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Political Economy of the Baltic States

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旧社会主義諸国(共産圏)の歴史(「革命」前・体制転換後を含む)と、社会主義や共産主義の思想・理論を対象に批判的検証を志しています。投稿歓迎。

Main building of the University of Tartu, Estonia (August 26, 2010, @Yoji Koyama)

Dance in folk costume in Tartu, Estonia (August 26, 2010, @Yoji Koyama)

Historical Studies of Socialist System*, No.16 (Dec. 2020)

Political Economy of the Baltic States

Yoji Koyama[1]

Abstract

The Baltic states have attained high economic growth, but if we think that people have become richer by judging from GDP per capita it would be a one-sided view. Emigration continues in the Baltic states. Concomitantly, a decline in total population continues at an abnormally high pace especially in Lithuania and Latvia, and therefore, in recent years this problem has been taken with a sense of crisis in both countries. For the purpose of understanding these problems correctly, it would be insufficient to analyze only recent development, but it would be necessary to clarify the structural and historical character of this problem which the Baltic States have been facing. Under neoliberal economic policies adopted by ruling elite of these countries the economic inequality has expanded. As governments of these countries gave top priority to joining the Eurozone for independence from the Russian economic area and therefore put emphasis on external equilibrium, these policies caused considerable stress on their society. Austerity measures adopted at the juncture of the global financial crisis forced workers to pay great sacrifice, causing many workers' 'exit'.

Keywords: Baltic States, Estonia, Latvia, Lithuania, emigration, depopulation, exit

JEL Classification: J61, O52, P51

1. Introduction

Since the regained independence, especially after the EU accession emigration has been continuing in the Baltic states. Concomitantly, a decline in total population continues at an abnormally high pace especially in Lithuania and Latvia, and therefore, in recent years this problem has been taken with a sense of crisis in both countries. With the EU accession in 2004, peoples in the Baltic States have got the right to directly participate in the EU-wide labor markets. For several years from 2004 many people emigrated from the Baltic states to the advanced EU member states. It was emigration of hopeful people seeking a better life. The outbreak of the 2008-09 global financial crisis hit both advanced and peripheral EU member states. The number of emigrants from the Baltic states has sharply decreased temporarily. In spite of the subsequent economic recovery, emigration from the Baltic states increased again and continues at a high level, although the number of emigrants decreased very recently. "The new 'exit' did not comprise young hopefuls seeking a better life but the unemployed driven by desperation and disillusionment" (Woolfson 2010).

For the purpose of understanding these problems correctly, it would be insufficient to analyze only

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recent development, but it could be necessary to clarify the structural and historical character of this problem which the Baltic states have been facing. For more than 30 years these countries have experienced great social, political and economic changes such as collapse of socialism in the Soviet Union, their secession from the Soviet Union and regained independence, the creation of national currencies replacing Ruble, transition to a market economy and economic reforms, their EU accession and the subsequent joining the Eurozone, and global financial crisis, etc. Therefore, I think that the problems of massive emigration and depopulation in the Baltic states should be considered in the context of such great social changes. Specifically, the Baltic Economy caused a massive outflow of people and concomitantly a decline in total population and depopulation. How has such an economy been formed historically? And what it is now?　The aim of this paper is to clarify these points. In order to clarify these problems I try to read related literature extensively and get conclusions in an inductive way.

Table 1 Changes in Populations of the Baltic States

	Interwar Period	1950	1970	1991	2004	2020
Estonia	1,127,928	1,100,995	1,360,202	1,548,219	1,363,565	1,326,536
Latvia	1,905,936	1,926,568	2,378,021	2,649,162	2,278,921	1,886,198
Lithuania	2,575,363	2,567,403	3,136,586	3,697,457	3,381,131	2,722,289

Sources: Worldmeters

Notes: For Estonia's population in the interwar period (1935), Statistic Office of Estonia. For Latvia's population in the interwar period (1935), Government of Latvia's statistics Population number, its changes and density. For Lithuania's population in the interwar period (1938), Statistic Office of Lithuania.

This paper is constituted in the following way: Section 2 outlines the history and briefly explains its economic development and society, and the movement toward independence and system change; Section 3 discusses transition to a market economy and economic reforms including agricultural reforms; Section 4 describes external economic relations including economic relations in the Baltic Sea region, the EU accession and joining the Eurozone, and foreign direct investment; Section 5 explains the global financial crisis including prehistory of the crisis, the structure of economic overheating with the case of Latvia an example, and switchover to restrained policies; Section 6 mentions factors contributing to high rates of emigration; Finally the paper reaches some conclusions.

2. History

All three Baltic countries have different histories, and while Lithuania once was a great Central European country, Estonia and Latvia did not have their own countries for a long time. Grand Duchy Lithuania formed a union of states with Kingdom of Poland in 1385, and by the Union of Lublin in 1569 both countries formed an institutional union. The commonwealth of Poland and Lithuania had a history in which it was once a great Central European country that took control of Ukraine. Estonians and Latvians had experienced the rule by Germany and Sweden, and then by Russia. Except for a part the coastal region belonging to East Prussia, the Baltic region became under the rule of Czarist Russia in the early 18th century. However, this region was practically under the rule of foreign big landlords who were ethnically and linguistically different from local inhabitants, i.e. the region corresponding to present Lithuania was ruled by the local nobility and the rest of the region was ruled by German big landlords. Only after the defeat of the German Empire in the First World War, Estonia, Latvia and Lithuania gained independence when the Soviet Union recognized their states in 1921.

Table 2 Ethnic Structure of the Baltic States (%)

Estonia			Latvia			Lithunia		
Ethnicity	Prewar	Postwar	Ethnicity	Prewar	Postwar	Ethnicity	Prewar	Postwar
	(1925)	1989		(1935)	(1989)		(1923)	(1989)
Estonian	88.1	61.5	Latvian	77.0	52.0	Lithunian	84.1	79.6
Russian	8.2	30.3	Russian	8.8	34.0	Pole	3.2	7.0
German	1.5		Belarusian	1.4	4.5	Russian	2.5	9.4
Swedish	0.7		Ukrainian	0.1	3.5	Belarusian	0.2	1.7
Latvian	0.5		Pole	2.6	2.3	Ukrainian	0	1.2
Jewish people	0.5		Lithuanian	1.2	1.3	Jewish people	7.6	0.3
Ukrainian		3.1	Jewish people	4.9	0.9	Latvian	0.6	
Belarusian		1.8	Roma	0.2	0.3	Tartar	0.04	
Finn		1.1	German	3.3	0.1	German	1.4	
Others	n.a.	1.9	Estonian	0.4	0.1	Roma		
			Others	0.2	1.1	Others	n.a.	0.8

Source: Estonica Encyclopedia about Estonia (https://www.estonica.org/en/Society/population); Ethnic Composition and the Protection and Promotion of the Cultural Identity of National Minorities Ethnic Structure, Inequality and Governance of the Public Sector in Lithuania.(https://www.mfa.gov.lv/en/policy/society-integration …); Kasatkina & Beresneviciute (2004), For Estonia and Lithuania in the postwar time (1989), Peteris Zvidrins. In Lithuania as of 2001 Latvians, Tatars, German and Roma accounted for 0.08%, 0.09%, 0.09% and 0.07% respectively.

In August 1939 non-aggression treaty was concluded by Ribbentrop and Molotov, thereby it was secretly agreed that the Baltic states should become under the Soviet Union. In July 1940 under the pressure of the Soviet Army stationing there, the parliaments of these countries passed resolutions requesting incorporation of their countries into the Soviet Union one after another. It was in fact the annexation by the Soviet Union. In June 1941 the Baltic states became under the rule of Germany following its invasion of the Soviet Union[2]. In May 1945, however, Nazis Germany was finally defeated, and consequently the Baltic states became again under the rule of the Soviet Union[3]. In these countries firms were requisitioned by the Soviet power, and forced collectivization of agriculture was carried out. In the

[2] Having experienced harsh treatment after the incorporation into the Soviet Union, "many Balts therefore naively hoped that Germany would restore the independence of their countries or at least rescind the Bolshevik nationalization decrees". However, the Baltic states and Belarus were turned into a new German province, the so-called Ostland, and indigenous people were forced to have miserable lives under German commissars. Several thousand workers were sent to Germany for compulsory labor, and many people were drafted for service in the so-called Volunteer Legions. In 1944 the Red Army, which made a counteroffensive after the battle of Stalingrad, advanced to the Baltic states. When the German Army retreated from the Baltic states it followed there the "scorched-earth" policy. Then the last act of the Baltic tragedy "in the shadow of death" began. About 199,000 Balts, of whom a half were Latvians, escaped westward. In the process of their exodus they were attacked by German and Russian naval and air forces, and several thousands died in the Baltic Sea, while some 30,000 Balts escaped to Sweden. Arveds Svabe (1949).

[3] After World War II both western and eastern borders of Poland moved westward for about 200 km. As a result Vilnius, which had belonged to Poland in the interwar period, returned to Lithuania. Similarly, the border between Latvia and Russian has slightly moved.

process of collectivization those who were regarded as rebellious were arrested and deported to Siberia[4]. There were groups who continued guerrilla war (1944-1951) in forests.

During the Soviet period, in parallel with the progress in industrialization in Estonia and Latvia demand for a labor force increased, which was satisfied by immigration of Slavic people (mainly Russian). As a result, the share of them of total population has increased. Consequently, the share of titular nation of total population have significantly decreased during the periods from prewar to postwar (especially the end of the Soviet period or immediately after the regained independence) from 88.1% to 68.0% in Estonia and 77% to 52% in Latvia (see Table 2). Increasing demand for a labor force was satisfied in Lithuania not by means of immigration from other Soviet republics, but by migration into cities from Lithuanian villages, which were characterized by relative overpopulation (Norkus, 2012, p. 216).

However, it is noteworthy that the share of Jewish people of total population in Lithuania has drastically decreased from 7.6 % in the prewar period to 0.3 % in the postwar period. Also in Latvia the share has remarkably decreased from 4.9% to 0.9% in the postwar period. This is related to massacre of Jewish people by Nazis and their local accomplices as well as exodus of many Jewish people[5].

2.1. Economic Development and Society

During the period of tzarist Russia, Estonia and Latvia were economically more developed than Lithuania. In the second half of the 19th century, as railway lines connected Baltic sea ports in contemporary Estonia (Narva and Tallinn) and those in Latvia (Liepaja and Riga) with inner area of the tsarist empire, they grew into important industrial centers. Lithuania remained an agrarian periphery

[4] As for Latvia, the Soviet power executed two mass deportations from the territory of Latvia. The first mass deportation took place during the night of June 14, 1941, when 15,443 people, mainly the Latvian elite, were exiled without any legal grounds. The mass deportation took place on March 25, 1949, when 42,322 people were subjected to deportations and the repressive regime and sent to Siberia. Information provided by Dr. Arta Jalili Idrissi in November 2020.

[5] According to Mari Nomura (2020), in prewar Vilnius many Jewish people lived. In 1931 the population of Jewish people was 55 thousand (28.8% of total population of the city). However, we have to take into mind the fact at that time Vilnius did not belong to Lithuania but to neighboring country Poland. In Lithuania excluding this area, as of 1923, about 154 thousand Jewish people (7.6% of total population). They lived in urban areas including the provisional capital Kaunas where the population of Jewish people accounted for one thirds of total population The reason for why they lived in urban areas is that they were engaged in crafts, trade and finance. After independence nationalists, who thought Lithuania as a Lithuanians' nation, rebelled the fact that Jewish people who were different in terms of religion, language, manners and customs controlled the country's economy, but it was intervention by external powers such as the Soviet Union and Nazis Germany that drove their relation into the final catastrophe. It was decided that Lithuania should be included in Soviet sphere of influence by a deal made between Germany and the Soviet Union immediately before the outburst of the World War II, and in August 1940 Lithuania was annexed to the Soviet Union. Many Lithuanians were indignant with this, but Jewish people's positions were delicate. For Jewish people the Soviet Union was 'a little better' ruler compared with Nazis. Lithuanians denounced such Jewish people as traitors to our country. In June 1941 the war between Germany and the Soviet Union began. After the German Army invaded Lithuania part of the Lithuanian nationalist, who desired its re-independence, became cooperators of Nazis and regarded Jewish people as traitors to Lithuania, cooperating in massacre of Jewish people by Nazis (Nomura, 2020, pp. 113-115). It is a famous story that immediately before Nazis Germany's invasion Mr. Chiune Sugihara, Deputy Consul at the Japanese Consulate in Kaunas, helped the exodus of 6 thousand Jewish people by issue of visas against the instruction from the Japanese Ministry of Foreign Affairs. Nomura (2016) also explains relationship between Jewish people and Latvians in Riga, and says that between both peoples there was no friendly relationship (pp. 202-206).

with peasant agricultural production mainly for household consumption and with weak urban development. As for Latvia, nearly half (with exception of Latgale, more than half) of Latvia's population lived in cities, where industry was concentrated on producing for an all-Russian market. The absolute majority (as in Estonia) of the population was literate. Agriculture had already been thoroughly commercialized in the 19th century. Therefore, Latvia had already passed the closing phase of the so-called demographic transition. On the eve of World War I, Riga was famous as the "Paris of the Baltics". Riga attracted intensive immigration from Lithuania (Norkus, 2012, pp. 215-216).

While the small-scale land owner class in Estonia and Latvia began to differentiate internally between the world wars, the Lithuanian rural structure was much more rigid. The only Baltic country where community structures analogous to Russian MIR community were preserved until the 1800s was Lithuania (Alanen, ed., 2004, p. 3).

Industrialization in Lithuania took off only during the Soviet period, in the 1950s–1970s. The rural areas had still many potential surplus population. The National Communist leadership of the Lithuanian Communist party successfully resisted Moscow's plans to build new industrial objects in central cities (this was the way in which industrialization proceeded in Latvia and Estonia). Instead, Lithuania's regional development plan was realized, leading to the emergence of many new smaller industrial centers in the formerly agrarian and rural localities. At the time of the dissolution of the Soviet Union, Lithuania had already caught up with its neighbors in its economic and social development (Norkus, 2012, p. 216).

We cannot explain differences in present economic performances of the Baltic states by judging from the fact that religiously, Protestantism, especially Lutheranism has been dominant in Estonia and Latvia while Catholic has been dominant in Lithuania. According to Alanen, however, bearing in mind Lithuania's history (delayed development of civil society, a Catholic country heavily influenced by Poland, and its past as major political power), it is understandable that Lithuanian culture is characterized by state-centrism to a greater extent than the two other Baltic countries. This also helps to explain why Lithuanians often display a greater tendency to reforms organized from the top down, and the state-centralism of the process of rural de-collectivization in this country (Alanen, ed., 2004, p. 3).

2.3. Movements toward Independence and System Change

2.3.1. Movements toward Independence

In the second half of the 1980s in the Soviet Union under Secretary General Mikhail Gorbachev Glasnost (disclosure of information and free expression of opinions) and Perestroika (fundamental reform) has begun. In the Baltic States movement toward their independence gained impetus. In Estonia the Popular Front was formed in April 1988. In Lithuania in October 1988 two important events occurred: A movement organization was formed by scholars and artists, and a reformist Algirdas Brazauskas was elected as Secretary General of the Lithuanian Communist Party. They expressed their support for Perestroika. Also in Latvia the Popular Front of Latvia was founded in 1988.

The day August 23, 1989 was the 50th anniversary of the conclusion of the Soviet-German non-aggression treaty. On the day a 'human chain' of 600km long from Estonian capital Tallinn to Lithuanian capital Vilnius was formed in which 1.5 million peoples participated. This calm protest movement was a strong appeal to the international community[6]. In February 1990 elections for the Lithuanian Supreme Soviet were held under the multi-party system, Sajudis won three quarters of total seats. On March 11, the Lithuanian Supreme Soviet announced declaration of independence. The Soviet authorities countered the Lithuanian movement by military suppression causing 13 victims, but could not stop the Lithuanian people's movement toward independence. The Soviet authorities coped with Estonia and Latvia by conciliatory policies in vain. On August 22 a conservative group staged a military coup in the Soviet Union but failed. With this as a turning point, however, the prestige of the Secretary General of the Communist Party of the Soviet Union and the President Mikhail Gorbachev has decreased, and in contrast the prestige and voice of the President of the Russian Republic Boris Yeltsin increased at a stretch. A tendency toward disintegration in the Soviet Union grew stronger. At last the dissolution of the Soviet Union was decided at a meeting of top leaders of Russia, Ukraine and Belarus on December 8 of the same year. Meanwhile, although not so much attention was attracted internationally, on September 6 of the same year the Baltic states got international recognition at the United Nations General Assembly.

There are some differences among the Baltic states. At the time of regained independence Lithuania gave all permanent residents citizenship whereas Estonia and Latvia gave citizenship only to those who were their own people as of June 16, 1940 (prior to the loss of independence) as well as their descendants. Behind such a different treatment there is a problem of population structure in each country (see Table 1). The share of the titular nation of total population has decreased and remains at a low level in Estonia and Latvia, and therefore the titular nations had an increasing sense of crisis that their nations' languages and cultures might disappear (Komori, 2011, p. 211). That is why being afraid of their initiatives would be taken away by Slavic populations political elite in Estonia and Latvia insisted the exclusive citizenship. According to a Latvian researcher Brigida Zepa (2009), despite residing in Latvia as of 2007, there were about 418.8 thousand residents without citizenship (i.e. non-citizen). She says that this is a problem which should be solved publicly, and she suggests resolutions, for example, procedure for granting citizenship, an expansion of political rights of non-citizen (namely, granting a voting right to elections for local governments), citizenship through application for naturalization after having verification of language proficiency, etc. In Lithuania the problem of Russian-speaking populations has not surfaced as a citizenship problem.

3. Transition to a Market Economy and Economic Reform

[6] Such a movement was linked to changes in Central European countries at that time, where movements aiming at breaking a standstill became active. In Poland, for example, the Communist Party (Polish United Workers Party) and the government judged it indispensable to get workers' cooperation in order to overcome serious economic difficulties and legalized an independent and autonomous trade union 'Solidarnost', Round-table meetings were held between both sides since February 1989. Based on an agreement between both, free elections based on multi-party system were held on June 4 for the first time after the World War II. Democratic opposition group with 'Solidarnost' as a center won the elections, and consequently a non-Communist government came into being. This was the first breakthrough in the socialist bloc. This in turn triggered a wave of anti-communist actions in other countries including the fall of the 'Berlin wall' and was conducive to the demise of the Soviet bloc and end of socialism.

3.1. Orientation

What kind of society did people in the Baltic states aimed at? Aside from Slavic people, the self-consciousness of being a European has been strong among people. In Latvia and Lithuania most of people oriented at a West European type of society. In Estonia people' orientation toward a Nordic type of society has been strong rather than a West-European type (Komori, ed., 2012). A change that took place politically in Estonia and Latvia was democratization from below. Norkus (2012), also mentions a middle-way of democratization between reform and revolution (pacted democratization). This is a case in which trying to isolate and exclude a conservative faction, a liberal faction concluded a kind of pact with opposing powers. In Lithuania at the end of the Soviet period, i.e. the period of Perestroika the reformist group of the communist party was so strong that at the time of regaining independence in 1991 a kind of pact was formed between the political elite of the ancient regime and 'Sajudis'. Former communists formed government in the periods 1992-1996 and 2006-2008. In this respect the case of Lithuania is similar to that of Slovenia, Poland, Hungary, Romania, Bulgaria, etc. In Estonia and Latvia leftist power has been weak, and always center-right or right wing parties formed governments.

Norkus (2012) studies typology of post-communist countries and mentions four kinds of ideological orientation of the transformation: 1) continuation; 2) restitution; 3) imitation; and 4) innovation: In the Baltic States at the beginning restitutional (restorational) orientation was strong. This sets goals of recreation of economic and political system of pre-communist and golden era and post-communist transformation. In countries where this orientation was strong, for example, in the farmland reform top priority was given to return of lands to former owners or their descendants based on the principle of restitution. However, since the Copenhagen summit of the EU in 1993 opened a prospect of the EU accession for the Baltic States and Central European countries and laid out the Copenhagen criteria the imitation orientation has become strong in both regions.

3.2. Transition to a Market Economy

As the Baltic states were obliged to rely on support by international financial organization such as the IMF and the World Bank in the 1990s, in the transition from a planned economy to a market economy their prescriptions played a significant role. Estonia succeeded in macroeconomic stabilization, and it is the first country to reintroduce its own national currency (in June 1992 Kroon; EEK) among the former Soviet Union republics (in January 1993 Latvia reintroduced lats; Ls. In June 1993 Lithuania reintroduced Litas; Lt.). The Estonian government carried out measures of economic reform which exceeded requests of international financial organizations. The Lithuanian government carried out the similar measures only later under pressures of international financial organizations. Governments of the Baltic states actively accepted neoliberal lines and the idea of minimal-scale state both of which were recommended by the IMF[7]. In this respect their policies are similar, but in terms of economic performances there were significant differences.

According to Norkus (2011), in pre-communist time, for example, before 1914 and 1940, Latvia

[7] Policies prescribed by the IMF is called the Washington Consensus. For more in detail, see Williamson (2004).

was the leading Baltic country in terms of cultural, social and economic development. Estonia followed closely behind, and Lithuania was a distant laggard. In the post-Soviet time, however, Latvia has lost its previous leading position. One of several reasons for such a change in the ranking that he mentions is that during the Soviet era, Estonia's economy may have been less structurally distorted by "socialist overindustrialization" and "negative added value" industries than the other Baltic economies (p. 28). This point is a little bit difficult, but can be paraphrased in a more concrete way based on Terk and Reid (2011, p. 32) as follows: 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. Such enterprises predominantly manufactured end products and belonged to the sectors that were considered technologically advanced (radio electronics, electrotechnical equipment, instruments) within the Soviet Union but outdated by the Western standards. They produced such products 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 the decline and collapsed in Estonia as well, but unlike Latvia, the share of smaller and more flexible industrial enterprises was larger in Estonia.

There were some differences in the way of privatization of state enterprises. Lithuania went ahead of other Baltic peers as early as 1991 with its integrated privatization program. By the end of 1994, more than 75% of industrial and transport enterprises in Lithuania had been privatized, while the percentage in construction and services was significantly higher (Terk and Reid, 2011, p. 32). In this country the government led by ex-communist social democrats preferred 'insider privatization' as in Slovenia, but its result was quite different. Algirdas Brazauskas, who was the leader of the Lithuanian Communist Party and subsequently a social democrat president of the new republic (1993-1998) and later its prime minister (2001-2006), and his ex-communist colleagues set Lithuania on its neo-liberal course, rejecting progressive taxation in favor of a flat tax pro-business regime designed to attract foreign investment on the most favorable terms (Woolfson, 2010). Employees had priority rights to buy out "their" enterprises for vouchers. However, the use of this method left the enterprises under the control of earlier managers. Enterprises received no new investments or technologies. After privatization, the enterprises continued to work in old ways until they perished under mountains of increasing debt. Besides, they had lost their usual markets. As part of nomenklatura of old nationalistic communism they used old connections for economically unproductive activities called "rent seeking"(Norkus, 2012, p. 220).

After the delay caused by the struggle between the different model, Estonia managed to significantly accelerate its privatization from the beginning of 1994. One of reasons for its success in privatization was that learning from experiences of Germany which absorbed East Germany, Estonia copied the privatization approach of the German *Treuhand* agency, thereby adopted adequate legislation, which helped to avoid unnecessary debate, and centralized the implementation of privatization via the privatization agency. Learning from Germany's privatization practice, the sharing of roles between officials and politicians was clarified. Namely, 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 way significantly helped to reduce political accusations against the officials involved. Secondly, foreign investors as potential buyers were put considerable emphasis. In addition, a very important role in privatization was played by commercial banks. Commercial banks as well as investment funds, spin-off of the former 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 (Terk and Reid, 2011, pp. 33-34). As the number of domestic buyers was small, foreign investors have become a majority of owners of enterprises.

Also in Latvia the privatization was implemented on the basis of sales, but the process was delayed. In addition, as the sectoral ministries implemented the privatization, insiders with political and departmental ties were in favorable positions. Since the Latvian economy included several potentially profitable sectors (transit, banking), politics and top business became tightly interlaced, leading to the formation of political parties around various leaders. Therefore, the corruption level of business was quite high (Terk and Reid, 2011, p. 35). The point has been closely related to the ethnicity problem. As mentioned above, many Russian-speaking people live in this country, but restrictive citizenship laws diminished the opportunities of employment in the public sector for Russian-speaking population. According to Norkus, 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.

According to Norkus (2011), as it became difficult for them to be employed in the public sector, the enterprising and aspiring for vertical mobility Russian-speakers directed their energies toward self-assertion in the private sector. By the middle of the 1990s Russian-speaking business people comprised up to 80% of business people in Latvia. Attractive areas for them were, as mentioned above, transit trade (connecting Baltic ports and Russia) and banking (off-shore services for Russian businessmen and sometimes involving what is classified as “money laundering”) (p. 30). According to IMF (2015), more than 80% of non-resident deposits of the Latvian banking system came from CIS countries (mostly Russia). Therefore, Norkus (2011) says, capitalism in Latvia took over many features attributed to the “wild Russian casino capitalism”. Latvia aimed at a finance country, but its attempt to establish itself as “near Switzerland” for Russia and the other former Soviet Union republics failed[8]. 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 Russian hijacking Latvia’s economy caused vacillations and zigzags in the economic policy of the right-wing governments (p. 30).

Estonia has been the most advanced in the use of ICT technology among the Baltic states[9]. Innovation-related moves can be observed in early times. 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.

8 In contrast to Latvia, the Estonian strategy has been to exploit its more liberal economic environment to become a regional financial and other service center for Nordic CME countries (a kind of Northern Hong Kong or Luxembourg) (Norkus, 2011, p. 30). The typology LME (Liberal Market Economies) vs. CME (Coordinated Market Economies) derives from the analytical framework of Variety of Capitalism (VoC) advocated by Hall and Soskice (2001). They consider capitalism by dividing it into two types, i.e. LME and CME.

9 Hanula, et al (2006) evaluate Estonia’s achievement in transition to a market economy and discuss the country’s strategy for future economic development.

Efforts were made to support the development of high-technology small enterprises, which has 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. After a while ICT has become a general basis creating a foundation for the modernization of the entire economy and social affairs. This country came to outperform several Western European countries on a number of ICT usage indicators. Estonia's progress in ICT was not the case of realization of a classical, programmed in advance, development plan, but rather was an activity based on timely initiatives and enthusiastic supporters. An increase in the support for ICT development from the state budget as well as the advantage of "starting from scratch" (e.g. in banking the stage of payment with cheques was bypassed) also favored its development. Latvia and Lithuania were less developed in this area, but since their EU accession, thanks to support from the EU structural funds, ICT usage in both countries has been rapidly developing (Terk and Reid, 2011, pp. 36-39).

3.3. Agriculture

In order to elucidate the process and the outcome of decollectivization, a research group of Finland and Estonia (the leader was Dr. Ilkka Alanen) chose a small municipality Kanepi (about 4,000 inhabitants) in Southeast Estonia and made intensive surveys from 1995 through 1999 and published its research results (Alanen, Nikula, Poder and Ruutsoo, eds., 2001). Afterwards, Alanen's research group made surveys on transition processes in rural areas of the Baltic States and published its research result (Alanen, ed., 2004). Using these publications, I will explain the situations of agriculture in the Baltic states mainly based on the cases of Estonia and give a supplementary explanation on cases of Latvia and Lithuania.

3.3.1. Three Basic Changes in Agriculture

In less than eighty years during the 20th century, Estonian agriculture has undergone three basic changes that have deeply influenced ownership relations and the ratio of large and small-scale agricultural productions: i) Soon after Estonia gained its independence, the radical land reform of 1919 was implemented, thereby the large holds of landlords were abolished and the family farm became a dominating form of rural enterprises; ii) After the incorporation of Estonia into the Soviet Union in July 1940 the land in Estonia was taken over by the Soviet power, and a kind of reform was implemented thereby "working peasants" were given the right of permanent tillage of up to 30ha of land. However, the reform was interrupted by German invasion in the late summer of 1941. Under the German occupation most of the confiscated land was returned to the previous owners. A new land reform started in September 1944, even before the end of the Second World War (at that time a large area of Estonian territory including Tallinn was still under German occupation). All the land that had belonged to the "enemies of the people" (who had escaped from Estonia with the Germans), the land of German colonists, the land used by German state institutions during the occupation and all land which had remained unowned, was to be included. Forced collectivization was carried out in the late 1940s with introduction of socialist large-scale collective farming; and iii) Market economy-oriented farming appeared with the disintegration of the Soviet economic system at the end of the 1980s. This process accelerated after Estonia's regained independence in 1991 and became irreversible with the abolishment of the kolkhoz and sovkhoz system in 1992-1993 (Alanen, et al., eds., pp. 15-21).

3.3.2. Kolkhoz

The aim of the agricultural policy of the USSR was definitely not to promote small-scale production in rural districts. The plan for the collectivization of the whole agricultural system was announced in May 1947. In preparation for mass collectivization "elimination of the kulaks as a class" was carried out. The main criteria in pronouncing a family farm "kulak" (rich peasant) were: the presence of hired workers, lending money to other people, the existence of tenants, items of equipment being leased from the farm, trade activities, and the ownership of enterprises. The first kolkhoz in Estonia was established in September 1947, but the pace of establishing Kolkhozes was so slower than expected that harsh methods of oppression including deportation of "kulaks" was applied. After March 23, 1949 an extensive mass deportation of Estonian people took place. Over 20,000 people (including women, children, and the elderly) were put on freight trains and cattle wagons and sent to Siberia. Thus mass collectivization of the whole agricultural system was completed by the end of 1950 (Alanen, et al. eds, 2001, pp. 22-24).

Each kolkhoz member had the right to use 0.6 ha of land for private gardening, to raise one cow, one pig, some sheep, and poultry. The domestic economies (auxiliary farms) of kolkhoz members were not allowed to interfere with kolkhoz work and production enterprises (Alanen, et al. eds., 2001, p. 27). When Joseph V. Stalin died in 1953 the agricultural system in the USSR was in a disastrous situation, making it impossible to supply either the population with food or industry with raw materials. In order to escape from this situation, the Soviet leadership started a series of reforms including the rises of central purchasing prices of agricultural products, the reorganization of MTS (machine tractor station) into repair depots, the sale of their tractors and other machines to kolkhozes, the transition to monetary wages, etc. In 1963 the model articles of association of kolkhoz were modified, thereby the numbers of livestock and poultry which kolkhoz members could keep were increased.

The Soviet agriculture entered the period of stagnation in the 1970s, but in Estonia the growth continued even in the 1980s. In comparison with other former Soviet republics and the former socialist countries of Central and Eastern Europe in terms of productivity, Estonia and Latvia have been the best performers among the former Soviet republics and are comparable mainly with Hungary and Slovakia; while Lithuania can be compared to Poland (Alanen, ed., 2004, p. 2).

In Estonia with poorer soil and cool climate dairy has been the most important, followed by production of crops including potatoes and vegetables (cucumbers, tomatoes, onions, etc.), which were sold at high prices on the markets of large industrial centers, such as Leningrad, all over the USSR. Rural people also increased their income by selling the milk, cattle and hogs which they produced on auxiliary homesteads and plots. Input necessary for agricultural production (fertilizer, fuel, machines and construction materials, etc.) was imported from other Soviet republics (Alanen, et al., eds., 2001, pp.407-408). Situations were similar for agricultural production also in other Baltic peers.

With Perestroika (drastic reforms) launched by the General Secretary of the Communist Party of the

Soviet Union Mikhail Gorbachev in 1986, changes in various spheres of the Soviet society began. In Estonia the farm law was enacted in 1989, which seems to correspond to a law which allowed "arenda"(lease of land) in Russia. At that time motivated kolkhoz members took this opportunity to expand their farmlands and got generous support (permission of use of agricultural machines) from kolkhozes to put family farms into practice with their names nominally remaining on the payroll lists.

The government led by Estonian Popular Front (Prime Minister Edgar Savisaar) had the agricultural policy "to give land to the ploughman", i.e. to transfer the resources of production to agricultural people. However, when the Estonian Congress (its leader Mart Laar came to serve as Prime Minister in 1992-1994), which emphasized nation's independence, gained political initiative a legalistic principle of restitution became dominant. Meanwhile on December 20, 1990 the Supreme Council of Estonia declared the collectivization, which was carried out after annexation to the Soviet Union, illegal and voted for a land reform by the restitution of land ownership (Alanen, el al., eds, 2001, p.103 and p. 415). The law on land reform, which should replace the farm land law, was passed on October 1991. The deadline laid down for the legal abolition of the kolkhozes and sovkhozes was the end of 1993 (Alanen el al., eds, 2001, p. 103).

Farm land was to be returned to former owners or their descendants (up to the third degree of kinship) based on the principle of restitution, and kolkhoz and sovkhoz workers. As to the implementation of decollectivization, the World Bank had great influence. According to observations by Finnish specialists (Alanen, ed, 2004, p. 7), researchers of the World Bank had predilection for family farming.

According to interview surveys at Kanepi Kolkhoz in Estonia, the main strategy adopted in the privatization of agriculture was contrary to the wishes of agrarian populations. They did not want to give up large-scale production. Although kolkhozes were forcibly created, in the course of their existence for more than 40 years, a kind of symbiosis has been created between large-scale and small-scale agricultural production. Alongside the large farms there were various types of petty production on private plots and gardens. This workforce increasingly lacked any roots in the municipalities, with fewer and fewer having any personal experience of the small-scale agricultural production that existed before World War II. Gradually the system developed a way of life of its own, with its canteens, weekly day-off, kindergarten, cultural activities, summer holidays, etc. (Alanen, et al., 2001, p. 75).

Kolkhoz workers were roughly classified into two types of people: One is ordinary kolkhoz members. They produced a large amount of vegetables, etc. on private plots and gardens. Nearly all the families in the kolkhoz had 0.6 ha of arable land or meadow land. In their production they were able to borrow kolkhoz machines free of charge. In addition, they enjoyed infrastructure that kolkhoz provided (pp. 76-77). Another is specialists and professional employees – the middle class of the collective farm - , who were the most fervent opponents of the restitution of small-scale farming. They realized that their employment and professional status in the future would be secured by the Tayloristic specialization of large-scale farming (p. 394).

The Estonian agricultural population[10] was largely unable to influence the making of laws pertaining

[10] When discussing kolkhozes, Alanen et al. (eds., 2001) do not use the term peasant or farmer. The reason seems to be that kolkhoz members did not possess land and receives wages for their labor. Instead, the term agricultural

to privatization. National policies and consequently the agricultural reform were controlled by the urban leadership of the nationalist movement that had background in the humanities (p. 393). The dream of the Singing Revolution to re-establish family farming was more than a desire of an intelligentsia dreaming of independence than a goal of the agricultural population. They had a romantic attachment to the tradition of small-scale family farming in the 1920s, which resonated with the idea of family farming that the World Bank researchers recommended (p. 113).

As for the way how decollectivization was carried out, let us see the case of Kanepi kolkhoz. The general meeting was held on December 20, 1990. The aims of the session were the approval of the plan for reorganization and deciding on the principles for calculating the shares. However, the session failed due to insufficient preparation, lack of trust in the leadership, etc. (p. 51).

The reform committee was established toward the liquidation of the kolkhoz. The committee consisting of seven members (the chief agronomist, another agronomist, the secretary from the kolkhoz, the chairman of the municipal council, the municipal land surveyor, a state representative and the chairman of the committee) started its activities on September 15, 1992 (p. 53). The decisive session was held on October 6, 1992 when the proposal to carry out the reforms in the following two stages: 1) The reorganization of the kolkhoz into smaller units; and 2) The liquidation of the kolkhoz. The last general meeting of the Kanepi kolkhoz was held on February 26, 1993. The chief accountant had previously given an account of the property situation in the kolkhoz on February 1. The kolkhoz had integral assets worth EEK 2,700,000; working capital worth EEK 1,300,000 including livestock. Then the order of calculating and allocating the workshares was explained, and the schedule of auctions was confirmed (pp. 54-55).

The restitution of agricultural land has proved to be a very slow process, for both technical and political reasons, while compensation and the restoration of other assets in kind has been much easier. It was a cow that was used as the basic unit of restoration with a cow being valued at EEK 700. This evaluation was determined by law. Everything else (horses, sheep, horse-drawn machines, etc.) was valued in proportion. Other types of confiscated assets were also compensated for, e.g. factory buildings. It should be added that the actual date of the restoration was probably much more important than the monetary value of the cow unit since the purchasing power of money began to fall heavily in the middle of 1991. Among people who used the rights to restitution and compensation there were people who lived in urban areas and no intention to be engaged in agriculture. Any land that was compensated for in the restitution could be resold. With the restitution and the compensation, a good deal of wealth has been flowed from the countryside to cities and from agriculture to other industries (pp. 103-105).

Alanen et. al. (eds, 2001) indicate the importance of information in preparation for the auction. On the one hand, just as the six-person alliance formed within the kolkhoz board of management kept the agreement they had made to themselves, the ordinary people also cut themselves off from each other. Thus, information became to the highest degree monopolistic. On the other hand, there were many people who did not sufficiently understand the significance of workshares which were used for the

population is used in their publications.

auction. A group purchased a great number of shares from alcoholics and other destitute shareholders. An unofficial stock market was born on the basis of workshares[11] since these shares became able to be bought and sold for cash (pp.180-184).

In this way, many facilities which belonged to the kolkhoz were traded at the auction. Prior to the auction, however, unclear incidents occurred often. The dissolution of the collective farms took place in a very anarchic fashion. The sense of anarchy was intensified by the fact that the Estonian government had not been able to create a sufficiently functional legislative mechanism and controlling system for the process. The distinction between the formal economy and the informal economy became a line drawn on water. Some people established farms on the basis of Farm Law of 1989. These people also received machines that were usable, but written off in book value by the kolkhozes, as well as help at harvest time, etc. These were cases finding legal loopholes (pp. 97-100). There were cases in which some people felled part of forest which belonged to the kolkhoz and got profit by timber trade done secretly (p. 286). There were also cases in which kolkhoz machines were secretly stolen. Such large-scale theft of kolkhoz assets had already begun after the meeting of October 1992, since the unofficial minutes of the reform committee meeting in December included a comment on thieving. Alanen, et al. explain such unclear incidents by the collapse in morals, a sense of the imminent dissolution of the kolkhoz (pp. 153-157). Kanepi kolkhoz ceased to exist in March 1993, 44 years after the beginning of the collectivization era. Eleven enterprises were formed from this kolkhoz (p. 59 and p. 199).

Alanen, et al. (eds., 2001) introduce us a case of success and cases of failure:

Case of success: Mr. A and his wife had good education and also a career in the Communist Party. Mr. A first received the intermediate education of a zoologist and then four years education at an Estonian college, and then continued with legal studies at Communist Party School. After serving as vice-chairman of a kolkhoz for a while, Mr. A served as an executive employee of a plant, a part of which he owned. As the plant made a profit on its side business, he got considerable initial capital when he parted with the shares of the company. With the help of this initial capital Mr. A started setting up a family farm in Kanepi in the summer of 1991. He and his family live in a modern detached house, which is surrounded by a modern cowshed, storage buildings, a grain dryer and machines of good quality. In addition to his own capital, he got "at the last possible moment" a loan with which he bought a new combine harvester costing 80,000 roubles. Taking into consideration the fact that a couple years later Estonia created its national currency Kroon and that Kroon quickly depreciated due to inflation, it was "a beautiful investment". At the beginning, in addition to land that his wife possesses, he cultivated land

[11] In my e-mail of December 2020 I asked Professor Jouko Nikula (University of Helsinki) and Dr. Rasa Zakeviciute (University of Jyvaskyla) about the term 'workshare'. Based on their clarification, this term can be explained as follows: The concept workshare in the Soviet Union means exactly the share (or amount) of work that each member of a kolkhoz had contributed to the kolkhoz. The salaries of the kolkhoz members and part of harvest were distributed based on the workshare which was counted by the workdays. It means that the longer (more days/hours) he works, the more he will get workshare. Here one can find a kind of seniority principle. The harvest was divided in the same way among the kolkhoz members. When the Soviet Union collapsed, the compensation was counted using two methods: workshare and salaries paid, i.e. how much they were paid through all these years that they worked in the kolkhoz. Its concrete ways differed from one kolkhoz to another. This counting was converted into the workshare vouchers which could be used for purchasing some property of the dissolved kolkhoz directly at the book value or through bidding during the auction.

that he rented from the municipal council or from private farmers. Later, Mr. A and his wife expanded the acreage of their farmland and increased the number of livestock year after year (pp. 239-242).

Alanen, et al. (2001), also mention two cases of failure saying : “Both of the stories testify to the difficulties that relatively uneducated people, who can only rely on their years of work experience, face when they become entrepreneurs”, and continue “The spirit of capitalism would require totally different kinds of management skills and a different type of work organization” (2001, p. 296)

Stressing the importance of having good sources of information, connections with the important people in the area of agricultural production, both the old Estonian agricultural elite as well as the new business circles, Alanen, et al. (eds., 2001) say that the successful owner mentioned above has proven his personal ability to reform the enterprise using practices suitable to transitional Estonia and that he possesses the kind of business acumen that is capable of making the most of the exceptional opportunities offered by the present transitional period for moving from small-scale farming to becoming a large-scale farm owner (pp. 240-243)。

Alanen (ed., 2004) summarizes agricultural production system evolving in the Baltic States and their new rural structures which have formed as a result of national agricultural decollectivization policies. Agricultural reforms were carried out based on the principle of restitution, and decollectivization proceeded in a very anarchic fashion in all the Baltic States. Nevertheless, the case of Estonia was relatively successful. The key to its relative success has been its ability to make better use than either of its Baltic neighbors of the heritage of Soviet farms. It is important that Alanen, et al.(eds., 2001) noted that “the most successful family farm were established based on the Farm Law of 1989, well before the dissolution of the kolkhozes or sovkhozes were decreed and not as result of the restitution model” (p. 395). Since the middle class[12] had a decisive role in this process, Alanen, et al. (2001) calls the Estonian model ‘the middle class large-scale production project’. In Latvia, the process of decollectivization of non-land assets and the rapid restitution of agricultural land was faster than in Estonia, but it was perhaps because of the speed of it that the process turned into chaos, beyond the control of local decision-makers. As far as existing resources were concerned, the direct consequences of the radical reform in Latvia were more destructive than in any other Baltic country, resulting in a decline of agricultural productivity and a radical decrease in the degree of specialization. The end result was an ineffective industrial structure based on small-scale production. Therefore, the Latvian model is called ‘the unintended small-scale production project’. In Lithuania, decision-making was concentrated in the hands of the government and where necessary the reform was carried out by force by displacing the opponents. Partnership, a variation of the limited liability company preferred by the World Bank, was employed as a transitional stage in the family farm project. This legal form made the management environment of corporate enterprises extremely harsh, and thus prevented the effective adaptation of corporate farms to the requirements of capitalist market economy. Support for newly born farm factory was also insufficient. As a result, the number of potential technologically advanced farms was smaller than in any other Baltic country. As will be seen later, the number of elementary household plot farms

[12] According to Alanen, et al. (eds., 2001, p. 138), middle class consists of specialists (university and intermediate level), technicians, machine operators and skilled workers. They are mainly kolkhoz center residents.

mainly used for family subsistence farming was the greatest among the Baltic States. In this way, the agricultural reform resulted in a marked reduction in productivity levels and the deepest rural poverty. Therefore, the decollectivization of non-land assets implemented by the Lithuanian government is called 'the enforced World Bank project' (pp. 50-51).

The number of family farms is available only for Estonia, where the total number increased from 2,339 in 1991 to 13,513 in 1995. As of 1995 the number of family farms with over 100 ha is 66, and the average area of land is 23.1 ha (Alanen, et al, eds., 2001, p. 414). Looking at the share of employees in agriculture of total employees, in Estonia it decreased sharply from 16.6% to 6.2% in 1999 while in Latvia the share decreased slightly from 15.5% to 15.0%. In Lithuania the share rather increased from 17.6% to 20.1% during the same period (Alanen, ed. 2004, pp. 273-274). The reasons for an increase in the share of employees in agriculture in Lithuania can be presumed as follows: When the overall economy was in recession in the 1990s rural areas absorbed unemployed peoples and in spite of a subsequent improvement in overall economy many elementary household plot farms for family subsistence continue to exist.

Studies by Alanen and his research group clarified situations of agriculture and rural areas in the Baltic States in the second half of the 1990s and the early 2000s, but they did not clarify the subsequent situations. Let me supplement this point with Rasa Zakeviciute (2019), a Lithuanian sociologist working in Finland. According to her, in the Baltic States there are many populations who left agriculture but live in rural areas. She chose 3 collective farms, one from each Baltic state, and surveyed how former kolkhoz workers maintained their livelihood at the time of 1995 and 2009. Dividing them into better-off (above the poverty line[13]) and poor (below poverty line) households, she analyzes their livelihood. Former collective farm workers diversified their livelihoods using three distinctive – wage-based, farm-based or mixed – strategies. In 1995 the share of diversifying households was the highest in Latvia (98.4%), followed by Estonia (74.6%) and Lithuania (57.7%). When comparing the rural livelihood portfolios of 1995 and 2009, rural diversification has slightly decreased in all Baltic States. The reason seems to be related to ageing.

Poor households diversify more often, compared to the better-off. Out of all households below the poverty line, 87.7% had more than one livelihood source, while the same was true for only 67.1% of the households above the poverty line. The better-off households relied exclusively on wage income, while the poorer households depended on social benefits or farming. The wage-based livelihood diversification was more typical for the better-off households. The households with wage-based diversification in 2009 had statistically more income per capita, when compared to the other households, suggesting that the wage-based diversification strategy is the most gainful economically. The majority of the employed people were working either in the local village or at the municipality's center (10-20 km from home). On the other hand, the farm-based livelihood strategy was found more often among the poor households and was closely related to social income transfers. The households with a farm-based livelihood strategy had also more diverse livelihoods and gained on average the lowest income. A trend

[13] In 2010, the at risk-of-poverty threshold in Estonia was 270.90 euros, in Latvia – 209.75 euros and in Lithuania – 202 euros. Zakeviciute (2019), p. 567.

toward leaving agriculture has been strong in Estonia while it has been weak in Latvia and Lithuania. Due to a lack of social and/or economic capital and scarce employment opportunities, poor farmers were usually pushed toward subsistence farming and forced to increasingly cling on farming[14]. Mixed strategy is a mix of farming and other activities. Households employing this strategy with low monetary income rely on their farm to ensure food security of the household, while selling the agricultural surplus on markets to guarantee additional income. On the other hand, since farming is not economically necessary for the better-off households, the reasons for maintaining agricultural practices seem to a ‘continuation orientation’ prominent in the Baltic States which idealizes small-scale farming and/or ecological considerations.

Finally, Zakeviciute (2019) says that former kolkhoz workers with higher education and better professional experience from the Soviet times were able to sustain larger family farms or more successful businesses and were generally ‘the winners’ in the post-Soviet transformation and confirms the findings of precedent studies such as Alanen et al. (eds., 2001). She stresses that in order to raise the much-needed knowledge and skills, the life-long learning possibilities and professional training of the rural population is very important and that these opportunities must be provided within a close proximity or in the locality itself (p. 576).

It seems that situations in Latvian and Lithuanian agriculture so far have not improved so much. The income inequality between urban areas and rural areas has expanded[15]. In the case of Lithuania which has 10 counties in total, per capita GDP in Vilnius County including the capital city is as much as 144.8% of the Lithuanian average whereas in the poorest Taurage County it is as low as 57.5%[16]. If we look at the level municipality the income inequality should have been much larger, but unfortunately, such data are not available. Anyway, as a result of the expansion of the income inequality between urban areas and rural areas in Lithuania, the migration from rural areas to suburbs of the three largest cities (Vilnius, Kaunas and Klaipeda) has been progressing. Although the population decreased by 2.82% even in the capital city Vilnius during the period from 1996 through 2020, the population is increasing in the suburbs of the three largest cities. During the same period the total population of this country has decreased by 22.71%. Out of 56 municipalities in total, the population has decreased by more than 40% in 6 municipalities and by more than 30% (and less than 40%) in 32 municipalities[17]. Thus the area of the sparsely populated territory (less than 15 inhabitants for 1 square kilometer) has expanded from 39% of the total territory of the country in 2001 to 45% in 2020[18].

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[14] According to Zakeviciute (2019) the EU’s support for farmers has not been effective. As for its reasons, she mentions the fact that its assessment of the Baltic rural development was based on the notion of the agricultural holding and that as its support does not reach the people that are most in need of it and people fall out to the ‘grey zones of welfare’, poor households are forced to increasingly rely on unprofitable agricultural practices (p. 576).

[15] Arunas Juska says that in contrast to Lithuanian Communist bosses who were able to deflect immigration from Russia by having regional development strategies that tapped into recruitment of the local population post-independence politicians and state administrators were in utter and abysmal failure in terms of regional policy. In his opinion, it also shows that for rural areas the Soviet period was a period of their “Golden age” and rural population will probably never have as good as they had in Soviet times. He says that it is a bitter irony indeed. An e-mail in October 2020.

[16] Lietuvos regionų ekonomika | MAPijoziai

[17] Lietuvos savivaldybės: gyventojų skaičius 1996-2020 m. | MAPijoziai

[18] Information provided by Professor Arunas Juska in an e-mail in October 2020.

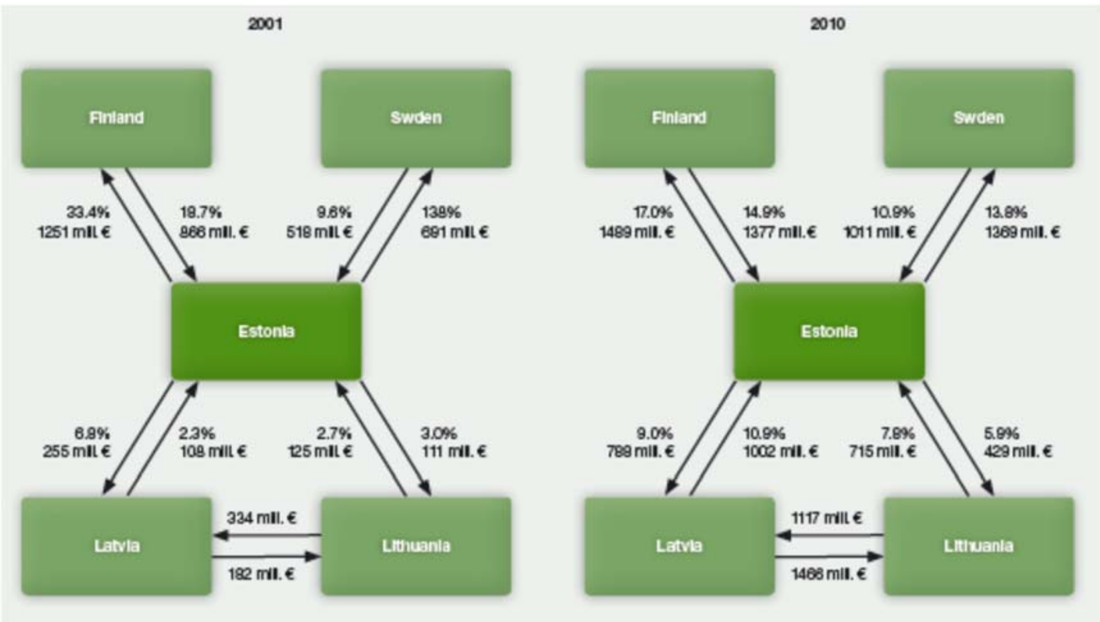
4. External Economic Relations

4.1. Economic Relations in the Baltic Sea Region

In 1993 the Baltic states signed the Baltic Free Trade Agreement which came into force in 1994. This did not cover agricultural products, but it was only achieved in 1996 after long and hard negotiations. At the beginning, however, foreign trade among these countries did not increase rapidly. As 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. However, a turn in the trend can be observed starting from 1995 to 1996. Entrepreneurs came to realize that human and other resources of their countries were too limited to support development into internationally competitive enterprises. As they recognized anew the attractiveness of the Baltic States' market with eight million residents, the foreign trade among each other began to increase in the second half of the 1990s.

In the 2000s the significance of the Baltic states' mutual trade increased. Figure 1, which shows foreign trade relations with Estonia as a center, shows its foreign trade relations with other Baltic peers as well as two Nordic countries, Finland and Sweden. In this Figure we can see each country's amount and percentage of exports and imports in 2010 and 2011.

Figure 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 euro



Source: Estonian Cooperation Academy (2011), p.175.

During 10 years from 2001 to 2010 Latvia's foreign trade to Estonia increased not only quantitatively but also relatively its significance increased. 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 later year, a situation has emerged in which Latvia's share in Estonia's exports as well as imports has reached 9% - 7% and Lithuania's significance of 6 – 7% is also more than double its share at the beginning of the decade. (see Figure 1).

During the same period there was another important change. While Estonia's exports to other Baltic States used to exceed its imports in the earlier period. In 2010 Estonia's trade balance with both Latvia and Lithuania was negative. In 2001 Finland occupied 33.4% of Estonia's total export and 18.7% of Estonia's total import while in 2010 the shares decreased to 17% and 14.9% respectively. However, there has been no change in Finland's position as the greatest trade partner for Estonia. In 2001 Estonia had relatively strong foreign trade relation with neighboring Latvia while Estonia had relatively weak foreign trade relation with Lithuania, but in 2010 Estonia's foreign trade relation (both export and import) with Lithuania has relatively been strengthened.

In the second half of the 1990s Estonia's enterprises actively expanded their business to other Baltic States. The "southwards expansion" of the Estonian enterprises was not limited to the sale of products and establishing partnership ties, e.g. subcontracts. The formation of subsidiaries in Latvia and Lithuania, especially by buying up local enterprises, became popular as well. However, this active move was significantly slowed down by the impact of the changing international economic environment, the so-called Asian in 1997 and Russian crisis in 1998. A number of leading Estonian firms were sold to foreign, particularly Nordic investors.

There seems to be some differences among three Baltic states in the orientation of economic integration. As researchers in this region indicate, "Estonia is being integrated into the Finish-Swedish economic territory and, in fact, has become practically a part of the EU economic provinces in the northern Baltics" (Terk, 2011, p. 174). This situation has been also related to historical and cultural factors. Both Finns and Estonians belong to the same language group (Finno-Ugrian languages, a subdivision of the Uralic family of the language groups) and therefore they have had human interaction from ancient times. Already during the Soviet period Estonian people watched Helsinki TV programs and were familiar with circumstances in the West.

In addition, a regular ferry service between the Finnish capital of Helsinki and Tallinn since the 1960s provided a steady stream of tourists from Finland. Finnish-Soviet agreement on science and culture, for instance, gave Estonian experts various opportunities to visit Finland. Although this was still limited to a handful of Estonians and although those who did have access were closely monitored, some Estonian innovations even in agriculture, for instance, can be attributed to Finnish influence. At the same time, a network of personal contacts was established between Finns and Estonians that was to become hugely significant later on (Alanen, ed., 2004, p. 3). After regained independence, Finland supported transition to a market economy in Estonia. It is well known that in the process of EU accession by post-socialist countries in Central and Eastern Europe the Finnish government actively supported Estonia. In this way, Finnish firms actively advanced to the Estonian market.

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. Estonia belongs to the former. In Latvia's case its integration pattern 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.

Terk (2011) indicates that intra-industrial trade (export and import of goods belonging to the same product groups between two countries) holds a very significant position in trade between the Baltic States and Nordic countries. However, considerable differences among 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 been persisting. 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 (p. 175). Mentioning Lithuania's low value-added intra-industry foreign trade, Juska and Woolfson (2015) quote an analyst who stated 'we are sewing and manufacturing (semi-finished) goods for sale to other European producers, which, in turn, plaster them with their well-known brand symbols and sell these with a significant mark-up to consumers'.

4.2. The EU Accession and the Entry into the Eurozone

The Baltic states were admitted to the EU on May 1, 2004. The next challenge for them was to join the Eurozone. As it would assure their independence from Russia's economic area it was their top-priority issue. Governments of all the Baltic States put emphasis on Maastricht convergence criteria necessary for the Euro adoption, especially fiscal criteria (budget deficit less than 3% of GDP, public debt less than 60% of GDP) and have endeavored to decrease their budget deficit. All the Baltic states adopted the currency board system and put emphasis on the external equilibrium with their national currencies pegged to the Euro.

4.3. Foreign Direct Investment

As for inward FDI, since Estonia adopted the most aggressive special treatment for foreign capitals (for example, Estonia would not impose tax on foreign firms which would reinvest their profits to the country). It has been going ahead of other Baltic peers. As for inward FDI stock as a percentage of GDP, Estonia had 78.6% as of the end of 2004 while Lithuania had 26.2%, which was smaller than Latvia (30.1%). After that FDI inflow increased. The ranking in terms of inward FDI stock as a percentage of GDP did not change also in 2017 with Estonia occupying the first place (81.7%), followed by Latvia (53.5%) and Lithuania (35.0%).

Looking at Estonia by economic activities, the activity having received the largest amount of inward FDI as of 2017 was finance and insurance which accounted for 27.8% of total FDI stock. The second place was occupied by real estate (17.5%), followed by manufacturing (13.6%), wholesale and retail trade and repair of motor vehicle etc. (13.0%). Looking at the breakdown of manufacturing, the first place is occupied by wood and paper products and printing (23.7%), followed by food products, beverages and tobacco products (21.6%), rubber, plastics, other non-metall. mineral products (15.3%), transport equipment (7.2%), electric equipment (6.9%), basic metals, fabricated metal products excluding machine & equipment (6.0%), chemicals and chemical products (5.8%).

Table 3 Main Area of Inward FDI in the Baltic States

	Estonia		Latvia		Lithuania	
Rank	Area of FDI	Share	Area of FDI	Share	Area of FDI	Share
1	Financial & insurance	27.8	Financial & insurance	24.3	Financial & insurance	27.1
2	Real estate	17.5	Trade & repair of cars	14.4	Manufacturing	18.9
3	Manufacturing	13.6	Real estate	13.3	Trade & repair of cars	13.4
4	Trade & repair of cars	13.0	Manufacturing	11.8	Real estate	13.2
5	Prof., Scientific activities	7.2	Electricity, gas, etc.	4.8	Information & communica	7.5
6	Transport & storage	4.5	Transport & storage	4.7	Prof., scientific activities	6.2
7	Information & communicati	4.0	Agri., forestry & fishing	4.2	Transport & storage	2.5

Source: wiiw (2018), FDI in Central, East and Southeast Europe: Decline due to Disinvestment

Looking at Latvia by economic activities, the activity having received the largest amount of FDI as of 2017 was financial and insurance activities which accounted for 24.3% of total inward FDI stock. The second place is occupied by wholesale and retail trade, repair of motor vehicles etc. (14.4%), followed by real estate (13.3%), manufacturing (11.8%), electricity, gas, steam, air conditioning supply (4.8%), transportation and storage (4.7%), agriculture, forestry and fishing (4.2%). Looking at breakdown of manufacturing, in 2014 the first place is occupied by wood and paper products and printing (25.9%), followed by food products, beverage and tobacco products (12.4%), basic metals , fabricated metal products excluding machine & equipment (6.2%), transport equipment (4.6%), etc.

Looking at Lithuania by economic activities, the activity having received the largest amount of inward FDI as of 2017 was financial and insurance activities which accounted for 21.7% of total inward FDI stock. The second place was occupied by manufacturing (18.9%), wholesale and retail trade and repair of motor vehicles etc. (13.4%), real estate (13.2%), information and communication (7.5%). Looking at the breakdown of manufacturing, the first place was occupied by coke, petroleum, chemicals, pharmaceuticals (33.7%), followed by food products, beverages and tobacco products (19.6%), wood and paper products and printing (9.9%), rubber, plastics, other non-metallic mineral products (9.1%), other manufacturing, repair, installation of machine & equipment (7.6%), electric equipment, machinery and equipment n.e.c.(6.5%), textiles, apparel, leather, related products (5.1%), etc.

As for investor countries, Sweden is the largest in all of the Baltic states as of the end of 2017. Although Finland is not included in the top seven countries in investor countries for Latvia and Lithuania, it ranks second (22.3%) after Sweden for Estonia, showing its close ties with Estonia. All the Baltic States are characterized by a huge amount of investment from neighboring countries including Russia as well as West European countries such as Germany and the Netherlands. In the case of investment in Latvia and Lithuania, Cyprus ranks fourth, but it seems that this investment has been made practically by Russian capitals via Cyprus. Looking at economic activities, most of FDI have not been directed to advanced industries especially in Latvia and Lithuania. This point seems to be reflected in structures of products exported to EU-27 (all the EU member states except the own country) (see Table 5).

Table 4 Main Investor Countries in the Baltic States

	Estonia		Latvia		Lithuania	
Rank	Investor country	Share	Investor country	Share	Investor country	Share
1	Sweden	28.1	Sweden	19.2	Sweden	24.0
2	Finland	22.3	Russia	10.0	Netherlands	13.4
3	Netherlands	8.0	Estonia	9.2	Germany	7.9
4	Lithuania	4.0	Cyprus	8.4	Cyprus	7.0
5	Russia	3.7	Netherlands	8.3	Estonia	6.4
6	Latvia	3.3	Lithuania	6.5	Poland	6.1
7	Luxembourg	3.3	Luxembourg	5.4	Denmark	4.4

Sourc: wiiw (2018), FDI in Central, East and Southeast Europe: Declines due to Disinvestment.

Table 5 Ten Most Important Product Groups in Merchandise Exports to the EU-27 in 2008, SITC Classification (Ranking and Share in Exports)

	Estonia		Latvia		Lithuania	
Ranking	Product label		Product label		Product label	
1	Electrical machinery	8.4	Cork & wood	12.3	Petroleum & petro.prod.	26.4
2	Road vehicles	6.6	Iron and steel	10.3	Fertilizers	6.3
3	Telecom.apparatus	6.5	Cork & wood manu.	7.0	Furniture & parts	4.9
4	Manufactures of metal	5.6	Road vehicles	6.5	Plastics in primary forms	4.3
5	Cork and wood	5.2	Telecom.apparatus	3.7	Apparel & clothing	3.8
6	Furniture & parts	4.9	Apparel & clothing	3.6	Miscellan.manu.articles	3.4
7	Miscellan.manu.articles	4.9	Manufactures of metal	3.5	Road vehicles	3.4
8	Petroleum & petro.prod.	4.6	Miscellan.manu.article	3.0	Diary products	2.5
9	Cork & wood manu.	4.3	Cereals	3.0	Electrical machinery	2.5
10	Iron & steel	3.6	Metal.ores & scrap	2.8	Manufactures of metal	2.3

Source: Gligorov, Vladimir, Josef Poeschl, Sandor Richter, et al. (2009), pp. 146-147.

5. Global Financial Crisis[19]

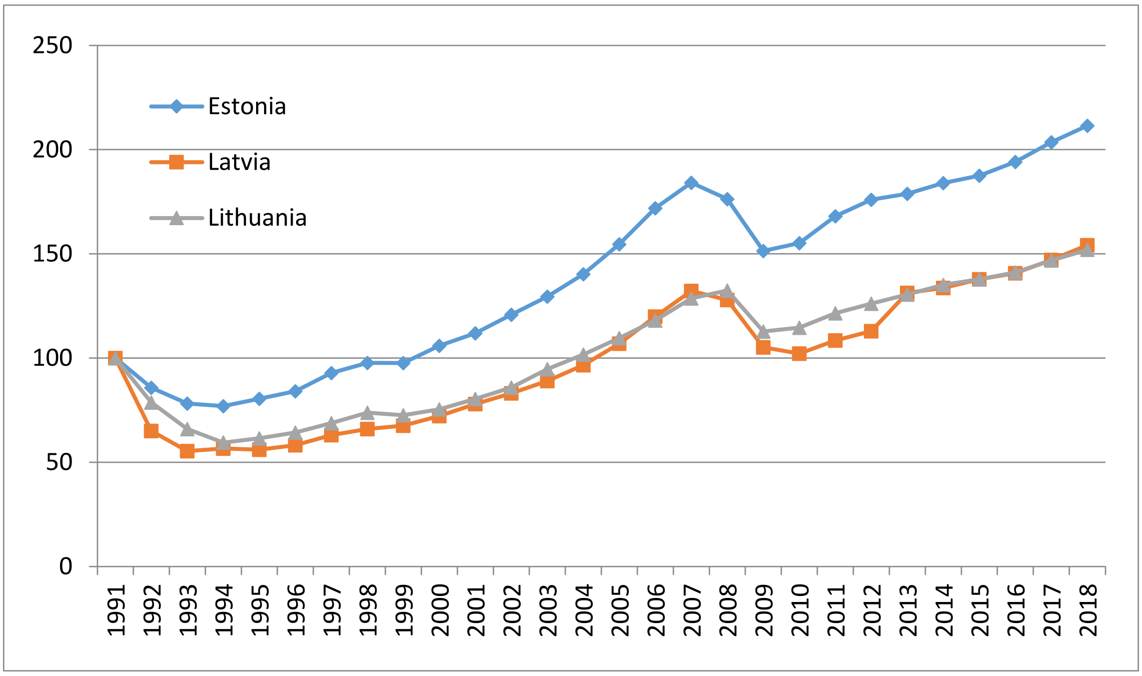
5.1. High Economic Growth in the 2000s

The Baltic States experienced serious transformation recessions in the early 1990, but their economies turned upward around 1995. Although their economies stagnated in 1999 under the influence of the Russian financial crisis of August 1998 (GDP growth rates were in Latvia, Estonia and Lithuania to 3.3%, -0.1% and -1.5% respectively), in 2000 they began to have high economic growth. Latvia in particular accomplished double-digit economic growth for three consecutive years from 2005 and Estonia for two consecutive years from 2005. Such high economic growth can be partly ascribed to their

[19] This section is reproduction of part of Koyama (2010) with summary.

active measures to attract foreign capital (reduction in corporate income tax, etc.). The amount of FDI inflow was already very large before their accession to the EU. Although it decreased at the turn of the 21st century it increased again around 2004 when the Baltic states were admitted to the EU. In Estonia the amount of FDI inflow as a percentage of GDP reached as high as 20.5% and it recorded double-digits until 2007. Both Latvia and Lithuania attracted a rather large amount of FDI, although the amount was not as much as in Estonia. Apparently their economies were doing well. Seemingly for several years in the mid-2000s both governments and people in the Baltic states indulged themselves in EU-phoria[20]. However, their economies began to show signs of overheating as illustrated by increasing inflation, rising wages and a widening current account deficit. The 2008-09 economic crisis occurred in the Baltic states for similar reasons, but the impact on society and economy was the most serious in Latvia. Let me explain the process of economic overheating prior to the crisis and its impact on the real economy by using the case of Latvia.

Figure 2　GDP Growth in the Baltic States



Source: Prepared by the author based on various data: For the period 1991-2000 EBRD reports, for the period 2001-2007 *Baltic Rim Economies*, No. 3, pp.1-3, and for the period 2008-2018 wiiw, *Forecast Report, various issues*.

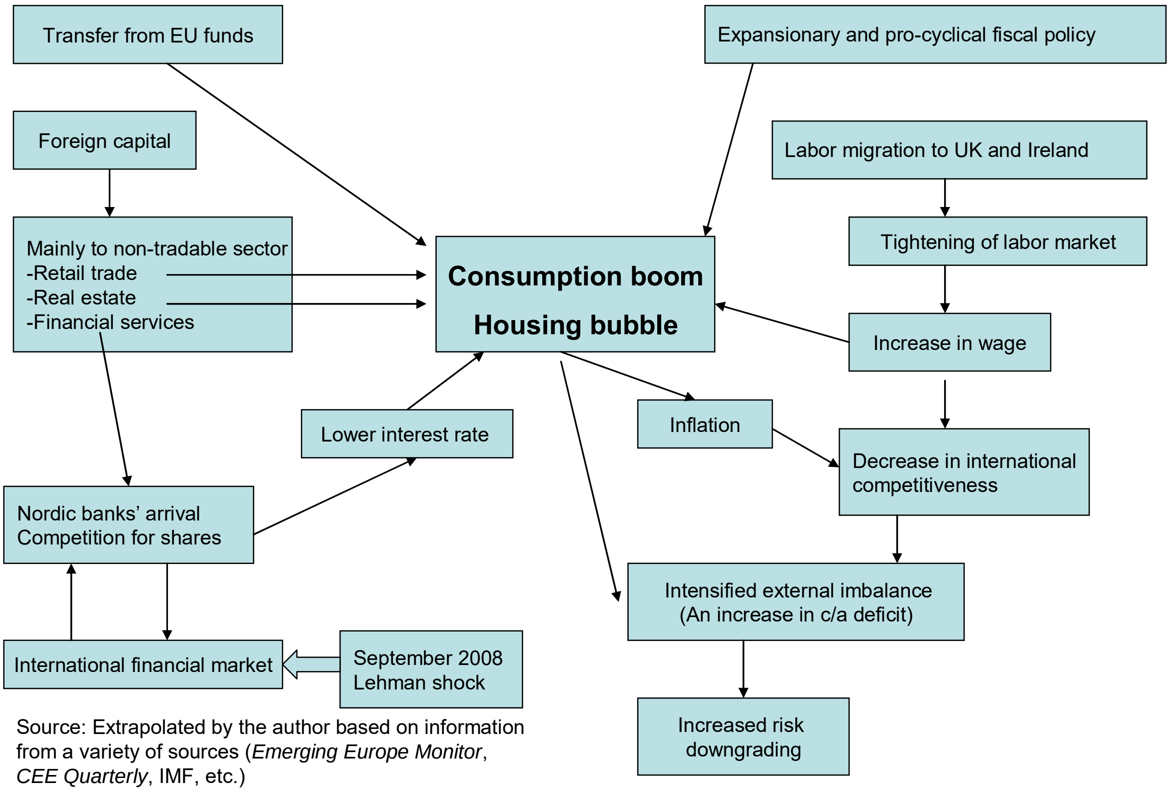
5.2.　Mechanism of Overheating: the Case of Latvia

The Latvian economic structure can be outlined as follows: about 5% the GDP is produced by agriculture, forestry and fishery and about 25% by manufacturing. The main items of export are so-called low technology and middle-high technology products including wood products such as timber and furniture

[20] This expression is taken from the title of Rahman (2008).

and cast iron and steel (see Table 5). Nearly 70% of the GDP comes from the service sector, which includes the wholesale and retail trade, transport, shipping, storage, real estate, and information technology, etc. (Docalavich, 2006, pp. 32-33).

Figure 3 Overheating of the Latvian Economy, 2004 - 2007



Source: Extrapolated by the author based on information from a variety of sources (*Emerging Europe Monitor*, *CEE Quarterly*, IMF, etc.)

The mechanism of overheating of the Latvian economy (see Figure 3) can be explained as follows: foreign capital, which had flowed into the Latvian economy since the mid-1990s, greatly contributed to economic development. In 2001 the unemployment rate recorded a double-digit figure in the Baltic states, 12.9%, 11.9% and 17.4% in Latvia, Estonia and Lithuania respectively. The unemployment rate was gradually decreasing. After EU accession, attracted by higher wage levels the unemployed, low-skilled workers, and construction workers migrated to EU member countries, mainly the UK and Ireland, on a massive scale (about 110 thousand corresponding to 5% of its total population in Latvia). For two years until early 2006 in Latvia the unemployment rate decreased by 2.5 to 7.75 percentage points, and the labor market became tight. As a result, combined with de facto wage indexation, nominal incomes increased in an accelerative way for two years and recorded an increase of more than 19% y-o-y in Q1 2006 (IMF, 2006a, pp. 9-11). This increase substantially surpassed the growth in productivity. Such a mechanism worked also in Estonia and Lithuania in the almost same way.

Owing to the liberalization of financial services, banks from the Nordic region, Sweden in particular, came to operate in Latvia and competed for market shares. As mentioned above, the amount of FDI inflow was relatively large, but it was substantially surpassed by the current account deficit every year. How was the gap covered? The table of international payment (Bank of Latvia, 2009), indicates that the amount of portfolio investment inflow was small (it often recorded negatives values and consistently recorded negative from Q4 2008 through Q4 2009). As a matter of 'other investment' (overwhelmingly borrowing by foreign-owned banks from parent banks) in the financial account exceeded the amount of FDI inflow and covered most of the current deficit every year until the end of 2007 (Banincova, 2009). However, in the 2000s major European banks increasingly finance themselves on wholesale markets and depend to a lesser extent on deposits by general customers (Hoshino, 2009). Swedish banks obtained Euros in exchange for Swedish Krona on the international market (for example, in London) and gave customers in Latvia (through subsidiaries in Latvia) loans denominated in Euro.

Swedish banks' strategies toward the Baltic States were viewed by Estonian economists as follows: "The Nordic banks opted for aggressive business strategies to gain market share and set nominal interest rates and other loan conditions at levels quite similar to those in their home market" (Hansson and Randveer, 2013, p. 6). Thus households and enterprises in Latvia were able to enjoy lower interest rates. Credit to private sector residents increased by nearly 65% in 2005, and the loan to GDP ratio reached 70%, which was three times higher than the level in 2000, the highest among the EU-8 (8 new EU member states from Central and Eastern Europe). Collateral loans to households increasingly became Euro nominated (IMF, 2006a, p. 11). The real estate sector came to occupy nearly half of all total loans[21].

A Swedish economist, who watched movements on the opposite side of the Baltic Sea, indicated as follows: "Their fight for market shares fueled an unprecedented credit expansion in the Baltic region with exploding asset prices for houses etc., but also including an extreme surge in conspicuous consumption of capital goods like luxury cars etc., all financed by easy credits"[22].

The fiscal policy was expansionary. In addition, there was an inflow of EU grants amounting to 3-4% of the GDP every year. Programs such as the Common Agricultural Policy (CAP) provided households with direct income support. EU money from Structural Funds and Cohesion Funds flowed into Latvia through public infrastructural projects and employment policies. Private companies were able to use EU funds to upgrade equipment (Allard, 2008). At the same time, the fiscal policy was pro-cyclical. The budget revenue recorded natural increases due to a boom at that time, and it became the usual pattern that money resulting from over-performance of the budget was not saved, but instead was consumed through additional expenditures on a supplementary budget towards the end of the year.

The GDP growth rate was as high as 12.2% in 2006. It was consumption-led economic growth. Trade, finance, commercial services, hotels and restaurants, and construction were the ones to fuel growth. The manufacturing industry, however, grew at a below average rate. At the same time, external imbalances became more pronounced, with imports growing twice as fast as exports (*CEE Quarterly*, 01/2007).

Reflecting the consumption boom and housing bubble, the inflation rate increased. It fluctuated between 1.4% and 3.6% until 2003 but jumped to 7.3% in 2004 and recorded 7.0% and 6.8% in 2005

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[21] According to IMF country report, banks in Latvia offer mortgage loans very easily, and "some banks are actually offering mortgages with LTV (loan to value) ratios above 100%". IMF (2006c), Chapter III, Box 1.
[22] An e-mail from Mr. Leif Vindevag, Head of the Stockholm stock exchange, in August 2009.

and 2006 respectively. In November 2006 the central bank raised the refinancing rate by 50 basis points to 5%, which was still lower than the inflation rate – which meant the interest rate was practically negative – and proved quite insufficient to dampen the overheating economy (CEE Quarterly, 01/2007). Since it EU accession Latvia had had a goal of adopting the Euro in 2008, it was difficult for this country to have interest rate quite different from that of the European Central Bank. In addition, it would be no use for banks to increase the borrowing rate in Lats[23]. In 2006 Latvia satisfied all the criteria of Maastricht except the inflation criterion, and the country had to give up its plan to adopt the Euro in 2008.

An increase in wages, surpassing a rise in in productivity, as well as inflation gradually eroded Latvia's export competitiveness. Every year the country recorded a huge amount of trade deficit, which was partly covered by FDL inflow, but it had still a wide current account deficit. In 2005 the current account deficit recorded 12.7% of GDP, which was already an alarming amount, but rapidly increased to 21.2% of GDP in 2006.

5.3. Switchover to Restrained Policies

Even if the government was sanguine, foreign observers were very much concerned about the Latvian economy. As the government left a current account deficit with an external debt exceeding 100% of the GDP in spite of receding prospect of introducing the Euro, the rating agency S&P downgraded Latvia from stable to negative in February 2007. From the end of February through early March of the same year the Lat came under pressure of depreciation on the foreign exchange market and the central bank was forced to intervene in the market for the first time in several years (*EEM*, May 2007). Only in March of the same year the government of Latvia finally switched its policy to manage aggregate demand more actively and launched a package of measures geared to delivering a durable reduction in inflation, as follows: i) Restraining spending growth; ii) Capital gains tax would be levied on real estate held for less than three years and the state tax on registration of mortgage would be hiked; iii) Loans would be assessed on the basis of the legally declared income of prospective borrowers; and iv) A maximum loan to value ratio would be established (*EEM*, May 2007). It was only in July 2007 that these measures were approved by the Parliament.

The government measures introduced in July began to have an effect in the autumn. Property prices started to decline and by October were around 12% lower than at the start of 2007. The number of housing sales in the secondary market also started to fall, adding to the negative wealth effect (*EEM*, January 2008). The BNP Paribas shock, which happened in August 2007, increased financing costs on interbank markets, making credit activities more cautious (Tanaka, 2009). Retail sales growth dropped to a six-year low of 1.7% y-o-y in December, and industrial production contracted for the third consecutive month (*EEM*, April 2008). The Latvian housing market bubble burst.

The Latvian economy fell into depression in December 2007. The Lehman shock in September 2008 dealt the Latvian economy its final blow. In October of the same year Parex Bank, the second

[23] National currency of Latvia at that time. 1 Euro = 0.7028 Lat.

largest bank in Latvia, was exposed to a sudden outflow of non-resident deposits and faced serious liquidity constraints. In the top ten banks in Latvia there were four domestic banks with a total market share of 29.5%, the remaining share (70.5%) was occupied by six subsidiaries of foreign banks, of which three were Swedish banks (*CEE Quarterly*, July 2008). By contrast in Estonia and Lithuania subsidiaries of foreign banks were overwhelmingly in the majority: in 2007 their share was 98.7% and 85.3% respectively (Banincova, 2009). Thanks to this, both Estonia and Lithuania were able to find their way out of the financial crisis. In Latvia, however, Parex Bank was an indigenous bank, which rapidly grew by collecting deposits from non-residents (people in Russia and CIS) and had no parent bank behind it, and therefore could not find a way out of the financial crisis. In early November this bank was taken over by the government in order to prevent bankruptcy.

The nationalization of Parex Bank aggravated the Latvian economic situation. A huge number of deposits were removed from other Latvian banks and placed in Estonian banks because they were perceived to be the safest due to their well-capitalized Scandinavian parent banks. Meanwhile the central bank of Latvia had to intervene in foreign exchange market to defend the fixed exchange rate, resulting in a significant decrease in its official reserves (Banincova, 2009). In mid-December the central banks of Sweden and Denmark hurried to rescue Latvia and concluded swap agreements with the central bank of Latvia. These arrangements enabled the central bank of Latvia to use a maximum €500 million (of which €375 came from Sweden) in exchange for Lats. These arrangements served as bridging loans for Latvia until the IMF program for Latvia was finalized. Soon the rescue package for Latvia was decided. The IMF provided Latvia with about €1.7 billion, supplemented with loans from the EU, the World Bank, and Nordic and Central European countries totaling €7.5 billion. This amount was equivalent to a third of the Latvian GDP in 2008.

With this external help the financial market in Latvia managed to hold on, but Latvia was regarded as a highly risky country and had difficulty in getting loans from the international credit market. At that time there was whispering about the possibility of devaluation of the Latvian national currency both outside and inside (even within the government) of Latvia. On the one hand the devaluation of the national currency would enhance the international competitiveness of Latvia's export products, but on the other hand it would bring a sudden rise in debt service obligation denominated in national currency for both companies and households. In the end the government of Latvia abandoned the nominal depreciation and chose 'internal devaluation' (adjustment of the real economy), a way of decreasing domestic prices, primarily through cuts in wages and pensions, etc., and enhancing competitiveness of exports. The government opted for further austerity amendments to the 2009 budget, fixing a cut in government expenditures by 40% compared to 2008 in nominal terms. The public wage bill was to be reduced by another 20% nominally, pensions by 10% for non-working pensioners, and for those working by 70%. Expenses for health and education were to be cut severely, and it was announced that two-thirds of the nation's 73 inpatient hospitals and dozens of schools were to be closed. The non-taxable minimum for personal income tax was reduced by 60% and child benefits by 10% (Leitner, 2009, p. 60).

In the similar way as other Baltic peers, Latvia has accomplished V-shape recovery after that. This was in part due to its people's desperate efforts to improve its export competitiveness by internal devaluation (through the reduction of wages and pensions) and in part to a rapid increase in its export to Russia (Astrov, et al., 2013, p. iii).

6. High Pace of Emigration

Emigration from the Baltic States has been very numerous (Table 6). In the case of Estonia, however, the number of long-term emigrants looks much less than in the cases of other two Baltic States. Table 6 does not include 'posted workers'[24]. Hazans and Philips (2011, p. 8) say that when posted workers are accounted for, it appears that during 2004-2007 Estonia, relative to its labor force, was sending abroad more workers than Latvia.

Table 6 Number of Long-term Migrants to and from the Baltic States

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Total
Estonia											
Emigrants	4,658	5,924	6,214	6,321	6,740	4,637	13,003	13,794	12,358	10,476	84,125
Immigrants	3,884	2,810	3,709	2,639	4,109	3,904	15,413	14,822	17,616	17,547	86,453
Net migration	-774	-3,114	-2,505	-3,682	-2,631	-733	2,410	1,030	5,258	-929	2,928
Latvia											
Emigrants	38,208	39,651	30,311	25,163	22,561	19,017	20,119	20,574	17,724	15,814	249,142
Immigrants	n.a.	n.a	10,234	13,303	8,299	10,365	9,479	8,345	9,916	10,909	88,592
Net migration	n.a.	n.a	-20,097	-11,860	-14,262	-8,652	-10,640	-12,229	-9,806	-4,905	-160,550
Lithuania											
Emigrants	38,500	83,157	53,863	41,100	38,818	36,621	44,533	50,333	47,925	32,296	505,646
Immigrants	6,487	5,213	15,685	19,843	22,011	24,294	22,130	20,163	20,368	28,914	185,108
Net migration	-32,013	-77,944	-38,178	-21,257	-16,807	-12,327	-22,403	-30,171	-27,557	-3,292	-320,538

Source: Prepared by the author based on data of Eurostat

Pace of emigration especially from Lithuania and Latvia has been abnormally high which, I think, cannot be explained well by economic pull factors (such as higher wages, many employment opportunities, etc.) in advanced EU member states[25]. We should pay more attention to serious situations in countries of origin. There are following problems in countries of origin.

6.1. Problems Related to Decollectivization

As mentioned above, initially the Baltic rural reforms were aimed to create family farm-based agricultural production, and therefore everybody in the countryside was encouraged to enter farming or to expand their agricultural activities. There were many former kolkhoz workers who left agriculture, but the number of such people was by far less in Latvia and Lithuania than in Estonia. According to Zakeviciute (2019), in the beginning of the 2000s in Lithuania alone there were nearly 300,000 private farms. Most of these farms, however, were technologically primitive, farming on household plots in

[24] A "posted worker" is an employee who is sent by his employer to carry out a service in another EU Member States on a temporary basis. Source: ec.europa.eu/social/main.jsp?catled=471.

[25] According to Dr. Ruta Ubareviciene, in 2019 immigration surpassed emigration for the first time in three decades in Lithuania. It seems that in 2020 net migration is positive, maybe partly because of Covid-19. An e-mail in November 2020.

very labor-intensive ways. Such a small-scale farming is closely related to poverty. "Especially in Lithuania, farmers are more prone to poverty even after receiving EU support. The most vulnerable group consists of small or average-scale farmers, who usually pushed towards subsistence farming due to a lack of social and/or economic capital and scarce employment opportunities in the area" (p. 564). In 2010 more than one third was at-risk-of-poverty. Poverty was most widely spread in Latvia where more than half of the households had an income below the poverty line. In the Estonian case the share of households below the poverty line was the lowest (nearly 30%). A more noteworthy point is not poverty but inequality. Income inequality was highest in Lithuania where the lowest income quintile households received only 35.7% of the poverty line income, as opposed to 53.4% in Latvia or 70.3% in Estonia (p. 568).

In the Baltic states decollectivization was carried out in an anarchic way. There are some people who have fortunately become owners of large-scale capitalist farms and family farms, at the same time, many people who have become precarious agricultural producers. In Latvia and Lithuania in particular there are very many peasants who make a poor living on an elementary household plot farms mainly used for family subsistence farming. It could be considered that among these peasants there emerged some people who emigrated to cities and advanced foreign countries in search of more income and better lives.

6.2. Superior Power of Capitals

In transition to a market economy immediately after regained independence, entrepreneurs enthusiastically accepted neoliberal doctrines such as weak control over capitals, open market, reduction in benefit of social welfare, etc. and competed actively for attraction of foreign capitals. Thereby, rule of capitals and their overwhelming superiority has come true at the sacrifice of labor and extensive social interests. Resistance and counteroffensive by labor against such offensives by capitals was very weak.

Unionization rate was almost 100% at the end of the Soviet period, but less than 10 years after the system change it became between 10% and 20%. In recent years it is as low as 8% or 10%. Consequently, trade unions' power is very weak. A Finnish researcher of industrial relations Sippola (2013) expresses workers' attitude toward managers as acquiescence. During the Soviet period trade unions served as 'schools for communism' and 'transmission belt for communist policies'. Keeping some distances from the Communist Party, trade unions participated in movements for economic and political independence at the end of the Soviet period. Nevertheless, trade unions' influence has decreased. Sippola explains ideological factors for this as follows: In the early 1990s a one-nation ideology and the idea of 'getting rid' of communism became dominant. There was the common perception (among the titular nationalities) that even the slightest issue echoing the Soviet past was destructive for the development of the society. Trade unions in the Baltic states tended to be understood in connection with minority people, albeit not so small, Russian-speaking inhabitants. Consequently, unionization rates have sharply decreased. Especially in Estonia and Latvia, as mentioned above, a situation emerged in which a great number of Russian-speaking people found itself in an arrangement without citizenship or voting right. As a result, a vacuum existed on the left of the political spectrum in Latvia and Estonia (Sippola, 2013).

Leftist power has been weak also in Lithuania.

It seems that a situation has appeared in which employers hold supremacy in capital-labor relations, continuously overwhelming workers. Partnership and social dialogue exists in the Baltic states, it has only ceremonial character. Norkus (2012) severely criticizes trilateral meetings of the government, members of employer associations and trade unions in the Baltic states as ‘merely publicity stunts on the part of the government that are staged just before announcing some political decisions which have been made before’ (p. 251).

6.3. Weak Social Protection System

A Slovak researcher Lucia Kurekova (2011) emphasizes connection between social protection system and out-migration. She compared 8 new EU member states from Central and Eastern Europe. Her empirical study tells us the following: Slovenia strongly outperforms all the other countries in this group in social spending, while the Baltic States form a group at the opposite end and have relatively similar levels of spending. The Visegrad countries stand in between Slovenia and the Baltic states. Social expenditure is relatively lower in Slovakia and Poland than in Hungary and the Czech Republic[26].

As for unemployment benefit scheme, there are big differences in eligibility criteria (e.g. the required length of contributions in order to qualify for the benefits), the level of unemployment benefits and replacement rate among these countries. The amount of unemployment benefits varied significantly among these countries. In Slovenia the lowest unemployment benefits were as much as €221, three times more than the maximum benefits in Lithuania (p. 17). Kurekova says, “that these social spending figures suggest a relationship between lower levels of social protection expenditure and higher out-migration from these countries” (p. 11). Kurekova concludes, “While CEE migrants do not seek welfare abroad, more extensive welfare system at home do have substitutive effects to migration (in other words, if welfare system is more enriched at home people would not emigrate --- Yoji Koyama)[27]. Migrant reach out to migration as a solution to dealing with labor market insecurities, and migration replaces welfare elsewhere provide through public services or government policies” (p. 20).

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[26] Based on 17 measures of institutional architecture, Maszczyk (2019) analyzes social protection system in EU-25 (all EU member states excluding Luxembourg, Malta and Cyprus) covering not only new EU member states but also old EU member states. As a result of subspace clustering in the social protection system, three distinct clusters of countries featuring similar sets of institutions were identified: A) a high taxes and public consumption model found in Denmark and Sweden; B) a generous benefits model prevalent in the rest of the EU member states as well as in Slovenia and Croatia; and C) a private mode of coordination model predominant in other CEE 11 countries. Noteworthy is Slovenia’s position. As it is a rich economy, it has managed to join the generous benefits cluster consisting of developed economies. According to him, the tax structure in both Slovenia and Croatia differ considerably from the pattern established in the rest of CEE region. The ratio of total tax revenue to GDP in these two countries is higher than the average in the cluster C. Even more remarkable are the pertinent differences regarding the top personal income tax rate. In 2014 it amounted to 50% in Slovenia, whereas the average level in cluster C was 20%. Therefore, Slovenia (and Croatia) can afford to maintain a social protection system which is much more generous than the Baltic States.

[27] There might be other appeals as well such as a tolerance of difference and greater level of freedom that emigrants can enjoy. Or the general treatment of a ‘simple’ worker is better elsewhere in advanced EU member states than home. Of course, money is a significant appeal, but there are also these ‘softer’ and more subtle benefits. An opinion of Dr. Arta Jalili Idrissi expressed by her e-mail in November 2020.

6.4. Mismatch on the Labor Market

Mismatch on the labor market[28] is also serious. Kurekova (2011) puts emphasis on the education provided to young people in the region and the degree to which it has been providing skills employable in domestic labor markets. She finds a problem in the point that in spite of comparatively high level of public spending on education especially in the Baltic States, ----- the ability to reform education systems in a way that would make them responsive, where needed, to labor market needs, or to incentivize the private sector to contribute to skill formation and education provision. Let us supplement this point with Zenonas Norkus' view:

> The system of specific skill formation that the Baltic countries had inherited from communist times disintegrated: the number of vocational schools and their students was in rapid decline, relations between educational establishments and enterprises broke and the number of college students skyrocketed, with the majority of students majoring in social sciences. So, a specific skills formation system was replaced by the general (or transferable) skills formation system. The same thing happened in Poland and Hungary, only to a lesser extent. However, when it comes to the Czech Republic, Slovakia and Slovenia the system of formation of specific skills rather than being dismantled, was reformed and adapted to the needs of the market economy. … These countries have over 60% of young people learning at secondary schools which provide vocationally oriented training. In the meantime, the share of such students in the Baltic States is merely 30% or so. To reform its skills formation system, Slovenia relied on the experience with the German system of apprenticeship, whereby secondary school students are given a possibility to simultaneously learn a profession at a company of their choice, under the supervision of a qualified worker ("a master"). Furthermore, the influence of the Chamber of Commerce and Industry and the trade unions on vocational training was boosted. Just like in Germany, Slovenian companies make big investments into the continuous vocational training of their employees (Norkus 2012, p. 252).

6.5. Dual Labor Markets

According to Juska and Woolfson (2015), the dual labor market approach is usually used to explain 'pull' factors that stimulate emigration from underdeveloped to more developed countries and region. In this approach, in developed countries, the labor markets are segmented into a high-skill and high value-added primary sector, and a secondary one that is labor intensive and requires low-skilled workers. The native labor force in developed countries does not want to take jobs in the secondary sector due to low pay, low prestige, poor working conditions and general lack of mobility in routinized low-pay

[28] Based on 17 measures of institutional architecture, Gardawski and Towalski (2019) analyze labor market and industrial relations in EU-25. As a result of subspace clustering in these areas the following four distinct clusters among the EU 25 countries were identified: A. Continental model; B. Anglo-Saxon model; C. Statist model; and D. Deregulated model. The Baltic States are included in cluster D, which also Bulgaria, Hungary, Romania and Slovakia belong to. These countries have decentralized and deregulated economies. The most characteristic institutional properties of this cluster include undeveloped "industrial democracy" mechanisms coupled with a limited scope of employee representation and limited coverage of collective agreements. What distinguishes this cluster from the statist one is a larger significance of limited state intervention in labor relations and a smaller share of self-employed people. Four countries from Central and Eastern Europe (Croatia, Czech Republic, Poland and Slovenia) are included in cluster C, which also Greece and Portugal belong to.

employment. Thus governments and businesses in developed countries face a dilemma: either to significantly increase wages in the secondary sector to attract native-born labor and consequently face the threat of rising wage-led inflation, increasing costs of production and therefore decreasing profitability, or to import cheaper labor from abroad. The preferred choice by far appears to be the import of labor from peripheral countries. Using the principle of 'free movement of labor', core old EU member states have secured low cost labor from new EU member states. With the first wave of the EU's eastward enlargement in 2004, wage differentials of up to seven times provided a powerful 'pull' factor for workers to migrate westwards. Such wage differentials seem to well explain migration behaviors from East to West. If we pay attention only to this, however, Juska and Woolfson warn that this would be to misconceive the deeper underlying structural forces which produced these outcomes and which have imbued 'push' factors with special dynamism. They modify the dual labor market thesis to analyze a unique constellation of 'push' factors which stem from the specifically post-communist and peripheral economic relations of dependency of Lithuania. In the case of Lithuania, primary sector seems to consist of mostly public sector. However, there are very few high-skill and high value-added jobs including financial services, privately funded research and development, corporate management, and high value-added industrial production such as lasers and bio-pharmaceuticals, with both of them accounting for only 0.1% of GDP. These sectors seem to be included in the primary sector.

The secondary sector is constituted by predominantly private employment of low wage, low-skill, unprotected and 'flexible' labor, typical to peripheral regions of the global economy. The private sector was formed through neoliberal, 'shock therapy' type of reforms in the early 1990s. Such a policy led to deindustrialization of the country and the virtual disappearance of especially higher-skill and higher-wage industrial employment, with the accompanying relatively high levels of social benefits and security typical of the Soviet period. The manufacturing-based economy inherited from the Soviet era (although globally uncompetitive) was subjected to asset stripping and seizure, leading to enrichment of a few oligarchs and simultaneous impoverishment of the majority of the population. Knowledge-intensive and high value-added sectors inherited from Soviet times such mechanical engineering and tool production, TV and radio electronics, shipbuilding, and electro-mechanics existed, but as a result of the chaotic process of privatization and de-industrialization and the absence of strategic state policy for economic development, most of them went bankrupt and were replaced by low added-value production of packing materials, printing and plastics manufacturing (Juska and Woolfson 2015, pp. 236-241).

After regained independence, public sector still occupies rather significant, albeit decreased, share in the economy. For example, in 2000 public sector employment accounted for 33.9% of the labor force. During the period of the global financial crisis, workers suffered from austerity measures, but the extent of their strictness was different between the public sector and the private sector. During this period reductions in public sector employment were small (3% in 2009 and 2% in 2010), the public sector absorbed the crisis more through wage cuts (in some cases amounting to 30% among the lower echelons), than through employment reductions.

Public sector jobs were characterized by higher security and significantly higher wages and benefits, providing a protected enclave within the labor market in troubled times. The security of primary sector jobs was assured, in part, by involvement in administering a massive influx of EU money. In 2010, EU transfers accounted for 37.4% of the country's total annual budget, and in 2011 for as much as 5.5% of the country's GDP. Prestige of officials who are in charge of administration and distribution of EU money was greatly enhanced. The bulk of private employment became concentrated in a secondary labor market that was populated by low-skill and low-wage employment, mostly in manufacturing (for export) and service sectors. Workers in a secondary sector were burdened with most of hardship from austerity measures

6.6. Emigration as 'Exit' Strategy

Most of emigration from the Baltic States especially after the global financial crisis could be grasped as 'exit'. Such a view has been formed in the Albert O. Hirschman's (1970) theoretical framework of '*Exit, Voice and Loyalty*'. Originally, Hirschman's argument explains relations between enterprises and organizations on the one hand, and customers and employees on the other hand. If absolute or relative decline in qualities of provided products and services, management understands its mistakes through the following two alternative routes: i) There is a case in which customers stop buying products of some firms or members leave some organizations. This is exit option; ii) There is a case in which customers of firms or members of organizations expresses their complaint by appealing widely to management, or other authorities which supervise the management, or furthermore anybody who listen to. This is voice option; and iii) A case in which people remain to be customers or employees without exit or voice is loyalty option (Hirschman, 1970, Japanese translation, p. 4). This argument applies also to relationship between a country and its people. Woolfson (2010), Sippola (2011, 2013, 2014, 2017) and Genelyte (2018) propose to grasp emigration from the Baltic states in the framework put forward by Hirschman. According to them, emigration means 'exit'.

After the global financial crisis emigration sharply increased in the Baltic states where some people took this situation with a sense of crisis, but governments lacked such a sense. All governments in the Baltic states have been completely influenced by neoclassical thinking. According to Sippola (2013), Estonian government grasped workers of its own country as profit maximizers. Estonian Minister of Social Affairs Hanno Pevkur, for example, showed the following optimistic perception: The desire for emigration would decrease as soon as the economic situation improved. The ultimate reason, in Pevkur's opinion, for leaving the country is due to the 'continuously restless sprit' of the Estonian people, which urges them on go around the world, only to discover that 'it is indeed best at home'. Sippola says that the above statement by the Minister of Social Affairs Hanno Pevkur on the Estonian people's proneness to looking for one's fortune all over the world eventually return is based on the wishful thinking that these people will remain *loyal* to their mother country.

After the onset of the economic crisis, as soon as the labor market changed from tight into loose, employers proposed cutting salaries by up to one-third. In the case of Lithuania, in summer 2009, the prime minister Andrius Kubilius appealed to the nation – even on a TV broadcast – to take unpaid leave to help save employers. Lithuanian association of three trade unions could not oppose offensives by government and employers. There are certain restrictions for unilateral wage cuts by the employer. For example, Estonian legislation does not allow unilateral wage cuts, but such measures can be taken only if the employees in question will sign a wage reduction (Sippola, 2013).

Referring to the case of Lithuania, Juska and Woolfson (2015) discuss growing informalization of secondary labor markets ‘from above’ and ‘from below’. An example of informalization ‘from above’: By the austerity measures adopted by the Lithuanian government, labor rights have directly hollowed out in a series of labor market ‘flexibilizatiion’ measures. These included the simplification of employment dismissal procedures, affording employers the legal possibility for much easier hiring and firing, reduced or non-payment of severance pay, liberalization of overtime restrictions and introduction of fixed-term contracts for new employment engagement. Austerity-inspired attacks on labor standards were launched against the background of an already dismembered labor force. Restrictive anti-strike laws especially in the public sector were adopted. As trade union density was low (just over 8% of the workforce), organized protest against austerity was extremely difficult. Informalization has also been given new impetus ‘from below’. A significant expansion of the informal economy including so-called ‘undeclared labor’ which denotes wages paid in envelops and various forms of illegally paid wages. By 2010, the informal economy was generating an equivalent of nearly 30% of Lithuania’s GDP. Informal income unlike legal wages does not include contributions to social security benefits (such as pension funds, health insurance, etc.), further undermining workforce socio-economic security (Juska and Woolfson 2015, p. 244).

Of course many people were against austerity measures imposed by governments[29]. In Latvia, at the end of 2009 around 5,000 students took the streets of Riga in protest at deep spending cuts. State-sector wages, social security, and education had already undergone cut, but these were again cut in the 2010 budget (Sippola, 2011, 2013). There might have been some other protests but certainly there were no large-scale strikes[30]. In Lithuania, however, there were more obvious protests in Vilnius and some other larger cities. Below let me introduce workers’ protest against the government in Lithuania, based on Woolfson (2010). The anti-crisis measures of the new Lithuanian government were hastily devised and rushed into law in day and night sessions during December 2008 in order to be in place before the

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[29] According to Woolfson (2010), toward the end of 2009, Lithuania’s new president and another ‘iron lady’, Dalia Grybauskaite admonished government to intervene to regulate prices in order to protect vulnerable sections of the population, condemning the ‘unreasonable appetites’ of the oligarchs. In spite of the stark observation that Lithuania had ‘come to the breaking point’ expressed in the preface of her address, she condemned the role of the ‘oligarchs’ and thus ‘defused’ potentially disruptive understandings and deflect emergent discourses away from issues of systemic failure and toward the action of ‘malign individuals’ (p. 508).

[30] This is an opinion of Dr. Arta Jalili Idrissi expressed in her e-mail in November 2020. According to Dr. Ojars Balcers,.as a result of the austerity measures, for economic reasons, mostly poor people from rural areas (such as Latgale) emigrated cities, mostly Riga, but many emigrated to the UK, Ireland and Germany. However, he says, overall the austerity policy was success story. An e-mail in November 2020. Maslauskaite and Zorgenfeija (2013) mention the ethos of the Baltic population as a reason for the success of the austerity policies in dealing with the crisis, saying as follows: “The people are not prone to voicing their concerns through public action in the form of demonstrations, protest or strikes. The civil society in general is weak. Furthermore, the memories of the post-Soviet economic collapse are still alive, therefore, the recent crisis did not come as great a shock to the Baltics as to the Southern European states, who prior to the crisis had enjoyed a much longer period of prosperity and economic growth. Finally, the public understood that reforms were needed and that the previous growth streak was not sustainable” (p. 64).

start of the new tax year. Traditional consultative processes with the ‘social partners’, for example, trade unions, were simply pushed aside. Trade unions’ expressed concerns over the effects of proposed government measures on their members had received no response. For the trade unions, although organizationally and numerically relatively weak, this absence of social dialogue in a time of national crisis was unacceptable. For the first time in the post-independence period fractious competing national trade union confederations publicly united around a common set of demands and called for popular demonstration scheduled for January 16, 2009. The trade unions planned their protest action to comprise a short gathering outside the parliament in Vilnius, followed by an orderly march down the main thoroughfare, Gedimino Avenue, in order to hand their written demands to the government headquarters. In the event, some 7,000 persons, both young and old, gathered in freezing temperatures and heavy snowfall. This was one of the largest popular gatherings since the regained independence. Coordinated trade union-led protests also took place in at least half a dozen towns and cities. At the gathering 14 demands were expressed, calling on government: to guarantee social benefits for anyone who is unemployed that should be able to survive; to introduce taxation in order to reduce social inequalities (progressive taxes and a property tax) so that state expenses should be covered to a greater degree by better-off people; to halt liberalization of labor relations legislation, and to strengthen state control for legal violations; to preserve government obligations towards employees in the state sector, and restore previous existing salary grades, etc. These demands were of a defensive nature. After the gathering, participants walked heading for the parliament. While outside on the streets protestors gave ‘voice’ to their dissatisfaction. In front of the parliament protestors requested a meeting with politicians. Soon a skirmish began between protestors and policemen. After being informed that nobody from the parliament would meet, angry protestors began enthusiastically kicking a placard bearing a caricature of the prime minister. By then, events had begun to take a momentum of their own. The surge forward pushed aside the police cordon. Demonstrators hammered in anger on the locked doors of the parliament. The phase of riot had begun. In this way, riot police supported by the Public Security Service intervened. Nothing like this had been seen since the days of an abortive Soviet military intervention in January 1991. Street fighting between government’s armed power and protestors lasted for a few hours, causing casualties on both sides. Over 150 people were arrested with several dozen subsequently sentenced to periods of imprisonment.

Woolfson (2010) says that social protest in Lithuania continued throughout 2009, but in an increasingly ‘muted’ form. Similarly, Sippola (2011) says that the ‘voice’ option is almost ruled out, because of the post-Soviet anti-union patriotic ethos in these societies, where labor protest has taken a ‘muted’ form. Woolfson (2020) says as follows: The governing elites in Lithuania have shown little inclination to listen. There is in fact a double failure of voice, first in the discarding and then in the discrediting of ‘legitimized’ channels of dialogue between labor and capital[31], but equally, in terms of elite response to (dis)orderly protest. As of 2010, after having said so, he warns that the double failure of ‘voice’ reinforces the likelihood both of further social unrest and of future ‘exit’[32]. In spite of the fact

[31] Also Kalanta explains failures of social dialogue in the Baltic states.

[32] Woolfson (2010) mentions also an internal ‘exit’ other than ‘exit’ which takes the form of emigration. An

that around 2011 the economies of the Baltic States recovered then continuing to grow, emigration from these countries continues.

For the Baltic States their joining the Eurozone was their greatest goal after their EU accession. Therefore, their governments have maintained, and in order to satisfy the convergence criteria they implemented austerity measures which the Troika has recommended. Thanks to their efforts, the Baltic States have managed to adopt the Euro (Estonia in 2009, Latvia in 2014, and Lithuania in 2015)[33]. From a viewpoint of international finance, it was a great success[34]. However, the impact of their efforts for the Euro adoption on the society, especially in Latvia and Lithuania, was very serious. Juska and Woolfson (2015) coined a new term 'austeriat', who are dis-located labor migrants compelled to use mobility *not so much as an economic opportunity, but as an economic survival strategy under conditions of neoliberal austerity*. They say that the migration of the *austeriat* is driven by a dynamic of social despair rather than an opportunistic optimism (pp. 246-247). In this way, population has been decreasing at an abnormally rapid pace in Lithuania and Latvia. Speaking about Lithuania, Lazutka, Juska and Navicke (2018) warn that the loss of nearly a quarter of the population in just a quarter of a century now poses an existential threat to Lithuania national culture and identity, but this warning applies also to Latvia.

In order to improve situations in Latvia and Lithuania it would be necessary to change power balance in the labor-capital relations. For Lithuania Lazutka, et al.(2018) suggest as follows: "A rebalancing of the capital-labor split would require initiatives strengthening workers' bargaining power, increasing redistributive efforts by the state, and introducing inequality-sensitive evaluation at all stages of policy planning"(p. 1445). This applies also to Latvia.

I have summarized arguments by many researchers and introduced them above. I think that their arguments persuasively explain reasons for phenomenon of massive outflow of people and depopulation in the Baltic States without any contradiction.

7. Conclusion

About 30 years ago the Baltic states finally escaped from many years of the rule by foreign powers (Russia/Soviet Union and Germany) and regained their independence. Soon they returned to Europe, and subsequently they joined the European Union (in 2004) as well as the Eurozone (one after another in 2011-2015). I guess that most people in the Baltic states were at the height of happiness. Soon, however, they came to face a different type of severe hardship.

The Baltic States have attained high economic growth, but if we think that people have become

internal 'exit' is, according to him, those who remain, trapped and increasingly impoverished, withdraw into a narrow word of reassuring prejudice and rejection of all that is the 'Other'. In his opinion, the fear must be that the external migratory 'exit' will be matched by an internal 'exit'. He understands this in connection with activities by neo-Nazis.

[33] Markeviciute, et al. (2016) tell us that there was a race to the Eurozone among the Baltic states.

[34] Kuokstis (2011) highly evaluates labor markets in the Baltic countries which are very liberal and flexible. According to him, the functioning of the specific Baltic regime was one of the factors that allowed Estonia, Latvia and Lithuania to successfully implement an "internal devaluation" strategy during the Great Recession of 2008-10. However, this view is questionable. I would like ask at what price the "internal devaluation" became successful. Bieler and Salyga (2020) argue that workers in the Baltic states have suffered from extreme neo-liberal restructuring of economic and employment relations at home.

richer by judging from GDP per capita it would be a one-sided view. Under neoliberal economic policies adopted by ruling elite of these countries the economic inequality has expanded. As governments of these countries gave top priority to joining the Eurozone for independence from the Russian economic area and therefore put emphasis on external equilibrium, these policies caused considerable stress on their society. Austerity measures adopted at a juncture of the global financial crisis forced workers to pay great sacrifice, causing many workers' 'exit'.

Agricultural reforms, based on both neoliberal economic policies and restitution principle, were carried out. As a result, large-scale farms have emerged, but at the same time numerous family farms with subsistence farming have emerged especially in Latvia and Lithuania. It can be presumed that among these family farms some people left agriculture for cities and even foreign countries.

In order to attain rapid economic development, the Baltic States invited foreign direct investment enthusiastically. These FDI were mainly directed to finance and insurance, real estate, retail and wholesale trade. FDI in manufacturing industry has not been so much. FDI in advanced industry has been small especially in Latvia and Lithuania. Being included in the Finnish and Swedish economic area, Estonia aims to be an IT-oriented country. In the world capitalist economy Estonia has become a semi-core while Latvia and Lithuania have become peripheral countries with the economic structure subordinated to advanced EU member states. Skilled workers who were trained in the Soviet period in both countries could not find suitable jobs sufficiently. It seems that if they want to get jobs proper to their qualification, they are forced to migrate to advanced EU member states.

It is reported that as the distance between Tallinn and Helsinki is rather short (about 80 km) many Estonian workers commute from Tallinn to Helsinki using high-speed ships. Therefore, although the Baltic States have problems in common, the problems seem to be less serious in Estonia.

During a past few years a massive outflow of people from the Baltic states has somewhat weakened, and even an opposite flow of migration (i.e, immigration exceeding emigration) can be seen, but the structure of the problem facing these countries remains unchanged. Large economic inequalities within the countries might drive their people to 'exit' from their countries massively again. In order to improve such situations it would be necessary to change labor-management relation. It would be necessary to strengthen workers' bargaining power, increase redistributive efforts by the state and policy planning aiming to reduce income inequality.

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I could not visit Tokyo and other big cities, not alone foreign countries, since March 2020 due to pandemic of Covid-19. In such a situation I stayed at home intensively studying history, politics and economy of the Baltic states. I have written papers on Latvia and Lithuania previously, but this is my first paper that is devoted to the Baltic states as a whole. In collecting information and materials on the Baltic states not only making full use of internet but also I have been helped very much by many foreign researchers, most of whom I have never seen. The first draft paper was completed on October 13. Then I sent it to 25 researchers in the Baltic states and their neighboring countries in the hope to get their

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