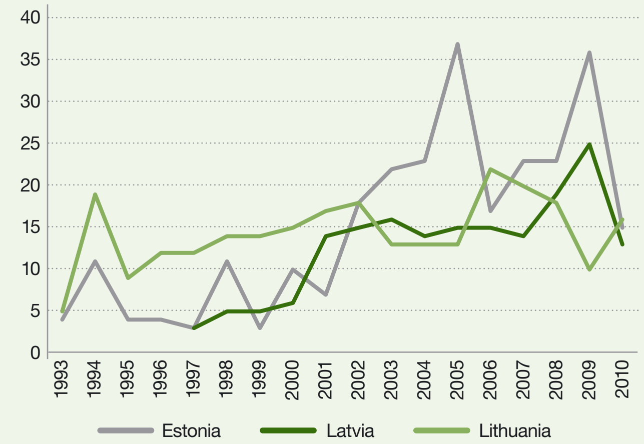
Latvia's choice of returning to a pre-war constitution entailed a somewhat precarious corollary (similar to that of Poland and Hungary) of having to continually tweak an inherited system. To be sure, this 1922 system was fundamentally more democratic than the communist-era constitutions that Poland and Hungary had to revamp fully. This probably explains why Latvia has been able to continue with this *bricolage* longer than Poland or Hungary, both of whom eventually decided to return to the drawing board and draft totally new constitutions. And indeed, a number of countries in the world (such as the United Kingdom) perform well with a patchwork constitutional order. Still, in Latvia the system as a whole has taken more time to settle into place. For example, in 2011 President Valdis Zatlers gave a speech publicly calling for the introduction of a directly elected presidency, even though a 2002 citizens' initiative on this issue failed to gain enough signatures even to initiate a referendum.

Were Latvia to switch to a more presidential system, it would move closer to Lithuania's system of government and away from Estonia's. Lithuania's experience with semi-presidentialism has generally been positive, with the popularly elected president having power over foreign and security policy as well as certain legislative veto functions, while the prime minister and cabinet preside over domestic policy. And although the presidency was rocked in 2003–2004 by the impeachment, trial and eventual removal from office of President Rolandas Paksas on charges of abuse of power, there was little consideration given to doing away with the institution or switching to greater parliamentarism. Quite the contrary, for many observers (Norkus 2008, Clark & Verseckaitė 2005) the political crisis proved that the institutional rules set forth in 1992 were reliable and sound. The problem involved not the powers themselves, but their misuse by a specific individual.

In this respect, Estonia's constitutional order has undergone the least amount of wrangling and change. The system of checks and balances appears to be more consensually in place. During the 1990s, Estonia's first president, Lennart Meri, attempted to test the powers of his office by contesting a number of the decisions of the first Estonian prime minister, Mart Laar. However, apart from these scuffles the institutional balance has remained in place. Controversies between the president and prime minister have been more frequent in Latvia and Lithuania, where in many cases the president has expressed serious dissatisfaction with the performance of the prime minister and attempted to force the latter to resign. For example, in 1999 the Lithuanian President Valdas Adamkus succeeded in driving Prime Minister Gediminas Vagnorius from office over complaints that the government was not doing enough to fight corruption.

Likewise, Latvia's President Vaira Vīķe-Freiberga undertook a showdown in 2006–2007 with the then prime minister, Aigars Kalvītis, when the government used special constitutional powers to pass controversial changes to a number of security laws. When the President threatened to initiate a referendum to block these amendments, Kalvītis backed down and in fact resigned shortly thereafter. Although the president in Latvia has few direct powers to control the prime minister, both Vīķe-Freiberga and her successor Valdis Zatlers have used the prestige of their office and the power of their personality to play a sig-

Figure 6.2.1. Cases decided by the constitutional courts in the Baltic states, 1993–2010, N



Source: websites of the Baltic constitutional courts

Table 6.2.1. Types of constitutional amendments in the Baltic states, 1992–2011

	Estonia	Latvia	Lithuania
electoral system changes	extending the term in office of local councils	extending the term in office of the president, parliament	extending the term in office of local councils
EU accession-related changes	constitutional act allowing accession	constitutional act allowing accession; allowing EU citizens to vote in municipal and EP elections	constitutional act allowing accession; altering central bank prerogatives to allow for euro
strengthening national identity or sovereignty	language provisions strengthened	MP's oath enshrined in constitution; language provisions strengthened	amendments allowing foreign entities to acquire land, internal waters and forests
institutional changes	commander of the defence forces to be appointed by the cabinet, not the president	creation of Constitutional Court; addition of full chapter on Fundamental Human Rights; removal of government right to issue decree-laws; amendment to give voters the right to dissolve Parliament	on the appointment and dismissal of the Prosecutor General

Source: Baltic Constitutions

nificant role in politics, much more than Estonian presidents ever have. In Zatlers' case, the deep financial crisis of 2008–2009 and the popular protests that erupted prompted him to pressure Prime Minister Ivars Godmanis to resign, which the latter did in February 2009. Zatlers also became the first president to call in June 2011 a formal referendum on dissolving parliament.

The ultimate arbiter in many of these disputes has been the constitutional court in each country. Across the three Baltic states, these courts are either separate institutions (as in Latvia and Lithuania) or are embedded in the Supreme Court (Estonia). Likewise, different state institutions have the right to submit cases to the court for judicial review; these sometimes include a certain number of parliamentarians (Latvia, Lithuania), the government (Lithuania) or the special institution of chancellor of justice in Estonia. Figure 6.2.1 shows that the number of rulings issued by these courts in the Baltic states has risen over time. In part, this growth has been a function of these courts gradually gaining more power, such as the power to hear cases filed directly by single individuals (Latvia and Estonia). Overall, however, awareness of the power and relevance of these courts has also increased.

A final indicator of a country's constitutional development is the number of times the constitution has been amended. Over the last twenty years, constitutional amendments have been passed the most in Latvia and least in Estonia. (Table 6.2.1) To be sure, this is partly a factor of how easy it is to amend the constitution in one or the other country. While this is relatively difficult in Estonia, in Latvia it is easier. Nevertheless, as noted earlier, Latvia has also had to touch up numerous parts of its 1922 Constitution, including adding a new section on fundamental rights as well as creating a Constitutional Court. It has also made important alterations to pre-existing provisions such as reducing the power of the cabinet to issue special decree-laws and giving voters the right to dissolve parliament.

Government stability and effectiveness

The next level of assessing political development and democratic consolidation relates to the performance of the executive branch and specifically to government stability and effectiveness. Ideally, governments should last in office from one election to another, but in the post-communist countries of Central and Eastern Europe very few have. This has led to concerns about the strength of democratic leadership in these countries, the ability of political parties to form durable government coalitions, as well as the policy effectiveness of government. Yet in order to examine any of these deeper effects of government stability, we first have to find a reliable way of measuring the phenomenon. In the literature there are in fact three different measures of government duration. These can be called the 'legal investiture', the 'party government' and the 'effective government' measures.

In purely legal-constitutional terms, governments can be counted when the prime minister has been duly nominated (usually by a president) and he/she has passed a vote of investiture. The stress here is on the legal act of constituting an executive. It places the emphasis on counting the number of times power is formally delegated to a prime minister.

At the same time, it can happen that during the life of that cabinet one or more parties within the coalition will leave or be thrown out, leaving the prime minister to continue either with a reduced majority or an outright minority. Whereas conventionally the prime minister will then resign and a new process of investiture begins, it is sometimes possible for the executive to stay in office either by reaching a 'toleration' agreement with some other party previously in the opposition or by coopting independent votes within parliament. In these instances, the cabinet continues from a legal point of view, but is different from its party composition, thus prompting some scholars to count such cabinets as new. Indeed, this has been the predominant way of measuring government duration in the literature. (Müller-Rommel et al 2004).

Nevertheless, the most recent scholarship has maintained that simply counting when one prime minister hands over the reins of power to another is not really a valid indicator for government duration, since many cabinets spend weeks serving as hold-over administrations following a formal resignation or parliamentary elections and before new cabinets are appointed. From the perspective of effective government, therefore, these weeks are seen as lost time, since the ongoing cabinet no longer has a political mandate to carry out meaningful policy actions. According to this view, these days in office should also be cut from the total. Moreover, 'effective government' means for these scholars additionally excluding those administrations that have been explicitly appointed as caretakers, as they by definition do not have a true policy mandate. (Ryals Conrad & Golder 2010)

While these different approaches may seem pedantic, Table 6.2.2 reveals that choosing one or another of these definitions can significantly alter the comparative figures for government duration in the Baltic states. Since Estonia has had two cabinets whose party composition has changed while in office, though the prime minister remained legally invested, the difference between the first and second models in terms of average duration of cabinets is over 100 days. Likewise, given the fact that cabinets in Latvia have sometimes taken weeks to form, the effective government score reveals that administrations with true policy mandates have existed in the country on average for less than a year.

To be sure, these Baltic figures fall more or less around the average government duration for all of the ten CEE countries that have joined the European Union. Using the party government model, this figure was 543 days, while for the effective government model it was 510. However, it was still below the Western European average of 568 days (Saalfeld 2008: 332).

Therefore, the question of how the Baltic governments were at all able to complete such enormous policy-implementation tasks as crafting large-scale economic reform or acceding to the European Union becomes somewhat of a puzzle. If coalitions, prime ministers and ministers frequently change, then how can durable policies be adopted and sustained? Part of the answer involves the fact that the countries of Central and Eastern Europe have generally adopted a centripetal model of governance (Gerring & Thacker 2008) involving a unitary state, an electoral system based on proportional representation and a parliamentary system of cabinet accountability. This means that the executive branch tends to gain in importance over time, as political parties become more disciplined in parliament (supporting the government consistently) and policy-making becomes more professionalized and intricate. Therefore, even though individual cabinets come and go, the executive machinery powers on, meaning enough decisions are implemented to keep reforms and trajectories going.

Moreover, in both Latvia and Lithuania governments have been endowed with special powers either to push legislation through parliament under expedited procedures or (in the case of Latvia) to adopt legislation wholly in lieu of parliament when the latter is not in session. The Latvian government used this second option extensively, as allowed by Article 81 of the Latvian Constitution, until in 2007 it was forced to agree to a removal

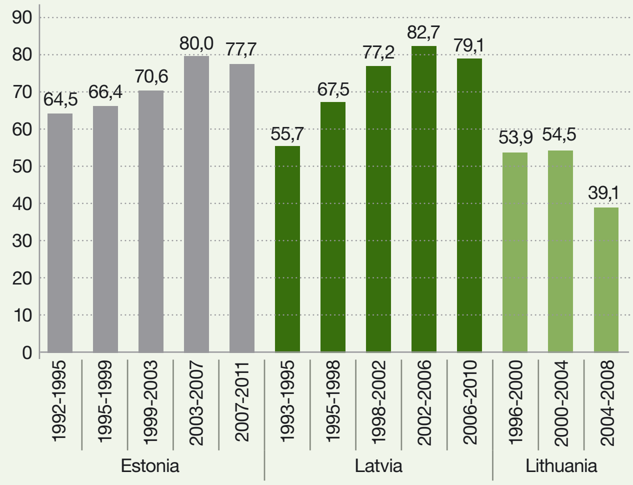
Table 6.2.2. Government duration in the Baltic states based on different measures, 1992–2011

	Legal investiture		Party government		Effective government	
	N	Ave. Days	N	Ave. Days	N	Ave. Days
Estonia	10	672	12	559	11	575
Latvia	14	452	17	370	17	345
Lithuania	10	573	11	531	10	552

Note: Data are for full electoral terms, i.e. Estonia 1992–2011; Latvia 1993–2010; Lithuania 1992–2008.

Source: calculations by the authors

Figure 6.2.2. Proportion of final legislative acts originally sponsored by the Government

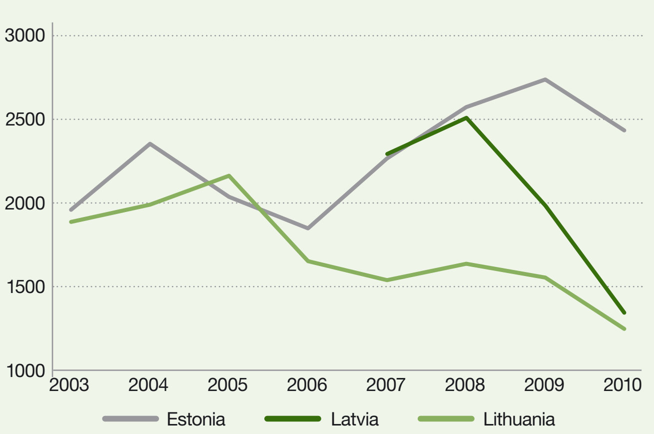


Source: calculations by the authors

of this provision during its crisis with President Vīķe-Freiberga over security laws. (See above.) The answer to the paradox of why lower levels of government stability in Latvia haven't proven more debilitating in terms of policy is that, first, when governments are in office, they have wielded strong powers to adopt at least minimal reform legislation. Second, there has been a great deal of political continuity despite the high turnover of government coalitions. For example, between 1992 and 2002 the Foreign Ministry was controlled by one party – Latvia's Way – and had just three ministers (although there were nine government coalitions in this period). In the same way, Mārtiņš Roze held the post of agriculture minister from 2002–2009, a period in which there was five different coalitions.

This predominance of the executive is also evident in the evolution of legislative performance in the Baltic states. Scholarly literature on parliaments in post-communist Central and Eastern Europe has focused on their 'professionalization' as measured by the gradual development of formal organizational structures and procedures. (Olson & Norton 1996, Lukošaitis 2005.) Many scholars have stressed the 'strength' of these parliaments during the first half of the 1990s because parties were less disciplined, executive bureaucracies less formalized and par-

Figure 6.2.3. Number of written complaints submitted to Baltic ombudsmen



Source: Yearly reports from the respective ombudsman's offices

liamentarians themselves more free-spirited. This became evident in the fact that political party groups in the Baltic parliaments frequently shifted. Also, the number of legislative initiatives coming from individual MPs was relatively high.

Over the years, however, a number of rule changes and political processes have served on the one hand to seemingly stabilize parliamentary politics, but on the other hand have helped to reduce parliament's effective role in political decision-making. This is evidenced by Figure 6.2.2, which shows the proportion of final legislative acts originally sponsored by the government. In Estonia and Latvia, in particular, the executive branch has come to assume a preponderant role in producing that legislation which is eventually passed. Parliamentarians have frequently been reduced to rubber-stamping decisions made in cabinet or ministries, and not devoting much time to independent law-making.

Moreover, as noted above, the government in Latvia and Lithuania possess particular powers to request that proposed legislation be examined under expedited procedures. While in theory a useful provision for allowing certain policy decisions to be decided quickly where exceptional circumstances obtain, the method itself limits the opportunity for true legislative scrutiny as well as interest group participation. Moreover, the custom has begun to increase in frequency, such that by the mid-2000s roughly a quarter of bills in the Lithuanian *Seimas* as well as a third in the Latvian *Saeima* were being considered under some degree of expedited procedure. In the Latvian *Saeima*, it was not unheard-of to carry out two readings of a bill (together with intermissions for the submission of proposed amendments) as well as pass the legislation in plenary all within one day.

All in all, government stability and effectiveness in the Baltics has had a seemingly curious inverse relationship. While cabinets have been less stable than in many other post-communist countries and below the Western European average, their policy effectiveness has been enough to pass and implement major societal reforms over the last two decades. This is less a characteristic of any 'Baltic way', but rather a function of modern government in all advanced democracies, where the executive branch tends to have more prerogatives over the legislative, thereby allowing it to steer policy often times notwithstanding its own cabinet instability or the formal constitutional oversight of legislatures.

Yet, where governments resort to such measures repeatedly, not only is the credibility of the legislature reduced, but also citizens' confidence in the democratic process is diminished. A democratic deficit deepens and political cynicism grows. In all three Baltic states, but particularly in Latvia and Lithuania, these trends appear to be deepening.

Table 6.2.3. Freedom House scores for Civil Liberties

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Estonia	3	3	2	2	2	2	2	2	2	2	2	2	2	1	1	1	1	1	1	1
Latvia	3	3	3	2	2	2	2	2	2	2	2	2	2	2	1	1	1	1	1	2
Lithuania	3	3	3	3	2	2	2	2	2	2	2	2	2	2	1	1	1	1	1	1
Norway	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1
Sweden	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1
Finland	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1
Denmark	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1
Czech Rep.	--	--	2	2	2	2	2	2	2	2	2	2	2	1	1	1	1	1	1	1
Hungary	2	2	2	2	2	2	2	2	2	2	2	2	2	1	1	1	1	1	1	1
Poland	2	2	2	2	2	2	2	2	2	2	2	2	2	1	1	1	1	1	1	1
Slovakia	--	--	4	3	3	4	4	2	2	2	2	2	2	1	1	1	1	1	1	1
Slovenia	3	2	2	2	2	2	2	2	2	2	2	1	1	1	1	1	1	1	1	1
Bulgaria	3	3	2	2	2	3	3	3	3	3	3	2	2	2	2	2	2	2	2	2
Romania	5	4	4	3	3	3	2	2	2	2	2	2	2	2	2	2	2	2	2	2
Russia	3	3	4	4	4	4	4	4	5	5	5	5	5	5	5	5	5	5	5	5
Ukraine	3	3	4	4	4	4	4	4	4	4	4	4	4	3	2	2	2	2	2	3
Moldova	4	5	5	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	3
Belarus	4	3	4	4	5	6	6	6	6	6	6	6	6	6	6	6	6	6	6	6

Source: Freedom House; 1 = totally free, 7 = totally unfree

Table 6.2.4. Freedom House scores for Political Rights

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Estonia	2	3	3	3	2	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1
Latvia	2	3	3	3	2	2	1	1	1	1	1	1	1	1	1	1	2	2	2	2
Lithuania	2	2	1	1	1	1	1	1	1	1	1	1	1	2	1	1	1	1	1	1
Norway	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1
Sweden	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1
Finland	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1
Denmark	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1
Czech Rep.	--	--	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1
Hungary	2	2	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1
Poland	2	2	2	2	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1
Slovakia	--	--	3	2	2	2	2	2	1	1	1	1	1	1	1	1	1	1	1	1
Slovenia	2	2	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1
Bulgaria	2	2	2	2	2	2	2	2	2	2	1	1	1	1	1	1	1	2	2	2
Romania	5	4	4	4	4	2	2	2	2	2	2	2	2	3	2	2	2	2	2	2
Russia	3	3	3	3	3	3	3	4	4	5	5	5	5	6	6	6	6	6	6	6
Ukraine	3	3	4	3	3	3	3	3	3	4	4	4	4	4	3	3	3	3	3	3
Moldova	5	5	5	4	4	3	3	2	2	2	2	3	3	3	3	3	3	4	3	3
Belarus	4	4	5	4	5	6	6	6	6	6	6	6	6	7	7	7	7	7	7	7

Source: Freedom House; 1 = totally free, 7 = totally unfree

Civil and political rights

A final criterion for assessing overall Baltic political development concerns the protection and vibrancy of civil and political rights. All three Baltic states devote considerable parts of their constitutions to enumerating a full range of modern democratic rights for their populations. However, the institutional mechanisms chosen to protect these rights have differed over the years. (Dreifelds 2001) Only Estonia has a formal institution – the Chancellor of Justice – that is specified within the constitution for the safeguarding of constitutional rights. At the same time, the scope of the Chancellor's powers was originally limited to examining the constitutionality of legal acts. It was not until 1999 that these duties were expanded to those of a classic ombudsman, in which the Chancellor is now responsible for reviewing individuals' complaints against state officials. Five years later, this prerogative was extended to include adjudicating individual complaints against municipal officials and a range of other public authorities.

By contrast, in 1994 Lithuania was the first country to create a specially designated ombudsman institution, or to be more precise, a set of five ombudsmen appointed by the Speaker of Parliament. These officials were divided into different spheres of responsibility. Moreover, in 1998 and 2000 additional offices for equal opportunity and children's rights were created. However, in 2010 the number of formal ombudsmen was reduced to just two, one for state institutions and another for the local and county levels.

Latvia chose still another system, in that in 1995 a State Human Rights Bureau was founded, which was tasked with examining individuals' claims of human rights violations. This Bureau operated for eleven years until (following prolonged discussions) a formal Ombudsman Office was created, which would henceforth fulfill the classic role of examining individuals' grievances against both national and local government authorities.

As illustrated in Figure 6.2.3, the annual number of written complaints submitted to these Baltic offices has gone down over the last few years, particularly in Latvia and Lithuania. This decline appears to represent a trend whereby individuals are becoming more aware of what exactly an ombudsman can and cannot do to help. The continuing high number of complaints submitted to the Estonian Chancellor of Justice masks the fact that on average some 75% of these appeals are in fact rejected, while in Latvia and Lithuania this rate is just 30–40%. Therefore, while Estonians appear to be more active in attempting to defend their rights, their claims are often outside the ombudsman's purview or are unsubstantiated.

An additional view on how civil and political rights are protected in the Baltic states can be gleaned from the composite indices compiled by international, comparative research teams like the Freedom House foundation based in Washington, DC or the Economic Intelligence Unit. The advantage of such indices is that they disaggregate the system into specific processes of democracy, not just rules and institutions as such. Democracy includes more abstract phenomena such as respect for civil liberties, the role of the media, the strength of civil society or levels of corruption. As we will see below, the Nordic countries serve as a high-end benchmark for the Baltic states. Norway, Sweden, Denmark and Finland generally score significantly higher than Estonia, Latvia or Lithuania. However, depending on the index used, the Baltic states do fare relatively well in relation to the other post-communist countries, with Estonia usually ahead of its two southern neighbours.

Table 6.2.5. Nations in Transit Democracy Scores

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Estonia	2.13	2.00	2.00	1.92	1.96	1.96	1.96	1.93	1.93	1.96
Latvia	2.21	2.25	2.25	2.17	2.14	2.07	2.07	2.07	2.18	2.18
Lithuania	2.21	2.21	2.13	2.13	2.21	2.21	2.29	2.25	2.29	2.25
Czech Rep.	2.25	2.46	2.33	2.33	2.29	2.25	2.25	2.14	2.18	2.21
Hungary	2.13	2.13	1.96	1.96	1.96	2.00	2.14	2.14	2.29	2.39
Poland	1.58	1.63	1.75	1.75	2.00	2.14	2.36	2.39	2.25	2.32
Slovakia	2.5	2.17	2.08	2.08	2.00	1.96	2.14	2.29	2.46	2.68
Slovenia	1.88	1.83	1.79	1.75	1.68	1.75	1.82	1.86	1.93	1.93
Romania	3.67	3.71	3.63	3.58	3.39	3.39	3.29	3.36	3.36	3.46
Bulgaria	3.42	3.33	3.38	3.25	3.18	2.93	2.89	2.86	3.04	3.04
Russia	4.88	5.00	4.96	5.25	5.61	5.75	5.86	5.96	6.11	6.14
Ukraine	4.71	4.92	4.71	4.88	4.50	4.21	4.25	4.25	4.39	4.39
Moldova	4.29	4.50	4.71	4.88	5.07	4.96	4.96	5.00	5.07	5.14
Belarus	6.38	6.38	6.46	6.54	6.64	6.71	6.68	6.71	6.57	6.50

Source: Freedom House, scale = 1-7, where 1 is fully democratic

Table 6.2.6. Economist Intelligence Unit Democracy Index scores

	2006	2008	2010
Estonia	7.74	7.68	7.68
Latvia	7.37	7.23	7.05
Lithuania	7.43	7.36	7.24
Norway	9.55	9.68	9.80
Sweden	9.88	9.88	9.50
Finland	9.25	9.25	9.19
Denmark	9.52	9.52	9.52
Czech Rep.	8.17	8.19	8.19
Hungary	7.53	7.44	7.21
Poland	7.30	7.30	7.05
Slovakia	7.40	7.33	7.35
Slovenia	7.96	7.96	7.69
Romania	7.06	7.06	6.60
Bulgaria	7.10	7.02	6.84
Russia	5.02	4.48	4.26
Ukraine	6.94	6.94	6.30
Moldova	6.50	6.50	6.33
Belarus	3.34	3.34	3.34

Source: Economist Intelligence Unit

Freedom House produces two indices that track democratic development. The first is a general measure of freedom in the world, and the second is targeted more at post-communist countries, called Nations in Transit. Across both of these indicators, the Baltic states have performed relatively well. For almost their entire period of re-independence, the Baltic states have been ranked by Freedom House as fundamentally 'free' societies. Only in the early 1990s did concerns over citizenship legislation and minority rights in Estonia and Latvia tend to weigh down these countries' scores. By 1997, however, all three states had achieved the maximum score of '1' on the index's component measuring 'political rights'. The second measure of 'civil rights' has seen more gradual improvement, reaching a score of '2' for all three states by 1995 and a top grade of '1' in 2004–2005. These results were broadly analogous to those of the Visegrad group of Central and Eastern European countries; they were generally better than Bulgaria and Romania, and well ahead of Russia and other CIS states (See Tables 6.2.3 and 6.2.4).

Also since 1997, Freedom House has specifically sought to evaluate the strength of democracy in the post-communist world through its *Nations in Transit* scores. This measure devotes more explicit attention to the strength of electoral processes, independent media, civil society, the judiciary, governance structures and anti-corruption policies. Here, too, the Baltic states have performed on a par with or even better than the Central and Eastern European average (see Table 6.2.5). The three countries generally stand a full point above Bulgaria and Romania and three or more points above Russia, Ukraine, Moldova and Belarus.

A slightly different picture is provided by the newest attempt at measuring democracy proposed by the Economist Intelligence Unit since 2006. According to its Democracy Index, the Baltic states all fall within the category of 'flawed democracies', as their composite score across five selected measures (electoral process, functioning of government, political participation, political culture, civil liberties) falls below 8.0 on a scale of 1–10 (see Table 6.2.6). This puts the three countries in the same category as most of the other post-communist EU Member States, although the Czech Republic and Slovenia do surpass 8.0 and are therefore included in the 'full democracy' category. Meanwhile, Ukraine and Moldova also fall into the 'flawed democracy' group, while Russia is termed a 'hybrid regime' and Belarus an 'authoritarian regime'.

6.3. Political landscape

While constitutional rules and political freedoms provide the background infrastructure for democracy to work, the true dynamics of democracy are manifested in the choices citizens make at each election. Citizens determine the political orientation of the country by choosing from the ideologies and electoral platforms of the political parties. This is the bottom-up version of democracy. However, scholars of transitional societies and nascent party systems have noted over the years that democratic politics also evolve from the top down in the sense that politicians often steer or manipulate the supply of political parties by engaging in bewildering organizational reshuffles such as shifting electoral alliances, start-up parties or splinter groups. The Baltic states are no exception in this regard.

Electoral trends

Elections in a democracy are meant to assess the level of popularity and the proportional strength of the different political forces who will go on to govern the country over the next electoral term. While democracy needs to be vibrant with an adequate number of parties both contesting elections as well as gaining access to parliament, it should also not be too fragmented and thereby lead to disintegration and indecision. Therefore, the easiest way to assess this criterion is to measure the number of parties both running in elections as well as represented in the legislature. Yet, such an approach would mask the comparative strength of parties and would therefore be too crude. Instead, since the late 1970s scholars have regularly assessed the level of party system fragmentation by calculating the so-called 'effective number' of political parties devised by Markku Laakso and Rein Taagepera. This calculation weights the size of parties according to the proportion of their electoral vote or their parliamentary seat share.

In the Baltic states, the party system has generally become less fragmented over the last two decades, as voters have started to coalesce around more stable and viable political parties. The logic is relatively simple: political parties gradually develop a brandname as well as prove their credibility over time. Voters meanwhile come to understand through electoral history as well as public opinion polls which parties are likely to get into parliament or not. They therefore concentrate their preferences on those parties in order to feel that their vote will not been lost on too feeble a contender.

In Figure 6.3.1, we see, however, that Lithuania has been an exception, as its effective number of electoral parties has more than doubled since 1992. This anomaly can be explained by the fact that following the emergence of a strong, bipolar ideological cleavage (anti-communist vs ex-communist) in the Lithuanian party system during the early 1990s, this intensity dissipated by 2000, and new parties continually arose to challenge the old established groups. Since the old parties did not fade away either, both the effective number of electoral and parliamentary parties has increased.

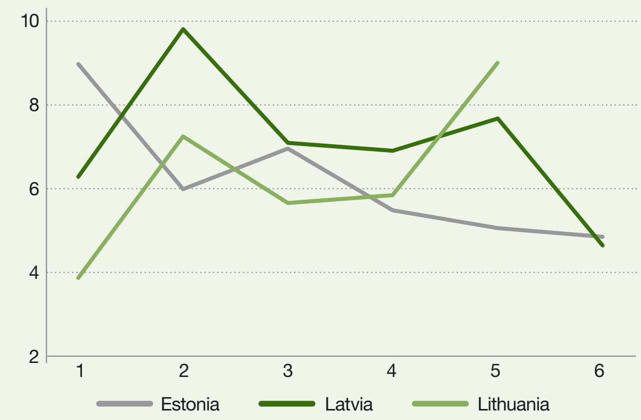
Estonia and Latvia appear to have performed better with both countries reducing their effective number of parliamentary parties to fewer than four following their most recent elections (Figure 6.3.2). However, these numbers mask an important difference between the two countries: whereas the four groups that are currently represented in Estonia's parliament are genuine single parties, all five of the groupings in Latvia's parliament are in fact electoral alliances and therefore much more unstable. The Latvian party system still has some way to go before it is really consolidated. One measure that might help this trend is a decision in 2010 to allow only those parties and alliances that won seats in a parliamentary election to create parliamentary party groups. This means that MPs will no longer be tempted to break off from their electoral party groups, since by so doing they will lose all access to parliamentary perks such as secretaries and legislative aids. Such a rule was already adopted in Estonia in the late 1990s.

Cleavage trends

Party systems, of course, are an interplay between the political programmes/ideologies that parties offer and the political preferences/identities that voters seek to express. In this sense, it is also important to examine the political orientations that have gradually begun to take shape among the voters. Yet the analysis of such cleavages in post-communist societies is fraught with difficulty. In contrast to Western countries, where cleavages formed organically and over decades across socio-economic as well as rural/urban, clerical/anti-clerical and later post-materialist divides, in post-communist countries the formation of political divisions has taken place along more spontaneous lines. While in some countries the first major cleavage to appear was between anti-communist and post-communist forces, in others the most important divide was ethnic (majority vs minority groups) or occasionally rural/urban.

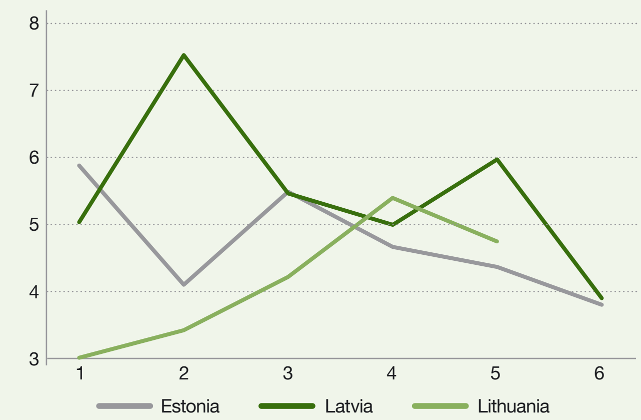
Over the next ten years or so, many anti-communist/post-communist cleavages dissipated as the salience of debating the meaning of the past and deciding what course to take following the immediate post-transition period diminished. Moreover, often a country experienced a pendulum swing from one force to the other, after which voters became disenchanted with both sides and they began turning to new forces, often populist in nature. When these parties also proved mediocre in

Figure 6.3.1. Effective number of electoral parties in the Baltic states by election since 1992



Source: Baltic electoral results

Figure 6.3.2. Effective number of parliamentary parties in the Baltic states by election since 1992



Source: Baltic electoral results

terms of governing, the result was a kind of vicious cycle in which either yet new forces appeared on the electoral market or politics became vacuous and governance suffered.

Why have voter preferences proven so erratic? One of the major underlying forces structuring classical Western party systems has been the relatively stable social stratification of the population. Lower-class workers remained lower-class workers for generations, while upper-class wealthy remained upper-class wealthy. Voter preferences were therefore relatively constant. In post-communist countries, economic transformation meant that everyone's chances were seemingly wide-open. Indeed, many people went from rags to riches in the whirlwind of change. Hence, even if not everyone won out, there was a pervasive impression and atmosphere that everything could still change. And when it came to politics, voters' interests were not determined by some fixed social status in society; rather, these were often open, and so voters could easily be attracted by charismatic personalities or new faces with little regard to what exactly these politicians' ideologies were. Left-right cleavage structures were likely to emerge only when stratification in these societies became more distinct and enduring. This only began to emerge, however, in the 2000s.

The Baltic states have featured many of these same trends in that classic left/right as well as other 'conventional' cleavages that have never really developed. Only in Lithuania did some kind of seemingly well-structured cleavage system initially emerge, based essentially on the anti-communist/post-communist divide (Jurkynas 2004). The Lithuanian Democratic Labor Party (LDLP) was the first ex-communist party in Central and Eastern Europe to return to power already in October 1992, while the nationalist Homeland Union-Lithuanian Conservatives reversed the swing in 1996. However, even here there were ambiguities. The LDLP had few if any ideological traces left from its days as the Lithuanian Communist Party. Rather, it projected itself as a set of competent managers, with the hands-on Soviet-era leader Algirdas Brazauskas at its head.

By 2000, however, the system began to crack with the emergence of the New Union-Social Liberals (a more amorphous, centrist force) as well as the decision by political maverick Rolandas Paksas to join with the Liberal Union and propel that party from obscurity to third place in the polls. Lithuania then repeated this pattern of shifting to new populist forces with the emergence of Viktor Uspaskich's Labor Party in 2004 and the Rising Nation Party of Arturas Valinskas in 2008. Eventually, the New Union and the Rising Nation Party declined in popularity, proving to be somewhat transient forces. However, the Labor Party and the Liberal Union (even after some splits) anchored themselves into the party system and contributed to a cautious re-equilibration of the party system. On the one hand, the Homeland Union, Christian Democrats and Liberals Movement sought by 2010 to project a conservative, centre-right orientation, while the Social Democrats (former LDLP) and the Labor Party appealed to the left and those less successful in the economic transition and alienated from politics. The old cleavage of anti-communists/ex-communists continues to be mirrored in this new party system, since the Labor Party, too, sometimes relativizes the past, while the Homeland Union-Christian Democrats denounce the era of communist oppression. But still there is clear divide. Only the party of former president Rolandas Paksas, Order and Justice, obscures this cleavage, since it attracts the votes of lower-class people, while at the same time stressing law-and-order conservatism.

Estonia and Latvia have long had latent ethnic cleavages. However, given the effect of their citizenship laws, which left large parts of their ethnic Russian populations without immediate citizenship in the early 1990s, the essential political cleavages have been socio-economic or populist. In Estonia, the ethnic cleavage was almost completely suppressed, since only an estimated 10% of the electorate was non-Estonian during the early 1990s (as opposed to their 30% share of the population). In Latvia, the proportion of ethnic minority voters was higher, roughly 25%, owing to the fact that many more minorities were living there before the Soviet takeover in 1940 and therefore qualified for restored citizenship after 1991. Nonetheless, the political weight of these minority voters has for all intents and purposes been marginalized, since never have any of the parties representing these voters (such as the Harmony Party and later the coalition "For Human Rights in a United Latvia" or the Harmony Centre Party) been included in a national government coalition, despite having sometimes captured more than a quarter of the vote.

This has meant that most of the real political competition has taken place among a narrow range of ethnic Latvian parties. However, very few of these have actually developed a clear ideological orientation. Rather, they have tended to be seen as representing merely certain economic oligarchs or interests. Therefore, the country saw the emergence of populist leaders such as Ziedonis Čevers and Joachim Ziegerists already in 1995. These were followed in 1998 by the rise of Andris Šķēle and the People's Party and in 2002 by Einars Repše's New Era party. All of these groupings battled for dominance on the Latvian political scene but none was able to establish any hegemony. At best, a fuzzy type of cleavage has emerged, in which the oligarch-based parties (casting themselves as pro-business) have been opposed by anti-corruption crusader parties (alternatively depicted as managerially incompetent or too liberal-intellectual).

Only in Estonia have electoral cleavages gradually coalesced along what could be described as a distinct left/right divide and with few populist or up-start parties. As in Lithuania, Estonia started in 1992 with a strong nationalist surge with these forces taking nearly 40% of the vote. However, the hardship of the 'shock therapy' economic reform that was carried out over the next two years caused voters to turn away from these parties and support a kind of centrist bloc in the form of the Coalition Party and the Country People's Union (CPCPU). The CPCPU represented (somewhat similarly to the Lithuanian Democratic Labor Party) a group of former Soviet-era managers, who had moved into private business and now promised sound administration after the years of economic upheaval. Yet, this attempt at capturing the centre did not endure, since scandals linked to these leaders' business interests soon drove them from power, and the Coalition Party itself was essentially defunct by 2000. The real nucleus of business interests became the neo-liberal Reform Party, founded in 1994. It has been the fulcrum of every government in Estonia since 1999.

In a kind of opposition to the centre-right was the Centre Party with a consistent (though also sometimes populist) platform advocating more state-supported economic growth and social welfare. Yet this leftism was not a version of social democracy, but rather an attempt to appeal to those who had been less successful under the economic transition. Increasingly, the party also began attracting Russian voters, especially as more non-Estonians became naturalized. This eventually led to accusations that the Centre Party was becoming too reliant on Russian support. Whether true or not, the issue became an added reason for other Estonian parties to shun the Centre Party. Lastly, many accused the party's leader, Edgar Savisaar, of being too overbearing and deceitful.

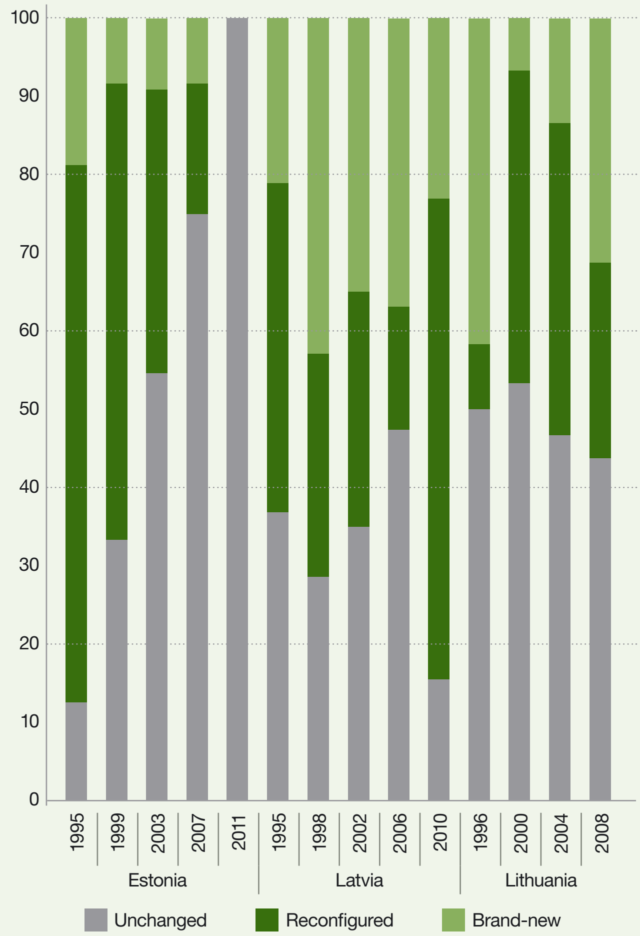
In summary, Estonia, too, suffered Latvia's weakness in that government had never truly alternated between clearly different camps. While the Centre Party was included in government during the years from 2002–2003 and 2005–2007, these were essentially 'second-preference coalitions' organized by the Reform Party once the latter's primary coalitions had broken down. Both Estonia's and Latvia's party systems therefore remained rather one-sided.

Trends in party supply

The opposite of having durable cleavages in a party system involves having perpetually new political parties and a lack of organizational cohesion among those that do endure. Over the last 15 years, an average of 20% of parties participating in Baltic elections have been brand-new. This means that there are constantly new political forces think they can break into the electoral-political market. Yet, as Figure 6.3.3 shows, there is considerable disparity in these patterns from election to election and across Estonia, Latvia and Lithuania. Not only do new parties form much more frequently in the latter two countries, but also those that carry on from the previous election often reconfigure themselves in some way, either by organizing an electoral alliance or merger or by breaking away from another party. This means that at each election the political scene is thrown into new disarray. By contrast, the proportion of new parties in Estonia sank to zero during the 2011 parliamentary elections.

Moreover, the share of the vote for these new and reconfigured parties has often been considerable, further upsetting the political landscape. For example, since the

Figure 6.3.3. Types of parties contesting Baltic elections (%)



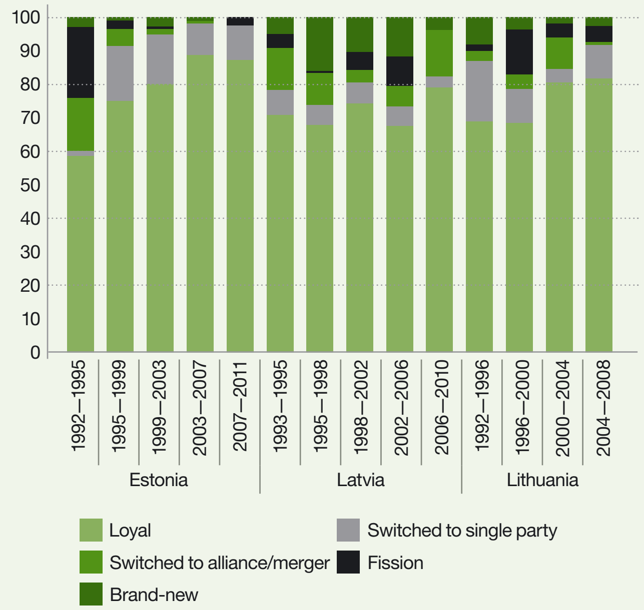
Source: Baltic electoral results

Table 6.3.1. Votes shares among different types of party formations contesting Baltic elections (%)

	Estonia					Latvia					Lithuania			
	1995	1999	2003	2007	2011	1995	1998	2002	2006	2010	1996	2000	2004	2008
Unchanged	2.3	57.0	58.7	75.0	100.0	42.1	22.2	50.5	70.0	20.1	64.9	43.3	21.7	37.1
Alliance	42.5	21.0	0.0	0.0	0.0	17.7	29.2	10.0	10.7	73.1	2.2	32.2	32.0	0.0
Merger	28.0	15.2	13.6	17.9	0.0	15.2	17.1	9.5	0.0	1.6	0.0	1.5	17.2	21.5
Post-Alliance	0.0	2.5	2.7	0.0	0.0	7.0	0.0	0.5	0.0	0.4	19.3	0.9	0.0	16.3
Fission	24.4	0.4	0.0	0.0	0.0	14.9	0.1	1.5	14.4	0.0	0.0	2.5	0.5	5.7
Brand-new	2.5	2.4	24.6	7.1	0.0	2.6	30.8	27.6	4.3	2.6	13.7	19.6	28.7	19.4

Source: Baltic electoral results

Figure 6.3.4. Party affiliation patterns among repeat candidates in Baltic parliamentary elections



Source: Baltic electoral results

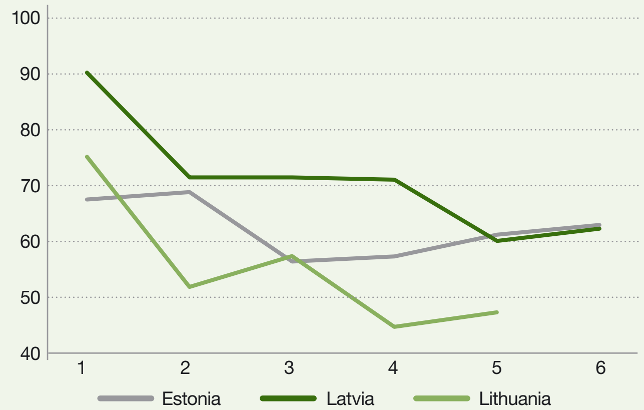
disintegration of its initial party system in 2000, Lithuania has seen new parties win an average of 22.5% of the vote at each election. Unchanged parties have garnered just 34%. In Latvia, there was a gradual trend toward stabilization from 1998 to 2006; for example, the share of the vote for brand-new parties declined considerably. However, the election of 2010 was a setback, since 75% of the vote was won by reconfigured parties. Estonia was the only country (indeed in the entire post-communist world) to have an election in 2011 in which all of the parties running were unchanged from the previous poll (Table 6.3.1).

Yet, if these aggregate indicators would seem to indicate that Estonia's party system is the most consolidated, this does not mean that politicians in the other two countries are entirely in flux. As Figure 6.3.4 indicates, when comparing any two parliamentary elections in the Baltic states, those candidates that ran in both elections have generally demonstrated a high degree of loyalty to their basic political grouping. In other words, core politicians do not switch around wildly between parties. Only in Latvia were politicians during the late 1990s often tempted to jump over to new start-up parties. But the predominant type of switching has been to other established parties; for example, when one party might offer a candidate a higher spot on its electoral list.

6.4. Political culture

An important variable that is often cited to explain a country's overall democratic development concerns the notion of 'political culture'. Political culture is a broad conglomerate of phenomena, encompassing not only patterns of citizens' political behaviour, but also the values and beliefs that underlie them. Democratic government will therefore depend not only on democratic rules, but also on more deeply ingrained democratic values and norms. According to Norris (1999), this begins with the degree to which citizens share a common understanding of the borderlines and nature of their political community (national identity). It continues with the degree to which citizens have an underlying faith in democracy as a regime (regime support). Thirdly, it encompasses an evaluation of regime performance (the extent to which democracy actually delivers), and concludes with the level of people's trust in political institutions and their opinion about individual politicians' performance. These indicators therefore seek to measure different levels of abstraction in relation to 'political support'. For many analysts, they also have a hierarchical character: having an adequate degree of support at any one particular level serves as a prerequisite for the functioning of lower levels. In this subchapter, we will examine many of these levels in the Baltic states, but we begin with practical indicators of political culture such as participation.

Figure 6.4.1. Turnout in parliamentary elections in the Baltic states since re-independence (%)



Source: Baltic electoral results

Electoral and other political participation

The most basic form of political participation is voting. Since the days of astronomically high levels of voter turnout (upwards of 90%) during the founding elections of the early 1990s, electoral participation has dropped off noticeably. In Figure 6.4.1, we see that the decline has been most stark in Latvia and Lithuania (down some 26 percentage points), while in Estonia fluctuations have ranged around 10%. The lowest absolute level of participation has been in Lithuania, where turnout in parliamentary elections has been below 50% for two polls in a row. Part of this decline is clearly explained by the general phenomenon of political alienation among all three Baltic peoples. Another putative reason may have simply been voter fatigue, since not only has the number of elections increased (local, national and now European), but in countries like Lithuania the parliamentary elections take place over two rounds, and participation during the second round has tended to fall even further, to just over 30%. Lastly, it is worth pointing out that recent waves of emigration from the Baltic states have also been a factor decreasing voter turnout. With as many as 100,000 Latvians and 100,000 Lithuanians living in Great Britain and Ireland (to name just two of the most popular destination countries), voter participation figures among these populations tend to be in the single digits, meaning entire sections of the voting age populations are effectively disconnected from the political system.

Another form of voting that may or may not fatigue voters is the number of referendums and other elements of direct democracy that a political system might facilitate. This indicator of participation is, however, an ambiguous one, since it is not always guaranteed that referendums clarify political decision-making. There are two elements of concern here. The first is the very nature of referendums, as political issues are crudely reduced to binary choices and yet often there are no clear-cut advantages to one or other policy alternative. Therefore, any final decision in a referendum will inevitably be sub-optimal and merely 'satisficing'. Secondly, the role of referendums in a political system will depend on the institutional rules that either enable or deter such decision-making procedures. In this, the Swiss political scientist Simon Hug (2005) has distinguished two dimensions: (a) whether in a given country a set of policy areas or political principles exists that can be changed only via a referendum, and (b) whether referendums can be initiated only from within the formal political institutions (such as parliament) or additionally by opposition groups (including citizen petitions). Using this four-fold typology, Hug has classified all of the post-communist countries of Central and Eastern Europe and found that the Baltic states lie at opposite ends of the spectrum (Table 6.4.1).

Table 6.4.1. Policy areas and institutions related to referendums in post-communist countries

Country	Required	Non-required active government proposal	Non-required active opposition proposal	Non-required passive
Armenia				X
Azerbaijan				X
Belarus				X
Bulgaria				X
Croatia		X		X
Estonia	X			X
Georgia	X	X	X	X
Hungary	X	X	X	X
Latvia	X	X	X	X
Lithuania	X		X	X
Macedonia		X	X	X
Moldova	X			X
Poland	X	X		X
Romania		X	X	X
Russia				X
Slovakia				X
Slovenia				X

Source: Hug (2005: 486)

Whereas Latvia and Lithuania have incorporated all four types of referendums into their constitutional system, Estonia only allows for parliament to initiate referendums and does not reserve any policy areas that would require a formal referendum. As a result, the frequency of referendums and their political origins also vary considerably. As Table 6.4.2 indicates, citizen groups in Latvia and Lithuania have made active use of their right to petition for a referendum. However, these data also reveal that not all citizen petitions are successful. Indeed, in Lithuania no citizen petition has ever been able to collect the required 300,000 signatures to initiate a referendum. Meanwhile in Latvia, only three citizen initiatives have ever attracted the necessary average of around 150,000 signatures in order to force a referendum. In one of these cases, parliament ended up accepting the legislative initiative being proposed by the campaign and a referendum was therefore averted. The other two campaigns ended with a formal ballot; however neither of them secured the required turnout and therefore ended up being invalid.

Table 6.4.2. Citizen petitions and referendums in the Baltic states, 1992–2011

	Estonia	Latvia	Lithuania
No. of citizen petition campaigns	n/a	6	14
Referendums initiated by citizen petition	n/a	2	0
Other referendums	2	5	9
Total referendums	2	7	9
Referendums fulfilling turnout requirements	2	2	3

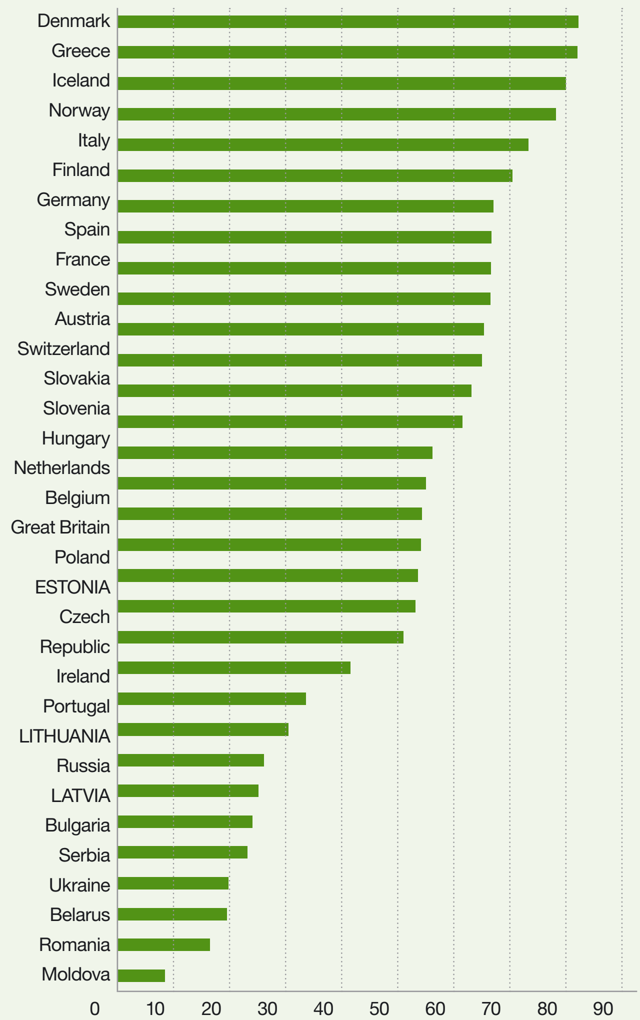
Source: authors' calculations based on information available from the websites of the electoral committees of the Baltic states

In this respect, voter participation in referendums has been another indicator of political culture: where measures have actually been put to a popular ballot, only a handful have secured the necessary level of turnout to be declared valid. This therefore further reduces the potential of referendums helping to create a tradition of direct democracy. Such a tradition would be useful in order to provide for alternative ways of channeling citizen demands if the party system is either dysfunctional (as in Latvia) or over-institutionalized (as in Estonia).

Attitudinal indicators

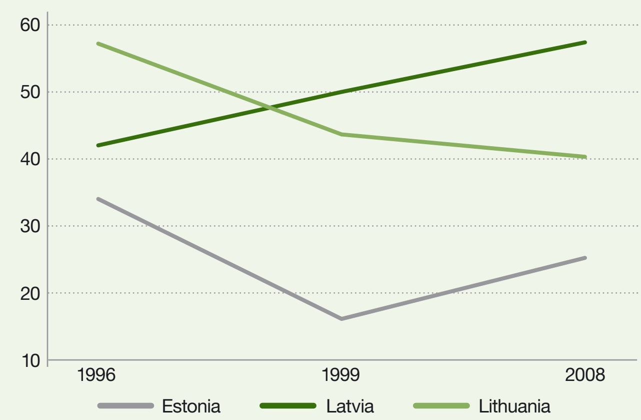
One of the most important signs of the success of democratic consolidation and a prerequisite for its effective functioning is the level of political support among the population. It is important to distinguish, however, between support for democracy as a form of government, i.e. adherence to the principles of democratic rule, and support for the current political authorities. While both levels of political support are important for the functioning of the political system, the general support for democracy is the crucial measure of the legitimacy of the regime.

Figure 6.4.2. Percentage of "true democrats" in European countries



Source: World Values Survey 1996, 1999, European Values Survey, 2008.

Figure 6.4.3. Support for strongman rule in the Baltic states



Source: World Values Survey, 1996, 1999, European Values Survey, 2008.

Are citizens in the Baltic countries happy with their pluralistic regime, its political freedoms, competitive elections and multiparty system? Have they developed an attachment to democratic principles and institutions? According to the 2008 European Values Survey, more than 85% of individuals in all three countries agree that democracy is the best political system and more than 80% claim that it is a good way of governing their country. Paradoxically, at the same time almost half of the population of the three Baltic countries would support rule by a single strong leader unconstrained by the parliament, and some even think that military rule would be good for governing the country. This implies that the support for the abstract ideal of democracy is not a good measure of regime support since the term "democracy" might mean different things to different people.

Figure 6.4.2 shows the percentage of "true democrats", i.e. individuals supporting democracy and rejecting non-democratic alternatives (a strong leader or military rule) in different European countries. The societies encompassed by the survey fall into four groups: 1) countries with more than 70% democrats, 2) countries where democrats comprise 60–70% of the population, 3) countries with 50–60% democrats and 4) countries where "true democrats" comprise less than half of the population. The first group consists exclusively of Western democracies, mostly Scandinavian societies. The second group is dominated by counties of continental Western Europe. The most economically advanced countries of Central and Eastern Europe fall into the third group together with the Netherlands, Great Britain and Belgium, while the other post-communist countries fall into the last group with the lowest level of democratic support.

Yet, although all three of the Baltic states fall toward the bottom of the scale, there is again a variation between Estonia on the one hand, and Latvia and Lithuania on the other. Estonia with a 52% share of democrats is in the third group of "advanced" post-communist countries, while Lithuania with 30% and Latvia with only 25% stay in the fourth group together with Russia and Belarus. The number of democrats in Latvia and Lithuania is so low due to the respondents' high support for the strong leader rule. A total of 41% in Lithuania and 57% in Latvia agree that having a strong leader who does not have to bother with parliament and elections would be good for the country. Moreover, 10% of Latvian and 6% of Lithuanian respondents would like to have the military rule the country.

In temporal terms, we see from Figure 6.4.3. that support for authoritarian political rule has declined in Lithuania since the mid-1990s, while in Latvia it has grown. The higher initial figure for Lithuania could well be explained by the historical legacy of President Antanas Smetona's authoritarian rule in the country between 1926 and 1940. The country's decision to go with semi-presidentialism in 1992 also underscored this orientation. At the same time, the successful functioning of the democratic system through the 1990s and early 2000s seemed to show more and more people that a democracy could work. Clearly the controversy surrounding Rolandas Paksas also signalled to people the problems that could arise with a single, strong leader. Meanwhile in Latvia continued disarray in the party system and conflicts between the president and prime minister (see above) could well be explanations for why support for presidentialism and even strongman rule have been rising. In Estonia, support for strongman rule fell in 2011 to just 11.9%, according to the Estonian National Election Survey.

Another important aspect of political support is trust in political institutions. Confidence in institutions is largely determined by the performance of political authorities rather than cultural norms (Mishler & Rose 2001). Hence, these indicators are often more volatile. Nevertheless, the general level of institutional trust is important for the effective functioning of the political system, since the absence of political trust can foster corruption and impede the development of civil society (Rothstein 2000).

As evident from the data in Table 6.4.2, trust in public institutions is consistently the lowest in Lithuania and highest in Estonia. The level of trust in the justice system in Estonia is comparable to that of France, Ireland, Netherlands, Portugal or Great Britain (the numbers in Scandinavian countries are substantially higher), while the numbers of Lithuania are similar to that of Ukraine, Serbia, Bulgaria and Croatia.

While this headway in Estonia among the Baltic countries can be explained by better institutional performance both in the economic and political sphere (e.g. higher GDP and more effective government), low levels of trust in public institutions in Latvia and especially Lithuania could hardly be accounted for by these same variables. Quite the contrary, during the period of 2001 to 2008 when the GDP in these countries was growing the fastest, trust in parliament gradually decreased and unsurprisingly reached an extraordinarily low level during the economic crisis of 2009–2010 (Figure 6.4.4). In Estonia, trust in political institutions has even increased during the last years, despite the economic crisis. Among respondents participating in the 2011 Estonian National Election Survey, 34% had confidence in parliament, 45% in the government and 40% in the court system.

The chronically low levels of political trust in Latvia and Lithuania suggest that these countries are trapped in a vicious circle of political alienation. Distrust in political institutions stimulates the rise of new populist parties, and the growth of populism in turn increases popular disenchantment with the political system. Moreover, political distrust and dissatisfaction with the system is reinforced by the media. It is even amplified, when in countries such as Lithuania trust in the media is actually high. The sensationalist or cynical connotations that such media convey are even more internalized by citizens.

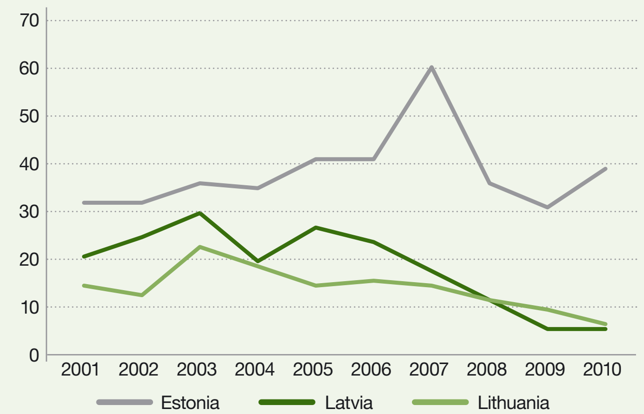
Table 6.4.2. Confidence in public institutions (%)

Confidence in:	Estonia	Latvia	Lithuania
Justice system	55	44	25
Police	68	54	45
Civil service	59	57	38
Parliament	28	20	14

Legend: having a great deal or quite a lot of confidence in an institution

Source: European Value Survey, 2008

Figure 6.4.4. Levels of trust in the national parliament in the Baltic states



**non-citizens not surveyed in Estonia and Latvia*

Source: Candidate Countries Eurobarometer, Standard Eurobarometer

Corruption

In many ways, corruption constitutes the antipode of a democratic political culture. It involves trying to gain political access through unofficial means; it involves trying to sell influence and abuse one's power position; it involves upsetting the very rule of law that democracies depend on for stability and security. And it involves deeply ingrained attitudes about these behaviours, which can come to constitute a long-lasting "culture" of its own. This is why the struggle against corruption is very slow, and progress in this area can take very long to materialize.

A second difficulty of dealing with corruption involves being able to measure it in a valid manner. How widespread are habits of paying or taking bribes? Are such bribes limited to small officials and petty amounts or do they reach the highest levels of government and involve thousands of kroons, lats or litas? How willing are people to admit – even anonymously – that they have come across corruption? How much can we infer a country's level of corruption from the number of court cases and prosecutions that are undertaken?

There are no easy answers to these questions and researchers have devised different analytical approaches to deal with them. The best known, of course, is Transparency International's Corruption Perceptions Index (CPI). This measure is a composite of numerous other country surveys, including Freedom House's Nations in Transit. As a result, it is not a direct assessment of corruption on the ground, but rather an estimate across a range of other analyses. Still, some of these sub-components (such as the World Economic Forum's Global Competitiveness Report) do ask local groups (such as businesspeople) how prevalent corruption is in their country. Therefore, the CPI does tap into certain prevailing *perceptions* of corruption.

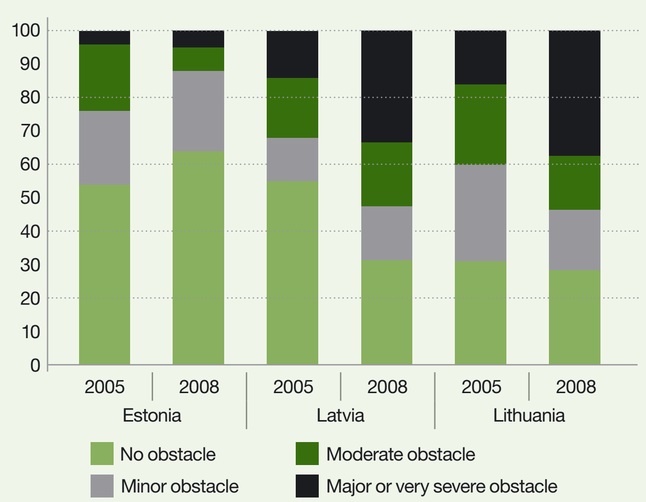
The Baltic states' CPI scores have generally shown improvement since 2000, rising along the index's 10-point scale by at least a full point (Table 6.4.3). Nevertheless, a disparity continues to exist between Estonia on the one hand, and Latvia and Lithuania on the other. Whereas Estonia's average since the beginning of the decade has been around 6.2, Lithuania's has been 4.7 and Latvia's just 4.3. According to the CPI methodology, those states that

Table 6.4.3. Transparency International's Corruption Perceptions Index

	2002	2003	2004	2005	2006	2007	2008	2009	2010
Estonia	5.6	5.6	5.5	6.4	6.7	6.5	6.6	6.6	6.5
Latvia	3.7	3.8	4.0	4.2	4.7	4.8	5.0	4.5	4.3
Lithuania	4.8	4.7	4.6	4.8	4.8	4.8	4.6	4.9	5.0
Norway	8.5	8.8	8.9	8.9	8.8	8.7	7.9	8.6	8.6
Sweden	9.3	9.3	9.2	9.2	9.2	9.3	9.3	9.2	9.2
Finland	9.7	9.7	9.7	9.6	9.6	9.4	9.0	8.9	9.2
Denmark	9.5	9.5	9.5	9.5	9.5	9.4	9.3	9.3	9.3
Czech Rep.	3.7	3.9	4.2	4.3	4.8	5.2	5.2	4.9	4.6
Hungary	4.9	4.8	4.8	5.0	5.2	5.3	5.1	5.1	4.7
Poland	4.0	3.6	3.5	3.4	3.7	4.2	4.6	5.0	5.3
Slovakia	3.7	3.7	4.0	4.3	4.7	4.9	5.0	4.5	4.3
Slovenia	6.0	5.9	6.0	6.1	6.4	6.6	6.7	6.6	6.4
Romania	2.6	2.8	2.9	3.0	3.1	3.7	3.8	3.8	3.7
Bulgaria	4.0	3.9	4.1	4.0	4.0	4.1	3.6	3.8	3.6
Russia	2.7	2.7	2.8	2.4	2.5	2.3	2.1	2.2	2.1
Ukraine	2.4	2.3	2.2	2.6	2.8	2.7	2.5	2.2	2.4
Moldova	2.1	2.4	2.3	2.9	3.2	2.8	2.9	3.3	2.9
Belarus	4.8	4.2	3.3	2.6	2.1	2.1	2.0	2.4	2.5

Source: Transparency International, scale: 1 = high corruption, 10 = no corruption

Figure 6.4.5. Corruption as a problem for business firms in the Baltic states



Source: World Bank BEEPS.

score above 5.0 are considered to have the mechanisms needed to successfully deal with the challenge of corruption. Estonia has continually surpassed this level. Lithuania finally reached this score in 2010, while Latvia briefly broke this threshold in 2008, but has since fallen back to 4.3.

A slightly closer evaluation of corruption is provided by the World Bank's Business Environment and Enterprise Performance Surveys (BEEPS), which have been conducted on four occasions since 1999. Specifically, the BEEPS asks business firms about the difficulties they face in running their company, and one of the key subsections concerns forms of corruption they encounter. Examining the last two rounds of BEEPS from 2005 and 2008 (Figure 6.4.5), we see again that in 2008 fully 64% of Estonian firms reported that corruption was not an obstacle to their business dealings, whereas their counterparts in Latvia and Lithuania were only half as upbeat. In fact, for roughly a third of businesses surveyed in Latvia and Lithuania in 2008 corruption was a major or even very severe obstacle.

How can we explain these higher corruption levels in Latvia and, to a lesser extent, Lithuania? The Swedish political scientist Li Bennich Bjorkman offers a historical institutionalist approach that traces the issue back to the way in which the first political parties developed and the political climate they shaped. The Estonian nationalist Pro Patria party (that won the founding elections in 1992) was primarily an intellectuals' grouping and therefore divorced from economics and the nomenklatura networks of the Soviet regime. By contrast, Latvia's first electoral winner, Latvia's Way and its precursor Club-21, were organizations that explicitly created a space for business-politics networking and the maintenance of old nomenklatura networks, alongside the creation of new links. A similar argument could be made for Lithuania, where the ex-communist Lithuanian Democratic Labor Party returned to power in 1992, allowing the old patronage networks to flourish.

Yet to what extent do such historical explanations still apply in 2011? As noted earlier, corruption is often seen as a deeply rooted phenomenon. This is so because corruption can also be viewed as a collective action problem. People engage in or give in to corruption so long as they perceive everyone else doing the same thing. Everyone continues to 'defect' until somehow people cross a tipping point and corruption is no longer a self-evident thing. This phenomenon, in turn, is linked to general trust in society, or whether people are ready to believe that others will treat them according to formal rules. Lastly, if people see that those who do not abide by the rules are punished, then slowly they will modify not only their own behavior, but also their expectations from others, and corruption will decrease. In summary, researchers (Tavits 2010) have increasingly focused on a 'social learning' approach to corruption, where attitudes and behaviors will shift only gradually and as a function of generalized norms in society, rather than immediate policies.

This is perhaps why corruption has remained a more tenacious problem in Latvia and Lithuania. Not only may historical factors have played a role during the 1990s, but also more recent events have not been able to turn the tide in terms of reversing societal perceptions. To be sure, major corruption scandals have engulfed all three of the

Baltic states over the years. But particularly in Latvia politics and business have become enmeshed to such an extent that observers frequently speak of 'oligarchs' pulling the strings in politics, rather than the formal politicians. What's more, in contrast to Estonia and Lithuania, these oligarchs often have control over major media outlets, meaning that public reporting about these elites is partial or stifled As a consequence, legal action that different authorities have attempted to take against these individuals (such as trials against Šķēle in 2008 and Lembergs in 2009) has generally been bogged down and has therefore lost any deterrent effect in relation to the rest of society. In May 2011, these struggles reached a denouement when the Latvian *Saeima* refused a prosecutor's request to allow investigators to search the private home of Ainars Šlesers (then an MP and therefore protected by parliamentary immunity). In response, President Valdis Zatlers declared his disgust at how legislators had seemingly thumbed their nose at the justice system and therefore initiated a special referendum on whether to dissolve the parliament and force new legislative elections.

In Estonia, high-level political corruption trials have also been drawn-out. But in the most recent case against the leader of the People's Union political party, Villu Reiljan, the eight-month court proceedings in 2008–2009 (examining whether Reiljan had attempted to solicit a bribe as Environment Minister in exchange for agreeing to the sale of some lucrative state property to certain real estate developers) ended in a conviction, which was upheld all the way to the Supreme Court.

Moreover, where authorities have attempted to put in place more forceful anti-corruption policies or agencies, the result has often been ineffective because of recurrent controversy or obstructionism. When the Latvian government formed a special Corruption Prevention and Combating Bureau (KNAB) in 2002, it took three rounds of candidates before the cabinet could agree on a nominee to run the new agency; thereafter, parliament went through a further two rounds of voting before a final director was appointed. All of this wrangling was interpreted by many at the time as a sign of just how lukewarm the politicians' support for real anti-corruption measures was.

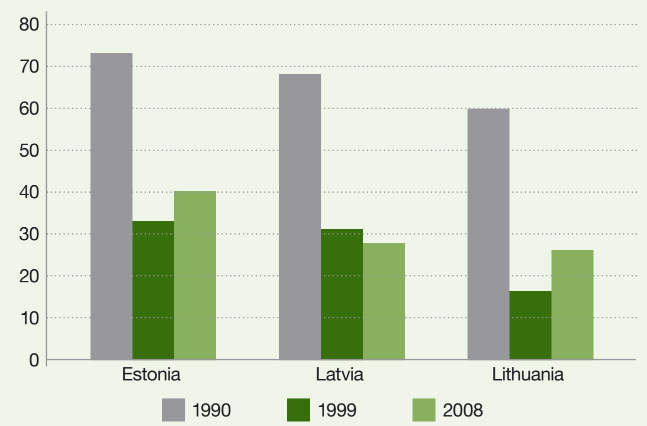
6.5. Civil society and social capital

Many theorists from Alexis de Tocqueville to Robert Putnam have emphasized the importance of civil society for the healthy functioning of democratic institutions. Civil society and social capital are seen as the blood in a democratic body, allowing formal democratic rules to operate smoothly and properly. Through its tapestry of voluntary organizations and informal social networks, civil society is able to overcome dilemmas of collective action and make democracy work.

Therefore, it has often been seen as an enduring paradox that although the peaceful revolutions ending communist rule in Central and Eastern Europe were very much driven by popular movements and spontaneous mobilization, civil society in the subsequent years has generally been seen as weak and ineffective. According to Mark Morjé Howard (2003), the reasons for the underdevelopment of civil society in post-communist countries include 1) mistrust towards all kinds of organizational membership generated as a legacy of forced membership in communist-era organizations; 2) the persistence of friendship networks that countervail in a way the lack of membership in formal organizations; and 3) general post-communist disenchantment.

Data from different public opinion surveys also confirm these civic disengagement trends in the Baltic countries. As can be seen from Figure 6.5.1, the level of membership in voluntary organizations decreased dramatically after 1990 in all three Baltic countries. In 2008, the differences between Western democracies and post-communist countries are still quite substantive: on average 73% of inhabitants of post-communist countries and only 50% of citizens of Western democracies did not belong to any voluntary organization. The level of associational activism in Estonia was above the average of Central and Eastern Europe, while the societies of Latvia and Latvia are much less organized. Lithuania has started from the lowest level of organizational activism, but the

Figure 6.5.1. Percentage of respondents belonging to at least one type of voluntary association



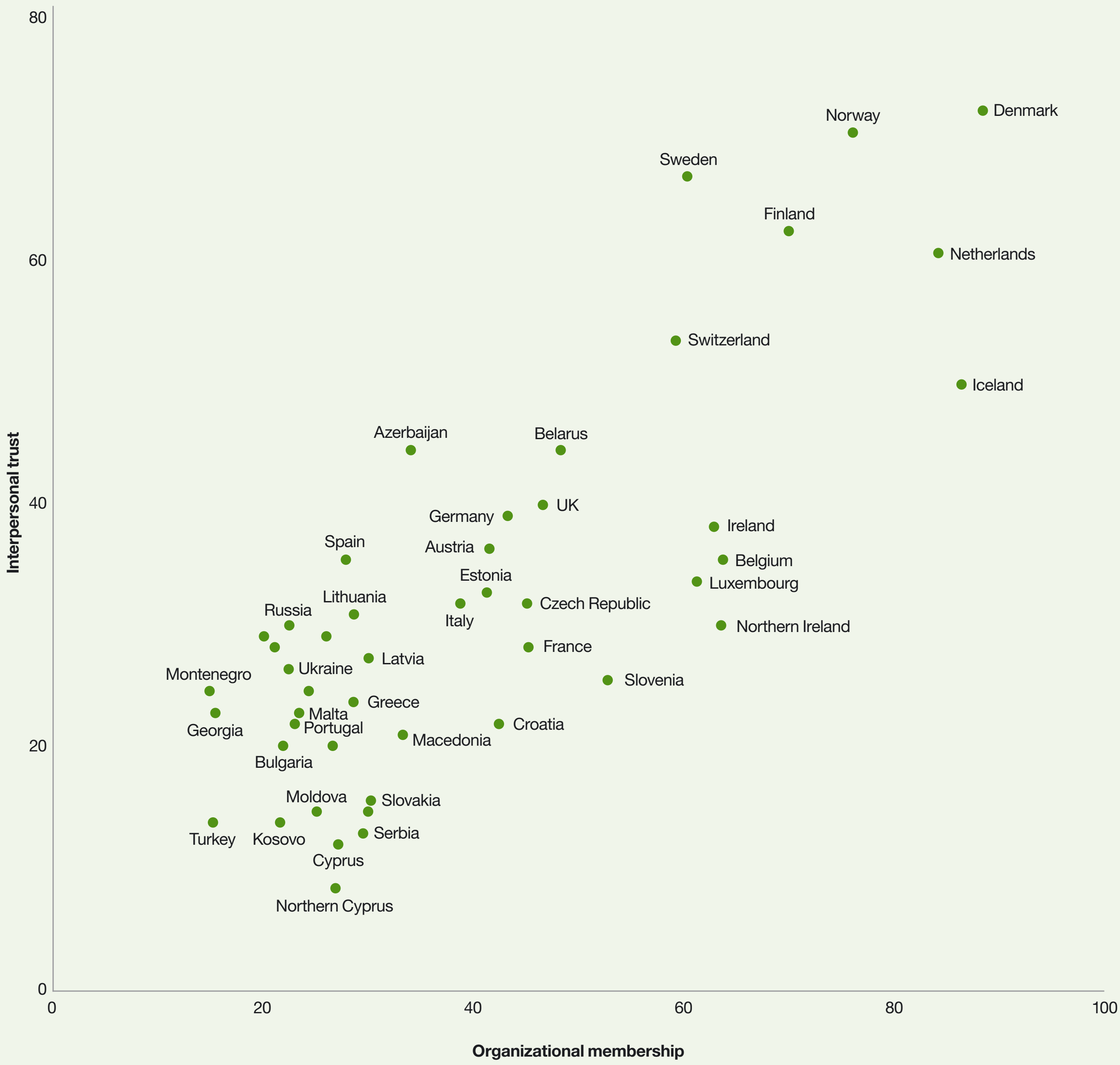
Source: World Values Survey, 1990, 1999, European Values Survey, 2008.

percentage of Lithuanians belonging to at least one association increased from 17% in 1999 to 26% in 2008. In Latvia, surprisingly, the membership level has slightly decreased.

While civil society in post-communist democracies seems to be weaker than in old Western democracies, a look at the general picture (Figure 6.5.2) reveals that high organizational membership is a specific feature of the Nordic countries rather than a necessary attribute of all stable democracies. The level of civic engagement in the leading countries of Central and Eastern Europe such as Slovenia, Czech Republic or Estonia are comparable to that of Germany, France or Great Britain.

Associational membership is one component of social capital, and cultural norms, in particular social trust, is

Figure 6.5.2. Interpersonal trust and organizational membership in European countries



Source: European Values Survey, 2008

the other important element (Putnam 1993, 2000). Social trust is usually defined as generalized interpersonal trust among individuals who do not know each other in person. Interpersonal trust is an essential prerequisite of human interaction and an important feature of civil society. While different theorists disagree on the sources of general trust, all of them admit that a certain level of social trust is necessary for democratic society to cooperate and to act collectively without strict regulations and control from the state.

As can be seen in Figure 6.5.2, the level of interpersonal trust (measured as a percentage of people agreeing with the statement "most people can be trusted") in Europe varies from 5% in Northern Cyprus to 76% in Denmark. Again, an extraordinary high level of trust is characteristic of the Nordic Countries, while the lowest social trust is found in Southern Europe. But most importantly, the diagram shows that a high correlation exists between associational membership and social trust.

Figure 6.5.3 demonstrates the dynamics of social trust in the Baltic states from 1990 to 2008. Following a trough in these indicators during the mid to late-1990s, all three countries have rebounded during the 2000s. The trend is in line with the argument of Ronald Inglehart (1997) that interpersonal trust depends on economic and physical security in society. Therefore, social trust declined together with the deep economic crisis after 1990 and the growing crime levels, and it increased with economic recovery and improved institutional performance. Comparative data concerning levels of generalized trust since the economic crisis of 2008–2009 are as yet unavailable. Therefore, it is possible that a renewed setback has taken place. However, it is unlikely that it has been as severe as previously.

Participatory trends

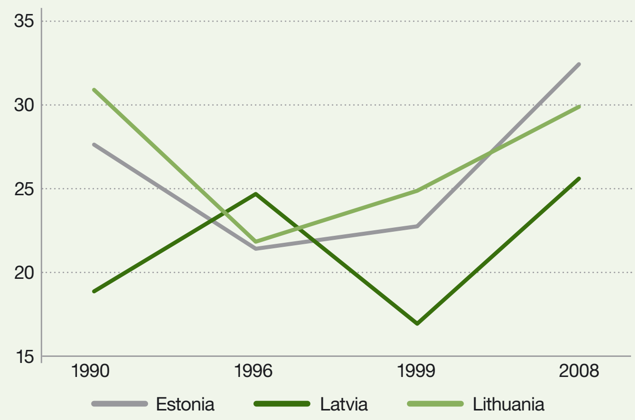
In the past few decades, a downward trend in the traditional forms of civic activism (electoral turnout, party membership, etc.) in many postindustrial societies has worried political scientists and policy-makers (Dalton & Watenberg 2000, Putnam 2000). These trends, however, have been counterbalanced by the activities of new social movements, increased protest politics and Internet activism (Norris 2001, Inglehart 1997). New individualized and expressive forms of civic engagement are complementing and partially replacing traditional modes of collective political participation.

Yet among post-communist democracies, the situation continued to be characterized by low levels of conventional and unconventional political participation. Party membership, trade union membership, and electoral turnout in general are lower in Central and Eastern Europe than in Western countries. (Van Biezen, Mair & Poguntke 2011) New modes of political participation are not that popular either. For example, according to the 2008 European Values Survey, only 9% of inhabitants of Central and Eastern European countries reported having participated in a legal demonstration as compared to 26% in the countries of Western Europe. Likewise, the proportion of citizens who had signed a petition was 22% in Central and Eastern Europe and 55% in Western Europe.

In the Baltic states, disengagement from civic life after the "extraordinary politics" of 1988–1991 is evident in all modes of political mobilization. General interest in politics decreased in the three countries from a range of 60–80% in 1990 to around 50% in 1996 (see Figure 6.5.4). A decade later, this level of political interest had stabilized somewhat in Latvia and Estonia, but was further decreasing in Lithuania. These data therefore corroborate the particularly low levels of electoral turnout in Lithuania as well as the greater dissatisfaction with the functioning of political institutions in the same country (see Subchapter 6.4). Meanwhile, the level of party membership in Latvia is the lowest across the entire EU-27, coming it at just 0.74% of the electorate, while the figure for Lithuania is 2.71% and Estonia 4.87%. (Van Biezen, Mair & Poguntke 2011: 5)

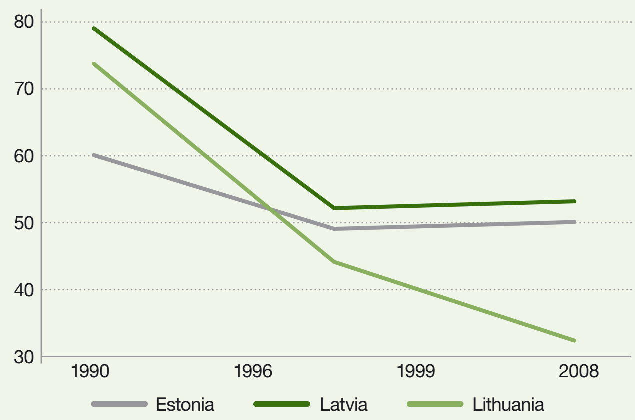
Participatory trends via new forms of political activism in the Baltic countries are similar to those of other post-communist countries. For example, the proportion of citizens who have recently signed a petition, according to the 2008 European Values Survey, was 15% in Lithuania, 17% in Latvia and 21% in Estonia. The proportion of individuals attending a demonstration was highest in Latvia (17%) and very low in Lithuania (8%) and Estonia (6%). These modest levels of protest participation, on the one hand, might be explained by the low level of postmaterialist values stimulating political self-expression (Inglehart 1997) and the low level of self-organization of society. On the other hand, it might also indicate moderate support for the political system and hence the lack of any need to protest or voice political views. The political riots seen in Riga and Vilnius during January 2009 therefore indicated a mixed picture: on the one hand, they signaled major discontentment with declining welfare standards, but at the same time they demonstrated novel political activism and awareness. Another positive sign of civic participation is the growth in voluntary community clean-up campaigns, such as those initiated in Estonia and Lithuania.

Figure 6.5.3. Levels of interpersonal trust in the Baltic states (%)



Source: World Values Survey, 1990, 1996, 1999, European Values Survey, 2008

Figure 6.5.4. Interest in politics in the Baltic states (percentages of respondents saying they were either very or somewhat interested in politics)



Source: World Values Survey, 1990, 1996, European Values Survey, 2008

Consultative structures

In an ideal democratic system, the strength of civil society and the decision-making powers of government come together via a set of consultative structures, through which state actors gather input from citizen groups in order to arrive at optimal policy decisions. If in the previous subchapter we noted that associational membership in the Baltic states is still limited, have government actors nonetheless done a better job of integrating civil society groups into the policy process?

In Western democracies, many of these consultative structures began with the inclusion of trade unions in the setting of wage, labour and general economic policies, under a system known as democratic corporatism. So-called tripartite roundtables (which brought together employers, trade unions and government representatives) were not only successful in harmonizing labour relations, but they also boosted civic participation. In Central and Eastern Europe, however, trade unions have been weak owing to their negative image acquired during the Soviet era (Crowley 2004, Ost 2009). While exact figures for union membership are difficult to come by (since self-reporting by unions themselves can be inaccurate), data from the 2008 European Social Survey show that on average 23% of respondents in Western countries belonged to a trade union, whereas some 8.4% belonged in post-communist European countries. In the Baltic states, these figures were even lower, featuring 6.9% in Latvia, 6.5% in Estonia and just 3.8% in Lithuania.

Hence, although all three Baltic States set up tripartite consultative structures in the mid to late 1990s, these have had varying success. The Lithuanian Tripartite Council is generally seen as the most effective, having institutionalized regularized cooperation between employers, trade unions and the government. This may well have been the result of a more pronounced left-right cleavage in Lithuanian party politics. At the other extreme, the Estonian tripartite council ceased to exist in 2004, when the government decided to leave employers and trade unions to negotiate between themselves. Wage accords reached by the remaining two sides have often been incorporated into government policy decisions, but the state no longer plays a mediating role. Latvia holds the middle ground, having had several periods during which these consultative structures were dormant. However, during the economic crisis of 2008–2010, the National Tripartite Cooperation Council was revived, at least in advance of major austerity decisions.

Another form of consultative structure, which has greatly expanded over recent years, concerns the inclusion of civil society groups in the policy-making processes of government ministries and agencies. In particular, opportunities for commenting on draft legislation or forwarding new policy ideas have been fostered via the Internet.

6.6. Summary

In their twenty years of renewed independence since 1991, the Baltic states have become a testament to the challenges of post-communist political development and democratic consolidation. Not only have they faced the task of crafting new political institutions and procedures, they have also had to navigate serious ethno-political divides as well as nurture the broader societal preconditions for democracy (including values, attitudes and social relationships).

Mikko Lagerspetz and Henri Vogt (2004) have called these three dimensions ‘institutional politics’, ‘identity politics’ and ‘politics-as-such’. Roughly speaking, these correspond to the more conventional and better-known notions of ‘state-building’, ‘nation-building’ and ‘society-building’. At the same time, Lagerspetz and Vogt use the world ‘politics’ to denote the way in which these phenomena are struggles and to highlight how they can go in many different directions.

In this chapter, we have seen that each of the Baltic states has faced slightly different configurations of these challenges, and that these processes have gone in both positive and negative directions. As part of this conclusion, we will therefore review the indicators we have so far examined against the backdrop of these three dimensions in order to sketch out more precisely what these configurations are.

Table 6.6.1 shows that across a number of indicators of ‘institutional politics’ Estonia is clearly ahead. This pertains in particular to the areas of constitutional conflict and party system consolidation. Both Lithuania and Latvia have undergone serious constitutional struggles during the last two decades, from which the former (following the orderly removal from office of Rolandas Paksas) appears to have emerged strengthened, while the latter (still in the middle of its political legitimacy crisis) remains weakened. As was noted in Subchapter 6.3, both constitutional stability and party system consolidation are often linked to each other: a chronically weak or distorted party system can lead to a political legitimacy crisis, which leaders will then feel can be cured only with extraordinary constitutional measures. Whether such measures can actually restore stability is a question relating to the finer art of politics. Invoking exceptional powers can also merely deepen tensions and instability.

Yet, Estonia’s seeming stability also masks a number of other institutional weaknesses, including the risk of over-institutionalization, where parliament is increasingly molded (through a small number of parties and rigid party discipline) into a rubber-stamp body, which then fails to perform its key constitutional role of law-making and oversight in relation to the executive branch. Power moves to the hands of the cabinet or to the single leaders of a government coalition, who can then use this control to perpetuate their position. This is a particular danger in a small country such as Estonia, but all the more so if the party system is imbalanced and there is no clear alternation prospect, because certain parties are ostracized or considered untrustworthy to hold power (such as the Centre Party). Voters in Estonia may continue to approve centre-right majorities and thereby achieve a high degree of continuity and stability. But it may equally lay the foundations for stagnation over time, as was seen in Italy after decades of rule by the Christian Democrats or in Japan after generations of leadership by the Liberal Democrats.

Indeed, Estonia’s weakness within the ‘institutional politics’ realm is compounded by the fact that the lack of government alternation possibilities stems not only from personality conflicts (i.e. mistrust of the Centre Party’s leader Edgar Savisaar), but also and very substantially from one of issues that underlie Estonia’s ‘identity politics’, ethnopolitics. Whereas in Estonian politics it is often bemoaned that if only the Centre Party would change its leader, it would become an accepted party within the political system, this prospect of redemption becomes less likely if the party simultaneously becomes more and more identified as a Russian minority party, and therefore continues to be kept at arm’s length, but on more rigid identity grounds.

Identity politics also clearly handicap Latvia’s ability to deal with its political crisis. One measure proposed already in October 2010 to alleviate the legitimacy deficit

Table 6.6.1. Comparative overview of political development indicators in the Baltic states

TYPE OF POLITICS Indicator	ESTONIA	LATVIA	LITHUANIA
Institutional politics			
Constitutional amendments	few & consensual	numerous & at times controversial	few & consensual
Constitutional conflict	initially; minor	increasing; approaching crisis level	withstood crisis level during presidential impeachment
Constitutional adjudication	expanding; stabilizing effect	expanding; stabilizing effect	strong & expanding
Parliamentary performance	growing rubber-stamp status	strengthened with abolition of cabinet decree-laws, but undermined by general political malaise	government influence offset by single MP legislative activity
Government stability	growing & consolidating	turbulent	growing & consolidating
Party system consolidation	consolidated, danger of over-institutionalization	fragmented; fragile alignments	re-equilibrating after interim period of flux
Party alternation in government	limited to centre-right spectrum; opposition Centre Party ostracized	limited to ethnic Latvian party spectrum; opposition Russophone parties ostracized	clear alternation between left and right blocs
Identity politics			
Anti-/post-communist cleavages	during early period; dissipated by 2000	minimal	prominent
Ethnopolitical cleavages	major cleavage muffled by citizenship legislation; overlaps with 'party alternation in government'	major cleavage dulled only somewhat by citizenship legislation; overlaps with 'party alternation in government'	minor
Establishment vs populist cleavages	arose only in 2003 with rise and fall of Res Publica party	important cleavage between oligarchs & anti-corruption crusaders	populist new parties seek to upstage old groupings
Euroscepticism	not a serious issue	a strand of anti-liberal populism	not a serious issue
Politics as such			
Political & electoral participation	steady, but not high	decreasing & under strain	considerable decline & under strain
Political support for democracy	strong despite economic crisis	moderate	moderate
Support for public institutions	modest, but improving	crisis-level low	critically low
Civic engagement	modest, but improving	low	low
Protection of civil rights (ombudsmen)	established, though over-subscribed	only gradually established, though consolidating	established & functional
Corruption	passable; enforcement mechanisms taking hold	chronic; enforcement mechanisms weak & undermined	notable, but improving

Source: summary prepared by the authors

was to break the barrier on government inclusion imposed vis-à-vis the mostly Russophone Harmony Centre Party and include it for the first time in a broad, majority coalition. This prospect, however, was dashed precisely because Prime Minister Dombrovskis set rigid terms stemming mostly from the realm of identity politics, i.e. that the HCP had to publicly acknowledge that Latvia had been occupied by the Soviet Union and that Latvian would forever be the sole state language. As a result, in its current constitutional crisis the country will continue to have to seek a resolution within the narrow range of ethnic Latvian parties.

By contrast, Lithuania's anti-communist/post-communist identity politics has been far less polarizing. Though often very sharp in rhetorical terms, both sides actually came to work with each other on the constitutional level. When the post-communist LDLP leader Algirdas Brazauskas served as president he appointed centre-right leaders as prime minister, while the centre-right president, Valdas Adamkus, designated the same Brazauskas as prime minister when the parliamentary majorities shifted. Such French-style cohabitation signalled that this old cleavage was not a zero-sum game.

Lithuania's challenge for the future involves overcoming flaws in its 'politics as usual'. Critically low levels of electoral participation and of trust in public institutions point to a type of legitimacy crisis in this country as well. However, this has yet to overlap with a constitutional or institutional conflict. Rather, the politicians appear able to agree amongst themselves in order to maintain government, as evidenced by Prime Minister Audrius Kubilius's ability to remain in office throughout the recent economic crisis.

Indeed, the great economic collapse of 2008–2009 can be seen as another milestone of political development for all three countries, in that despite an unprecedented economic reversal, at no point did pressures in any of the three countries develop that would question the fundamental legitimacy of democracy as a political system. Strongman rule may be something that some Baltic citizens might ponder, but at the end of the day no movement or even organized voice has emerged to that effect. Therefore, compared to the democratic collapse the three countries underwent in the 1920s and 1930s, the last two decades (and particularly the last two or three years) appear to demonstrate that democracy is at its most basic level consolidated.

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CHAPTER 7

Integration of the Baltic states: the experience of the last two decades and future scenarios

7.1. Political context of Baltic integration

Ramūnas Vilpišauskas

In the period prior to independence, Baltic cooperation had been one of the most significant foreign policy priorities for Estonia, Latvia and Lithuania. After 1991, however, membership in the European Union (EU) and NATO became the primary goals to which all three states tailored their foreign policies, including joint efforts. Within this new context, intra-Baltic relations took on a different meaning. Baltic cooperation would be interlinked through different EU-related processes as well as efforts at cooperation on security matters such as the Baltic Battalion, Baltic Defence College and similar initiatives that advanced the accession into NATO.

Since joining the EU and NATO in 2004, Baltic cooperation has gone through a silent revision, which has resulted in a decrease of political interest in this format, although the institutions of cooperation continued to function and the meetings between the leaders of the three countries continued, including under the broader forum of Nordic-Baltic informal meetings proceeding each EU summit. More visible cooperation efforts have focused on infrastructure projects such as the Baltic energy market and Rail Baltica, though slow progress and frequent disputes on particular solutions have often hindered this process. Furthermore, each country has shifted its foreign policy priorities: Lithuania was focused more on strategic partnership with Poland and joint efforts at integrating Eastern neighbours in to the Euro-Atlantic forums, while Estonia continued to develop stronger relations with the Nordic countries. Each Baltic state also tried to Europeanize its bilateral relations with Russia, by trying to involve the EU institutions in an attempt to increase their bargaining power vis-a-vis this neighbour. Recently, however, the intra-Baltic cooperation started to intensify due to the revision of foreign policy priorities and facilitated by the mutual interdependence most clearly apparent during the financial crisis of 2008–2009. Cooperation among the three Baltic countries is also now seen as being part of a broader EU Nordic-Baltic region based on different types of interdependencies (trade, investment, security, etc.), and it is back on the list of priorities in Estonia, Latvia and Lithuania.

In order to be able to account for these ups and downs of intra-Baltic cooperation and in particular to model future instances of trilateral cooperation, it is important to know what factors explain the choice and dynamics of Baltic cooperation. Does the role of the EU explain the timing and type of Baltic economic agreements, and the successful conclusion of some cooperation programmes? Or does a satisfactory explanation of the cooperative dynamics between the Baltic states and instances of protectionism or non-cooperation need to include other factors, such as sub-national interest groups or transnational actors? To what extent has the accession to the EU and NATO reduced the scope and incentives for trilateral Baltic cooperation? Finally, how is the changing situation in the EU and Baltic Sea Region likely to affect cooperation among the Baltic countries?

Explaining intra-Baltic cooperation

Most of the literature on intra-Baltic cooperation has focused on military and security issues or on the geopolitics of the Baltic region. The factors that affect the level of intra-Baltic cooperation, include the level of external threat and the balance of power in the European or trans-Atlantic security architecture; the geographical position of the three countries; historical experiences and links; the size of the Baltic states; or internal resources.

A number of studies have analysed the institutional aspects of Baltic cooperation (see, for example, Jurkynas 1998; Kapustans 1998). The level of institutionalization of Baltic relations is perceived to be a function of institutional capacity and functional scope, or the convergence of national interests.

Finally, a few analysts have discussed the dynamics of intra-Baltic economic relations (for details see Subchapter 7.2). The assumption that unifies these analyses is the causal relationship between regional economic arrangements and the economic welfare of individual state actors. For example, intra-Baltic trade agreements are considered important because of the critical importance given to international economic relations for and the growth of the small and open Baltic economies.

Here, the focus is placed on the effects of EU policies, which, it is argued, have been a major factor behind intra-Baltic economic cooperation in the same way that efforts to join NATO have been behind the trilateral cooperative efforts in the military and security fields. However, to explain the dynamics of intra-Baltic economic cooperation, domestic factors have to be taken into account. The formation of new interest groups as well as institutional channels for these groups to voice their preferences have allowed for an increasing articulation of demands both for and against the integration of national economies. The assumption is that domestic politics matters even when actors respond to external effects, and that both international and domestic levels of analysis can be combined into a coherent picture.

The definition of international cooperation suggested by Keohane, who maintains that cooperation "takes place when the policies actually followed by one government are regarded by its partners as facilitating realization of their own objectives, as the result of a process of policy coordination" (Keohane 1984: 51–51). Regional cooperation may facilitate achieving goals, both in the external environment and in the domestic arena. Keohane's framework emphasizes "that actors receive gains or rewards from cooperation." (Milner 1997: 7). Hence, the issue is how the cooperative measures influence the chances of achieving objectives of governmental actors as well as the distribution of gains among domestic economic groups.

As Feldstein has stated, "economic cooperation is part of the more important process of international cooperation" (1988: 9). This is certainly true in the Baltic case. Economic cooperation acquires political meaning, and it may also contribute to achieving certain political objectives. Sub-regional economic cooperation was seen and supported by the EU before the accession as an important supplement to the stability and security of the region. Before accession into the EU it was argued that "most of the economic arguments favouring regional integration are not met by integration among the Baltic countries" (Sorsa 1997: 16). The level of economic interdependence only gradually provided a strong case for policy coordination and market integration, the need for which became evident during the financial crisis of 2008–2009. In the case of the Baltic states, the problem has frequently been viewed as a conflict between cooperation and competition, which is why some theorists have concluded that "we must compete with each other economically" (Made 1998: 38). In many cases, the Baltic policy-makers and analysts have tended to extend this model of business competition to the relations between the three countries and to use the terms of economic competition in order to characterize the competition between countries to achieve status or prestige as well as the location-dependent competition for the sake of direct foreign investments. All of these issues would constitute an interesting source material for a separate analysis.

This study concentrates on intra-Baltic cooperation in the field of economic exchange, or market integration. It addresses both successful and unsuccessful attempts to cooperate, including unilateral, competitive or conflicting behaviour that reduce the benefits to other actors, as well as inactivity (Milner 1997: 8).

The impact of a regional union on neighbouring countries before 2004[53]

While regional integration – and in particular that of the EC/EU – has been analysed extensively by scholars, the external effect of integration is "a topic that both political scientists and economists have mostly overlooked" (Mattli 1999: 59). In this analysis we use the theory of cooperation premises suggested by Mattli. It considers both the willingness and ability of governments to cooperate as well as specific market demands. Furthermore, we must consider a certain opposition to integration and transition related issues, such as uncertainty, lack of resources and changes in political and economic institutions, which impact both the ability of governments to cooperate and the channelling of market demands.

There is a direct link between the dynamics of Baltic cooperation and the integration of individual members into the European Union. Before the date and strategy of EU accession was clear, each of the Baltic states was facing a strategic dilemma: trilateral cooperation would have been useful for all of them; however, each had an incentive to pursue unilateral policies by hoping to be among the first to join the EU. Although the completion of accession negotiations removed the incentives not to cooperate, accession into the EU also meant that the main driving force behind the intra-Baltic cooperation disappeared and the Baltic states had to rediscover the incentives and formats for trilateral cooperation.

The perspective of joining the EU played a significant role in the planning and executing some of the projects of economic cooperation between the Baltic states. By virtue of the importance attached to it by Baltic leaders, the EU has assumed the role of external coordinator in this process by providing rules for regional cooperation and domestic policy-making, often in close coordination with other suppliers of aid, trade and financial programmes (World Bank and IMF). The role of the EU helped to solve coordination problems in intra-Baltic cooperation when the three were all "vaguely and diffusely in favour [of cooperation], but their preference for forms and terms [made] agreement on the specific cooperative enterprises difficult" (Jurgaitiene & Waever 1996: 215). Coordination problems particularly hampered intra-Baltic economic cooperation during the early 1990s.

Market demands

The EU factor alone, it is argued, does not account for the starts and stops of intra-Baltic economic cooperation. Recent developments have shown that economic interest groups have an increasing influence on intra-Baltic cooperative policies, and their influence has only increased with the growing internationalization of their economies since accession into the EU, as highlighted by the importance of domestic energy lobbying groups and Nordic investors in the banking and other sectors. Market integration measures have a direct impact on the activities of economic actors, with some standing to gain from the removal of barriers to exchange and the reduction of transaction costs, while others stand to lose due to an

53 The author has analysed this subject in detail in his publication: Vilpišauskas R. (2003): Regional integration in Europe: analysing intra-Baltic economic cooperation in the context of European integration. In Vello Petai, Jan Zielonka (eds.). The road to the European Union. Vol. 2. , Manchester: Manchester University Press.

increase in competition and redistribution effects. This creates incentives for economic interest groups to lobby for or against further integration. The role of economic interest groups in advancing integration in the EC/EU has been widely acknowledged.[54] Importantly, as was noted several decades ago, “the list of…actors should include not only groups which perceive themselves [as having] benefited [from] integration but also groups opposed to it…” (Nye 1971: 197). It is often assumed that economic groups characterized by a higher degree of internationalization – meaning export-orientated economic policy, extensive participation in intra-industry trade and multinational enterprises – are more likely to support market integration measures and resist protectionism. Enterprises that use local resources and sell their products in the domestic market are more likely to call for protectionist measures under the actual or anticipated pressure of adjustment. They would also attempt to hinder the development of regional integration projects if they threaten their profits with more competition as is the case in the electricity market or if they might lose the monopoly position as in the natural gas market in the Baltics. Therefore, various domestic groups are likely to “demand different policies, and a government’s economic policy choices often will reflect the underlying preferences of the strongest and best-organized interests within society” (Mansfield & Milner 1997: 12).

Creating the institutional basis for intra-Baltic economic cooperation until 2004

During the independence struggle at the end of the 1980s, the three states gained a considerable degree of experience in coordinating their political efforts. Right after the independence, intra-Baltic cooperation remained among the main priorities of their foreign policies. On 8 November 1991, the first institutionalised setting for intra-Baltic cooperation – the Baltic Assembly – was created. The Assembly, which was modelled on the cooperative institutions of the Nordic countries, was comprised of representatives from the three legislative bodies of the Baltic states. Six committees within the Assembly were further created to promote discussion and offer recommendations to the Baltic governments on matters of common interest, including legal, social and economic affairs, environment and energy, communications, education and culture, and security and foreign affairs.

In September 1993, an agreement on creating a Council of Ministers was reached among the three Baltic prime ministers, and on 13 June 1994, the Baltic Council of Ministers was established. Its tasks include taking decisions with regard to the recommendations of the Baltic Assembly, carrying out assignments in accordance with intra-Baltic agreements, and addressing matters of common interest. The decisions of the Baltic Council of Ministers are made on the basis of consensus and are binding for the Baltic states, except when they contradict the internal laws of each state and in such cases require approval by the state’s legislature. The Baltic Council, established in April 1996, is a joint session of the Baltic Assembly and the Baltic Council of Ministers. The Baltic Council adopts declarations and meets annually. Finally, presidential summits have also become common practice ever since these institutions were created. Therefore, in a relatively short period, a dense network of coordination has been established between the Baltic states.

The idea of an intra-Baltic free trade area was first raised during the beginning of the 1990s. As with a number of other suggestions for intra-Baltic economic cooperation, this concept (together with references to the Benelux countries or other models) was brought up repeatedly by policymakers and analysts of the three states, but with little progress towards forging an agreement on its substance, form and implementation. Economic cooperation measures were absent during the first years of the 1990s. The idea of a free trade area finally received strong political support during a meeting of the Baltic heads of state in Jurmala, Latvia, in August 1993, when the three leaders approved the draft of a free trade agreement. The meeting of the three Baltic prime ministers in Tallinn in September 1993 also approved the idea. This led to the signing, on 13 September 1993, of “the biggest agreement ever signed among the Baltic countries” – the intra-Baltic free trade agreement.[55]

Yet, the accord had one major deficiency: it excluded agricultural goods. After several rounds of intense negotiations, an agreement on agriculture was finally reached in June 1996 and it came into force in January 1997. In November of that same year, an agreement on abolishing non-tariff barriers to trade was reached, and this came into force in July 1998.

Nevertheless, and as stated above, a comprehensive analysis of cooperation dynamics between the Baltic states must not only include trilateral agreements that were successful but also those that failed. This aspect of Baltic cooperation includes the customs union agreement that has not been implemented despite numerous pledges to do so and the lack of a concrete schedule. Another category includes unilateral protectionist measures that favour one country’s domestic interests over another’s and violate mutual commitments, which only became illegal after the accession into the EU under its common market rules, though they continue to hamper efforts at regional integration in the fields of energy and transport.

EU and intra-Baltic economic cooperation

The initial years of EU-Baltic relations were marked by a group approach taken by the EU towards the three Baltic states. Although the EU conducted negotiations with each country bilaterally, general policy ranging from the establishment of diplomatic relations to the initiation of individual trade agreements had a strong group or ‘Baltic sub-region’ emphasis. The group approach towards the Baltic states was reinforced by the support of intra-Bal-

54 The pro-integrationist role of economic interest groups have been given a central role in the neo-functionalist account of the early EC integration. For recent explanations of EC/EU integration dynamics that emphasize the role of economic interest groups, see W. Sandholtz, A. Stone Sweet (1998). Of course, the main difference in the Baltic case is the absence of a supra-national institution towards which transnational groups direct their demands.

55 Quotation from the speech of Latvian Prime Minister, cited in Joenniemi & Prikulis 1994: 39.

tic cooperation measures, which EU representatives had encouraged on various occasions directly and indirectly by urging the strengthening of economic cooperation among transition countries in general. Once the prospect of integration into the EU became more certain, and Baltic leaders realized that intra-Baltic economic cooperation was likely to maximize their chances for EU integration, they became willing and able to proceed with sub-regional cooperation.

The EU recognized the independence of the three Baltic states on 27 August 1991, and in April 1992 EU ambassadors began their work in each Baltic state. In the beginning of September 1992, there was a suggestion to include the three states into the PHARE programme, thereby differentiating them from the other former Soviet republics. In addition, the EU decided to model its future trade and cooperation agreements with the Baltics along those lines adopted for other Central and Eastern European countries (CEECs), not the Soviet successor states. In September 1991, negotiations on 'first generation' trade and cooperation agreements were initiated. The agreements were signed in May 1992 and came into force at the beginning of 1993.

As early as these negotiations on trade and cooperation, representatives of the Baltic states raised the issue of association with the EU. Their aim was to conclude association agreements similar to those signed by the EU with the Visegrad countries, and thereby gain inclusion into the group of countries recognized as prospective EU members. The Estonian foreign minister, Jaan Manitski, called the accords 'our first step back to Europe,' which he hoped would lead to full EC membership within a few years. The recognition that these agreements could lead to EU membership was also included in their preambles. The attitude of EU policymakers, however, remained rather reserved. Yet, despite this uncertainty, the EU assumed a leading role in supporting economic and political reforms in these countries. Trade liberalization and sub-regional cooperation between the transition economies was encouraged as part of the EU's general support for economic transformation and democratic consolidation.[56] Furthermore, the EU conducted its policy towards the Baltic states using other regional institutions, in particular the Council of Baltic Sea States (CBSS). It has become an important institution for the development of ties between the Baltic states and the EU, and for the EU's support of sub-regional cooperation. Its importance was underlined by the fact that it included Germany, Denmark as well as the then non-EU Nordic countries, which became the main supporters of the Baltic states' integration into the EU.[57] 'The Baltic Sea dimension' of EU policy was strengthened further after Sweden and Finland became members of the EU in 1995, which eventually led to the adoption of the Baltic Sea regional strategy after the 2004 EU enlargement.

The situation in the Baltic states during the first years of transition was characterized by radical political and economic institutional changes, which imposed constraints on intra-Baltic economic cooperation. This was a period of learning, based on a mixture of institutional imitation and innovation. The absence of a regional coordinator and supplier of cooperation rules made consensus on the form and substance of economic cooperation more complicated. The Baltic states established various foreign trade programmes in 1992 and 1993, ranging from a very liberal one applied by Estonia to more protectionist ones, particularly in the trade of agricultural goods, applied by Latvia and Lithuania. The introduction of market institutions and national currencies created the necessary basis for sub-regional economic cooperation, although different levels of progress in each of the three states posed temporary limits.

The prospects for intra-Baltic economic cooperation began to change in 1993, and a major push in this regard was given by EU policies. The first indication of change in EU policy towards the Baltic states included an invitation to participate in an intergovernmental EU integration conference organized in Copenhagen on 13–14 April 1993. The conference brought together representatives from the EU, EFTA and CEECs, and its final declaration acknowledged the aim of several participating countries (meaning the Baltic states) to become EU members. The conclusions of the Copenhagen Summit also stated that the accelerated opening of EU markets to transition countries is expected "to go hand in hand with further development of trade between those countries themselves."

These decisions strengthened the perception that the major objective of the Baltic governments' – EU integration – was likely to be facilitated by sub-regional cooperation. This was very explicitly stated by the leaders of the three countries during a meeting in Jurmala, in August 1993, when the three presidents jointly declared their intention to integrate into the EU, and that the aim to achieve Baltic integration was a step towards joining the EU. As the president of Estonia Lennart Meri said, "we cannot enter Europe by three different doors and then meet". Indeed, the intra-Baltic free trade agreement was signed on 13 September. It was modelled on the bilateral free trade agreements that the Baltic states concluded the year before with the EFTA countries.

The conclusion of this agreement was declared to be a major step towards the integration of the three countries into the EU. The intra-Baltic free trade agreement was positively evaluated by the European Commission, which at the time was preparing bilateral free trade agreements with the Baltic states. The preparation for talks on the Baltic states' free trade agreements with the EU took place in the second half of 1993. In the beginning of December, the Commission presented the Council with its recommendation to negotiate free trade agreements, 'taking into account the specific features' of the three Baltic countries. The three agreements, which were supplied by the EU and modelled on interim agreements concluded

56 However, some observers have concluded that the emphasis on sub-regional cooperation reflected a lack of a clear strategy on the part of the EU with which to respond to the urgent needs of the region (see Inotai 1997: 15).

57 Already during the founding meeting of the CBSS, the German Foreign Minister, H.D. Genscher, declared that the Baltic states "must be offered association accords with the EU similar to those signed with Poland, Czechoslovakia and Hungary" (The Baltic Independent, Baltic region forms council to build democracy and speed growth, 13–19 March 1992).

earlier with other CEECs, were signed on 18 July 1994, and came into force in January 1995. Although the three agreements resulted in different provisions concerning the speed and scope of liberalization[58], they did explicitly recognize the need for continuing intra-Baltic cooperation by asserting that closer integration between the EU and the Baltic states and the Baltic states themselves should proceed in parallel.

The Europe Agreements marked a new stage in Baltic integration into the EU and upgraded their status to that of other associated countries. The agreements only came into force in February 1998, after ratification by the Baltic states' parliaments, the EU member states' parliaments, and the European Parliament. Nevertheless, even before this official date, Brussels decided that the three countries could still be included in the EU's pre-accession strategy. The Baltic states were invited to the Cannes summit in June 1995, where the EU confirmed their inclusion in the pre-accession group. The Baltic states were provided with the opportunity to further integrate their markets into the EU, participate in Council meetings together with other CEECs, and to focus on adopting EU's legal rules governing the internal market.

The EU policy of supporting intra-Baltic economic cooperation was subsequently reaffirmed in the more general framework of EU policy towards the Baltic Sea region. On 24 October 1994, the European Commission adopted a Communication on Orientation for a Union Approach towards the Baltic Sea Region. It acknowledged that "the forthcoming enlargement of the EU and the move towards closer relations with the countries of the Baltic create a need for an overall Union policy for that region." The EU's approach was based on the regional dimension of cooperation and, among other things, supported greater cohesion between existing regional initiatives and cooperation in trade and economic matters. It also foresaw the financing of regional projects, such as infrastructure, under the PHARE framework.

Therefore, the EU gradually developed a policy towards sub-regional cooperation, consisting of: 1) general support for intra-regional economic cooperation measures as an element of economic transition; 2) an emphasis on sub-regional cooperation as an element of preparation for accession; 3) the supply of rules for sub-regional cooperation based on the EU's integration record; and 4) financial support for sub-regional initiatives. Financial support was targeted towards improving administrative capabilities, fostering exports and, increasingly, pre-accession measures. EU policy in support of intra-Baltic cooperation schemes, backed by the supply of rules and some resources, seems to have played a major role in advancing intra-Baltic economic cooperation, insofar as it was perceived by the leaders of the Baltic states as maximizing their chances for EU integration.

A change in EU policy towards the Baltic states became apparent after the July 1997 announcement of the European Commission's Opinions on the applicant countries. The group approach towards the integration of the applicant countries was abandoned in favour of an individual one. The clear differentiation of the Baltic states during the enlargement procedure was echoed in intra-Baltic relations. Although the EU continued emphasizing the importance of sub-regional cooperation, the potential benefits of intra-Baltic economic cooperation as a means to join the EU decreased (particularly in the case of Estonia) and incentives for other targets of cooperative efforts were strengthened.

Before the EU's differentiation of the Baltic states through its policy of enlargement in stages, intra-Baltic economic cooperation was perceived in all three countries as an important instrument for individual integration into the EU, especially against the backdrop of intensive support for sub-regional cooperation expressed by the EU. Estonian Foreign Minister Kallas declared after signing the free-trade agreement on agricultural products, "we are going to build our relationship in such a way as to further integrate into the EU". Although the agreement on abolishing non-tariff barriers in intra-Baltic trade was signed in November 1997, i.e., after the announcement of the European Commissions' Opinions, its conclusion can also be largely attributed to the 'effect of the EU'. The agreement illustrates both the potential scope of intra-Baltic economic cooperation and its future limits, taking into account the individual integration of these countries into the EU. Moreover, EU rules were taken as a reference for the provisions of the agreement, thereby illustrating most clearly the role of the EU in solving the coordination problem and choosing an appropriate framework for cooperation.

Yet, Estonia, Latvia and Lithuania failed to advance positive intra-Baltic market integration beyond the scope of EU integration, namely the intra-Baltic customs union. The divergent trade programmes of the three countries, unclear potential benefits and the method of sharing the customs duties among the three proved to be obstacles that policymakers in the three countries were unable to overcome. Any proposed economic arrangements among the Baltic states that exceeded the scope of their integration into the EU acquired grim prospects, particularly after Estonia began accession negotiations.

The 1997 differentiation of the Baltic states by the EU reduced the possibilities and incentives for intra-Baltic economic cooperation. Indeed, the issue was no longer perceived as how the development of intra-Baltic economic cooperation could facilitate EU integration, but rather as how differentiation was likely to affect the intra-Baltic economic agreements implemented to date. Although Baltic leaders occasionally declared their solidarity, the differentiation had a clear impact on intra-Baltic economic cooperation. The possibility of a joint position towards EU integration was abandoned after the Luxembourg Summit, as were plans for the intra-Baltic customs union. The three Baltic presidents tried to reaffirm their unity during a May 1998 joint statement, which encouraged "the establishment of a more unified economic area, particularly in the fields of transportation, border crossing and the free movement of people, services and capital". Yet, even though plans for a set of trilateral agreements on free trade in services and labour

58 For example, Estonia committed itself to free trade without a transitional period, Latvia negotiated a 4-year and Lithuania a 6-year transitional period, to gradually remove trade restrictions. For a legal analysis of these agreements, see Peers 1995; for an economic analysis, see Sorsa 1997.

Table 7.1.1. Links between EU policy and intra-Baltic economic cooperation

EU policy towards Baltic states	Policy characteristics	Integration of Baltic states into the EU	Intra-Baltic economic cooperation
Establishment of diplomatic and economic relations; search for policy options (1991–1995)	Group approach; ad hoc support for sub-regional cooperation	Negative (in the sense of liquidation of barriers) market integration (trade and cooperation agreements; free trade agreements) supported by financial assistance (PHARE)	Agreement on free trade in industrial goods
Pre-accession (1995–1998)	Group approach with increasing emphasis on individual developments; strengthened support for sub-regional cooperation	Negative market integration supplemented by unilateral aligning of regulatory policies (Europe agreements, White book), political dialogue and continued financial assistance	Agreement in free trade in agricultural products; agreement on abolishing non-tariff barriers
Accession negotiations (1998–2001)	Differentiation, individual progress and caching-up principles; some support for sub-regional cooperation	Positive integration complemented by continued financial assistance; opening of the accession negotiations with Estonia in 1998, Latvia and Lithuania in 2000, closing them in 2002	Failure to implement customs union and agreements on free movement of production factors; unilateral protectionist measures
Membership and transition periods (2004–2011)	Initial differentiation; formation of issue sub-groups, possibly extending to the whole Baltic sea region, adoption of euro by Estonia in 2011	Positive integration; delegation of authority, participation in decision-making	Coalitions inside the EU on certain policy issues (regional, foreign and security, transport policies, energy, etc.), accession into Schengen area, failures to introduce euro simultaneously, delays in regional infrastructure projects

Source: prepared by the author

were discussed during subsequent meetings of the Baltic Council, no decisions were taken.

The start of membership negotiations with Latvian and Lithuania in February 2000 did not strengthen the incentives for cooperation because the policy of the EU was based on the principles of individual progress in negotiations and preparation for the accession, differentiation and catching up. The application of these principles prevented the return of the EU to the same 'group approach' policy towards the Baltic states; on the contrary, it strengthened the incentives to concentrate resources on the integration of each country into the EU. Such unilateral competitive measures were encouraged by statements from EU representatives that "there are no guarantees that all three Baltic states would be accepted as one group", which were common throughout year of 2000[59]. Some initiatives advanced by Lithuania, for example, on requesting for the transition period to preserve the existing trade programme in case not all three countries simultaneously acceded to the EU or on forming a common Baltic position towards the EU on the issue of the free movement of labour, were not supported by Estonia, which until late 2001 was ahead of the other two in this process. However, the situation changed in 2002 due to catching up of Lithuania and Latvia, which closed even slightly more chapters than Estonia and due to the strategy of the EU indicating that up to ten countries might be accepted by 2004 as one big group. The conclusion of accession negotiations with all three countries in December 2002 weakened the incentives for competition. At the same time, accession into the EU in May 2004 removed the major incentive for long-term trilateral cooperation. The Baltic countries continued their routine coordination through existing frameworks. However, no major new trilateral integration efforts have been launched successfully during the years following the accession.

Cooperation among the Baltic states since accession to the EU

Since the accession of the Baltic states into the EU the key issue has been whether the sub-regional approach could be maintained. The Baltic states continued to participate in their trilateral institutions and joint Nordic-Baltic meetings in the run up to the EU Summits to coordinate the matters of common interest. However, the integration of the Baltic states into the Schengen and euro areas (so far joined by Estonia only) took place without any major efforts at coordinating these processes. Moreover, the priority issues on the sub-regional Baltic agenda, namely, energy and transport projects, caused disputes and frustration due to the struggles in their implementation. Although in 2010 the Baltic electricity exchange finally came into functioning with plans to eventually connect to the wider Nordic energy market, this has been again mostly an outcome of the EU coming in and solving collective action problems among the Baltic states (in particular among Latvia and Lithuania, which spent more than a year arguing about where the electricity power bridge (undersea cable) from Sweden should go to). This time, the incentives to cooperate among the Baltic states have been created by the leadership of the European Commission,

59 The statement by EU Commissioner G. Verheugen, Estonian Review, Verheugen sees Estonia in first round of EU enlargement, 27 March – 2 April 2000.

with an offer of common rules (adopted from the Nordic countries) and the supply of EU funding for the joint infrastructure projects. The role of the European Commission in monitoring the progress of the Baltic energy market interconnection plan (BEMIP) seems critical for the progress in Baltic cooperation on this issue. The Baltic states also acted on a bilateral basis more often in their efforts at bringing the Eastern partners closer to the EU and NATO and in trying to Europeanise their bilateral relations with Russia.

Domestic economic interest groups have also exerted considerable influence on the dynamics of intra-Baltic economic cooperation. Their demands for protection, in particular by agricultural groups, accounted for a number of stops in intra-Baltic market integration and for specific retaliatory policies. During the 1990s, the governments in Lithuania and Latvia were generally more receptive to demands for protection than they were to demands for trade liberalization. This imbalance appeared due to institutional differences, transition-related domestic problems, and limited potential gains from intra-Baltic market integration. Although during the turn of the decade some pressure began to appear in favour of extending the scope of economic cooperation, its impact on policy-making was not significant. Rather, the actual alignment of Baltic trade regulations tended to take place on the basis of individual adoption of the EU *acquis*.

Finally, the 1998–1999 instances of Baltic protectionism and non-cooperative polices provided some interesting grounds for assessing the challenges which could be observed in the slow progress of infrastructure projects among the Baltic states since 2004. It seems that faced with adjustment pressures and a possible increase in competition, disadvantaged domestic economic groups, such as energy companies, strengthened their lobbying efforts and demands for protection, while governments, in particular Latvia and Lithuania, until recently have been quite responsive to such demands. The external influences of dominant suppliers from Russia are also said to be involved in creating friction in the Baltic regional cooperation. The extension of market regulation and its increasing complexity also provided more opportunities for protectionist measures to be manipulated, especially in the complex field of energy regulation. Furthermore, traditional industrial sectoral lobbies contributed to the fact that Latvia and Lithuania have continued to support protectionist EU initiatives directed at preventing cheaper imports from China and other third countries, while Estonia and in particular Nordic countries have consistently supported open policies and trade liberalization.

On the other hand, the growing internationalization of the Baltic economies, and especially growing interdependencies among the Nordic-Baltic markets, contributed to the pressure of economic groups favouring further market opening. The financial crisis of 2008–2009 exposed more clearly the high degree of interdependence among the three Baltic countries not only in real economic and financial linkages but also in the perceptions of investors as the possibility of Latvian currency devaluation has raised very strong concerns for Lithuanian and Estonian policy makers and businesses. The adoption of austerity packages in all three countries, on the other hand, created a positive dynamic for rebuilding the trust of foreign investors and maintaining the stability of public finances. In this respect, more efforts at coordinating their austerity programmes have been visible in the Baltic states during this crisis compared to 1998–1999 crisis. Also, the role of Nordic-Baltic cooperation again received greater attention in recent years, though differently from 1990s, this time the actual economic and security interdependence in the Baltic Sea region rather than assistance efforts on behalf of the Nordic countries seem to be the main driving force for closer cooperation.

7.2. The dynamics of the economic integration of Estonia, Latvia and Lithuania

Erik Terk

Economic relations between the three Baltic states have passed through quite different development stages over the past twenty years. Very close political cooperation existed in the period immediately prior to the restoration of independence as well as during it and this was also reflected in economic policies. The Baltic states constantly exchanged ideas regarding market economy reforms and attempted to coordinate their moves in liberating their economies from the control of Moscow. Creating the common Baltic market, which at that time primarily was as a counterbalance to the Moscow dictate, was a keyword of considerable importance as well. It is true that with the rapid deterioration of the command economy the governments of Estonia, Latvia and Lithuania affected the ongoing processes in a somewhat different manner. However, immediately after the restoration of independence and with the institutional reforms in progress, Estonia, Latvia and Lithuania no longer directly needed each other in the organization of their economies, as A. Kokk (1997: 9) points out. The Baltic states each developed their own priority trading partners and the importance of mutual trade links became less important within this framework. The Baltic Free Trade Agreement, which was signed in 1993 and came into force in 1994, did not change the situation in a noticeable manner at first; for example, these same years witnessed a significant decline in Latvia's import from Lithuania. Since the Baltic states' economic structures were rather similar, an increasing tendency emerged to view each other as competitors in attracting foreign investments and in selling infrastructural services, e.g. transport and warehousing. While cooperation in foreign politics was necessary and duly continued for the sake of security, contradictions were emerging between the Baltic states over economic issues such as control over natural resources. One such example is the Estonian-Latvian controversy over the maritime border and the related economic zones, which was sparked by fishing rights interests in the Gulf of Riga.

However, a turn in the trend can be observed starting from 1995 to 1996, as the Baltic common market became topical once more (Kokk 1997: 9). Entrepreneurs interested in the further growth of their firms, at last in Estonia's case, realized that the human and other resources of their country were too limited to support development into internationally competitive enterprises. In a situation where a breakthrough to Western markets was complicated and the Russian market was not "civilized" enough, the Baltic states' market with its eight million residents began to seem attractive enough. Entrepreneurs began to move in that direction on their own and to exert pressure on their governments.

Trade

Accordingly, from 1995–1998 a certain rise in the Baltic states' significance in their respective trade can be observed. Estonia's exports to Latvia, which amounted to only 3% of Estonia's overall export volume at the beginning of the period in question, grew to nearly 4.5% and Estonia's imports from Latvia from 5% to 9.5% of total import volume. Latvia's exports to Estonia grew from 7.5% to 9.5% of overall export volume. Latvia's exports to Lithuania, which initially amounted to approximately 9.5% of overall export, increased 10% in the initial years and continued growing. Latvia's share among Lithuania's import partners also increased by more than 1% and reached 6.5–7% of Lithuania's overall imports. Admittedly, Latvia's share of Lithuania's exports did not increase and Estonian-Lithuanian trade remained low for the time being. The increase of these shares in mutual trade need not seem a particularly remarkable achievement at first glance, but it should be kept in mind that it took place in a situation, where the foreign trade volumes of Estonia, Latvia and Lithuania with other countries were rapidly growing; therefore, the mutual trade growth in absolute volume was quite significant.

The three countries' free trade agreement did not cover agricultural products at first. This was only achieved in 1996 after long and hard negotiations. This favoured the access of more efficient agricultural producers to the markets of the other Baltic states, but it also caused significant tension between these countries with Latvia's actions in protection of their producers to prevent the influx of cheaper pork from Estonia and Lithuania being the best-known example ("the Pork War", see Vanags 2002: 9–10).

Of the three countries, Estonia increased its exports to the markets of the other Baltic states the most during that period. The "southwards expansion" of the Estonian enterprises was not limited to the sale of products and establishing partnership ties, e.g. subcontracts, the forming of subsidiaries in Latvia and Lithuania, especially by buying up local enterprises, became popular as well. The first generalization-oriented publications about pan-Baltic firms, Baltic (B-3) transnationals and optimum ways of their management were being published (Kokk 1997: 8–10, Aljand 1998: 25). It was emphasized that the organizational cultures in each of the Baltic states were quite different and that these differences should be taken into account and the local managements be granted considerable leeway in running the subsidiaries. Estonian entrepreneurs were warned against acting according to their customary "I come, I see, I change" principle (Aljand 1998: 25). Although the authors stated that pan-Baltic firms could also emerge due to the Baltic activities of Scandinavian companies, the articles primarily addressed the expansion to the neighbouring countries of local firms based on domestic capital. H. Aljand underlined that it was not just about Estonian firms expanding southwards, since Latvian and Lithuanian food producers had reasonable chances of establishing a foothold in Estonia in the future. Yet, subsequent developments showed that the predominant way of forming pan-Baltic firms, to the extent that they were established, was the expansion of Nordic companies rather than that of local firms. In some cases, the Nordic enterprises acquired Baltic firms, which had already expanded to other countries, e.g. banks.

The Estonian firms` "southwards expansion" was significantly slowed down by the impact of the changing international economic environment, the so-called Asian and Russian crises. A number of leading Estonian firms were sold to foreign, primarily Nordic investors, in the critical economic situation. Obviously, this obstructed the realization of ongoing or planned strategic actions, including those concerning the southern neighbours. Estonia's exports to Latvia and Lithuania fell sharply in 1999 as well, while Estonia's imports from these countries continued more or less at the previous level. The volume of trade between Latvia and Lithuania was less affected by the economic crisis and Lithuania's exports to Latvia actually increased.

The 2000s could generally be considered as a period of increasing significance of the Baltic states' mutual trade. The increase began immediately at the start of the decade. Latvia actually occupied the third place among Estonia's export partners, right after Finland and Sweden, in 2004. Competing with Russia, it has managed to retain that position in several subsequent years. In recent years, a situation has emerged in which Latvia's share in Estonia's exports as well as imports has reached 9%–10% and Lithuania's significance of 6–7% is also more than double its share at the beginning of the decade (see Figure 7.2.1). This development can be explained in part by the falling demand for Estonia's export products in the other (i.e. non-Baltic states') markets, yet this explanation is not valid for the period as a whole. One has to admit that inter-Baltic (B-3) trade has picked up faster than forecast in the past decade. For example, the gravitation model-based calculations by T. Paas (Paas 2002) showed that Latvia's and Lithuania's significance in Estonia's foreign trade in 2000 already exceeded the theoretical importance they would possess if the intensity of foreign trade ties only depended on the size of the trading economies and the geographical distance between them. However, the corresponding shares have been increasing further in the subsequent period instead of declining as the model calculations would presume. This brings along a need for in-depth interpretation of the Baltic states' trade relations in order to determine whether the growing density of trade is organic or compensatory, and, secondly, to pose the question of whether further development of the Baltic states' economic cooperation, which can be presumed in the case of a positive scenario, would be reflected in the increasing share of the Baltic states' mutual trade.

Figure 7.2.1 includes another important change. While Estonia's exports to the other Baltic states used to exceed its imports in the earlier period, Estonia's current trade balance with both Latvia and Lithuania is negative.

Several authors have quite rightly pointed out that it would not be correct to view the trade between the three Baltic states (B-3) as a market isolated from the wider geographic environment. Despite the increasingly close trade ties of the B-3, Raul Mälk, for example, questions whether the Baltic market defined in that way actually exists (Mälk 2002: 14). His arguments rest on the relative weakness of the Estonian-Lithuanian "axis" in the cooperation triangle of the three countries, but also on the more significant fact that the economic inner ties of the Baltic three are, regardless of their increasing strength, still weaker than the Baltic states' economic ties with the Baltic Sea countries to the west and north of them. In Estonia's case, it is well illustrated by Figure 7.2.1.

This poses another important question. Namely, do the three Baltic states all belong to a distinct broader geographic cooperation area, where they form or could form a sub-region of cooperation. The Baltic Sea region could be a candidate for this broader community.

It seems, however, that the situation is quite complicated even when viewed in that broader context. Kristovskis, for instance, is rather pessimistic regarding the future of Estonia, Latvia and Lithuania as a common economic space. He argues: "It has happened that each of the three Baltic States has already chosen its own direction in foreign trade. Estonia is being integrated into the Finnish-Swedish economic territory and, in fact, has become practically a part of the EU economic province in the northern Baltics. Latvia and Lithuania are orientated towards the creation of a common market with Germany. Lithuania, on another side, has sufficiently active trade to the southwest markets of Poland and France. These trends can clearly indicate that the creation of a common regional market zone in the Baltics is quite a problematic issue as quite diverse aspects of foreign trade orientations are involved". (Kristovskis 2006).

G. Raagmaa holds a partially similar position by stating that two economic areas rather than one are developing in the Baltic Sea region, one in the central area of the Baltic Sea and the other in the southern part of the region. In Latvia's case, he finds that its integration patterns could in principle fit in either area. Lithuania would rather belong to the southern part of the Baltic Sea region, which is dominated by Germany, Poland and Denmark. Russia's areas adjacent to the Baltic Sea are as yet weakly involved in the integration in the region, but in the case of favourable development, it would be logical that St. Petersburg and the Leningrad oblast would join the central Baltic integration area, while the Kaliningrad oblast would join the southern area of the Baltic Sea integration space. (Terk & Raagmaa 2002: 4–5).

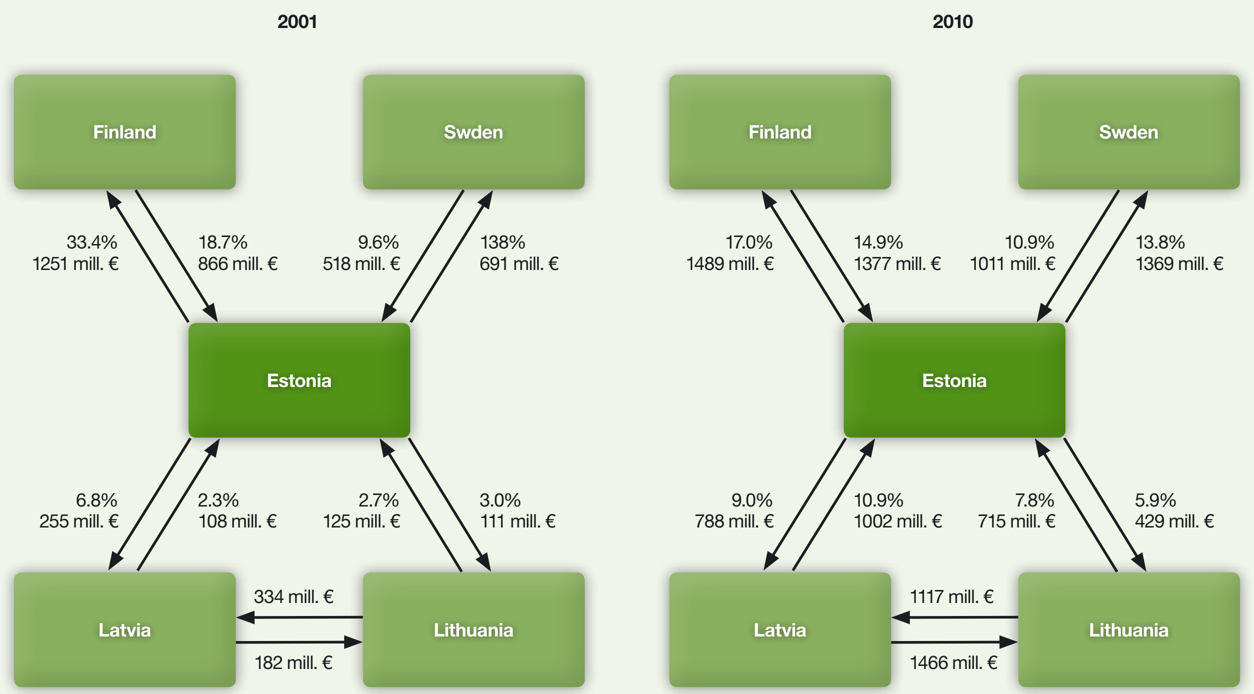
When attempting to generalize the foreign economic dynamics in the central Baltic Sea region, not during a few years but over a significantly longer period of time, the strengthening of the Nordic countries (i.e. Sweden and Finland) is clearly apparent, with Finland's position being to the fore. This applies to the region in general and particularly Estonia. When studying Estonia's foreign trade structures in the period between the two world wars by taking 1930 as a reference year (a period when nationalsocialism had not yet come to power in Germany and strengthened its positions in the Baltic Sea area), we can observe Germany's clear domination in Estonia's imports and exports (its significance in either remained between 25 and 30 per cent). Sweden was fourth as to its significance among Estonia's foreign trade partners in imports and exports. Among Estonia's import partners, its less than 5% share lagged behind those of Germany, the USSR and Poland, while among export partners its less than 4% share was overshadowed by Germany, Denmark and the USSR. Finland's positions were even weaker than those of Sweden. Latvia's share of Estonia's import and export remained below 3%, while that of Lithuania was entirely marginal. The restoration of the Baltic states' independence in 1991 also restored their traditional close ties with the Baltic Sea region as a whole, but the pattern of individual countries as partners was entirely different.

Some forecasters presumed that the significance of Germany in the Baltic states would gradually increase in comparison with the Nordic countries. Forecasts based on model calculations made in the mid-1990s by the Kiel Institute for Regional Research, which proved surprisingly accurate in a number of aspects, e.g. the prediction of the Baltic states' speed of convergence with the older EU countries, Germany's expected share of Latvia's imports to reach 60% by 2010, to exceed 50% in Lithuania's imports and reach 40% in Estonia. The forecast German share of the Baltic states' exports should have increased to 40% of Latvia's and Lithuania's overall export and exceeded 25% in regard to Estonia. (Callsen, S. & Jäger-Roschko, O. 1996). Reality lagged far behind these figures.

Why then isn't Germany's share in Estonia's economy rising faster? Certain premises seem to be present, thanks to the strength of Germany's economy and industrial export orientation at the very least. For example, German subsidiary firms in Poland could expand further to Estonia. However, a number of obstructing factors can be pointed out: the consumers' taste differences, ownership of retail chains, transport, strong positions already occupied by the Nordic firms, and the rather rapid closing of the Estonian business culture with the Nordic model (Mälk 2002: 15.).

In order to understand the foreign trade dynamics, we should certainly differentiate between the export-import of end products and the import and exports of goods for processing. Foreign trade studies would frequently treat the latter procedures by using the term intra-industrial trade (export and import of goods

Figure 7.2.1. Trade between the three Baltic states and Estonia's trade with Finland and Sweden in 2001 and 2010. Other countries' share of Estonia's export and import in % and absolute volume in millions of euros



Source: statistical offices of Estonia, Latvia and Lithuania, the author's calculations

belonging to the same product groups between two countries).

Between Estonia, Latvia and Lithuania there is largely the case of export of their "own" products rather than export based on providing additional value to products imported for processing. It actually testifies to the superficiality of the integration of these countries' economies. However, intra-industrial trade holds a very significant position in the trade between the Baltic states and the Nordic countries. However, considerable differences between the Baltic states are apparent there. Estonia's added value to imported (semi-manufactured) products amounted to approximately 40% of its industrial production's export as early as at the beginning of the 2000s, while Latvia's corresponding figure was below 20%. This gap has persisted to today. Latvia's lagging behind in increasing the share of intra-industrial trade can apparently be linked to the specifics of forming the Latvian entrepreneurship structure, which was discussed in Chapter 1 of this publication and which has obstructed the successful integration into the networks of a more sophisticated international manufacturing cooperation.

The share of intra-industrial trade of Lithuania's foreign trade has been lower than that of Estonia but higher than in Latvia. However, Lithuania's problem is that while in Estonia it is primarily related to sectors such as the manufacturing of ICT equipment, engineering and metal industries, a large share of Lithuania's intra-industrial trade is provided by textiles, a sector of business whose further perspectives are not enviable in any of the Baltic states due to the competition of cheap East Asian goods.

Unfortunately, the majority of the Baltic states' intra-industrial trade has been related to relatively cheap subcontractor production with the Baltic states making use of their production input price advantage. We reach the complicated question of whether the high share of subcontracts in exports would be good or bad. On the one hand, it would seem to be reasonable to attempt to move towards the export of end products, which would reduce the dependence on the main contractor and claim a higher price for the production. However, the problem is, as Bernatonite pointed out (Bernatonite 2011) in her analysis that the Baltic states' end product export predominately falls in the product groups for which demand is rising more slowly than average in the international market. This does not apply to many product groups where the Baltic states are operating as subcontractors. The intra-industrial trade offers the Baltic states opportunities for increasing production volumes and achieving scale-economy, and this is a considerable advantage. Obviously, this does not mean that Estonia, Latvia and Lithuania should not think about how to move upwards in the value chain towards higher value added.

Mutual investments and integration of corporate structures

A more detailed view of the state of economic integration and its trends would require, besides the dynamics of foreign trade, a description of investments made in other countries and the activities of the other party's firms and their subsidiaries in these countries. Unfortunately, compiling a generalizing view of the Baltic states firms' mutual investments is quite complicated, since it would be difficult to determine by statistics whether a firm or its investments are actually based on local ownership or local management initiative. For example, a Swedish company operating at the same time in Estonia and Latvia, can make its investment in Latvia via the parent company in Sweden or an Estonia-based subsidiary of the same parent company with the choice between the two options depending purely on financial/taxation-related considerations rather than on who actually makes the decisions and directs the investments. Furthermore, an investment need not always be a real investment, but merely a temporary placement of funds. The Baltic states' foreign investments have been difficult to interpret for a number of years as they were dominated by quite technical movements of money by the already Swedish-owned Hansapank between its subsidiary banks in other Baltic states. Of course, such operations for the placement of money can also occur in regard to business groupings and firms belonging to the Baltic states' domestic capital.

It can be summarized that although the activities of private companies of the Baltic states in each others' markets were relatively intensive before the recent crisis, especially regarding Estonian firms in Latvia, their investments in other Baltic states have been significantly lower than the investments of Nordic and German firms in the 3B region. A relatively new tendency is the joint investments of state-owned Baltic infrastructure firms, e.g. in the construction of Baltic-Nordic energy links. It can be foreseen that the making of such investments in transport infrastructure, energy production, etc. would become even more important in the upcoming period.

Let us now take a look at the firms operating in one Baltic state (or several), but with the owner (individuals or companies) registered in another. Some of these firms belong to Baltic domestic capital, but others are subsidiaries of firms outside the Baltic states, which operate the Baltic firms via subsidiaries in another Baltic state. For example, the shares of the Latvian-based firm Rigas Miesnieks belong to the Estonian-based AS Rakvere Lihakombinaat (Rakvere Meat Processing Plant), which in turn belongs to a Finnish concern. Out of these firms we shall only discuss the larger ones, setting the size criterion at last year's turnover in excess of 15 million euros. As of 2010, there were 57 such trans-Baltic firms: 12 Estonian firms in Latvia, 21 Estonian firms in Lithuania; 4 Latvian firms in Estonia; 5 Lithuanian firms in Estonia, 10 Lithuanian firms in Latvia and 5 Latvian firms in Lithuania.

For a number of reasons, the statistics provided above cannot serve as a basis for very fundamental conclusions. For example, in some cases, the Latvian subsidiary of an Estonian company is managed by the Swedish parent firm and its control via the Estonian subsidiary is a mere formality. On the other hand, several essentially Baltic firms operating in other Baltic states could be formally registered in e.g. Luxembourg, etc. Yet some tendencies are quite apparent despite the rather imperfect sample. Firstly, Estonian firms are more active than Latvian or Lithuanian companies in founding firms (or daughter companies) in other Baltic states or buying up local enterprises. Secondly, Lithuanian firms are more active in expanding to Latvia than Latvian ones to Lithuania. Thirdly, and somewhat unexpectedly, Lithuania rather than Latvia has become a more important expansion direction for Estonian firms. Closer study gives reason to suspect, however, that it may be at least partly a phenomenon of the specific moment. 2009 was hardly a favourable year for conducting business in Latvia; for instance, that year the Estonian Selver retail chain had to close its recently opened supermarkets in Latvia. Yet, the above statistics could send a signal that the hitherto weakest Estonian-Lithuanian axis in the Baltic economic cooperation triangle may be strengthening.

The breakdown of the trans-Baltic enterprises of the sample as to their sphere of activity offers some food for thought. The most popular activities are real estate development and construction, wholesale and retail trade (especially consumer goods) and the entertainment business (casinos). In other words, these are enterprises related to services focused on pre-crisis bubble domestic consumption. Yet, this definition omits some enterprises related to agricultural services (e.g. sale of fertilizers), buying and processing of timber, meat, fish and milk. Some transport and logistics enterprises could be mentioned as well. However, the present trans-Baltic enterprises include only a few large firms that have entered broader international business.

Among them, we should mention the Lithuanian Mazeikiai Nafta Trading House operating in Estonia and Latvia, which is nevertheless just a sales division of an oil processing plant and the Tallinn-based Baltic Ship Repair Plant (BLRT) Group, which owns a ship repair yard in Klaipeda. It can be concluded that the present trans-Baltic enterprises are mainly firms catering for the adjacent markets, which have expanded their activities from the domestic market to their neighbours and either provide services to the local population or lead a business based on local raw materials, their procurement and processing. The new wave enterprises, international in the broader sense and operating in spheres close to high technologies, do not seem to favour the other Baltic states; they find their cooperation partners in more highly developed economies. Whether this watershed will continue in the future is another matter.

7.3. The future of Estonian, Latvian and Lithuanian integration: three possible scenarios

Erik Terk, Veiko Spolitis, Ramūnas Vilpišauskas

The factors and levels of Baltic cooperation

The previous subchapter showed us the present state of economic relations and economic cooperation between the Baltic states. It also outlined several problems critical to the integration. Subsequently, we will take a closer look at the perspectives in cooperation between the three countries. We will assume that this development is not determined by certain fatal characteristics but can include rather diverse effects, the appearance of which depends on the decisions and courses of action of the Baltic states as well as on other, foreign factors. The integration of the Baltic states can, but may not necessarily, intensify rapidly. Therefore, in order to chart the possibilities of integration, we use the alternative scenario method, which allows us to demonstrate how external and internal factors can intertwine and give birth to various developments, or what kind of issues and opportunities may arise during these developments.

As there are no major political or economic tensions between Estonia, Latvia and Lithuania, we have no reason to expect any sharp deterioration of their relations or any major setbacks in the level of cooperation already achieved. As we are dealing with contiguous and open economic spaces, then a certain advancement in cooperation can be expected even in a rather dynamic external environment. On the following pages, we will examine the form and content of such cooperation, its place and importance among other vital processes in Estonia, Latvia and Lithuania, and whether each other's role in external trade or investments is going to expand or diminish.

The following scenarios are constructed with awareness that the background largely affecting the content and intensity of cooperation consists of at least three different levels. These levels are: a) European Union (EU) level; b) Baltic Sea region (BSR) level; and c) Baltic states (B-3) level itself. An additional factor that might influence the course of integration between the Baltic states is the development of EU-Russian relations. In the following analysis of various integration scenarios, we therefore presuppose the dependence of Baltic integration on several institutional levels as well as on the relationship between the EU and Russia (Figure 7.3.1).

At the EU level, the most important factors are its overall economic situation, which of course heavily depends on global developments, and also the growth, standstill or even decline of the general integration level inside the EU. Here, the developments related to financial crises in several EU member states and the success in dealing with such crises offer us a fairly ample spectrum of choice. If, as a result of these developments, the EU is not weakened financially, the internal trade barriers (including the so-called non-tariff trade barriers) will decrease further instead of increase. That, in turn, will strengthen the EU capability to organize cooperation with its neighbouring regions and to realize infrastructure projects of strategic importance. This creates positive conditions for cooperation in the Baltic Sea region, including the integration between Estonia, Latvia and Lithuania. If, on the other hand, these conditions fail to materialize even partly, we will be faced with a totally different future.

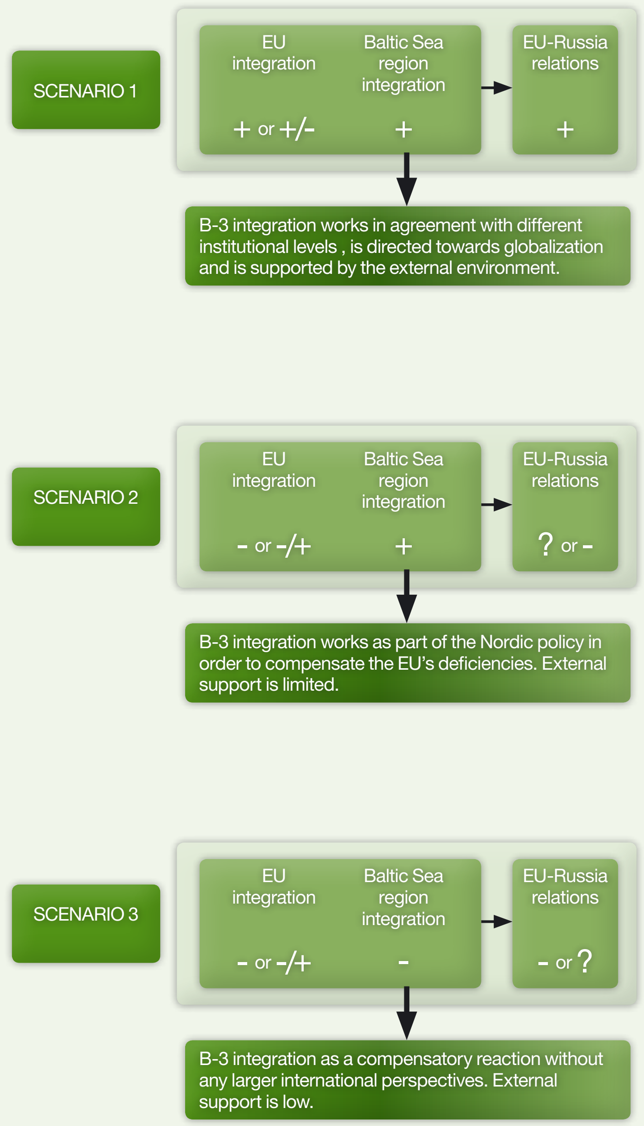
On the Baltic Sea region (BSR) level, which represents the first and foremost integration environment for Estonia, Latvia and Lithuania, the interesting aspects are the region's changing relations with global economics as well as the attitudes of the Nordic countries regarding cooperation with their counterparts on the eastern shore. The development of the Baltic states is even more directly determined by the evolution and realization of the EU Baltic Sea Region Strategy (BSRS). We must face the fact that in its present form the BSRS is a project with a fairly unclear focus and little binding power. In order for this important initiative to become an influential development mechanism and not just fade away, it needs a more serious institutional framework and adequate financing.

Another key issue is the more active involvement of Poland and Germany in BSR integration. The coastlines of both countries belong to the BSR but as they do not represent strategic core regions of these countries, the participation of Germany and Poland has been weak. A different question is how to involve countries outside the EU such as Norway and Iceland, but especially Russia, more strongly in the cooperation in BSR. In the case of Russia, the success of such an involvement may vary greatly.

Russia itself has, in this latest period, demonstrated a certain interest in developing a more sound economic relationship with its neighbouring countries. To a certain extent, it is true that the Russian initiatives can be viewed as a manifestation of political rivalry because the cooperation agreements offered by Russia have also been interpreted as a response to the European Neighbourhood Policy, the format of which appears not to be suitable to Russia.

In the foreseeable future, Russia is not capable of seriously endangering the national security of its EU neighbours, although one cannot overlook its attempts to broaden its sphere of influence in the EU, probably combining both economic and political claims. On

Figure 7.3.1. Possible external environments for the continuation of Baltic (B-3) integration in different scenarios



Source: authors

the other hand, northwestern Russia is an economically attractive region for its adjacent countries as well as for the EU in general. The level of constructiveness of the cooperation may largely depend on the scenarios depicting the events in Russia and the EU. In the following discussion, we assume that if the economy and foreign policy of the EU prosper, there is reason to believe that EU-Russian relations can start to develop constructively. Of course, Russia might attempt to play on the particular interests of EU member states in order to impose some inadequate economic or political solutions on the EU as a whole, but if it fails to succeed due to the clear aims and coordinated foreign policy of the European Union, then it can be expected that Russia will gradually give up measures that result in confrontation with the EU. If the EU appears as a weakening union without a unified foreign policy, one can expect a stronger urge from Russia to split the EU internally in order to develop from profitable bilateral relations with member states. While a weakening EU might contribute to cooperation in the Baltic Sea region led by the Nordic countries, this factor is hardly strong enough to motivate Russia to behave constructively.

The official relations between the **Baltic states** have been balancing between neutral and moderately positive. A certain rivalry has not tarnished the generally positive aspect of these relations and should not do so in the future. The countries' location so close to Russia with its unforeseeable future acts as a balancing force in itself. Yet, taking into account the cooperation experience so far, it is hard to believe that some radical initiatives to strengthen Baltic integration (such as the creation of a special B-3 economic area or another similar structure) might appear as a result of internal processes in the three countries. Such initiatives are more likely to appear when they are promoted or at least supported by a changing international context. This conviction is sustained by the strenuous development of important collective initiatives like a common nuclear facility or the *Rail Baltica* project. External threats, on the other hand, have encouraged Estonia, Latvia and Lithuania to take united stands, if necessary.

Changes in the external context itself depend little on the Baltic states, but taking full or partial advantage of these changes in the national interests is perfectly attainable. In the first two scenarios, we are going to analyse what kind of ways and opportunities of cooperation can be favoured by the shaping of integration on the EU and Baltic Sea region level. The third scenario sees the B-3 level self-initiative as a main factor but even that course can only be taken if certain external circumstances are combined into a favourable psychological atmosphere.

In the descriptions of different scenarios, we will take a look at the following components related to an increased or weakened cooperation: first, the development of infrastructure undertakings, second, the integration of markets and businesses, and third, cooperation in educational matters.

The creation on infrastructure systems involving all three countries and their larger environment, especially in transport and energy, will constitute a real measure of the Baltic states' capability to agree and their ability to protect their common interests. Among other things, the decision-making is influenced by the acts of national economic stakeholders. In some infrastructure projects, we can speak about an already known and probable outcome; in other cases, we have several competing ideas or priorities.

In matters of markets and business, the central issue has been whether and how the Baltic states can be included into a larger network of international economy, and whether the growing international competition outside the Baltic Sea region brings along the rise of cooperating and coordinating production and service systems in and between the Baltic states or not. There is an attempt to draw up the prospects of businesses belonging to external investors as well as to domestic capital. Special consideration is given to the issue of the creation of the so-called pan-Baltic businesses, their varieties and possible roles.

Special attention to the educational issues comes from the idea that anything in this domain greatly hinders or favours economic and other development. As the organization of education on lower levels mostly depends on single countries and the possibilities of international cooperation in this regard are fairly limited, the following discussion mainly concentrates on higher education and the underlying opportunities of international cooperation.

Scenarios are texts written in order to give people food for thought. People can interpret them differently, judging their probability and their implied opportunities, discussing them and hopefully moving closer to the truth. We are not declaring that the conclusions in the following text or the scenarios themselves are the only possible outcome. We saw our objective in offering material for further discussions and to inspire the present sleepy debate on the course of Baltic integration and its hidden possibilities.

Three scenarios for cooperation

Let us take a closer look at the three abovementioned courses of development (Figure 7.3.1). For each scenario, we first established a combination of parameters it is based upon. Then, we briefly describe the situation liable to produce such a development and the general possibilities it opens for the Baltic states. After that, we will describe the likely developments in the three abovementioned aspects, that is the joint actions in creating infrastructure, the integration of markets and businesses, and the integration in the field of higher education. In the scenarios, we assume the agreed planning horizon of 10–15 years, and in some specific cases, we also look to the possible developments in the long term.

In the end of a scenario, we briefly present some possible conclusions. We give a concise evaluation about the elements of cooperation dominant in that scenario and we give an overview of the role of governments in promoting this cooperation. We reveal some of the dangers the scenario presents and we try to express the hopes it gives.

First scenario: Three-level integration: a coherent Baltic Sea region in a cooperative Europe.

The prerequisites of the scenario: This scenario presumes that the internal crisis evoked by the irresponsible management of some member states and the ensuing financial difficulties can be overcome by implementing adequate policies and subsequent new regulations in the EU. Even though the regulations are far from perfect and the danger of divisions inside the EU together with future financial problems has not disappeared, one can say that during the crisis the EU has not lost any of its former major achievements: common market, free movement of workers, common currency, funds for creating infrastructure of common interest and for helping member states with lower economic development. After a short break, the integration inside the union (including the enlargement of the eurozone, albeit with great caution) as well as the development of economic cooperation with neighbouring countries and the rest of the world will continue. The enlargement of the EU to include new member states will not cease either, although more attention will be directed towards their capabilities to deal with their economies in a sustainable manner. The general atmosphere in the post-crisis EU is open-minded, with an open-market economy and orientation towards the future. Positive expectations prevail.

At the same time, a certain trend towards decentralization is taking place in the EU. Already during the preparations for the next programming period, the EU has to decide which common line to take regarding the recently launched Baltic Sea Region Strategy and the ideology thereof. The European Council representing the member states clearly expresses that if the development of new strategies at a mesoregional level are to continue at all, the existing strategies and the programmes therein should receive at least partial compensation from the EU funds, the usage of which would be handed over to the decision-making bodies of the mesoregions. One condition for handing over the funds will be that a sufficiently large part of the financing should come from the mesoregion itself. It is decided that a partial delegation of policymaking from the EU-level to the so-called mesoregional level would make sense. First, a good coordination of undertakings at a mesoregional level and the agreements between the countries concerned is of vital importance in several policies, such as the ones concerning the creation of regional infrastructures or cross-border clusters or the natural environment. Second, the evolving mesoregions (Baltic Sea region, Danube region, Mediterranean region) represent to a large extent so-called identity regions. This suggests that if certain policies were developed not on the EU level whence they might be deemed incompetent as a result of Brussels bureaucracy (or the self-serving politicians of the key member states), but on the level of the identity region itself, their acceptance among the population of the associated countries might be better. This would also free Brussels from partial responsibility in case the policies do not materialize as expected due to the countries' incapability to reach agreement or to function together efficiently.

The countries of the Mediterranean and other countries have shown active interest in the discussion regarding the abovementioned policies, but as a certain readiness for such a decentralised structure is only considered as apparent in the Baltic Sea region, the decentralization of policies starts there.

For the Baltic governments, the continuation of mesoregional policies would represent an opportunity from an EU level to develop its regional environment, the shaping of which is being handled by the Nordic countries. Another argument in favour of this initiative is the fact that besides the Nordic countries its management will also include the Baltic states, which have recently recovered from the financial crisis thanks to a rigorous fiscal politics.

The scenario presumes that although the advocates for the increasing role of the Baltic Sea region were chiefly the Nordic countries, Germany and Poland will become progressively involved in the cooperation. In such environment of mutual assistance, Latvia and Lithuania will adopt the common currency in five years' time and successful developments may very well lead to Sweden's and Denmark's accession to the eurozone. One cannot rule out the possibility that during this period even Norway will join the EU.

Evolution of the processes in different fields

Common infrastructure for international transport

In this area, the realization of the first scenario gives hope for major positive developments.

- **The Rail Baltica project (a new railway system between Tallinn and Berlin) will be initiated and successfully finished by 2025.** This will function as a high-speed railway with European track gauge that is destined to serve as a means of passenger as well as freight transport and will run through Pärnu and Panevežys. The new railway makes it possible to travel from Tallinn to Riga in two hours and from Tallinn to Warsaw in 12 hours. Solutions will be found (first a train ferry, later, after the end of the time period considered, possibly a tunnel) to insure that Finnish freight and passenger flows have an economical access to Rail Baltica.
- **At the same time, transport corridors from east to west are being expanded, border-crossing options to Russia improved and several transport corridors through Belarus and Ukraine to the Black Sea are also being developed (the Zubr project).** North-south and east-west transport corridors are not competing but helping each other and improving the connection of the Baltic states with the global economy. (This, for example, applies to servicing the freight transport to China.)

Common infrastructure for energy

- **In addition to Estonia, Latvia and Lithuania will join the common energy market of the Nordic countries.** Further energy connections will be created from the Baltics to Finland and Sweden.
- **Discussions around the construction of a nuclear facility to Lithuania are complicated, mostly because of the initial opposition of Scandinavian countries.** The situation is further complicated by Russia who declares its wish to build a nuclear station in the Kaliningrad oblast and start selling electricity to the EU. This project raises opposition in the EU because of suspicions about the security of a rapidly constructed nuclear station. Finally, it is agreed to build a nuclear station in Lithuania as a joint project between the Baltic states and Poland. This solves the problem of providing electricity in the region for a long time and with affordable prices.

  As the station will only be finished towards the end of the period in question, the region will be facing a critical shortage of energy after 2020. That shortage will be overcome thanks to natural gas as an energy source, while the unity of the EU helps to avoid Russian extortion.

Markets, businesses, pan-Baltic companies

The policies emanating from the EU and the BSR level help to develop the Baltic Sea region and the Baltic states, using a comprehensive strategic vision. A well thought out and settled regional strategy enables money to be directed from EU structural funds towards raising the competitiveness of the Baltic Sea region as a whole. An improving infrastructure, including the transport routes in progress, as well as a common monetary environment after the accession to the *euro*zone by Latvia, Lithuania and several Nordic countries create an excellent basis for economic growth. By using ways to access markets in the EU member states as well as in neighbouring regions, Estonian, Latvian and Lithuanian enterprises can enlarge their field of activities while also specializing. A clarifying perspective of the region in the international economy and its growing stability will increase foreign investments to the Baltic states, not only from Nordic countries but also from Germany and elsewhere. The efforts that Latvia and Lithuania will have to make in order to fulfil the conditions of joining the *euro*zone will have a positive effect on the quality of their macroeconomic environment. Latvian and Lithuanian business cultures, until recently somewhat more confined than in Estonia, are going to see some positive changes.

The Baltic economic space will smoothly join the larger international economy. Companies based on Scandinavian investments can develop and expand their activities in the improving economic environment of the Baltics, which is also slightly cheaper and more disciplined than before the crisis. The role of the Baltic states as an area of expansion for the EU eastern-orientated economic activity and as an international logistics centre will again become crucial. Decent transport connections from north to south, when completed, will give the Baltic states a chance to compete with the Visegrad countries, taking part in the value-creation chains started by core European countries, especially Germany. The improvement of the geo-economic location will be a positive influence for all Baltic states but especially Lithuania who takes advantage of active economic relationships with not only Nordic countries but also with Germany, Poland, Russian Kaliningrad and other eastern Slavic neighbours (Belarus, Ukraine). Extensive foreign contacts and transport corridors in creation will give new stimuli for development for every major Lithuanian city, including Kaunas, Vilnius, Klaipeda, Panevežys.

Enlarging business opportunities will be beneficial for foreign and Baltic companies alike. Considering that the planned undertakings presuppose building up large capital-intensive structures as well as operating them, foreign companies will predominantly remain the main actors in this international business. Among companies based on Baltic domestic capital, only a few with a sufficient capital, experience and reputation will be able to take the lead. On the other hand, taking part in such projects will be beneficial to many.

Besides wider opportunities in international business, the small and medium-sized enterprises in Estonia, Latvia and Lithuania will benefit from a growing internal demand, especially for local services. If it becomes clear that the post-crisis economic growth in the Baltic states is sustainable for now, then the banks will start to pool their loan resources here again. Domestic enterprises can invest more safely from bank loans and not just from profit. However, the pre-crisis situation with overflowing capital is not likely to be reproduced. Domestic companies might find themselves with a shortage of capital if they need to cover the big costs related to innovation or moving to new markets, or if they have to compete with bigger foreign rivals on the domestic market.

Liberal economic environment with stimulating competition, and also the adoption of the euro in Latvia and Lithuania will be advantageous to achieving a greater unity between the three Baltic economic spaces. Companies, either domestic or extra-regional, operating in a single Baltic country, will seek to expand to the other two Baltic states. What motivates them is not just the hope of taking over the markets but also the hope to achieve economies of scale. This diminishes the costs per production unit and boosts productivity. Estonian and Lithuanian companies operating in the food industry will look towards Latvia, Latvian timber and furniture manufacturers will try to use the Estonian and Lithuanian workforce and forest resources. Practically all of the retail chains operating in one Baltic state are looking to enter the neighbouring markets.

Whether the abovementioned processes will be accompanied by a deeper integration of business in the sense of production cooperation and whether the importance of intra-industrial trade will rapidly increase, is far from certain. This would happen if Baltic companies would start to create more complex modern production systems, oriented to export outside the region. A mere expansion of markets and an increase in production might not be sufficient.

The economic integration inside the Baltic region is in this scenario perfectly feasible and a rather natural occurrence; it will not, however, become a significant trademark in international economic policies nor an aim of specific strategies. In fact, it is a secondary process, the "engine" of which is situated on a higher level than the Baltics. Also, the speed and quality of integration will mostly depend on decisions made outside Estonia.

Developments in the field of (higher) education

In the context of an increasingly international economy, the question of the education and qualifications of the workforce becomes vital. Cooperation in the Baltic Sea region creates favourable conditions for achieving this, especially higher, education. A number of Nordic and German universities belong to the European elite in terms of teaching and level of research. This will stir up serious debates, especially on the level of employer organizations and various consulting bodies of the Baltic Sea region cooperation, as to what the future of higher education in the Baltic states should look like, whether it is practical that the Baltic states develop their universities independently, trying to ensure quality education in a broad spectrum of needful vocations, or whether local universities should become branches of neighbouring universities or at least bring in a large number of visiting lecturers, reduce considerably the choice of study programmes and direct their students to Nordic, German, British or other foreign universities. In this scenario, these discussions become especially acute when the technical education is concerned. A single solution cannot be reached. If the percentage of visiting lecturers in the universities indeed rises, it will bring about the implementation of several systems that favour the acceptance of Baltic students in the top universities in the Baltic Sea region. Tallinn University of Technology will be merged with Aalto University in Helsinki. Parallel to the internationalization of the universities, large efforts will be made to raise the academic level of local universities and to continue the teaching in the local language. Initially, at least, the money from the EU structural funds can be used to this end. Some serious efforts result in a situation where all major universities from all three Baltic countries belong to the global top 500.

Inter-university integration is mainly developed with Nordic and German universities, and local cooperation on the Baltic level remains scarce. However, the Stockholm School of Economics in Riga will accept more students from Estonia and Lithuania, as well as from Russia.

Conclusion of the first scenario:

B-3 cooperation in such a context (synthetic evaluation): the cooperation is dominated by economic motives and based on open market ideology. Political and cultural concerns are less emphasized. B-3 cooperation in this scenario is not so much an objective in itself as a means of securing better access to larger markets in order to strengthen and modernize the local economy. B-3 economic space is rather the foundation that enables the companies to become stronger and more specialized, maybe even to combine resources and economic structures and to modernize the society.

The role of Baltic governments in relation to cooperation: This is primarily directed towards cooperation in important infrastructure projects and lobbying their common interests in the EU (and to a certain extent in the Baltic Sea region). Governments do not interfere in businesses, except in large infrastructure undertakings. The countries' aims in modernizing their economic structures take place on the Baltic Sea region level rather than on the B-3 level.

Main risks in the B-3 cooperation: a) in economic expansion, especially towards east and south, some conflicts of interest may arise between the Baltic states due to competition; b) inability to act in somewhat different cultural and organizational environments may restrict the efficient management of pan-Baltic companies.

Positive effects that can be hoped from this cooperation scenario: Thanks to jointly developed infrastructures, the Baltic states are able to connect their economies better with the international economy, and also to modernize their economic structures and create conditions for achieving their respective cultural and social ambitions. Cultural approaching on the B-3 level, however, if it takes place at all, is limited to relatively pragmatic aspects and to a general framework of (Nordic, in Latvia and Lithuania maybe German) organizational culture, and it does not rely on national cultures.

Although this scenario is clearly the most advantageous for the Baltic states, it is far from being problem-free. One serious issue is certainly going to be the lack of labour force. As production quickly expands, the workforce necessary to cover it will be increasingly difficult to find in all three Baltic states. The rising standard of living and quality of life are of course a potential stimulus in drawing back home the so-called work emigrants who have left in the recent past, especially from Latvia and Lithuania, but one must consider that in this scenario the economy is also likely to develop fairly rapidly in the work emigrants' target countries, which means an equal increase in salary. Therefore, we can assume that a growing economy in the Baltic states again acutely raises the question of immigration, including that of people outside the EU.

The economic structure lagging behind that of highly developed countries is also an issue that's not going to be resolved automatically. Even though the probable development in this scenario is far more extensive than before the crisis, the question remains of whether the Baltic states continue to do the cheaper work for their western and northern counterparts or if they will be able to perform more complex and more expensive functions in a knowledge-based economy. Estonia, thanks to its better established innovation strategies, is slightly better prepared to meet such challenges. How this dilemma is going to be solved depends on the Baltic states themselves, including their educational policy, as well as on how seriously the reduction of the gap in development will be dealt with in the new strategic documents of the Baltic Sea region.

We can expect that in this scenario the absolute value of trade volumes between the Baltic states will grow remarkably, but its importance in Estonian, Latvian and Lithuanian trade is rather more likely to decrease.

Second scenario: The counter-project of Nordic countries: The Nordic-Baltic integration in response to the EU crisis

The prerequisites of the scenario: The European Union, struggling with the loan problems of Southern European countries, will sink into a deep internal crisis to which no adequate solutions can be found. The opposition of the electorate in Southern European countries as well as in the main so-called net contributors prevents the EU from reaching a compromise. The protectionist tendencies in the member states intensify. The dissolution of the EU will be avoided but as a result the present integration level will decline and the efficiency of the EU management will diminish. The free movement of goods inside the EU will be roughly maintained, although even here some countries will try to implement measures to protect their internal market; but there will be no advancement in the free movement of services or any larger openness of public procurements. A stronger pressure of immigration from the south will motivate some countries to close their borders to the free movement of workers inside the EU. The falling out of the eurozone of Greece and other troubled countries will be avoided, but with a high price. No sufficiently large stabilization funds can be created and no effective rules of macroeconomic behaviour for member states can be established. A dire financial crisis will cripple one country after another; helping them and the banks that gave them loans will add great pressure on the EU budget. In that situation, the EU contributions to creating common infrastructures and supporting the economic development of new member states are going to be diminished significantly. The enlargement of the EU and of the eurozone will be suspended. This will be upsetting to Latvia and Lithuania as well. A common foreign policy is not successful; every country seeks to protect its narrowly interpreted national interests. The EU as a whole will be in a defensive position, and the development of any strong strategic courses of action outside the arrangement of internal economic affairs is unlikely.

The Nordic countries will react strongly against the regression of EU integration. There is a deep disappointment in Nordic countries, which will result in a new consolidation of Nordic identity and solidarity. Some of the functions of the EU that the latter can no longer perform are taken over as well as the management of market development and openness in the Baltic Sea region. Collective efforts are being made to orientate the economies towards the growing markets in Asia and in America, and to develop technological cooperation with these regions. With the economic potential of the Nordic countries still being too small to be a major player in global economy, they decide to integrate the Baltic economies as tightly as possible with the Nordic economic model. A priority will be to switch from the EU brand that has lost its credibility to the development of the Nordic brand. There are even discussions of replacing the euro with a Nordic common currency: the crown. As this would be a major obstacle in economic relations with Germany (Germany would not join the monetary union because it would hurt its economic relations with France and Benelux), the idea will be abandoned.

Compared to the previous scenario, the above-mentioned strategy emphasises, in addition to market development, the generation and execution of international projects. This requires an efficient national coordination mechanism. Such a mechanism will be created on the basis of the Nordic Council and the Nordic Council of Ministers by enlarging their authorities and their administrative structure. In order to ensure a substantial inclusion of the Baltic states in this Nordic joint project, they will be accepted as members of the Nordic Council.

Considering that Norway and Iceland belong to the Nordic Council and are engaged in the common market mechanisms, but do not belong to the EU, the giving of some EU functions to the new Nordic Council will be approved by enforcing special clauses regarding them as non-EU members.

Among the Baltic countries, Estonia and Latvia will quickly agree that a rapid integration with Nordic countries in these conditions is their historic opportunity, enabling them to protect their national interests and to modernize their economies. Lithuania is not certain at first whether a stronger adhesion to the Nordic-Baltic bloc might worsen its economic ties with Germany and Poland, but after some consideration Lithuania too decides to join.

Evolution of the processes in different fields

Common infrastructure for international transport

Due to the loss of EU funding, the execution of larger transport projects will be delayed. As the economic growth in Europe is rather low in this scenario, the interest of banks to finance such projects will be diminished. To a certain extent, this will be compensated by the Nordic financial means, which of course are not comparable to the EU.

- The creation of the Rail Baltica speed railway becomes unrealistic in this scenario and will be substituted by cheaper, less satisfying options.
- The Via Baltica speedway connection will slowly be modernized, although the low interest of Poland will further slow down the process.
- The construction of east-west transport connections in the Baltics and the necessary investments to ease the border crossing will be supported by Sweden. Finland, however, would like as much Russian goods as possible moving along Finnish railways and motorways, and is therefore fairly reluctant to support competing investment projects. Solving this conflict of interests will require a lot of effort from all partners.
- In principle, the Nordic countries are interested in better transport connections through the Baltics, but to them it is not of primary importance, compared to for instance the construction of the Swedish-German oversea connection (tunnels and bridges), which would ensure a firm link with Core Europe to the Scandinavian countries as well as to Finland. In this scenario, the priorities in construction of transport connections lie mostly on the western shores of the Baltic Sea. That is why many essentially prospective projects, including those orientated towards the Black Sea (Zubr), tend to remain inessential due to the lack of funding.

Common infrastructure for energy

In the field of energy, the opportunities are likewise limited compared to the first scenario.

- Latvia and Lithuania will be linked to the Nordic energy market and all necessary connections will be made. In this respect, the scenario presents no differences compared to the first.
- The idea of constructing a shared nuclear facility will most likely not materialize. In addition to the difficulties mentioned in the first scenario there will be others: the possibilities to involve Poland are weaker, Russia's Kaliningrad counter-project is harder to avoid because of the weakness of the EU and mobilization of the finances is more complicated than in previous scenario.
- Although every Baltic state starts to use renewable energy and Estonia has its own oil shale resources, it will not be enough to ensure autonomy from Russian energy sources. Baltic cooperation in constructing the infrastructure for transporting and using liquefied gas could be a solution. But first such initiatives drown in discussions over the number of liquefied gas terminals (whether every country should have its own terminal or could they join forces) and the necessity to build a gas power plant based on joint investments at Incukalns in Latvia. Nevertheless, with the help of the Nordic Council, these matters finally lead to a positive outcome.

Markets, businesses, pan-Baltic companies

The most significant characteristic of this scenario is the strong activity of Nordic companies in Estonia, Latvia and Lithuania. This is assisted by purely economic factors as well as by a regional institutional framework, which is more efficient than the coordination mechanism of the Baltic Sea region mentioned in the first scenario. Still, the opportunities of the Baltic states to intervene in shaping the development strategy for the region as a whole are stronger in this case. Hopefully, this will be an occasion to get involved in creating the high-tech clusters of the Nordic countries and, presuming the existence of qualified human resources, to demand in them more prospective positions for Baltic companies. Baltic governments are aware of the big difference in whether Nordic companies are trying to use the Baltics and Baltic companies as partners in moving into global markets, or if the role of Estonian, Latvian and Lithuanian companies will be limited to production and services orientated towards local customers, the exploitation natural resources and simpler forms of outsourcing.

For many reasons, the B-3 economic space is not as attractive as it was in the previous scenario. Lower economic growth means limited demand for local services, which reduces the opportunities for small and medium-sized enterprises. Therefore, the Baltic companies will look for every opportunity to serve the Nordic population on Baltic territory: that includes tourism, health care and several branches of the creative economy that are familiar to foreign customers.

The companies certainly value the opportunities related to the Russian market; however, due to the geopolitical context, such activities are less stable and more prone to risk than in the first scenario.

Credit facilities are also inferior compared to the first scenario. An important source of orders for the Baltic companies is better access to public procurements of Nordic countries, including local level public procurements. Participating in policy planning in the Nordic Council should help lower the barriers in this field.

Unlike the first scenario, the shortage of a workforce will not be as big a problem than the unemployment resulting from lower economic growth.

If the Baltic companies are able to take advantage of this scenario's greatest opportunity, namely becoming part of Nordic high-tech clusters, it can be estimated that at some point business in the Baltic states starts to split into two clearly divided groups as happened a couple of decades ago in Ireland. The first group consists of modern enterprises that have successfully entered into international business with young and highly educated staff, and in the second group are the so-called regular local businesses, which may find themselves in a rather stagnant situation. A lot depends on how well the Baltic knowledge transfer spreads from highly developed companies to other businesses and to the environment. Unlike the Ireland of another era, the present workforce of the Baltic states has an education above average; therefore, its abilities to adapt should also be better.

International high-tech clusters here function mostly on the Nordic-Baltic axis: Sweden-Latvia, Sweden-Lithuania, Finland-Estonia, etc. In these circumstances, the Baltic north-south integration remains secondary. The absolute values of Baltic trade may still increase here as well, although less than in the first scenario, but the importance of the Baltic neighbours in Estonian, Latvian and Lithuanian trade in general will diminish. Latvia, thanks to its location, has quite a lot to gain from the Nordic-centered integration model. The situation shouldn't be any worse for Estonia for whom it largely means the continuing domination of Finland and Sweden. Estonia's advantage is that is has the same currency as its main trade partner, Finland. For Lithuania, the danger of remaining in a peripheral condition is the greatest in this case.

Developments in the field of (higher) education

Raising the quality of higher education as well as the quality of teaching, research and innovation potential of Baltic universities in general is even more important in this scenario than in the previous one. Otherwise, it would be impossible for the Baltic states to become a meaningful partner for the Nordic countries in developing global high-tech clusters. However, the financial conditions for the development of research and education are much less adequate. Support from the EU structural funds will have mostly disappeared, and due to lower economic growth the augmentation of budgetary financing will be difficult. Finding money for the creation of modern laboratories, for hiring top foreign professors, etc. will become a real problem. The academic level of Nordic universities being one of the highest in Europe together with the most talented and ambitious students and faculty members begin to move into strong, prosperous and prestigious universities in Stockholm, Uppsala, Copenhagen, Helsinki, the specialised universities of technology or medicine in Sweden, etc.

That situation is going to create serious dilemmas regarding the future of higher education. There will be more and more voices declaring how unreasonable it is in the context of 21st century for small countries to continue with the 19th century school of thought, which saw universities as the main resource of knowledge necessary for economic and other development in local territory. This is especially true in conditions where one's neighbours and partners are already offering excellent higher education. Opponents, on the other hand, emphasise the links between education and (native) culture and the importance of local expertise in order for companies to develop high-tech production and modern economy in general.

The question about the future of higher education in the Baltic states will be an important topic in the agenda of the Nordic Council and its expert groups. The Baltic states will request further Nordic assistance to support the development of their universities. After lengthy debates, it will be decided that raising the potential of Baltic education and research is an organic part of the strategic endeavour to turn the B-3 territory into a complete supportive structure for the knowledge-based economy, which in the end serves the interest of Nordic countries as well. A model for an integrated higher education system of the Nordic and Baltic regions will be created, including a whole array of different forms of cooperation such as regionally-funded cooperation programmes, professor and student exchange, or in some cases even the combining of matching curricula and merging of universities.

Conclusion of the second scenario

In the context of B-3 cooperation (synthetic evaluation): the cooperation is dominated by economic motives; however, the political and cultural matters beside them are more important than in the first scenario. The priority for all the Baltic states is interaction with the Nordic countries and better self-positioning in relation to them, but there is an impression that achieving better positions is not possible without B-3 cooperation. According to this scenario, the B-3 economic space must become sufficiently sophisticated in order for Nordic companies to utilize it for their international projects (for instance those related to East Asia or the USA). One problem compared to the first scenario is the meagre opportunities for getting finances in order to develop the Baltic infrastructure, education, etc.

The role of Baltic governments in relation to the cooperation is larger and more significant than in the previous scenario. This involves issues like international-level negotiations with Nordic countries in strengthening one's position (as well as the position of other Baltic states), working in the authorities that are shaping Nordic common strategies and creating high-tech cross-border clusters in cooperation with Nordic countries. A more active work in the Nordic direction will increase the need to intensify the B-3 level cooperation (for instance, in the case of previously coordinated joint proposals to the Nordic countries).

The main dangers in B-3 cooperation are the following: a) the danger of the Nordic countries beginning to look at the Baltics as an extension of their domestic markets, not as partners in their larger international efforts and programmes; b) the danger that the high-tech production facilities set up in the Baltic states in cooperation with the Nordic countries might remain isolated in their territories, so that their knowledge transfer into the local environment stays low; c) some issues may arise in making the Baltic universities internationally competitive (considering the reduced supportive funding from the EU as well as the attractiveness of Nordic universities for students and better teachers alike; d) the danger that in vying for preferential treatment from the Nordic countries, none of the Baltic states will be able to cooperate successfully with each other (this also applies to relations with Russia).

The positive effects that can be hoped from this scenario include the following: Their spectrum is relatively similar to the one mentioned at the end of the previous scenario. The main difference is that the improvement of the Baltic geo-economic positions is not as much related to the EU economic space outside the Nordic region as in the previous scenario, but it depends rather on the success of Scandinavian globalization projects in more distant markets. This creates additional risks, and the tasks ahead of the Baltic states are on the whole more complex than in the first scenario. The rising level of the B-3 economic integration will mainly be achieved thanks to locally operating Nordic companies. If the scenario is successful, integration in the Baltic Sea region might turn out to be even more solid than in the first scenario (including the significance of the intra-Baltic trade). A common management and organizational culture mostly proceeds in this scenario from Nordic traditions, the influence of (Baltic) national cultures probably remaining quite low.

Third scenario: The counter-project of three small nations: Baltic unity in an uncertain world

The prerequisites of the scenario: This scenario comes true in two simultaneous conditions. First, the EU enters into crisis. The situation may very well be similar to the crisis in the prerequisites of the previous scenario, but this is more critical. For example, if the eurozone in its present state disintegrates, uniting only countries with strongest macroeconomic policies, this would deprive Latvia and Lithuania of their hope of joining the eurozone in any foreseeable future, which may badly affect their capacity to "walk the tightrope" of fiscal policy. The EU future as a whole might also become questionable because the progressive crisis could only leave a loosely connected common market that is almost unable to support or protest against its members' interests.

The general atmosphere in Europe would become tense and rash. Larger strategic thinking or acting is unlikely. The strategy of the Baltic Sea region and the carefully thought out and constructed integration on that level will not happen. , at least not in any stronger fashion than the present. Protectionist attitudes will prevail all over Europe. Avoiding dangers will be the primary task.

With the situation offering little alternatives, the one-time effort to achieve the Baltic unity might paradoxically find a new life in a wish to strengthen the cooperation "between neighbours with common destiny and common problems". Other, more rational motives may follow, such as the attempt to ensure at least a minimum of accessible markets in a situation in which the common economic space is falling apart ("Better a sparrow in your hand…") and to raise one's competitiveness by a fraction through joint activities and in worsened conditions. Other motives like "protecting our common Baltic domestic market" may adjoin. As European unity weakens, there is growing fear of the Baltic states, despite their continued NATO membership, falling back into the geopolitical "grey zone". Therefore, it is deemed necessary to support Baltic political unity, in order to withstand the possible manipulations of Russia and to protect better local economic investments.

Unlike in the previous scenarios, the role of the Baltic states themselves is of primary importance here. In an increasingly critical foreign situation, they become the main initiators and executors of the proposed integration scheme. An agreement of some kind for a deeper cooperation between the Baltic states is most likely. One can expect a few government attempts to agree on the future of important corporations (like the joint redemption of Air Baltic). Some other joint projects may arise, on the condition that they do not require major financial cover. New and more substantive functions will be given to the parliamentary and intergovernmental cooperative bodies which, until now, filled rather a symbolic role.

Evolution of the processes in different fields

Common infrastructure for international transport

With the lack of financial resources, the only realistic option in this area is to intensify the rail transport between Tallinn, Riga and Kaunas. Adopting the European track gauge on existing railways would already be the absolute limit of capabilities. It is possible to develop joint initiatives in relation to the further developments of Via Baltica (including collective pressure on Poland). Concordant positions with regard to servicing the Russian transit (all related constructions, modernizations, etc.) are theoretically possible, although difficult to achieve.

Energy

Expensive projects such as building a joint nuclear facility are not realistic in this scenario. Still, it is possible, considering the increasing cooperation between the Baltic states, to reach an agreement on where to build liquefied gas terminals. If we assume that the Nordic common energy market endures, then Latvia and Lithuania will also join it. Creating further energy connections, however, might be delayed because of the lack of funds.

Markets, businesses, pan-Baltic companies

This scenario is characterized by the hindered access of companies to foreign markets and cooperation networks as well as by smaller opportunities to achieve economies of scale. This, and the generally low activity of the market, is likely to create a decrease in the attractiveness of the region, especially from the point of view of foreign investors located further away. Nordic companies should still maintain an interest in expanding their business in the Baltics. Such activity, however, in this scenario is not connected with the initiation of ambitious international projects. The interest is limited to the local market and the local raw materials. In some cases, it might include the transfer of some production facilities to a cheaper environment. The latter option is slightly impeded by the companies' loyalty to their country of origin, as well as the psychological pressure on the expanding companies related to sustaining the level of employment in their homeland. Acquiring funds is not easy for the Nordic companies either, which is why the modernization or restructuring of the companies acquired in the Baltic states might not happen. The creation of cooperation systems for more complex enterprises also depends on how financially demanding the process is; therefore, it is only done if it does not involve any large investments and if one can expect quick profits. A foreign investor operating in the Baltics may own companies in more than one Baltic state; that does not mean, however, that any deeper specialization or cooperation should take place between themselves or between them and other companies in the neighbouring regions. Intra-industrial trade might not develop much, given the low ambitions.

Rather more interesting processes can be expected in relation to the activities of Baltic enterprises themselves on neighbouring (B-3) markets. Such activities should be fostered at a national level by the so-called Baltic market policy.

B-3 cooperation promotes the marketing of the products and the services of small enterprises in neighbouring countries, especially in their border regions. Logically, for instance, the economic relations of Tartumaa and Valgamaa with their adjacent Latvian counties are being promoted (the New Livonian Economic Project). These activities may not have a great impact on the national economies in general, but significant results could be achieved on a regional level. Deeper forms of cooperation than marketing or services, as for example regular cross-border outsourcing and the creation of joint companies or complicated business networks are hard to make work among smaller enterprises. But for medium-sized and large enterprises it becomes possible. Businesses of Estonian, Latvian or Lithuanian origin that provide services for the local consumer and are based on local resources (chain stores, collection and processing of raw material, services) can expand their activities on the Baltic market, compete with Nordic companies, and become a crucial factor in the Baltic integration, partly because foreign competition is weaker than in other scenarios. This process can be assisted by national policies supporting Baltic cooperation, a widening network of relationships and a friendlier atmosphere towards Baltic neighbours. For example, it is possible to develop tourist itineraries encompassing all of Estonia, Latvia and Lithuania. It cannot, however, be ruled out that due to generally grave economic conditions some of the takeovers of companies in one Baltic state by companies based in another Baltic state may bring out more nervous reactions than they would have in better times. This particularly applies to traditional domains with a long history such as the food industry.

Due to general depression, the absolute figures of trade between the Baltic states might not rise markedly in this scenario. Considering the larger weaknesses of international business, their significance in the general trade might even rise a little.

A weak point of this scenario is its excessive locality. If the external circumstances do not allow for making lofty plans and realizing them, the younger generation of entrepreneurs may start looking for activity beyond the Baltic states.

Developments in the field of (higher) education

The situation for developing educational and research potential is rather unfavourable, as the supportive funding from the EU or the Baltic Sea region cannot be relied upon. In the beginning, at least, the development proper to this scenario can rely on the psychological atmosphere valuing the Baltic nations' ability to struggle through on their own, and to lean on their culture and integrity. Attempts are made to start cooperation in the field of higher education between Estonia, Latvia and Lithuania, but its success is impeded by unwillingness to give up functioning curricula, cultural differences as well as doubt whether by cooperating with other Baltic countries one is able to achieve the same effect as by cooperating with stronger partners.

At first, regardless of economic conditions, it is possible to maintain the political consensus that giving a higher education in a native language must be considered a prime concern and its funding should be a priority. However, if the economic conditions continue to deteriorate, especially when there are no signs of modernization of the economic structures, such opinions become hard to defend before one's electorate.

It is feared that in this scenario no adequate solutions can be found to establish a national higher education and a level of research that corresponds to future needs. Major problems may arise in ensuring the academic level of PhD students. The more ambitious masters and bachelors, particularly in the fields of modern high technology, are often not able to find a worthy profession at home because of stagnant economic structures, which is why they leave to work in foreign countries. There is talk of having English as a language of instruction in universities, in order to ensure a wider and financially sound demand for higher education, chances of merging with foreign universities and perhaps even returning to the initially discarded idea of pooling resources for preferred development of one or two top universities in the Baltic states.

Conclusion of the third scenario

B-3 cooperation in this context (synthetic evaluation): the essential purpose of this cooperation is to try to use the existing capacities in B-3 economic space in order to maintain the minimum amount of competitiveness of the Baltic states in a worsened international situation. The efforts to strengthen the B-3 political unity in order to withstand possible manipulations from Russia as well as to find harmonious positions in relation to the critical processes in the EU can also be pointed out. One can add the intent of a cultural approach "between neighbours with common destiny and common problems", which partly relates to the abovementioned political motive.

The role of B-3 governments with regard to Baltic cooperation is active enough, them being the main initiators of the integration project. The desire to cooperate will be realised in the form of an agreement between the three countries. One can expect government attempts to shape the business environment on a fairly detailed level, including some potential agreements between governments with regard to the future of corporations important for Baltic development. The chances to commence new infrastructure projects are very limited.

Principal dangers in B-3 cooperation include the following: a) the danger of B-3 cooperation moving towards protectionist and overly interventionist development in an international sense (attempts to leave the B-3 economic space as much as possible to local businesses); b) the danger of economically unjustified joint actions with short-term effects in order to win popular support for Baltic cooperation; c) high probability that the larger cooperation projects already in planning will be abandoned due to a lack of funds; d) difficult economic situation may cause frequent government changes, which may obstruct a consistent cooperation and make it appear as simply trivial in the face of new and acute problems; e) a stressful economic situation and the lack of firm perspectives for the future may create negative effects in education and research, increase the emigration of talented young people, etc., which in turn augments the population's scepticism concerning the potential of Baltic cooperation as a local project.

Positive effects that can be hoped from this cooperation scenario include: a) agreements on using or even developing the infrastructure and favouring the so-called cross-border cooperation (which simplify the activity of small businesses in neighbouring areas across border), might be made and realized; b) the cooperation may help maintain the openness of Baltic markets to each other's companies, which in this scenario is not otherwise guaranteed. Maintaining a common market is important for potential foreign investors as well; c) the cooperation helps to minimize the dangers of Russian manipulation; d) the rising interest in neighbouring cultures and their ways of life may in the long run have a beneficial effect on the preservation of the cultures and lifestyles of small countries (as a counterweight to cultural standardization in an increasingly cosmopolitan world).

Conclusions

The achievement of a stronger integration between Estonia, Latvia and Lithuania probably cannot be an objective in itself. This integration is valuable insofar as it permits achieving a more successful entry of the Baltic states into larger international economics and therefore modernizes economic structures and the workforce as well as ensuring the attainment of social and cultural objectives that are deemed important. In socio-cultural efforts and in the ideal societies of each Baltic state, there are resemblances as well as differences, which is why the objective, even theoretical, cannot be to transform Estonia, Latvia and Lithuania as uniform as possible: the so-called Baltic average.

In order to achieve purely economic goals, scenario number 1 certainly offers the most ample opportunities. In that case, B-3 integration takes place in the widest international framework. Financial opportunities, access to larger markets and other conditions are very good. On the other hand, with such a level of globalization, it is hard to assume that the B-3 integration would become first priority for Estonia, Latvia and Lithuania. It is more likely that Baltic cooperation in this scenario starts to function as a secondary component in a geographically more wide-ranging integration, as cooperation in performing certain tasks of common interest (especially the ones concerning infrastructure), rather than an intergovernmental agreement for building up and realizing some broader common vision. Motives and opportunities related to development mainly stand outside the B-3 economic, political and cultural space. The Baltic identity in the sense of the common identity of Estonia, Latvia and Lithuania will not necessarily become stronger. That context, however, presents dangers of its own, when Baltic priorities tend to diverge, the opportunities arising from supportive funding and better access to foreign markets are not taken full advantage of in order to modernize local economic structures, and several factors might put at risk the sustainability of national cultures in a cosmopolitan world. The first scenario contains, in itself, ways to avoid or to solve these contradictions, as a lot depends on the awareness of problems and on the wish to deal with them.

The first scenario is strongly opposed by the third. If that comes true in the manner described previously, it is hard to talk about special opportunities for economic growth and modernization, with the external conditions being clearly unfavourable. In fact, what we have is more like a protection or compensation strategy, which does not allow for the achievement of any ambitious goals because of the lack of finances and scale, but does, however, somehow helps in getting through the troubled times. At the same time, this scenario gives evidence of a really conscious cooperation strategy, initiated by the three Baltic states themselves. Here, certain aspects and effects that would probably have seemed unimportant and as such not worthy of efforts in the conditions of the first (and maybe even the second) scenario, all at once become important (as, for example, supporting small enterprises in "growing Baltic", developing cooperation along the borders, etc.). One might assume that a more intense relationship with Baltic neighbours as well s sensing and valuing their distinctiveness might be good for the rise of the cultural self-awareness of Estonians, Latvians and Lithuanians, and it may help to raise self-confidence and for them to value the development of their national cultures.

The method of constructing scenarios presumes the clearest possible distinction and different basic hypotheses between different scenarios meant to fumble about the future alternatives. But the reality is usually combined from logics and elements described in different scenarios; one could only say that the ideas of one or the other tend to dominate. That, for instance, raises the issue of whether the ideas of a more intensive cooperation between Estonia, Latvia and Lithuania mentioned in the third scenario might be carried out in the case of developments similar to scenarios 1 or 2. The answer could be affirmative because there are no obvious factors preventing it. As we saw from the results of the poll presented in the first chapter, Estonians, Latvians and Lithuanians alike value a more active economic, political and cultural cooperation. However, this could never happen spontaneously; it needs motivated leaders and a level of institutional activity where countries could continuously deal with issues the solving of which will not guarantee an immediate economic effect or that emerge because of a sudden and urgent necessity, but can nevertheless be strategically important in ensuring a continuous development.

Taking into account that the integration of the Baltic Sea region as a bigger process creates a framework for B-3 integration and influences it more than anything else, two interesting questions still arise. Firstly, there is the question of who is "pulling" the Baltic integration, and secondly, whether and to what extent B-3 integration in turn affects the Baltic Sea integration.

As the scenarios implied, such "engines" in business can be either companies in foreign ownership (outside the Baltic region) or companies based on local domestic capital. Given the stronger financial basis and longer experience in international business, it can be expected that most of the major players operating all over the Baltic region are formed by the initiative of foreign investors, and therefore the question about the type of expansion strategy they choose in the Baltics becomes crucial. Another way is to divide the companies into the ones representing traditional economic sectors and those related to the so-called new or knowledge-based economy. The latter are also more likely to have a considerably larger international range. One could say that the future position of the B-3 economic area in international economy and its chances for social development mostly depend in the long run on that other type of companies, either owned by a Baltic or bigger international concern. The ground of activity for these companies is formed by the local (higher) education level and the existence of so-called local expertise. In traditional sectors, every scenario described here enables us to anticipate the expansion of a company located in one Baltic state to other Baltic states, with the resulting competition and redistribution of markets; on the other hand, the technological integration of companies or branch offices located in different Baltic states might take some time. Unlike the above sectors, in case of new high-tech economy one can expect that the emerging pan-Baltic companies transform more easily into systems based on active division of labour and technological cooperation. The extent to which this cooperation starts to function as a force integrating Nordic and Baltic companies on the east-west axis, and whether the cooperation on north-south axis will be added, should depend on the development of infrastructure between the Baltic states, besides other factors, and to a certain extent on the support for this development plan from the economic policies of the Estonian, Latvian and Lithuanian governments.

Besides companies and company associations, the carriers of Baltic integration can certainly be national and local government bodies, universities and third sector organizations operating in social and cultural fields.

Looking at the influence of Baltic integration on the integration in the Baltic Sea region and in the EU in general, it is practical to distinguish different levels of cooperation. We can point out at least six different levels: coordination of foreign policy, adaptation of economic and business environments for each other's companies, joint projects in developing infrastructure, regional cross-border cooperation, and a general stimulation of the relations, including cultural relations. It can be said that success on the first three levels greatly helps the better connected Baltic economic space to become a lot more attractive for foreign investors and partners as well. Success on the last two levels supports small businesses and creates better conditions for an efficient management of the so-called joint Baltic enterprises.

The second scenario considers a hypothetical situation where the three Baltic states are accepted as members of the Nordic Council, and the functions of the council again acquire a much greater importance. The occurrence of that kind of situation cannot be ruled out. And if that scenario should not materialize, the history of the Nordic Council (and of the Nordic Council of Ministers) will prove to be a valuable source of experience for the Baltics on how to harmonize partners' interests as well as to outline and realize common policies. The Nordic integration has a number of exemplary achievements to show, as, for instance, the creation of a common labour market, success in the negotiations with the World Trade Organization (former GATT) thanks to jointly held positions, and joint pursuits in cultural and environmental policies. This also includes common policies and acts in the fields of infrastructure and transport, in supporting investments and innovation. The activity of the Nordic Council has continued even after the creation of EFTA and even after some of its members joined the EU, which is after many of its original functions were transferred to larger international bodies.

Analysts have found that the successful activity of the Nordic Council owes much to its members' similar cultural background, the same views on many of the major categories of political life, a certain idealistic but also pragmatic approach to doing politics typical to small countries and intense relations between politicians as well as representatives of other social categories from different countries. This has made it possible to avoid the common misunderstandings in everyday politics, and attempts to take advantage for oneself and one's partners during personal negotiations. The Baltic states as small countries with a similar cultural background and similar history might have a lot to learn from that experience.

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CHAPTER 8

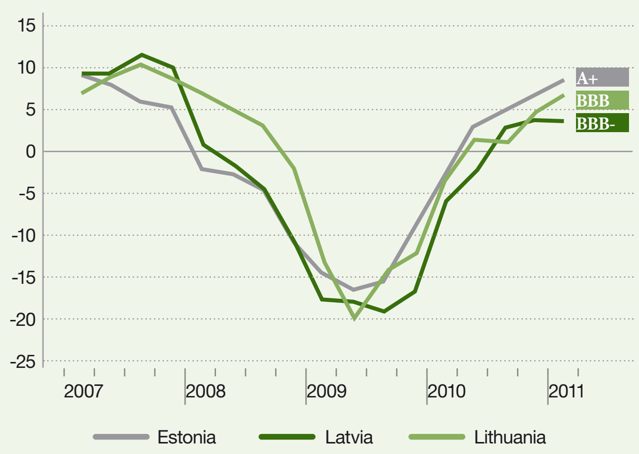
In summary: What could the Baltic way be in the 21st century?

Marju Lauristin

The role of small countries in Europe and the broader meaning of the experiences of the Baltic states

The experience of the survival and development of Estonia, Latvia and Lithuania has a greater meaning for the rest of Europe than we usually think. More than a third of the European Union member states have populations of less than 6 million. In addition to the three Baltic countries, these states include Ireland, Cyprus, Luxembourg, Malta, Slovakia, Slovenia, Finland and Denmark. If we add the small European countries that do not belong to the EU – Albania, Armenia, Bosnia, Georgia, Croatia, Iceland, Macedonia, Moldova, Montenegro and Norway – and also take into account the tiny nations of Liechtenstein, Monaco, etc., over half of European countries today are small nation-states. The legitimation of small states does not depend on their economic performance; instead, they are primarily evaluated according to their role in ensuring cultural and social wellbeing for their people. After all, the survival of Europe's cultural traditions and distinctive social character, which is usually contrasted with the American "melting pot" model, depends on this.

Figure 8.1. Drop and rapid rise of the "bouncy trio" of Baltic states 2008–2011



Source: The Economist, 14/07/2011

The economic crisis turned out be a validation of the "Baltic way" for the rest of the world

The financial crisis, which began in 2008 and is ongoing, clearly demonstrated that that surviving the pitfalls of globalization is not just a problem for post-communist countries. The first victims of this crisis were the small countries of Europe: Iceland, Ireland, Estonia, Latvia and Lithuania. When the crisis broke out, the free fall of the Baltic economies, which early had attracted attention with their rapid growth, caused some Western experts to smirk derisively. However, it was these countries that were able to implement the most radical measures to emerge from the crisis. In a situation where much larger and more powerful nations could not find the strength to struggle out of economic and social chaos, Estonia, Lithuania, and now also Latvia, have become models of resolve. In Latvia's case, Anders Aslund points to the people's will to free themselves of corrupt politics and their determination to save their country. He compares this decisiveness and readiness to tackle economic difficulties with the activeness and self-sacrifice of the "Singing Revolution" era (Aslund & Dombrovskis 2011: 121).

The Economist, Europe's most influential business magazine, highlights Estonia as a leader, and emphasizes the efficiency with which the entire "bouncy Baltic trio" has achieved its recovery from the economic crisis:

> Plunging unemployment, rocketing growth, soaring exports and a budget surplus: that is the story of Estonia as it bounces back from a precipitous economic collapse. This burst of good news shows not only the virtues of flexibility and austerity (a sensitive subject, as other euro countries taste the same medicine); it also gives heart to Latvia and Lithuania. Estonia's GDP growth rate in the first quarter of the year was 8.5%, the highest in the European Union. It boasts the biggest drop in unemployment, from 18.8% to 13.8%. It has the lowest debt in the EU, of just 6.6% of GDP; measured by the price of credit-default swaps, it is among the ten best sovereign risks in Europe. Fitch, a rating agency, has just raised Estonia's standing to A+.
>
> […] Next-door Latvia (which had an international bail-out in 2009) and Lithuania are eager to follow the Estonian example. They also have booming exports (up by 38% and 42%, respectively, in the year to May). Lithuania is also enjoying a storming recovery in the shops. The pair hopes to follow Estonia into the euro,

Figure 8.2. The GDP in the first quarter of 2011 compared to the same quarter last year (change %)

** Based on the updated data of Statistics Estonia, Estonia's economic growth in the Q1 2011 was 8.5%*

*** The comparison is based on the Q4 2010 and 2009.*

Source: Eurostat, press release 8 June 2011

> reducing their currency risk and boosting their image with investors. (*The Economist*, 14/07/2011)

In trying to find an explanation for "Baltic exceptionalism" with regard to coping with the crisis, analysts have primarily searched for answers in political, cultural and social factors, such as public support for economical policies, enterprise-friendliness and open political cultures, as well as lower levels of corruption. *The Economist* ends the article devoted to the Baltic countries by saying, "Goodbye "eastern Europe"; welcome to the "new north"". This is a remarkable testimony to that fact that not only Estonia, but all three Baltic states together, are starting to be viewed in the West as part of the northern, not eastern, part of Europe.

At this point, one should be reminded that the Nordic neighbours and the entire economic network in the Baltic Sea Region have played a decisive role in the successful economic recovery of the Baltic countries. A glance at the economic growth rankings of the EU member states in the first quarter of 2011 shows the dominance of the North-South divide in the post-crisis European Union over the former East-West axis. The top five countries in terms of economic growth are Estonia, Lithuania, Finland, Sweden and Germany. At the bottom of the rankings we find Greece, Portugal and Ireland, as well as Spain, Romania and Italy. In any case, it is a good reason to reread Max Weber's discussions regarding the role of the Protestant mentality in the early years of capitalism and to ask what role people's deep and distinctive historical and cultural traits play in today's world economy.

The commonalities and divergences in the Baltic experience

While the Nordic countries, Germany and Poland were able to withstand the crisis without making social sacrifices, the "Estonian success model" is primarily comprised of making cuts, many of which were very painful in terms of people's wellbeing and quality of life. When praising the governments of the Baltic countries for this decisiveness, the extraordinary tolerance of the people, reconciliation to new difficulties and lack of public unrest and strikes have been mentioned. This has been seen as a sign of the weakness of the civil society, especially trade unions, on the one hand, and on the other hand it has been perceived as a sense of the "national borderline situation" of these countries. The people of the Baltic states have viewed their countries' peril as a personal challenge and have exhibited a collective desire to protect the countries from the destructive impact of the tsunami of the global crisis. References have also been made to the earlier experiences of the Baltic countries, especially Estonia, when they coped with the post-communist economic collapse in the early 1990s by implementing radical economic reforms.

In this report, we have tried to take a closer look at the economic development in the last two decades and also to point out the long-term social and political consequences resulting from a differentiation in economic reforms, which partially explain the tendencies that have appeared in the current crisis. The differences primarily appear in the impact on certain interest groups, which resulted from the privatization model that was chosen and the choices that were made during the privatization process. Although the public tender privatization model, which was employed most consistently in Estonia, put a large amount of assets into the hands of foreign capital, it also reduced the tendency for corruption to develop as a result of the intertwining of political and economic interests and prevented the development of domestic oligarchs.

Those who link the introduction of the Estonian privatization model with the leading role of rightwing politicians should remember that when the reform model was created and privatization was carried out in the early 1990s, there was complete political consensus among the social democrats, liberals and national conservatives forming the government coalition at the time. In Lithuania at the same time, the former Communist Party (later renamed the Labour Party), which resembled the Estonian Coalition Party, implemented a system of voucher privatization. The dominance of this privatization model ensured advantages for the former managers of the local enterprises and economic units (a similar trend was also noticeable in the case of Estonian agricultural reform). However, as owners, this group did not turn out to be as successful at economic restructuring as the Nordic entrepreneurs who brought foreign capital to Estonia.

In analysing the reasons for the similar development of oligarchs in Latvia as in Russia, one of the authors of Chapter 1, Professor Zenonas Norkus from Lithuania, directs our attention to the often overlooked role played by the difference in Estonia's and Latvia's ethnic composition: in the Latvian economic elite, the industrial leaders from the Russian-speaking population have preserved their leading role. Using their economic influence this group has tried to compensate for their exclusion from direct political activity. The same chapter includes a description of the differences in the Estonian, Latvian and Lithuanian privatization models and the connections between these differences and subsequent economic and political developments. It should be noted that, at the time, no one could accurately foresee or plan for these long-term influences. Experts were also unable to predict the social and demographic impact of the rapid and deep economic and political changes. Despite the differences in their economic development, such impacts were depressingly similar in all three Baltic countries: a dramatic drop in life expectancy, decreasing birth rates, the spread of poverty in large ethnic groups, the increase of socio-economic factors affecting the population's health, the deepening of the gap between the level of urban and rural wellbeing, and increased emigration. The comparative socio-political analysis of the three countries in Chapter 3 highlights the paradoxical nature of the "Baltic model of wellbeing", where universal national social insurance is financed by taxes on the labour force, while social costs are kept at the lowest level in Europe. As a result, the universal schemes do not ensure sufficient social security.

The comparison of the social problems and policies in the three countries reveals that none of the Baltic countries has succeeded in developing an integrated policy directed towards solving the strategic problems related to national sustainability. Various measures and schemes have been implemented, most of which are based less on well-considered social priorities than on foreign examples and pre-determined financing conditions. Nevertheless, these measures have resulted in several positive shifts, such as a increasing life expectancy and some reduction in social inequality. Despite these achievements, the future prospects of all three states are eclipsed by a decline in their already small populations, which may already fall below the level of sustainability in the foreseeable future.

Although Estonia has used sizable financial bonuses support young families who wish to have children with there has been no noticeable improvement in the opportunities of families to raise their children in Estonia. At the same time, emigration is most intensive among young people. This is accelerated by the high rate of youth unemployment, for which effective prevention and reduction measures have not been implemented, although appreciable grant money is available from EU funds. While the country's numerous health-promoting measures and the general improvement of wellbeing have resulted in a noticeable increase in life expectancy, pensioners' quality of life is low and the social welfare system for the elderly and disabled suffers constant financial shortages. The solution of many social problems is not dependent so much on financial resources as on the will and skills to promptly analyse the reasons for and consequences of these problems and institute the corresponding policies.

During the economic crisis, it became apparent how large or small the social strength reserves of the Baltic countries actually are. In an environment of cutbacks and rapidly increasing unemployment, the universal social insurance systems related to health care, pension insurance and unemployment insurance proved their capacity for maintaining balance in society during a crisis. At the same time, the shortcomings in labour market flexibility, discussed in detail in Chapter 3 of the report, also became apparent. By implementing employment cutbacks and salary cuts it was possible to improve the general economic situation at the expense of the workers, but, because there was no coordinated labour, salary, retraining and coping policy to increase people's sense of security, many were left alone with their worries and the only option was to "vote with their feet".

Nation-liberalism

The demographic peril of the small Baltic nations is compounded by a constant fear of their unpredictable eastern neighbour. Russia influences the entire Baltic Sea area with the large size of its market, its wealth of strategic natural resources, the ruthless obtrusion of its interests and political uncertainty. However, the anxiety of the Baltic countries, especially Estonia and Latvia, is intensified by the problems related to the integration of their Russian-speaking minorities, while Lithuania's uncertainty is increased by the existence of the Kaliningrad enclave. In addition to the national sense of danger that characterizes the Estonians, Latvians and Lithuanians, they are also united by the experience of having lost and regained their statehood. In contrast to the rational contractual relationships between the state and its citizens that are typical of Western Europe, the Baltic people have a much more emotional and collective relationship with their state, which Roger Brubaker has called "a national sense of ownership" regarding the state.

When trying to explain the paradox that appears in Estonia (and now also the other Baltic countries), where despite the social troubles of the people, they continue to support liberal economic policies and are ready to express support for a rightwing government that makes drastic cuts, the Finnish political scientist Henri Vogt has used the concept of "nation-liberalism". Unlike traditional nationalism, nation-liberalism does not focus on the sustainability of the nation as an ethno-cultural community (which would assume that culture, education and social security would be prioritized), it values statehood as an institution that supports economic success, which is used to legitimize the readiness to make social sacrifices (for example, to unquestioningly support crisis cutbacks, which painfully affect children with families, the social security of workers, as well as schools and cultural institutions) as "national virtues". Commenting on the results of Estonia's last election, which kept the coalition that made the drastic cuts in power, Vogt writes:

> What these results seem to tell, above all, is that the political and economic course that Estonia has followed over the past two decades is now widely accepted by the citizenry. Many commentators call these policies 'neoliberal', but I would probably rather use the attribute 'national neoliberal' (or perhaps 'nation-liberal'), with a strong emphasis on 'national'. In other words, the Estonian political system, its polity, continuously obtains its basic energy from a strong sense of being a national *Gemeinschaft*, a community of ethnic Estonians. All acts societal thus include a national dimension; people's daily work efforts are not only meant to advance the wellbeing of the individual but also that of the entire nation – in spite of the individualistic tendencies that one can also easily observe in the country. In Scandinavia, by comparison, such mechanisms are much weaker.
>
> This also means that a large part, or perhaps the majority, of the country's citizens have deemed the sacrifices of the past 20 years necessary and above all justified. Many ordinary Estonians, far more than was expected as the new era of independence dawned, have suffered severely during the post-Soviet transformation processes. The cleavages between winners and losers, between the successful and the unfortunate, have often been deep and clear-cut; [---]The deepest cleavage of all is, of course, that between the Russian speaking population and the native Estonians.[---]
>
> Estonia has thus remained a country of great contrasts but what is important is that this contrast-based societal constellation is now accepted and perhaps even affirmed by the majority of the population. Or perhaps we could even go so far as to argue that the existence of deep cleavages in society and the animosities towards Russia have constructed and reconstructed the Estonian nation in the sense we know it today. Within the national *Gemeinschaft* the fact that some people have had to suffer (more than might have been necessary) confirms the fact that the nation is something sufficiently valuable to suffer for; through this suffering the nation is knit together. In other words, instead of the universalising social-democracy that prevails in the Nordic countries and that acts as the foundation of their societies, Estonia's primary mentality is based on the particularism that materialises in terms of cleavages and contrasts both within society and towards its neighbours, combined with a strong sense of economic freedom. This may appear as a ruthless type of society, but it is certainly in many respects a dynamic and exciting one. (Vogt 2011: 40)

For a long time, the tensions between differentiation and universality, nationalism and multiculturalism were considered to be specific to post-communist societies. Today, they are rising to the top of the list of factors that affect policy in Europe. Henri Vogt also concludes his characterisation with a surprising statement: "These cleavages and contradictions, however, can emerge or suddenly sharpen also in societies that have long enjoyed the benefits of a stable democracy. The current political situation in Finland is a testimony to this (ibid.)." The painful lesson of Norway is further proof of this. Therefore, the efforts of the Baltic countries to integrate ethnically split communities become more significant.

Democracy and human development

According to international assessments, all three Baltic states are developed democracies. Chapter 6 of this report highlights the common weaknesses of the Baltic democracies: the dominance of formal institutions; the increasing role of executive power compared to representative power; and the relative passivity of civil society. There are also differences. Although the system of political parties has acquired clarity and stability faster in Estonia, the democratic power exchange between the opposition and coalition has been inadequate. In Latvia, the people have a greater opportunity to directly affect politics, but the trustworthiness of the democratic institutions is marred by widespread corruption. On the other hand, the development during the initial transition period in Lithuania was hampered by the efforts of the former "national communists", who remained at the head of the state, to make the changeover from Soviet economic structures to a new capitalist basis as gentle as possible. Instead of producing a higher level of satisfaction as expected, the result of this "gentler transition" has been more stealing under the guise of privatization and greater dissatisfaction with the reforms than was caused by the radical changes in Estonia.

One of the most traumatizing inhibitors of democratic development in Estonia and Latvia has been the post-occupation ethnic and cultural heterogeneity of these countries and the national feeling of peril caused by their historical experiences. This feeling has fed the identity politics based on collective emotions. As we pointed out above, it is this identity policy that has been seen as the key to the formation of the rapid economic development model that is characteristic of the Baltic states. However, the other side of this coin is that this politics is justified not by rational arguments but with nationalist rhetoric, amplification of national self-satisfaction, and the quashing of any critical discussion that calls for the uniformity of national values. The development of the social sphere has been negatively affected by identity politics. The fact that many social problems have a certain "ethnic profile" has made it easier to avoid implementing the relatively expensive measures necessary for solving the problems and to push those who demand that the problems be solved to the periphery of politics. This is also part of the answer to the riddle of how the low social expenditures that are typical of the Baltic states can be reconciled with the serious social concerns in these societies.

The special role of language policy in human development is also based on the national heterogeneity of the Baltic states. Although the language policy of the Baltic states has been broadly discussed in the last 20 years, language has been primarily treated from the standpoint of the state, and not human development. In Estonia, Latvia and Lithuania, it is customary to speak about language as an autonomous phenomenon, the survival or demise of which causes great concern, while forgetting that the fate of a language depends on the situation of the speakers and their ability to use it in order to satisfy their social and psychological needs (Jørgensen 2010).

Chapter 5 of this human development report examines the social aspects of language usage, language study and language policy. A comparison of the three Baltic countries provides important food for thought. The psychological and political backgrounds of Estonia's and Latvia's language problems are quite different from those of Lithuania, if only because of the differences in the countries' ethnic makeup. The Latvian language is definitely the most endangered of the three and the status of the Lithuanian language seems most secure. Therefore, it is all the more important to find the right answer to the following question: What methods are most effective for improving the status of endangered languages? The normative solutions that have been implemented with varying success in Latvia and Estonia conform best to the principles of nation-liberalism. Yet, the main objective – the functioning of a public space based on a common official language – has not been achieved in 20 years. At the same time, the "softer" methods employed in Lithuania have achieved almost 100% proficiency and usage of the official language. The comparison of the success of language policies and integration in the Baltic countries clearly reveal the dilemma of a(n) (official) language as a tool of power and source of symbolic capital and a(n) (official) language as a means of communication and source of social capital. While the former normative approach, which links the official language to power, dominates in the language policy of Estonia and Latvia, a communication-based approach seems to dominate in Lithuania.

When assessing these different approaches, greater attention must be paid to the content of the social and political goals of the language policy. Is the official language used for social participation and involvement or to repulse and repress "others"? Is proficiency in the official language intended to increase the mutual understanding of people with different ethnic backgrounds in order to develop a common public space or to confirm the status and power of those who speak the official language perfectly? Since references to the growing unpopularity of multiculturalism in "Old Europe" have also increased in Estonian society, it is important to recall that unlike the ideology of "multiculturalism", the liberal integration policy being cultivated in the Baltic countries should support an individual's freedom of choice in determining his/her identity and equal treatment for people of all nationalities in an open society by also respecting everyone's right to their own opinions and ideas. This individual-centred approach contrasts with both national conservatism and multiculturalism and connects the use of the official language to civil identity, not ethnic relations.

As the comparison of the three Baltic states in this report demonstrates, in Estonia the goal of the liberal integration policy has been achieved to a certain degree – in practice, ethnic affiliation is less important than language proficiency in differentiating the opportunities for participation in the labour market or public life. At the same time, one must agree with Raivo Vetik, who has referred to the drawbacks of the national liberal integration policy: the wealthier and more successful segment of the non-Estonian population has attained better language skills along with citizenship and a better socioeconomic position, but the non-Estonians with poorer socioeconomic opportunities are snubbed in the labour market, due mostly to worse opportunities for language study and the acquisition of citizenship (Vetik 2010).

Values and education

Although this report does not deal specifically with developments related to values and culture, their role in the development of the particular nature of the Baltic states is very clear. In the last Estonian Human Development Report, we emphasized the fact that public cultural activity in Estonia, Latvia and Lithuania is comparable to the Nordic countries, and in this regard, the Baltic states are among the most active in the European Union (see Lauristin & Lõhmus 2010). Maintenance of the national language and culture played an important role in the resistance of the Estonian, Latvian and Lithuanian people to the Soviet system. Today, it has become just as important in the preservation of their national identities in a globalizing and increasingly English-speaking economy and media space.

Based on the research on values discussed in the last EHDR (see Saar 2010; Kalmus 2010), it is possible to say that Estonia, Latvia and Lithuania belong to a group that is comprised of many other post-communist countries, which possess strong rationality (along with increasing individualism) and a focus on materialistic survival values (which include work, money and wealth as well as power and success). Developed rationalism also connects the Baltic people to the wealthier countries around the Baltic Sea – to the Nordic countries and Germany – although "soft" or self-expressive values typical of welfare states are more characteristic of these countries than materialistic values. At the same time, a low level of rationality and a high level of self-expression are typical of the people of southern Europe – this could be a partial explanation for the very different behaviour during the crises of the people in the Baltic countries and in Greece.

The overview of the economic development during the transition period and the changes in the employment structure in this report, as well as the efforts to restore and rebuild the economic and political institutions that developed in "Old Europe" at the beginning of the 20th century, leave no doubt that the content of the changes during the transition period can be summarized as a modernization process. Chapter 1 of this report shows that as the results of this process, Estonia has already become, and Latvia and Lithuania are in the process of becoming, developed capitalist countries in terms of their economies and levels of human development. However, they still lag behind the core countries. The Baltic states also attribute critical importance to materialistic values of survival, which correspond to a liberal worldview that focuses on efficiency and competitive success and subordinates human development to the growth of material wealth. The identification of democracy with the consolidation of formal institutions suits this view while public participation in decision-making, freedom of thought and the development of public debate are left in the background. The influence of materialistic values should weaken and the beginnings of individual self-expression should strengthen when moving from a modern industrial society to a postmodern or late-modern knowledge society. While the countries of the "Old Europe" moved into the post-materialistic developmental phase during the 1970s, the process will take another generation in the Baltic states and all of Eastern Europe, although the shift in values is already discernible in the field of culture.

This report`s chapter on education provides detailed proof of the statements made above. By characterizing the changes in curricula, grading systems and quality control of educational institutions that were introduced almost simultaneously in all three Baltic countries, Finnish educationalist Tero Autio points out the fact that the common trait has been the establishment of an education model that is efficiency-orientated and based on modernistic standards of rationalization. Comparing these to the ideologized education model of the Soviet period, the course of these changes was quite sound and proper. However, one must consider the fact that knowledge, ways of thinking and attitudes formed by the education system only begin to affect other spheres of society when the young generation obtains an influential role in the workforce after leaving school. In looking at the results of international education studies, we can see that during the transition years Estonia, Latvia and Lithuania developed education systems that produced a "solid average" and conformed to the materialistic and standardized operating model of an industrial society. However, these systems are not sufficiently creative, flexible and individual-centred to prepare the new generation for self-realization in 21st-century knowledge societies. In Estonia, Latvia and Lithuania, there is a weak connection between educational development, on the one hand, and social and economic development on the other, which is also expressed in the relatively modest role played by higher education and academic sciences in pushing the economies of the Baltic states onto an innovation-based path. The principles of Estonia's new education strategy, which is referred to in the report, are sustained by a need to radically change the current educational philosophy and move from a standardized subject-based teaching system to a creative learning process that is centred on the student's personality. At the same time, none of the Baltic states have yet been able to find the best way to create synergy between higher education, science and innovative economic development. Cooperation among the Baltic Sea countries in the development of an innovation-based post-industrial economic model and a personality-based system of lifelong study that supports creativity and self-realization could be a worthy challenge for the new "Baltic way".

The prospects for regional integration

In attempt to see the possible future for cooperation between Estonia, Latvia and Lithuania in this report, we have been most interested in the positive effects of the mutual links between the countries of the Baltic Sea Region. A summary of the vision based on the three scenarios presented in Chapter 7 must emphasize the key role of the cooperation between the Nordic and Baltic countries. The quality and broader impact of this cooperation primarily depends on the ability of Estonia, Latvia and Lithuania to enter the new round of economic development not as competitors but through the rational joint utilization of their resources for the development of the transportation and energy networks, entrepreneurial clusters and higher education in order to compensate for their small size. It is quite clear that this cooperation depends on more than the existence of the economic interests of individual enterprises. What is required is a new culture of international cooperation where the Baltic countries would behave not so much as clients for the EU and their wealthier neighbours, but instead assume the role of initiators of cooperation and developers of relationships.

Current practices and also the results of the public opinion poll conducted in the three Baltic states for this report indicate that Estonia could be the country that links the Baltic and Nordic countries into a common "Balto-Scandia" in the Europe of the future. Latvia would gain the most from this closer cooperation since the neighbouring Baltic states play a significant role in its economy and in public imaginaries. At the same time, Lithuania is an important bridge between the Baltic countries and the "bigger partners" driving the Baltic Sea Region – Germany and Poland. Without more active participation on their part it will be impossible to realize the full potential of the entire region, which depends on the development of rail and highway connections and an energy system for the Baltic Sea Region as an entirety. The compilers of this report are convinced that the closer regional integration of the Baltic Sea states, reciprocal learning and the development of a common space of values will help to ensure success even in a situation where dangerous encapsulation tendencies are growing in Europe and the world. At the same time, close cooperation between the Baltic states will also increase their ability to protect their interests as partners in larger associations.

In summary, we can state that during the past twenty years the Baltic states have implemented thorough reorganizations in all the institutions of society and today have achieved the economic, political and intellectual maturity to function as states with high-level human development. A further climb in the world's human development rankings requires for the large gaps in wellbeing that still exist between the countries on the east and west coasts of the Baltic Sea to be overcome. What is needed is a more integrated vision of the connections between the economy and developments in other spheres of societal life, and a more critical eye must be directed towards the compatibility of the objectives of various policies and the available resources. Despite their relative external success, development that is dedicated to economy-based values has encouraged the cultivation of eclectic and internally contradictory policies in all three Baltic states. The result is wasted human capital, which is in short supply, and a delay in the resolution of problems that are important for human development. The under-financing of health care and social protection, the lack of socially and economically coherent labour and wage policies, the disconnection between the education model and the developmental needs of the society, the lack of consensus in integration policy and the underestimation of the role of culture – in the end, all of this amplifies the shrinkage of the population.

The experience of the economic crisis has intensified the understanding that global economic competition presents small nation-states with a difficult choice related to maintaining the vitality of their people, language and culture when economic pressure favours large transnational companies; when greater opportunities exist elsewhere for talented people to realize themselves or overcome hardships; when it would be beneficial to acquire an English-language education in order to succeed in global competition or to open one's borders to foreign labour that has been educated elsewhere. What will be the fate of small nations and cultures when the economy and education are becoming increasingly internationalized? What changes should occur in the role of nation states and their associations, including the European Union, in this process? These are questions that must eventually be answered by all European countries. It would be more productive if we searched for the answers together with our neighbours in the Baltic Sea region, by combining the Baltic states' experience of their tenacious struggle for existence with the Nordic countries' inventive ways of consolidating economic efficiency, humane social systems and education that supports the development of every individual.

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(PhD) is Professor of Comparative Politics at the University of Tartu. His primary research interests are parties and party systems in post-communist countries. He has also researched political elites in the Baltic states as well as comparative retroactive justice policies. (6)

Robert Phillipson

is a Professor at Copenhagen Business School. Among his books are *Linguistic Imperialism, English-only Europe?, Challenging Language Policy* and *Linguistic imperialism continued*. His research interests include the role of English in globalization, language rights, macro-sociolinguistics and language pedagogy. (5.6.2)

Ainė Ramonaitė

(PhD) is an Associate Professor at the Institute of International Relations and Political Science, Vilnius University. Her fields of research include political participation, political attitudes, electoral behaviour and civil society. (6)

Meilutė Ramonienė

is Associate Professor of the Department of Lithuanian Studies at the University of Vilnius. Her research interests include applied linguistics, teaching foreign languages, sociolinguistics and onomastics. She is co-author of several textbooks and teacher reference books for teaching Lithuanian as a second language. (5.3.3)

Anu Realo

(PhD) is a senior research fellow of personality psychology at the Department of Psychology, University of Tartu, Estonia. She has been a visiting professor and scholar at several universities in Belgium, Finland, Iceland, the Netherlands, Sweden and Switzerland. She is interested in personality and cross-cultural psychology and has conducted research on cultural and individual variation in personality development, emotional experience, individualistic-collectivistic attitudes and subjective well-being. (3.5)

Alasdair Reid

(MA) is the director responsible for the Brussels and Tallinn offices of Technopolis Group and is an expert on innovation policy and regional development. (1.5)

Ave Roots

has a Master of Sciences degree in sociology. She is currently studying for doctoral degree in sociology at the Institute for Sociology and Social Policy at the University of Tartu and works at the institute as an assistant. Her main fields of study are social stratification and social mobility in Estonia after the re-establishment of independence. (3.1)

Viive Ruus

(PhD) is professor emerita of educational sciences at Tallinn University. Her research has focused on curriculum studies, educational values, students' academic coping and well-being. (4)

Maarja Siiner

(MA) is completing her doctoral thesis on linguistic policy at the Institute of Journalism and Communication at the University of Tartu. She works as an integration adviser at the Copenhagen Training and Employment Agency. (5.1, 5.2, 5.3.1, 5.5, 5.5.2)

Riina Sikkut

(MSc) is an analyst of health policy at the PRAXIS Centre for Policy Studies, whose fields of interest include the efficiency and sustainability of the health system. She has worked as an analyst at the Ministry of Finance and Swedbank. In 2010, she graduated from the London School of Hygiene and Tropical Medicine and completed the Master's programme at the London School of Economics and Political Science in health policy and the planning and financing of the health care system. (2.4)

Veiko Spolitis

holds his lectureship at the Faculty of European Studies at the Riga Stradins University and simultaneously has his affiliation as a research fellow at the Latvian Institute of International Affairs. He finished his undergraduate studies at the University of Tartu in 1996. A year later graduated with MA degree in European Studies from the Central European University in Budapest. Since 2006 he continues his dissertation research at the University of Helsinki Faculty of Social Sciences with the project ''Governance in the Baltic States from 1999 – 2009 - Estonia, Latvia and Lithuania between Europeanized regionalization and continued Post-Soviet political culture''. Since 2010 he is the parliamentary secretary of the Latvian Ministry of Defense. (7.3)

Vlada Stankūnienė

(prof. habil. dr.) is Director of the Institute for Demographic Research, and Deputy Director of the Lithuanian Social Research Centre. Her main research interests include demographic development, family, fertility and family policy studies. (2.2)

Erik Terk

(PhD) is a professor at Tallinn University and Director of Tallinn University Estonian Institute for Futures Studies. His main areas of research include future studies, connections between economic development and social and political developments as well as development planning at national and regional levels. (1.5, 7.2, 7.3)

Peeter Vihalemm

(PhD) is a Senior Researcher of Media Studies at the University of Tartu, Professor Emeritus. His main areas of research include social changes in transitional Estonia, media system and media use in Estonia and international social space in the Baltic Sea region. (1.2, 1.3, 1.6)

Triin Vihalemm

is Professor of Communication Research at the Institute of Journalism and Communication at the University of Tartu. Her main field of research is collective identity and the communicative practices related thereto (media usage, language usage and attitudes, collective memory, etc.) and the culture and sub-cultures of transitional societies. Many of her published articles deal with the cultural (re-)adjustment of the Russian-speaking population after Estonia re-established its independence. (Editor of Ch5, 5.1, 5.2, 5.3.1, 5.5)

Ramūnas Vilpišauskas

(PhD) is Professor at and the Director of the Institute of International Relations and Political Science at Vilnius University. He has worked for five years (2004–2009) as the Chief Economic Policy Advisor to the President of Lithuania H. E. Valdas Adamkus and the Head of Economic and Social Policy Group at the President's Office. His fields of research include the political and economic aspects of transition economies and regional cooperation as well as the integration and policies of the European Union. (7.1, 7.3)

Viktorija Zilinskaite

(PhD) is a scientific secretary at the Lithuanian Social Research Centre. Her main research area is the sociology of culture. (4)

Photo competition “This is a beautiful place to live”

The Estonian Cooperation Assembly held a photo competition entitled “This is a beautiful place to live” in order to find the best illustrations for the Estonian Human Development Report. A similar competition has been held on four previous occasions. It has become a tradition for the Human Development Report to be illustrated with successful entries from public creative work competitions.

The competition called for people to share the precious moments of life they had captured with a camera. The organizers were looking for pictures that relate to our years of independence, happy lives and satisfaction – something that we all consider important. The following three reference categories were provided for the participants:

- The colours of estonia
- The children of freedom
- Our neighbours around the Baltic Sea

The prizes for the photo competition were provided by AS Tallink and AS Eesti Ajalehed.

The winning entries were selected from among the submissions by a panel of judges chaired by Professor Signe Kivi, Rector of The Estonian Academy of Arts.

We would like to thank everyone who contributed to one of Estonia’s most prestigious publications.

Winning entry

LUULE GERMAN Grannies from Saaremaa

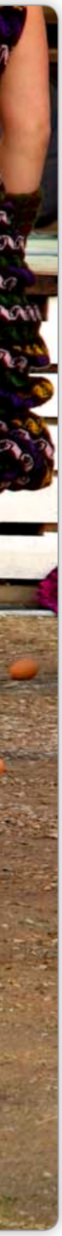
ELLE METS (50) Bakery in Iisaku

ELLE METS (50) Tartu City Day 2008

The children of freedom

MAURI ABNER (36)

MIRJAM VARIK (21)



The colours of Estonia

JÜRI TALTS (43) Round bales in Matsalu

KADRI TULEV (27)

KRISTINA MÄGI Expectation

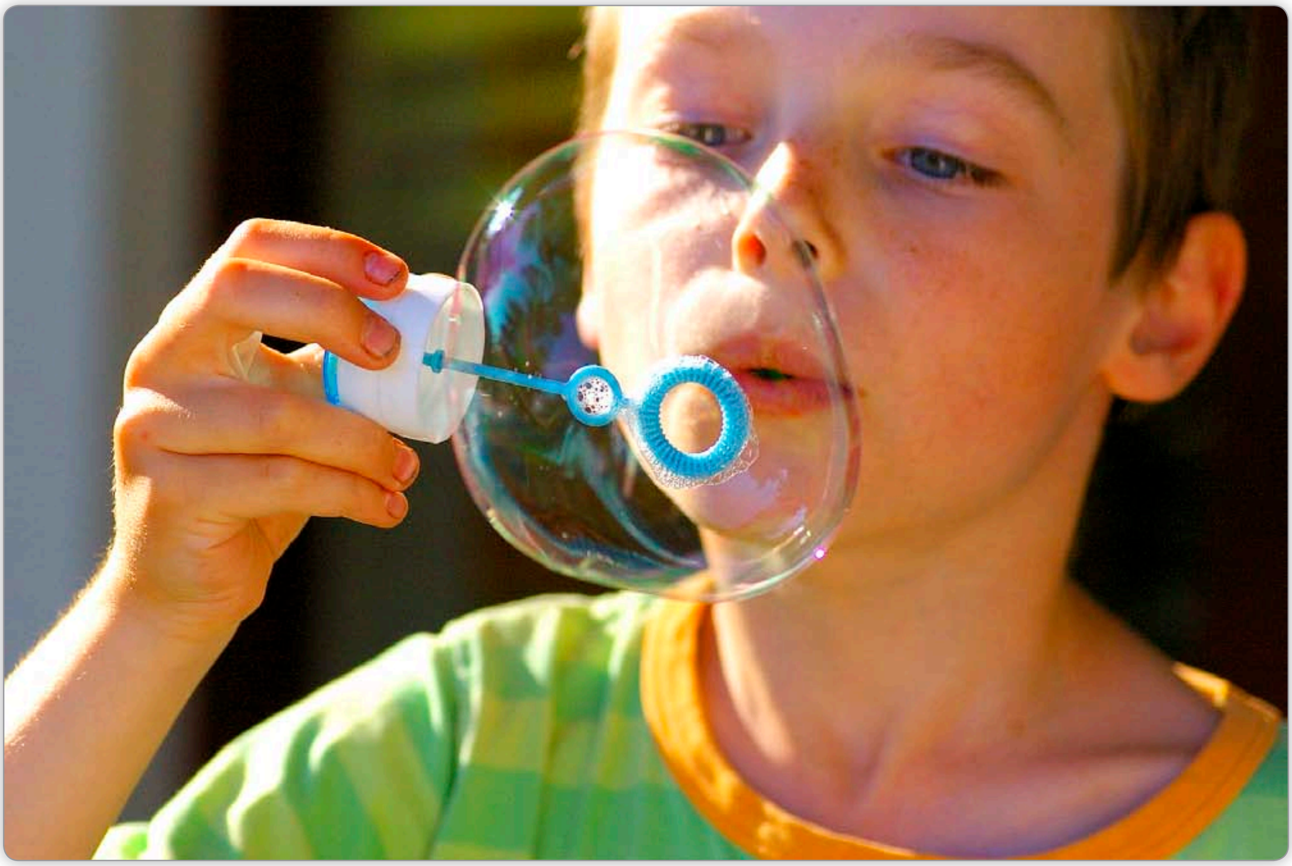
The children of freedom

ALLAN TOMKER (40)

ANGELA HAAS (29)

The children of freedom

KADRI KARJUS (36)

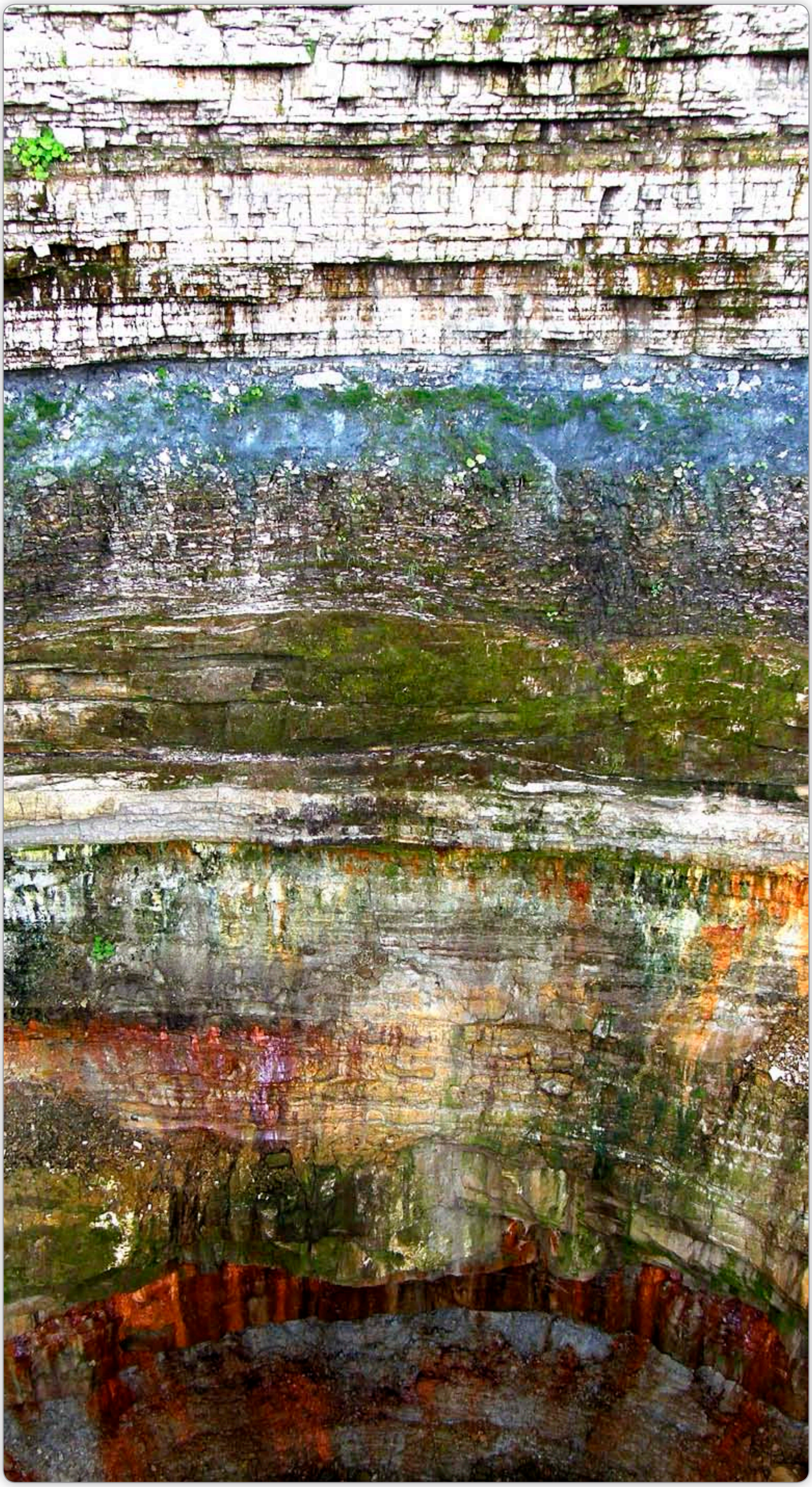


MAURI ABNER (36)

The colours of Estonia

EGELY TIIDEMAA (30)

EGELY TIIDEMAA (30)



MAURI ABNER (36)

The colours of Estonia

PRIIT ESTNA (62)

PRIIT ESTNA (62)

TRIINU HALLER (18)

The colours of Estonia

TRIINU HALLER (18) Tallinn

Our neighbours around the Baltic Sea

PRIIT ESTNA (62) Lapland

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