Localities, Vol. 5, 2015, pp. 103-138 http://dx.doi.org/10.15299/local.2015.11.5.103

An Unassailable Fortress? Neo-Liberalism in Estonia

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Abstract

Though its economy is tiny, Estonia has occupied a central role in the European debate about the merits of neo-liberalism. Ever since its transition to a market economy the country has pursued consistently neo-liberal strategies. Advocates of neo-liberalism argue that the country has fared very well in doing so and should serve as a model for other countries, especially those in crisis ridden Southern Europe. Critics instead argue that overall economic success has been modest while the chosen strategy has incurred substantial social costs. Moreover, much of its success should be attributed to factors other than it neoliberal policies. The current paper tries to assess the merits of neoliberal policies in Estonia and the reasons for their resilience. It first traces the main economic policy strategies since independence to clarify to what extent its neoliberal reputation is justified. The next section looks at the economic and social outcomes of such policies. Though overall economic performance has lagged behind expectations and poverty and income inequality are relatively high, no serious challenge to neo-liberal policies has even been mounted. Though in part this is due linguistic cleavages which have divided the potential opposition, and the presence of a safety valve in the form of labour migration to the more prosperous Nordic economies, the main reason for the resilience of neoliberalism in Estonia is the absence of any credible alternative for a small and highly open economy in combination with the increase in prosperity significant sections of the population have experienced.

Key words: Neo-liberalism, Estonia, European Integration, Economic Convergence

List of Abbreviations

ALDE:	Alliance of Liberals and Democrats for Europe
CAP:	Common Agricultural Policy
EBRD:	European Bank for Reconstruction and Development
EP:	European Parliament
EU:	European Union
GDP:	Gross Domestic Product
GNI:	Gross national Income
IMF:	International Monetary Fund
NATO:	North Atlantic Treaty Organisation
OECD:	Organisation for Economic Cooperation and Development
PM:	Prime Minister
SME:	Small and Medium Enterprises
SOE.	State Owned Enterprise
TNC:	Transnational Company
WTO:	World Trade Organisation

1. Introduction

The era of liberalism is commonly seen to have ended with the Great Depression of the 1930s (James 2001; Steger and Roy 2010). Faced with debilitating financial crises, radical downturns in GDP, and dramatic increases in unemployment, governments across the western world abandoned their belief in the virtues of unregulated financial markets, free trade, the automatic healing powers of market forces and the appropriateness of balanced budgets and monetary policies aimed a defending a fixed exchange rate. The unravelling of the liberal economic programme commonly started with increasing trade restrictions followed by the abandonment of the Gold Standard, thus allowing for monetary and fiscal policies geared towards domestic growth. Domestic policy autonomy was further strengthened by mounting restrictions on cross-border financial flows as well as a vastly more intrusive regulation of the national financial system. On the microeconomic side the loss of faith in the healing powers of the market was perhaps most emblematically expressed by competition policies, which generally inverted their course from promoting competition to preventing what at that time was called "ruinous competition" by openly or covertly encouraging business collusion. On the labour side this was complemented by a host of policies that sought to stem the fall of (nominal) wages, such as minimum wage legislation and the strengthening of collective bargaining provisions.

Given that its ancestor had met its demise at the hands of a major economic crisis, many observers surmised that the Great Recession[1], set in motion by the US sub-prime crisis would equally sound the death knell of neo-liberalism. In their initial response to the Great Recession many OECD countries, plus China, were quick to scuttle one of the core macroeconomic tenets of liberalism, namely that deficit-spending will not stimulate the economy but will merely evaporate into more inflation, as sizeable stimulus packages were adopted during 2008-2009. Nor did governments place much trust in the healing forces of markets when it

1) The term "Great Recession" is now common usage for the crisis that started in 2007, though given the economic performance of some countries in Europe, the term the great depression of the 21st century might be more appropriate.

came to tackling the crisis in the financial sector. The US Treasury, led by a former Goldman Sachs CEO, was widely criticised for allowing Lehman Brothers, Goldman Sachs' arch-rival, to go into bankruptcy, and indeed the event remained an exception. Governments came to the rescue of troubled financial services firms with gigantic bail out packages, amounting to 87% of GDP in the case of the UK for example (Birch and Mykhnenko 2010, 15), while nationalising those firms whose balance sheets were too compromised.

Such open violations of the neo-liberal credo led, e.g. Birch & Mykhnenko (2010, 17) to proclaim that "left-wing ideas are seemingly back in fashion." However, the obituaries proved premature. Admittedly, outside of the EU neoliberalism never inherited the Gold Standard obsession with defending fixed exchange rates from its predecessor, while central banks throughout the OECD area seem to have durably abandoned the belief that expansionary money will result in more inflation and thereby undermine the preconditions for growth, as they are increasingly resorting to unconventional means in a desperate bid to pump money into the economy and restart lending. Yet, the liberal austerity dogma seems to have returned in full force after the brief Keynesian interlude of 2008-2009. Especially in the EU, cutting spending to return to balanced budgets, and preferably surpluses, became one of the main tools for overcoming the crisis, not only to deal with economic dislocation in the Eastern periphery in the wake of the 2008 crisis and the Southern periphery during the Eurocrisis, but also as a cornerstone of the macroeconomic policy strategy, preferably to be given constitutional rank. (Konzelmann 2014) As the second main pillar in the European economic policy strategies since the Great Recession, the emphasis on the neo-liberal mainstay of structural adjustment was emphasised even more. The term structural adjustment is shorthand for reducing the impact of the state and giving more reign to market forces. Its main elements consist of privatisation of state-owned enterprises and flexibilisation of the labour market so as to allow wages to fall to market clearing level. With reducing public expenditure and wage costs as primarily goals, welfare state arrangements had to remain a principal target for downsizing as they commonly are the largest expenditure item in most OECD states and frequently have the effect of increasing the reservation wage and contributing to higher non-wage labour costs. Indeed, as Lütz and Kranke (2010) have aptly argued, if the neo-liberal Washington Consensus was ever dead, the EU has promptly resuscitated it.

Nor has the Great Recession sparked the much feared proliferation of restrictions on international economic transactions. Admittedly, the WTO's Doha round, initiated in 2001, seems irretrievably bogged down, but the rapid spread of protectionism that characterised the Great Depression is nowhere to be seen. Instead, trade liberalisation proceeds apace at the regional level, the latest addition being the Transpacific Partnership agreement between Japan and the USA. And while capital controls now again a recognised as a legitimate tools of crisis management by the IMF (Rodrik 2010), they have only been employed as temporary emergency measures to overcome acute imbalances, such as e.g. in Iceland and Cyprus, but they do not display any intention of becoming a permanent fixture, as instead was the case after the Great Depression. Finally, the re-regulation of the financial services industry has remained modest. There was no return to the compartmentalisation that characterised the US banking system from the Great Depression until the repeal of the Glass Steagall act in 1999. Nor has there been a return to the European and Japanese practice of direct intervention by central banks in the credit allocation decisions of private institutions. Indeed, Martin Wolf (2014) has argued that inactivity in this area risk exposing the world economy to another financial meltdown.

Why then has neo-liberalism proven so resilient in the face of major economic upheavals? Given that growth rates were generally higher, unemployment lower and income spread more equally in the pre-neoliberal period from the Second World War to the 1980s, why has there been no widespread popular pressure for a return to the policies that succeeded neo-liberalism's ancestor? In a much-noted analysis, Colin Crouch (2011) argued that liberalism has to be understood not so much as a system based on the trust in free markets but as a set of policies run in the interest of transnational corporations (TNC). When it is in the interest of the TNCs neo-liberalism has no qualms with intervening in markets, as the recent bank bailouts show. The resilience of neo-liberalism, according to Crouch, then can be explained by the fact that the recent crises have not undermined the power of the TNC's. States remain too dependent on the revenues generated by TNCs to be willing to challenge them, and the industrial working class that supported the pre-neo-liberal model has declined in power so as to no longer being able to challenge the giant corporations.

Though one may question whether the political power of blue collar labour indeed underpinned the dominance of non-liberal policies in the – misnamed - Keynesian period, the evident decline of blue collar labour does not explain why there should not have been strong political pressures for change from those suffering from neoliberal policies. In the current debate about the resilience of neo-liberalism, three main answers are given to the latter question. First, neo-liberal policies may have their pathologies but the alternative is worse. In the present day globalised world there is simply no going back to the pre-1980s strategy. Indeed at several points. Crouch comes close to this answer when he argues that “it is difficult to imagine a prosperous life without them TNCs.” (Crouch 2011, 52) Secondly, those who suffer most from neo-liberalism, the low-skilled workers, the poor and the unemployed have de-facto lost the power to influence policies, so that there is no electoral pay-off for government in challenging neo-liberalism (Iversen and Soskice 2015). Thirdly, those who do feel its effects are overwhelmingly negative tend to locate the cause of resilience in the ideational hegemony neoliberal ideas have managed to acquire through a host of mechanisms - such as e.g. generous funding of the research of sympathetic academics - with the resulting inability to perceive of an alternative.[2] (Häring and Douglass 2012; Harvey 2005; Helemäe and Saar 2012, 2015)

With its 1.3 million inhabitants and a GDP of roughly €19 billion, the entire country of Estonia puts only as much demographic and economic weight on the scales as a mid-sized European city. Yet, in the debate about the merits and demerits of Neo-liberalism Estonia has been punching far above its weight. Ever since its transition to a market economy in the early 1990s Estonia has figured prominently as a shining example of the success of neo-liberal policies. While central European countries such as Poland, Hungary, the Czech Republic and Slovakia (Czechoslovakia until 1993) initially embarked on a more social democratic approach to transition that would leave a larger space for publicly-funded welfare state arrangements and exercise a larger degree of government control over the economy, Estonia, along with the other two Baltic republics (Latvia and Lithuania) engaged in radically liberal shock therapy (Buchen 2007). That (neo) liberal orientation was confirmed in the wake of the 2007 crisis, when the country focussed on fiscal austerity and wage cuts to overcome the crisis. As a result, in the current Eurocrisis, Estonia is frequently cited as an example that the Troika strategy of fiscal austerity and structural reforms is indeed the appropriator one and that, by implication, the disastrous economic performance recorded by some South European countries, first and foremost Greece, is due to their unwillingness to take the painful neoliberal medicine rather than to the prescribed medicine being the wrong one.

This status of Estonia as the living proof of the correctness of the neo-

2) The argument is reminiscent of the "false consciousness" used in Marxist theory to explain why the working class was not revolutionary. Helemä and Saar (2015, 567) e.g. argue that the dominant discourse in Estonia has led to "a misperception of class interest at the lower steps of the social hierarchy".

liberal approach, not surprisingly has been challenged by a host of commentators. Two main arguments are adduced. First, it is not justified to see Estonia as a success case because of the extreme economic volatility the country experienced since its transition to a market economy. The liberal shock therapy applied during transition provoked a massive crisis leading to higher unemployment and lower incomes than in soviet times. Towards the late 1990s, a largely foreign-financed boom set in but because much of it was based on inflows of speculative finance, the 2007-2008 crisis in the major economies, provoked a major crisis. Moreover, by placing the adjustment burden in the latest crisis primarily on workers, the social costs were high, though these cannot be readily inferred from macro statistics (Sommers et al. 2014). According to a second line of argument, the relative success of Estonia is not due to neo-liberal policies but to other factors such as its proximity to and dependence on the successful Nordic economies, and large net receipts from the EU, which actually meant a fiscal stimulus programme was pursued (Kattel and Raudla 2013).

How neoliberal then is Estonia really? And what accounts for the resilience of its liberal policy orientation? Section two traces Estonian economic and welfare policies since transition in order to clarify what its reputation as one of the most liberal states in the EU is based one. Section three outlines the economic and social outcomes of liberal policies in terms of growth, employment, income distribution, poverty and convergence. Section four traces the political dynamics of Estonia since the early 1990s and asks why no serious challenge to neo-liberal policies has been mounted. Section five concludes.

2. How Did Estonia Earn its (Neo) liberal Reputation?

Though widely criticised initially (Sachs, Woo and Yang 2000), the

Chinese path to transition from a centrally planned to a market economy, overall, has proven to be much more successful than the neo-liberal shock therapy applied in most countries of the former Soviet zone. (Lin 2009) China allowed for the gradual expansion of the private sector while retaining a large sector of State Owned Enterprises (SOE), whereas the liberal confidence in the superiority of market solutions, dictated the rapid dismantling of the state owned sector through privatisation, the immediate liberalisation of all prices so as to allow market forces to operate, as well as tight monetary and fiscal discipline in order to stabilise the price level and thus allow prices to perform the allocative function they are seen to perform in standard neoclassical models. Though much of the blame for the botched transition in the Soviet zone has subsequently been given to the erroneous advice of neo-liberalism-infused advisers and organisations such as the IMF and the EU (Stiglitz 2002), the radically different political background against which transition took place made a Chinese strategy anathema in Estonia.

Though speaking an Altaic language that with, the exception of the neighbouring Finnish, has more in common with e.g. Korean than with any of the surrounding languages, and though marked by a distinct Nordic culture that also does not bear many resemblances to the surrounding Slavonic countries, Estonia has only known a very brief period of independent statehood. Commonly the area was ruled by the larger powers, be it German knights, Swedish kings or Russian czars. Only with the collapse of the Russian empire towards the end of the First World War did the country briefly gain independence. Moreover, that independence could only be defended with foreign assistance as the presence of the British Royal Navy in the Baltic deterred the Red Army from executing its programme of including the areas of the former Russian Empire into the new Soviet Empire. That independence came to an end with the Molotov-Ribbentrop pact between Nazi Germany and Stalin's Soviet Union in 1939, and in June 1940 Soviet troops occupied the country. Though briefly interrupted by German occupation, the Red Army was soon to return, and remain in the country until the final collapse of the Soviet Union. Unlike the satellite states in Eastern Europe, such as e.g. Poland, Estonia, along with the other two Baltic republics (Latvia and Lithuania) was formerly incorporated into the Soviet Union. As a result the country de facto was ruled by a Russian speaking Soviet elite. Meanwhile, the overall share of the non-Estonian speaking population increased rapidly from 11.8% in 1934 to over 38.5% in 1989 (Raun 1997: 336), with only less than 40% of the industrial workforce being ethnic Estonians (Pettai and Hallik 2002, 515).

While the Chinese transition was initiated by the ruling party. Transition in Eastern Europe was precipitated by the collapse of communist party rule in the Soviet Union and the rapid disintegration of its empire. Securing statehood against internal and external interference of Russia thus became the overriding objective of the new Estonian political elites.[3] Protection against possible internal threats to statehood was seen to require the dismantling of the power bases of the potentially pro-Russian segment of the population.

Given that the state-owned sectors were largely controlled by a Russian elite, and in view of the direct association of any form of interventionist economic policies with the hated soviet occupation, reasons of statehood were sufficient to warrant an enthusiastic embrace of shock therapy, irrespective of its economic merits. Moreover, in the industrial sector of the economy, as well as in transport and maritime activities, the labour force was largely Russian speaking, such that a collapse of economic activity there would actually serve to increase the dependence of a potentially troubling Russian speaking workforce on the Estonian majori-

3) Legally the newly independent Estonian republic of August 20, 1991 was treated as the re-establishment of the first independent Estonian Republic of June 15 1920, after five decades if illegal soviet occupation, and not as the legal successor to the former Soviet Republic of Estonia (Pettai 2001).

ty (Pettai and Hallik 2002, 515 ff; Pettai 2004). Restitution of real estate and land that had been nationalised by the Soviet Union since 1940, in turn, would primarily benefit Estonian speakers, or Swedish-Estonians (Holt-Jensen 2010). In that constellation a gradual Chinese style transition was never even discussed, but it also meant that alternative interventionist development strategies, not tainted by any association with communism, such as e.g. the South Korean path, enjoyed not even the slightest chance of making it onto the agenda.[4] The newly established Estonian Republic enjoyed overwhelming legitimacy, at least amongst the Estonian speaking majority, such that not rapid economic progress but the dismantling of all the centres of power of the former Soviet system could become the most pressing task (Bafoil 2009, 87; Grabbe 2006, 100). Indeed, such an enthusiastic embrace of neo-liberal shock therapy also characterised the other two East European countries that had been formerly incorporated into the Soviet Union (Latvia and Lithuania) whereas the satellite countries who were not confronted with a sizeable Russian speaking group at the helm of the command economy and amongst the industrial workforce sought to embark on a more embedded form of capitalism (Cimpoca 2013).

Yet, defence of statehood is not coterminous to defence of sovereignty. Even though the concept of a Westphalian state system of allegedly sovereign states pervades much of the international relations literature, the common reality has been one a system dominated by empires with the lesser states having had to concede sovereignty to a smaller or lesser degree to the major powers (Notermans 2014). Given its size, its historical experience, and its geographic location, the political elites of post-soviet

4) Confronted with an economically wealthier North Korea and a substantial share of domestic communist sympathisers; economic success came to be considered key to regime survival by Park Chung Hee since the early 1960s, such that even a virulently anti-Communist regime would shun liberal economic recipes and instead embark on a heavy handed, and extremely successful, interventionist development strategy. (Kang 2004)

Estonia were strongly convinced that defending statehood against possible Russian interference required rapid political and economic integration with the west, and this meant NATO membership, EU membership and openness to foreign investors. Since the early 1990s, therefore Estonian strategies of economic transition and institution building, were increasingly shaped by the requirement of qualifying as soon as possible for EU membership.[5] In many areas the EU did indeed insists on a liberal approach. Attempts to protect domestic industries and services so as to better prepare them for future competition with the more advanced competitors further west were generally discouraged by the EU in favour of a strategy of rapid market opening and foreign ownership. Moreover, the interventionist vertical industrial policy strategies that account for much of the rapid economic success of South Korea would conflict with the EU's fundamental principle of a “level playing field” between all member states, its competition policy and its restrictions on state aid.

However, the requirements of EU membership cannot be held responsible for the fundamental neo-liberal orientation of Estonian economic policies. The strategy of relaying primarily on foreign capital to build the economy of the new Estonia, rather than pursuing an interventionist industrial policy dovetailed perfectly with the strategic calculus of post-soviet Estonian elites. Rapid privatisation, with the resulting bankruptcy of a substantial share of the economy, quickly erased much of the soviet industrial legacy. In addition to its low level of wages and a fairly well educated work-force, its geographic proximity to the high-wage and high-tax Nordic economies, Finland in particular, also seemed to suggest that the country was well placed to successfully execute a rapid economic catch-up by relying on foreign investors.

As a result, Estonia commonly occupied top ranks in comparative as-

5) Estonia established diplomatic relations with the EU, in 1995 an association agreement with the EU, implying free trade, came into force and in November of the same year its membership application was submitted.

sessments of the speed and comprehensiveness of economic reforms, such as e.g. those regularly conducted by the European Bank for Reconstruction and Development (EBRD) (Staehr 2004). Price liberalisation, which had already started while the country still was legally a part of the Soviet Union, was completed by January 1993, Privatisation of SOEs was conducted with similar speed, essentially being completed by 1995, with the exception of a few natural monopolies. (Staehr 2004, 49) The small and medium enterprises (SME) were auctioned off first, while the larger firms took a bit longer. Initially, insiders were given privileged treatment, but this policy was rapidly reversed. As a result, foreign ownership in the Estonian economy increased substantially. Though in contrast with the global practice but in keeping with the dictum of liberal trade theory, Estonia quickly and unilaterally removed all trade restrictions, making it one of the very few countries in the world that has ever practised free trade.[6]

Moreover, along with Lithuania and Hungary, Estonia is one of the very few countries in the EU that has implemented one of neo-liberalism's less popular proposals, namely a flat rate income tax.[7] In 1994 a flat rate of 26% was introduced, which was subsequently reduced to 21%. The advocates of a flat tax promote it as administratively simple, socially fair and growth and efficiency enhancing because business friendly (Hall et al. 1996). The latter is said to occur because it removes the built in brake on the profit incentive constituted by progressive taxation and capital gains taxes. Most EU countries, though have resisted introducing s similar system, not only because it unduly restricts the state's revenue base, but also because of a widespread conviction that social fairness dictates that those who are able to shoulder a larger tax burden relative to their income should also be required to do so. Taxes,

6) Even Britain retained tariffs for revenue purposes after the repeal of the corn laws in 1846.

7) On the spread of flat tax rates in Eastern Europe, see Aligica and Evans 2009.

on corporate profits, furthermore were abolished in 2000.

Despite its flat rate personal income tax, however, the size of the Estonian state, when measured in terms of tax revenues as a percentage of GDP is not significantly smaller than most other European nations, nor is the size of the state shrinking over time (Table 2). Nor is Estonia an exception in this regard. Though shrinking the size of the state was one of the foremost objectives of the liberal project, throughout the OECD the neo-liberal revolution has merely managed to halt or reduce the growth rates of public revenues and expenditures with no shrinkage in sight, while public debt and deficits overall have increased much more rapidly than before 1980.

Also somewhat in contrast with its reputation of a super-liberal market reformer stands the fact that no wholesale dismantling of the welfare system inherited from the Soviet Union was attempted. The national health system, e.g. has been maintained until today. And in 1991 unemployment insurance was introduced as a response to the emergence of a phenomenon that had been unknown in the Soviet Union, though the replacement ratio is quite low and many unemployed are not covered because of a lack of contribution history or because of the short duration of benefit payments. As is typical of the conservative model of welfare provision in Europe, much of the system is contribution financed with a 33% percent payroll tax introduced to that purpose in the early 1990s.

In terms of the third, element of the transition strategy, macroeconomic policies to stamp inflation out of the system, the neo-liberal recipe in facts betrays a surprisingly interventionist bend. If a conviction in the superiority of market solutions really informs neo-liberal recipes, in the monetary field it should advocate the abolishment of the government issue of legal tender in favour on money issue by commercial banks, or at least market determined exchange rates. Whereas the first element has never been seriously considered by any neo-liberals that managed to get close to the levers of economic policy making, the USA, at least has displayed a marker readiness to let markets find the exchange rate of the Dollar, although also here market-correcting action was undertaken by the authorities in times of excessive fluctuations. European neo-liberalism instead has never displayed much of a liberal bent when it comes to monetary affairs.

Also in this area, Estonia opted for a solution that was more radical than most of its East European neighbours, namely a currency board that was introduced in 1992. Under currency board arrangements the central bank declares a fixed exchange rate – first with the D-Mark subsequently with the Euro when the former was abolished – while the money it issues is covered 100% by foreign currency reserves. Under such a system the central bank cannot lend to the government, indeed it cannot acquire any domestic assets at all, nor can it function as a lender as last resort to the domestic financial system Indeed, the central bank does not pursue any monetary policy at all since it merely executes exchange transactions in foreign and domestic currency. As Krugman et al. (2012: 644) characterise it succinctly, the central bank's “primary role could be performed just as well by a vending machine.”[8]

That large monetary overhangs in combination with the incapacitation of much of the real economy poses acute inflationary threats was a problem most west European central banks also had to confront at the end of the Second World War. In that case the preferred solution consisted of extremely tight controls on monetary and financial transactions - inconvertible currencies – in combination with the temporary freezing of deposits. Such a solution however, would have stood in radical contradiction to the Estonian strategy of relying largely on foreign capital to replace the dismantled command economy.

8) Despite that Estonia has had a currency board since 1992 and no currency of its own since 2011, it has retained a sizeable central bank with 238 full-time employees at the end of 2014. However, this is not exceptional as European Central Banks have generally operated under the motto that neo-liberalism is excellent, but not in my back yard.

The decision to give up monetary policy largely implied that, in case of crisis, adjustment strategies had to assume a neo-liberal form. With devaluation of the currency and monetary stimulus unavailable, any balance of payments crisis would have to be tackled by internal devaluation and austerity. Fiscal austerity would be needed to depress domestic demand and thus reduce imports. Internal devaluation, in turn, denotes the strategy of reducing domestic wage levels such that it improves export competitiveness. Moreover, both measures, it was argued, would serve to restore the confidence of foreign investors.

The next major crisis, after the transition crisis presented itself in 2008. Estonia has benefitted from large inflows of capital ever since it had become clear that it would join the EU, and the counterparts of these inflows were substantial current account deficits. As a result of the financial meltdown in the US these inflows, however came to a sudden stop which required a rapid turnaround in the balance of payments. Though even the IMF at times thought the strategy was too severe, the country responded with a radical programme of expenditure cuts, labour market flexibilisation and public sector wage cuts, thus further cementing its neoliberal reputation (Sommers et al. 2014).

3. Economic and Social Outcomes

How then has Estonia fared with its liberal strategy in economic and social terms? Perhaps the most conspicuous feature of its post-Soviet economic development is the high degree of volatility. Since the early 1990s the country has gone through two bust-boom cycles, while currently it seems to be stuck in a middle income trap. The transition to a market economy proved not to be the short J-curve like contraction that was predicted by foreign advisors and international financial institutions, but instead gave rise to a major depression in the wake of which GDP fell by over 1/3. Recovery set in by the mid-1990s soon to be replaced by another crisis; this time an imported one as the East Asian crisis of 1997 spread to Russia, leading to its default in 1998. Recovery was quick though. Fuelled by substantial inflows of foreign capital, annual growth rates since the beginning of the millennium were far above EU average, at times edging close to 10%.

Table 1. Macroeconomic Indicators
GDP Per Capita at Constant Prices (€1000)

	1995	2000	2005	2010	2014
EU (28)	20,0	22,8	24,7	25,3	25,8
EU (15)	24,2	27,5	29,2	29,5	29,8
Estonia	5,3	7,5	11,0	11,0	13,1
Finland	24,2	30,5	34,2	34,9	34,1
Unemployment rate (% of civilian population)					
	1995	2000	2005	2010	2014
EU(28)	NA	8,9	9	9,6	10,2
EU(15)	10,2	7,9	8,2	9,6	10,5
Estonia	9,5	14,6	8	16,7	7,4
Finland	15,4	9,8	8,4	8,4	8,7
Current Account Balance (% of GDP)					
	1995	2000	2005	2010	2014
EU(28)	NA	-0,74	0,03	-0,01	1,60
EU(15)	0,42	-0,52	0,38	0,30	1,74
Estonia	-6,22	-5,36	-8,84	2,01	0,14
Finland	3,85	7,46	3,17	1,44	-1,79
General Government Consolidated Gross Debt (% of GDP)					
	1995	2000	2005	2010	2014
EU(28)	NA	NA	61,9	78,5	88,6
EU(15)	68,1	61,9	63,5	81,2	91,9
Estonia	8,2	5,1	4,5	6,5	10,6
Finland	55,1	42,5	40,0	47,1	59,3

Source: AMECO

The foreign-financed boom was abruptly terminated in the wake of the 2007-2008 US crisis, leading to another deep slump. Again, recovery was fairly quick, but the pace of growth halted markedly around 2012 as the ongoing Eurocrisis started to have a negative effect on exports, such that by 2015 the 2007 GDP/capita level had not been recovered yet. (OECD 2015A)

Overall, Estonia has experienced convergence in per capita GDP since 1995 with the rest of the EU, though it's per capita income still is less than half that of the EU(15)[9], while the gap with its closest neighbour (Finland) is significantly wider (Table 1). Unemployment rates largely reflect the volatility of GDP growth in Estonia. The transition crisis led to a massive rise in unemployment, which, despite significant outward migration of labour could not be brought down to EU levels until the boom of the 2000s. The 2008 crisis again caused a massive increase, though currently unemployment rates are somewhat below the EU levels. For most of the first 20 years of its independence, the country ran up considerable current account deficits. The counterpart to those deficits was a rapidly increasing foreign indebtedness, which made the country extremely vulnerable to the sudden stop in capital inflows that resulted as a fallout of the 2007/2008 US crisis. The strict programme of austerity and wage cuts that was followed in that crisis, however, managed to turn the current account deficit around, though at the cost of a significant recession. Unlike e.g. Greece, over-indebtedness in Estonia was purely a private sector problem. In macroeconomic terms, Estonia's neoliberal orientation is maybe best reflected in the management of its fiscal policies. Due to its extremely prudent expenditure policy, the public debt of Estonia is by far the lowest in the EU, although since the 2008/9 crisis also Estonia has not managed to escape the general European trend of rising public debt.

9) EU(15) refers to the membership of the EU before the enlargement to the countries formerly in the Soviet zone of influence, plus Malta and Cyprus.

Table 2. General Government Total Revenues and Expenditures (% of GDP)

	Revenues		Expenditures	
	2000	2014	2000	2014
Bulgaria	39,8	36,4	40,3	39,2
Croatia	NA	42,3	NA	48,0
Czech Republic	36,9	40,1	40,4	42,0
Estonia	36,3	39,4	36,4	38,8
EU(15)	NA	45,8	NA	48,7
EU(28)	NA	45,2	NA	48,1
Finland	54,9	55,5	48,0	58,7
Hungary	44,2	47,6	47,3	50,1
Latvia	34,9	35,5	37,7	36,9
Lithuania	NA	34,3	NA	34,9
Poland	39,0	38,6	42,0	41,8
Romania	33,8	33,4	38,4	34,9
Slovakia	39,7	38,9	51,8	41,8
Slovenia	42,5	45,0	46,1	49,8

Source: AMECO

The very low debt level, however, does not imply a very small state. Though tax revenues as a share of GDP are below EU level, they tend to be higher than in most East European countries (Table 2). Rather the low debt results from a policy of keeping expenditure within the space afforded by revenues. In terms, of public social expenditure, however, the Estonian state is significantly smaller than East European countries with similar levels of income. Table 3 lists total public social expenditures for all East European OECD members plus some selected West European countries. With 16.3% of GDP in 2014, Estonian social expenditure is not only significantly below OECD level, it is also below the level of all other East European EU members. Compared to neighbouring Finland, Estonian social expenditure is only half the level. Moreover, while social spending is stagnant or slightly declining in most countries, a sizeable reduction was achieved in Estonia since 2014.

Table 3. Total Public Social Expenditure (% of GDP)

	2000	2005	2010	2014
Estonia	13,8	13,1	18,8	16,3
Finland	23,3	25,0	28,7	31,0
Germany	26,2	27,0	26,8	25,8
Greece	19,2	21,1	24,2	24,0
Hungary	20,5	22,3	23,5	22,1
Poland	20,3	20,7	20,7	20,6
Portugal	18,6	22,8	25,2	25,2
Slovak Republic	17,8	16,1	18,4	18,4
Slovenia	22,8	21,8	23,9	23,7
Spain	20,0	20,9	26,7	26,8
Sweden	28,2	28,7	27,9	28,1
United Kingdom	18,4	20,2	22,8	21,7
OECD - Total	18,6	19,4	21,7	21,6

Source: OECD Social Expenditure Database

Table 4 concludes the overview of the performance of Estonia with a look at what neo-liberalism means in terms of income inequality and poverty. Liberal market economies are commonly expected to generate more inequality in terms of market income. With a Gini index of 0.489 Estonia confirms that expectation, though Italy, a country not know as a stronghold of neo-liberalism, generates even more inequality. All East European OECD members, instead have a lower score in the market income Gini index. The difference between the market and disposable income Gini index is a measure of the redistributive activity of the state through taxes and social security benefits. As table 4 shows, the Estonian state has the smallest redistributive impact such that Estonia ranks first amongst the countries listed in terms of disposable income inequality. The main reasons for this small impact are the flat rate income tax system and modest welfare benefits. Especially, the contrast with Finland is striking. To promote economic dynamism, Finland, as the other Nordic countries, takes a fairly liberal approach to business and labour market regulation, but then corrects the resulting degree of market income inequality by sharply progressive taxes and a strongly redistributive welfare system.

The lower panel of table 4 conducts the same exercises with respect to poverty rates; defining poverty as an income below 50% of the median for the respective country.

Table 4. Poverty and Income Inequality

	Gini (market income, before taxes and transfers)			Gini (disposable income, post taxes and transfers)		
	2005	2010	2012	2005	2010	2012
Czech Republic	0,462	0,456	0,455	0,261	0,264	0,256
Estonia	0,487	0,495	0,489	0,338	0,328	0,338
Finland	0,483	0,487	0,488	0,265	0,264	0,260
Germany	..	0,492	0,501	0,297	0,286	0,289
Hungary	..	..	0,485	0,291	..	0,289
Italy	0,470	0,508	0,509	0,325	0,324	0,327
Korea	..	..	0,338	..	..	0,307
Poland	0,525	0,474	0,465	0,327	0,310	0,298
Slovak Republic	0,458	0,434	0,412	0,289	0,264	0,250
Slovenia	0,439	0,457	0,466	0,240	0,248	0,250
	Poverty rate before taxes and transfers, Poverty line 50%			Poverty rate after taxes and transfers, Poverty line 50%		
	2005	2010	2012	2005	2010	2012
Czech Republic	0,279	0,283	0,279	0,055	0,066	0,053
Estonia	0,291	0,326	0,304	0,134	0,119	0,123
Finland	0,306	0,327	0,323	0,066	0,072	0,065
Germany	..	0,323	0,319	0,091	0,088	0,084
Hungary	..	..	0,398	0,071	..	0,104
Italy	0,348	0,321	0,327	0,126	0,132	0,127
Korea	..	0,173	0,165	..	0,149	0,146
Poland	0,338	0,283	0,283	0,123	0,111	0,102
Slovak Republic	0,265	0,285	0,271	0,073	0,08	0,084
Slovenia	0,258	0,286	0,298	0,071	0,093	0,094

Source: OECD

The Estonian poverty rate before taxes and transfer is relatively high, though Hungary and all the EU(15) members in the table have higher rates. But the tax and transfer system has the smallest redistributive effect of all the European countries listed in the table such that the post-tax and transfer poverty rate is the second highest, after Italy.

4. Political Outcomes

Though the country has experienced repeated economic hardships and does suffer from above average poverty and inequality, no political majority has ever arisen in favour of a different strategy. To understand why, it should perhaps first be pointed out that the prefix “neo” denotes a much diluted liberal component as compared to its historical predecessor. As Aligica and Evans (2009) correctly point out, the transition to a market economy has left neither Eastern Europe nor Estonia with a system designed by market fundamentalists. With tax revenues of over 39% of GDP, the Estonia state is of a size that would have inspired horror in the minds of classic liberals. With a share of 26.1% of total employment, public sector employment is significantly above the OECD average of 21,3%; only the Scandinavian countries plus Slovakia and Hungary report a higher figure (OECD 2015B: 85). Though social spending is at a relatively low level, Estonia has remained a commitment to welfare state arrangements, first and foremost a national health system. Nor do even the Estonian liberals display undiluted confidence in the forces of the market. In line with the EU's regional and cohesion policies, all Estonian political parties support the idea that for the country to succeed in catching up with the income levels of Western Europe, an activist government is necessary. To that end the government adopts multiyear development strategies in close cooperation with the business sector and independent experts, mainly focussing on improving infrastructure, entrepreneurship, research, education and innovation (Ministry of Education and Research 2014). In other words, classic liberalism would be intolerable, even in Estonia. Yet, also the form of neo-liberalism actually pursued has not been able to command unanimous support.

Even though economic hardship, and especially cutbacks in the social welfare system, as well as the current paucity of welfare previsions along with the relatively pronounced poverty and income inequality, has induced voter pressure for a more moderately liberal course, a political challenge to the neo-liberal policy orientation has never been mounted. Perhaps with the exception of Prime Minister Tiit Vähi's cabinet of 1995, the government has firmly remained in liberal-conservative hands.

In theory this might be because such policies are imposed from the outside on Estonia, because the wishes of the population are not accurately reflected in policy-making, or because the majority of the electorate does not wish to mount a leftist challenge to neo-liberalism. Though the former two factors are relevant, the overwhelming reason for the non-death of neo-liberalism in Estonia remains that both the majority of the political elites and the electorate can discern no credible leftist alternative to the current policy orientation. Indeed, if anything, a trend towards the political right can be observed since the most recent crisis.

Being a member state of the EU, Estonia is not a fully sovereign country such that deviations from a neo-liberal course not necessarily have to be rooted in changes in the domestic balance of political power. Given its small voting power in the EU, Tallinn cannot avail itself of sufficient means to block most of the policy changes originating in Brussels.[10] With its emphasis on the four freedoms [free movement of

10) In those areas where the EU decides by consensus, in theory Estonian opposition alone would be sufficient to block changes, yet the history of European integra-

capital, labour, goods and services], a level playing field, and competition policy, the EU does display a liberal orientation in its core project of the single market, but the EU enjoys little or no authority over national welfare policies, taxation and labour market regulation. However, if anything, EU membership has probably served to dilute rather than reinforce neo-liberalism in Estonia. The EU's discriminatory trade approach forced Estonia to abandon its policy of free trade with respect to non-members. The highly interventionist and protectionist Common Agricultural Policy (CAP), traditionally has been and remains the largest item on the EU budget, currently accounting for a bit under 45% of total expenditures. For Estonia, participation in the CAP implied a turn to more protectionism and state intervention in this area. Moreover, Estonia receives substantial transfer from the EU. In 2013 EU funds for Estonia amounted to €973 million (5.46% of GNI) as compared to an Estonian contribution to the EU budget of €190 million.[11] Seventy percent of EU spending was devoted to regional policies. In social policies, to give a final example, the Estonian government has, somewhat reluctantly been pushed by the EU to establish a publicly funded rehabilitation programme for alcohol addiction; a problem which is rife in the country especially amongst the lower income groups. In short, the absence of a challenge to neo-liberalism cannot be attributed to the EU but must be rooted in domestic political dynamics.

In order for electoral competition to induce political parties to be sensitive to the wishes of the electorate, those parties must be stable organisations with a long term perspective such that the threat of a loss of electoral popularity creates incentives for programmatic change. However, such has frequently not been the case in the East European

tion show that it is not feasible for a small country to block policies that enjoy the support of all the larger members.

11) Available online at http://europa.eu/about-eu/countries/member-ountries/estonia//index_en.htm#goto_2.

party systems that emerged after the fall of communism (Grzymala-Busse 2007). In many cases East European parties systems are characterised by extreme volatility with parties generally not expecting, or intending to survive for more than on term (Cabada et al. 2015, Ch. 5) . Corporate capture marks such systems as the party engages in enrichment of its leading politicians and main supporters during that one term in office, while new parties that emerge on a wave of voter support for cleaner government will generally engage in similar strategies and be similarly short-lived (Innes 2014). With parties functioning as distributional coalitions with a very short term perspective loss of electoral popularity no longer can function as a deterrent to such strategies of plunder.

Though also displaying a high degree of volatility in its early years, both in terms of party birth and decline, as well is in voting behaviour (Kreuzer and Pettai 2003), the Estonian party system has been spared such a fate. Over time a relatively stable system centred on four main and durable parties has crystallised (Table 5). Though the spectrum of political parties runs the usual European gamut from Social Democrats on the centre left via a conservative Pro Patria / Res Publica and the liberal Reform Party to the nationalist right wing, the Estonian nodal point lies substantially to the right of the common West European scale.

Currently the largest party and also the most liberal, in economic terms, is the Reform Party. The party was the main force behind the neoliberal adjustment strategy in the 2008-9 crisis. Its electorate is primarily urban and tends to have above average education and income. It describes itself as liberal and forms part of the Liberal group (ALDE) in the European Parliament (EP). Though also a member of ALDE, the second biggest party, the Centre Party, should more accurately be described as a personalistic or populist party. It is dominated by its leader, Edgar Savisaar, former prime minister and former major of Tallinn. In economic terms its positions frequently conflict with the Reform Party, the main issue being the Centre

Party's support for a system of progressive income taxation instead of the current flat rate. Its electorate overwhelmingly is made up of the Russian speaking community in Estonia.

Table 5. Outcome of Parliamentary Elections in Estonia

	1992	1995	1999	2003	2007	2011	2015
Reform Party		16,2	15,9	17,7	27,8	28,6	27,7
Center Party		14,2	23,4	25,4	26,1	23,3	23,3
Pro Patria / Res Publica				--	17,9	20,5	13,7
Pro Patria	22,0		16,9	7,3			
Res Publica				24,6			
Moderates / Social Democratic Party	9,7	6,0	15,2	7,0	10,6	17,1	17,1
Green Party	2,6				7,1		
Estonian People's Union				13,0	7,1		
Coalition Party			7,6				
Country People's Party							
United People's Party							
Coalition Party / Rural Union		32,2					
Pro Patria / National Independence Party		7,9					
Our Home is Estonia		5,0					
Republicans and Conservatives		5,1					
Safe Home	13,6						
Popular Front	12,2						
National Independence Party	8,7						
Citizens of Estonia	6,8						
Estonian Entrepreneur Party	2,3						
Conservative People's Party						2,1	8,1
Free Party							8,7

The Social Democratic party shares with the Centre Party opposition to some of the manifestations of Estonian neo-liberalism. After having joined a Reform party - Pro Patria Res Publica coalition government in April 2007, it left in May of 2009 in protest to the welfare cuts and liberalisation of the labour market undertaken by the Reform Party. The Union of Pro Patria and Res Publica describes itself as conservative and is member of the European People's Party in the EP; an amalgam of Christian Democratic and Conservative parties. In economic terms, however, the party is primarily liberal. It headed the government after the first election in 1992 of the parliament of independent Estonia and was the driving force behind the transition strategy. Res Publica initially emphasised the need for cleaner politics and politicians after a series of corruption scandals, but after a meteoric rise in the 2003 election it was soon confronted with voter disappointment – not in the least because it became embroiled in a corruption scandal of its own involving the publicly owned Airline Estonian Air - and merged with Pro Patria (Taagepra 2005).

Though the Estonian Party system as such would allow for effective popular contestation of the policies pursued it has managed to dilute the potential opposition to some of its policies by mean of two mechanism of exclusion. First, as the citizenship laws of independent Estonia stipulated that citizens needed to demonstrate sufficient knowledge of the Estonian language, initially a large share of those who had migrated from other parts of the Soviet Union during communist times effectively were unable to acquire citizenship in the short term and thus were ineligible to vote. That meant that during the first democratic (post-soviet) elections in September of 1992 half a million residents were excluded, reducing the electorate to roughly 1,017,000 persons (Grofman et al. 1999, 231). Secondly, with the exception of the short-lived second cabinet of PM. Tiit Vähi of the Coalition Party, the Centre Party has effectively been excluded from government participation on the national level. The main cause of this political isolation is the policy making style of the Centre party's leader Mr. Edgar Savisaar, which to many is authoritarian and even bordering on illegality, Indeed, the reason for the fall of Vähi's cabinet less than six months after it was formed was that Mr Savisaar was found to have taped conversations with fellow politicians. In the fall of 2015, moreover, Mr. Savisaar was removed from his post of major of the capital city, Tallinn, and indicted on charges of corruption.

In addition to mechanisms of exclusion, opposition to neo-liberalism has been muted because socio-economic issues frequently were not considered the most salient and thus not able to function as a crystallisation point for an alternative political programme. Of particular importance here are the issues of statehood and national identity. In addition to Mr. Savisaar's leadership style, the fact that the central partly attracts the majority of the Russian speaking electorate and advocates a more foreign conciliatory policy with respect to the Russian Federation has also contributed to the reluctance of other parties to cooperate with it.

Emergence of a dominant socio-economic cleavage is further hampered by the presence of a significant safety valve in the form of labour migration. Though some members imposed long transition periods, after joining the EU Estonians gained free access to the labour markets of the other member states. With its per capita GDP that is almost three times the Estonian level, a generous welfare system, and a language that bears many similarities to their own, Finland has become a main target for Estonian labour migration, either through permanent emigration or weekend commutes. But also Sweden and (non-EU) Norway have absorbed a part of Estonian labour. It is estimated that about 8 to 10% of the Estonian workforce is actually employed outside of the country (Velmet 2014). Moreover, the country suffers from a continuous brain drain with emigration especially pronounced in the younger and better educated cohorts. Indeed, stemming emigration, as well as reducing non-EU immigration is one of the most prominent points of the Conservative People's Party, who managed to quadruple their share of the vote to 8.1% in the 2015 parliamentary elections.

Yet, the main reason for the non-death of neo-liberalism remains that the majority of the Estonian electorate sees no merit in supporting an alternative policy orientation, either because it feels to have benefited from the current polices, or because it cannot discern a credible leftist alternative. Indeed, though criticised fiercely by economists such as Paul Krugman, the harsh austerity policies conducted in the 2008-2009 crisis under the aegis of the Reform Party did not hurt its electoral fortunes. The party even managed to gather a slightly larger share of the votes in the 2011 election. Though exposed to severe economic hardship at points, the majority of the population has experienced a substantial increase in income since Soviet times. Moreover, the economically dismal 1990s were followed by a spectacular boom which served to silence much of the opposition that had visibly been gaining in strength since the late 1990s.

Nor can Estonia look to a successful example of alternative policies that might serve to mitigate this historically determined recoil from anything that challenges its fundamental neo-liberal convictions. Indeed both in terms of economic and political stability, Estonia clearly is the success case amongst the three former soviet republics on the Baltic shore, such that looking west produces no impetus for change. Nor can looking north provide such inspiration. As Finland is encountering increasingly hard times, it does not embrace the Left's preferred macroeconomic strategy of deficit spending, possibly coupled with devaluation – i.e. exit from the Euro and exchange controls - but emphasises the need for fiscal austerity and improved competitiveness through increased wage flexibility. If anything, the Greek's states inability to pay back its debt, which precipitated the current Eurocrisis, has provided Estonian governments with more ammunition to support its prudent fiscal policy. As a tiny country that is highly dependent on external developments for its well-being, Estonian governments can see no merits in go-it-alone economic policies, and, not unreasonably, in particular are not willing to embark on an untested, and frequently not very well defined, leftist strategy of challenging the policy orthodoxy. In this they can even draw inspiration from a large body of scholarship by analysts with a sympathetic bent towards the centre left. After all, ever since the demise of what is commonly called the Keynesian era, in the 1980s it has been widely argued that the rapidly increasing pace of globalisation has dramatically reduced the space for any alternative policies (Garrett and Lange 1991).

5. Conclusion: The Future of Neo-liberalism

Left leaning analyst such as Colin Crouch tend to assume that it would be natural for the political Left to benefit from economic crises, as it is the Left that most consistently thematises the deficiencies of market economies. Accordingly the survival of neo-liberalism in the face of a major economic crisis becomes a strange phenomenon. Yet, historical analyses do not bear out this contention as the extreme right commonly draws more electoral benefits from economic crises than the left (Funke et al. 2015).

Indeed, the break with liberalism was not the making of leftist parties swept into power in reaction to the economic dislocations of the Great Depression. In Germany, Japan and Italy, this sea-change came about under fascist, or militarist in the case of Japan, governments. In Estonia the political outcome of the Great Depression was a strengthening of the far right followed by a coup in 1933 by Konstantin Päts, whose authoritarian regime survived until the Soviet occupation in 1940 (Raun 1997, 340). In those countries that managed to defend a democratic constitution, the break with orthodoxy was most frequently implemented by centrist or conservative parties that had previously upheld the liberal dogma. In the USA, for example, president Franklin Delano Roosevelt, who is generally viewed as the founder of a new age in economic policy management, was initially elected on the basis of a platform that promised austerity in order to reverse the mounting budget deficits under his predecessor Herbert Hoover (Barber 1985). Even in Sweden, which has traditionally figured as the poster boy of social democratic policies, the crucial break with the Gold Standard, which then allowed for a departure from liberal orthodoxy also in fiscal matters was a decision the Social Democrats dared not take and instead left to a conservative government (Notermans 2000). In general, it was only after the Second World War that leftist parties benefited electorally from the changes first initiated by their competitors further to the right.

The current crisis in Europe seems to be no exception to this pattern. Apart from the leftist Syriza party in Greece - which has proven unable to bring about a change in adjustment strategies – it is right-wing and populist parties that seem to benefit most from the current crisis; from the *Front National* in France, the Freedom Party (PVV) in the Netherlands, the Swedish *Sverige Demokraterna* to the *Civic Platform* in Poland and Viktor Orban's *Fidesz* in Hungary. In sum, politically, any effective challenge to neoliberalism in Europe is more likely to be mounted by the Right than the Left.

Practically such a challenge could arise on either the level of the EU or the domestic level. Much, therefore, depends on the way in which the EU will turn in response to its economic problems. The proposals that would pose the most serious threats concern fiscal federalism and tax harmonisation. Ever since the van Rompuy Report (2012), the EU seeks a much more substantial fiscal capacity, similar to the federal budget of the USA, to deal with asymmetric shocks. A much larger budget of the EU, with the concomitantly larger contributions by the member states would have the effect of imparting an automatic fiscal stimulus to a member state in crisis as contributions would be reduced while receipts from the federal budget would increase. Such an EU fiscal federalism would mean that a substantial part of the spending decisions would be transferred from the national to the EU level and that a form of nondiscretionary Keynesianism would be institutionalised that would serve to negate the Estonian governemnts' reflex to resort to austerity when crisis looms. At the microeconomic level, the EU Commission, for some time now has been arguing in favour of harmonisation of corporate taxes (European Commission 2015), in order to come to terms with what can be seen as beggar-your-neighbour policies by some member countries. That policy would undermine the Estonian strategy of attracting foreign business by very favourable tax treatment. Yet, currently neither proposal seems to have a chance of being implemented in the near future. While fiscal federalism is strenuously opposed by Germany and most other North West European countries, German and French support for corporate tax harmonisation is insufficient to overcome dogged resistance form some of the EU corporate tax havens such as Luxembourg, the Netherlands, Ireland and indeed, several East European countries.

On the national level a challenge to the current policies is most likely to emerge from a conflict between the main ideological tendencies that characterise Estonia; economic liberalism, social conservatism and nationalism. The fear that the Estonian language and culture might disappear has been palatably present since Soviet times. Politically that fear points to the need to increase birth rates and reduce both immigration and emigration. Despite their reluctance to increase welfare spending, successive governments have significantly increased support to families with children in order to boost fertility rates. Though reducing migration is currently only on the agenda of the far right, the issue of survival of the national culture is widely shared also outside these circles. Moreover, a challenge to liberalism from that quarter will be much harder to resist as it is not tainted by any possible association with the Soviet past. Apart from more targeted welfare programmes to promote childbirth, this could also imply calls for a much improved overall welfare system as well as significant wage increase, in the public sector at least, to deter emigration. Moreover Estonia might join the ranks of those countries openly opposed to the EU's current immigration and asylum policy. In any case, change will be gradual, with no repetition of the quick demise of liberalism in the Great Depression on the horizon.

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