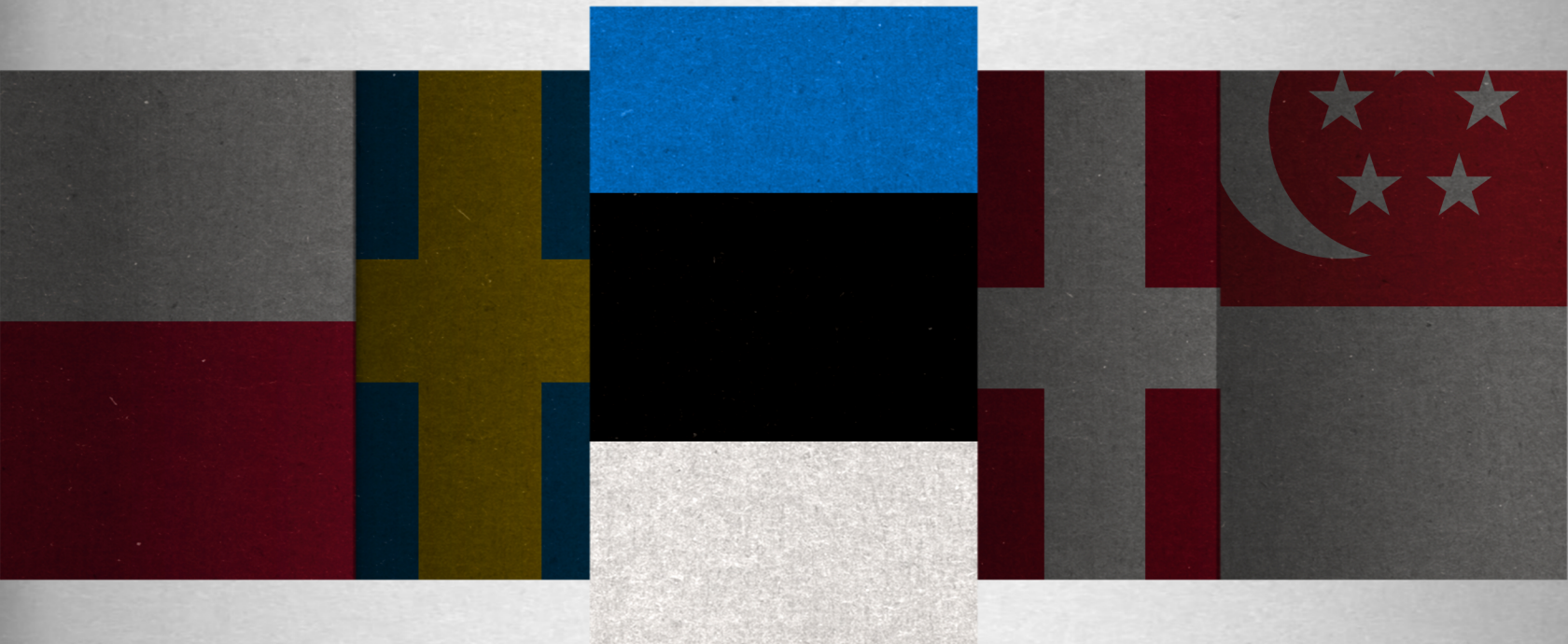


THE ROAD TO FREEDOM

Estonia's Rise from Soviet Vassal State
to One of the Freest Nations on Earth

Matthew D. Mitchell, Peter J. Boettke, and Konstantin Zhukov



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For media enquiries, please contact our Communications Department: 604.714.4582; e-mail: communications@fraserinstitute.org.

About the Fraser Institute

Our mission is to improve the quality of life for Canadians, their families, and future generations by studying, measuring, and broadly communicating the effects of government policies, entrepreneurship, and choice on their well-being.

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Dedications:

The authors jointly dedicate this book to all of those who resisted tyranny with song.

Matthew Mitchell dedicates this book to Viive Kaljo Frigola, who gave up her homeland to keep her freedom.

Peter Boettke dedicates this book to Roger Ream and The Fund for American Studies who for many years provided the opportunity to teach economics to a new generation of thought leaders from East and Central Europe and the former Soviet Union. They also afforded the amazing opportunity to meet Prime Minister Mart Laar and discuss the Estonian experience with post-socialist economic and political reform.

Konstantin Zhukov dedicates this book to his parents, Svetlana and Oleg, for their unwavering love and support.

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INTRODUCTION

Estonia is a testament to the productive and ennobling power of freedom. After waves of successive invasions from East and West, the small and fledgling country on the Baltic Sea was dragooned into the Soviet Union in 1940. There its people, about 1 million in total, were trapped for five decades as unwilling subjects of the socialist experiment. The experiment proved a failure. Rather than equality and prosperity, traditional socialism generated just the sort of economic and social maladies that Marx had predicted for capitalism: economic stagnation, recurrent crises, material and social inequality, environmental exploitation, political repression, and worker alienation.

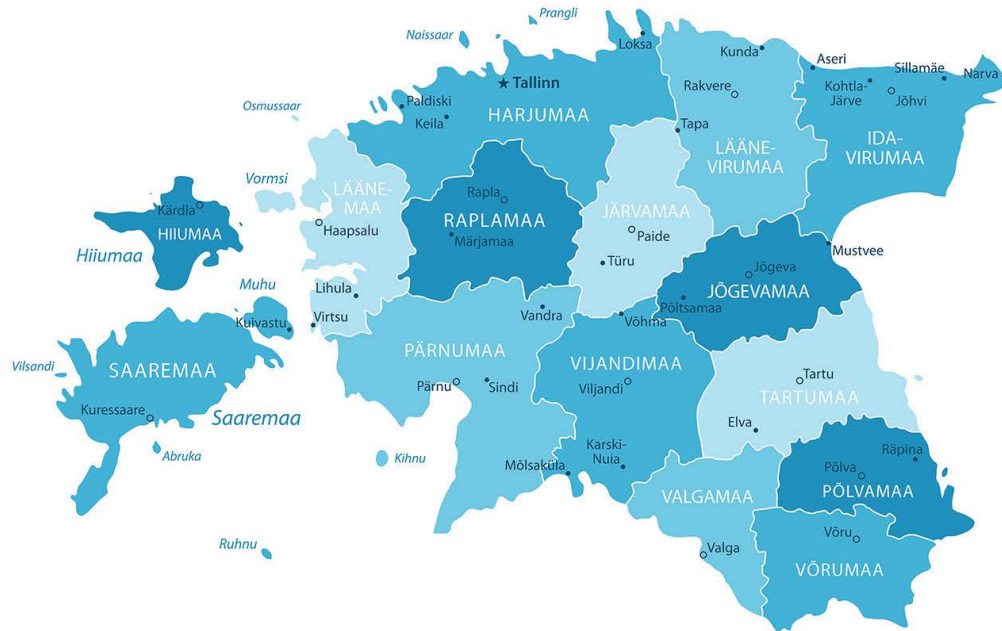
Eventually, Estonia's workers and intellectuals decided they had nothing to lose but their chains. So, they joined hands—literally—in revolt. Contrary to Marx's expectations, when it finally arrived, the revolution was against socialism, not capitalism. And contrary to everyone's expectations, it was a mostly peaceful revolution. Astonishingly, the totalitarian regime that ruled over a fearful nation for a half century was felled not by bullets but by song and clasped hands. In its place, the Estonians created one of the freest nations on Earth. In contrast with others who had been trapped behind the Iron Curtain, the Estonian break from socialism was swift and bold. It avoided the long, fitful, and often corrupt transition that bogged down so many other nations. Thus, reformers maintained both the momentum and the moral legitimacy of their efforts.

Finally free, the Estonians thrived, achieving a degree of prosperity and equality promised but never realized under socialism. In this book we recount the fall and rise of Estonian freedom. Though the events we relate took place more than a generation ago, we believe that they hold important lessons for today. They demonstrate the economic, social, and moral value of economic and personal freedom. They show that when governments deprive their people of freedom, they often do so in a grossly discriminatory way. Despite the widely held belief that freedom and equality are incompatible, something of the opposite is true: government dominion and discrimination often go hand-in-hand. This means that, at least for a time, some segments of society benefit handsomely from the repression of others, and these beneficiaries will fight fiercely to maintain the status quo, making change seem impossible. This dynamic explains the persistence of much milder deprivations of economic freedom in Western nations today.

But Estonia found a way out of this trap. And we can learn from their experience. We begin with a brief introduction to Estonian national identity and Estonia's 19 years of independence before Hitler and Stalin turned the country into a battlefield. We then discuss the Soviet occupation and socialist experiment from 1944 to 1991. We believe

that the best way to understand this experience is to compare Estonia's economic development with that of comparatively free Finland across the Gulf of Finland. Finally, we discuss Estonia's remarkable transformation from socialist vassal state to one of the freest nations on Earth.

Figure 1.1: Map of Modern-Day Estonia



Source: istockphoto.com

THE EMERGENCE OF THE ESTONIAN NATION: 1850–1940

“We should be embarrassed that we are not educated, not that we are Estonians!”

—Johan Voldemar Jannsen

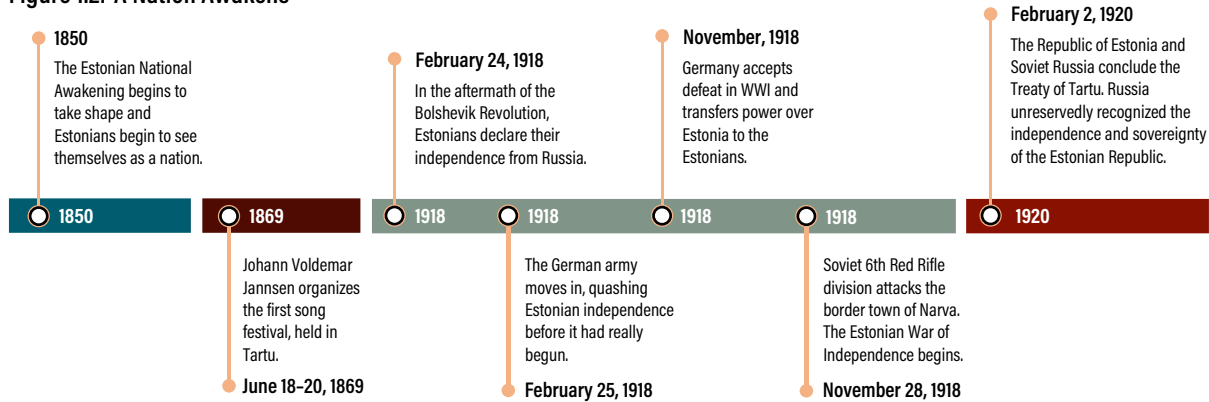
The Estonian national awakening

The small country of Estonia sits at a literal crossroads. On the eastern shore of the Baltic sea and the western edge of the East European Plain, it is where ancient north-south and east-west trade routes meet (Aslund, Djankov, and Laar, 2014). In the Middle Ages, its largest communities, Tartu and Tallin, were focal points for international trade under the protection of the Hanseatic League. Sitting at the edge of Europe and Asia it is, in Samuel Huntington’s famous formulation, where cultures clash (Huntington 2011: 159). By the 9th and 10th centuries northern Estonia and its coasts were increasingly dominated by Nordic culture, while the south was increasingly Slavic (Mägi, 2018).

Its location has made it the locus of both peaceful and violent exchange. Over the centuries, the land has been conquered by invaders from all directions: Germans, Danes, Poles, Swedes, and Russians. The Estonians were not always innocent victims. Estonia’s coastal and island dwellers embraced the Viking life (Jarman, 2023). And after the Viking Age, Estonian pirate ships successfully plundered the coasts of Sweden and Denmark. Some of those who invaded Estonia, such as the Baltic Germans, tried to extract as much wealth as they could. Others, such as the Swedes under King Gustavus, introduced land and inheritance rights and built schools, permitting the Estonians to flourish (Liulevicius, 2015: lecture 3). Now, centuries later, the Estonians still credit King Gustavus for the freedom and prosperity he permitted them.

Tsarist Russia had conquered most of present-day northern Estonia in 1710 in the Great Northern War. And Russia was still in control in the 1850s when a movement known as the Estonian National Awakening began (see Figure 1.2 for a timeline of events up to Estonian independence). Led by writers, politicians, and teachers, the movement encouraged national consciousness, and eventually led to a push for political self-determination. The leaders of the movement could remind their fellow countrymen that ethnic Estonians had inhabited this land and fished its waters for more than 5,000 years, making them

Figure 1.2: A Nation Awakens



one of the earliest ethnic communities in Europe (Thomson, 1992: 10; Laar, 2005: 29). They could also remind them that for as long as anyone could remember Estonians had been singing. Together, holding hands, in call-and-response fashion, they had sung songs in the ancient oral tradition—runic song. The legends in their songs told of the origin of the Earth and of their people. They also told of the wise old barn keeper who waited by the fire and acted only when the time was right (Tusty and Tusty, 2006). In 1853, the Estonian writer Friedrich Reinhold Kreutzwald drew upon this tradition in his epic poem, *Kalevipoeg*, which is now considered the Estonian national epic.

Schoolmaster and writer Johann Voldemar Jannsen was a key figure in the National Awakening. Jannsen published a popular newspaper, *Pärnu Postimes* (Pärnu Courier), the first edition of which was addressed to “Dear Estonian nation!” (Laar, 2005, 29). Jannsen emphasized the importance of both freedom and education, reminding his fellow countrymen that they had a right to the former and encouraging them to cultivate the latter. Jannsen’s slogan for the Pärnu Courier declared “We should be embarrassed that we are not educated, not that we are Estonians!” (Laar, 2005, 29).

In the early 1860s several teachers and peasants founded an Estonian-language school in Viljandimaa County to address this problem. They named it *Aleksandrikool* (Alexander’s School) after Tsar Alexander I. The name reflects two important facts. First, it was an homage to freedom and the tsar, whom Estonians credited for liberating them from serfdom in 1816. Second, it indicates that at this point, the Estonians saw no contradiction in emphasizing their national identity while remaining a part of the Russian Empire (Laar, 2005: 30). As a part of the National Awakening, the Estonian school system was modernized, and national literature, art, and theater were born. The efforts to educate Estonians paid off. By 1897, 96.1 percent of all Estonians ten years of age and older could read, and the literacy rate of males and females was roughly equal. This was the second highest literacy rate in all of the Russian Empire, second only to Finland’s (Raun, 2003: 136).

In 1869, Jannsen organized the first song festival in the city of Tartu in eastern Estonia. Choirs from all over Estonia were invited, and by some accounts nearly all Estonians

attended. As Mart Laar, the first post-Communist prime minister and an historian by training puts it, the Estonians “sang themselves into a nation” (Laar, 2005: 31). For a century and a half the festivals have continued, recurring every few years. The journalist Clare Thomson reports that, “for years, say the Balts, singing is all that the authorities have allowed them. Singing had always been a relief during the years of tsarist and Soviet oppression. The Estonians called the October revolution the Revolver Revolution; theirs is the Singing Revolution.” She quotes an Estonian named Eve who proudly asserts that signing “is our greatest power” (quoted in Thomson, 1992: 9).

As so often seems to happen, the Estonian national identity gained strength whenever authorities—first the Russians and later the Soviets—tried to suppress it. Beginning in the 1880s, the Tsarist Empire moved to take over Estonian schools, courts, and local governments. Their campaign of “Russification” extended to civil society as well. They pressured national organizations, the Lutheran church, and the press to emphasize Russian rather than Estonian identity (Laar, 2005: 33–34). This, however, only emboldened a younger and more radical generation of Estonian national movement leaders (Laar, 2005: 34–36). It was in this period that the blue, black, and white flag of the Estonian Students’ Society began to be waved as a symbol of national identity and political autonomy. The movement was further strengthened after the failed Russian Revolution of 1905 forced Tsar Nicholas II to make some limited concessions to Russian democrats. Estonians seized on the opportunity, pushing for their own political autonomy as well. But for the time being, they had to settle for the regained right to run their own schools in the Estonian tongue (Laar, 2005: 34).

Independence

Lenin famously called the Russian Revolution of 1905 “a dress rehearsal” for the October Revolution of 1917 (Ascher, 1988: 1). In some ways this was true for the Estonians as well. For it was in the aftermath of the latter revolution that they would finally gain their independence. But it was a rocky road.

In February 1917 Russians were once again in revolt. Continuing to chafe under the tsar’s autocratic rule and the country’s sclerotic pace of modernization, their frustration now boiled over as Russia’s losses in World War I continued to mount. Sensing an opportunity, 40,000 Estonians gathered in Petrograd in March 1917 to demand greater autonomy for their region. It worked. The region was granted a degree of autonomy over its own affairs and was organized into the autonomous Governate of Estonia, which was now expanded to the south, swallowing up what had previously been Livonia. But this was only the first step.

Sensing their own opportunity, the Germans decided to let the Russian exile Vladimir Lenin return to Russia in April 1917. Their hope was that he would further destabilize the country and cause Russia to withdraw from the war. It worked. Following the October Revolution, the Bolsheviks gained control of Russia in November 1917. In February of the next year, the Imperial German Army forced the Russians out of Estonia. Taking

advantage of the power vacuum, the Estonians declared their independence from Russia on February 24, 1918, and formed the Estonian provisional government.

The Estonian Declaration of Independence began by asserting Estonians' long-held desire for independence. Then, invoking the "unheard-of struggle of peoples [that] has shattered the foundations of the Russian tsarist state," the document declared that "now is the time." By virtue of "the right of peoples to self-determination.... ESTONIA, within her historical and ethnic boundaries, is declared as of today an INDEPENDENT DEMOCRATIC REPUBLIC" ("Manifesto of Independence," 1918).

The very next day, however, the German army moved in. Refusing to recognize Estonian independence, the Germans established a brutal occupation that lasted 9 months (Laar, 2005: 40). In November 1918, Germany accepted defeat in World War I and transferred power to the Estonians. Importantly, however, a German division under the command of Rüdiger von der Goltz was allowed to remain in Latvia to the south (the Western forces permitted this, believing Goltz would counterbalance the emerging threat posed by the Bolsheviks).

Estonia's next problem was the Soviet Red Army. Though they had come to power promising to withdraw Russia from World War I, the Bolsheviks were ideologically committed to worldwide communist revolution. Believing that workers everywhere yearned for their own socialist revolution, the Bolsheviks thought all that was needed was a little assistance from abroad. The first place they decided to test this theory was Estonia. On November 28, 1918, the Soviet 6th Red Rifle division attacked the border town of Narva, initiating what became known as the Estonian War of Independence.

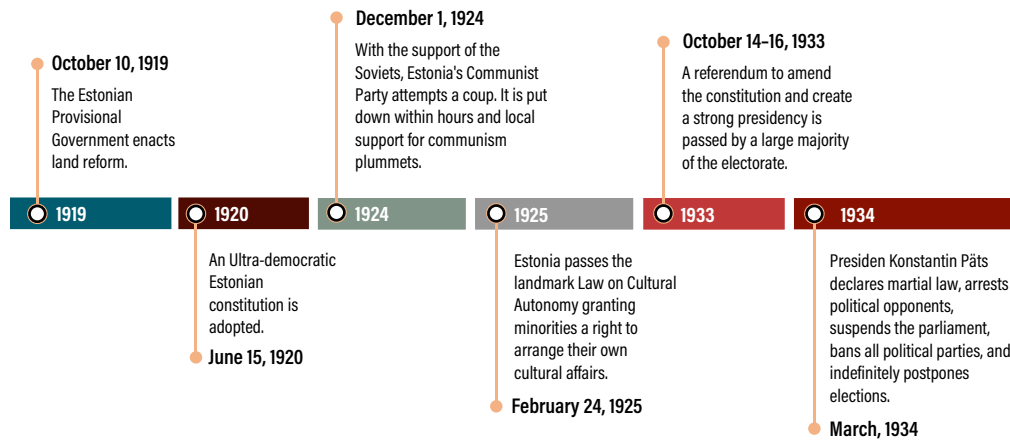
For the next twelve months, with the help of Finland and the United Kingdom, the Estonians fought Soviet Russia. They also had to battle Goltz and his remaining German forces in Latvia who aspired to annex Estonia to a German-controlled Latvia. Estonia defeated Goltz on June 23, 1919 (commemorated in Estonia as Victory Day), and by the end of the year, they had exhausted the Red Army as well. On February 2, 1920, the Republic of Estonia and Soviet Russia concluded the Treaty of Tartu. In it, Lenin's Russia unreservedly recognized the independence and sovereignty of the Estonian Republic ("Esthonia and Soviet Republic of Russia – Peace Treaty, Signed at Tartu," 1920).

For the next 19 years, Estonia was independent (see Figure 1.3). Over these two decades, the Estonian people enjoyed greater freedom than they had under the tsars and more freedom than they would under the Soviets. But as we explain in the next section, like so many western capitalist nations during this time, the government played an active role in the economy, and political and economic freedoms were progressively curtailed.

Land reform

The Estonian Declaration of Independence had promised all citizens equal protection under the law, irrespective of religious views, ethnic origins, or political affiliations. It also promised to protect civil freedoms, including freedom of religion, assembly,

Figure 1.3: Estonia's Period of Independence.



expression, and the press. The government, however, did not inherit a clean slate. While Alexander I had abolished serfdom in Estonia in 1816, Estonia's large landholding elite—especially the former Baltic-German nobility—had benefited from centuries of political privilege. As a result, large, formerly privileged landowners controlled much of Estonia's arable land.

Thus, before they had even established a constitution, the Provisional Government moved to address the land problem through redistributive land reform. In doing so, they hoped to achieve several goals. First, the redistribution of land to landless peasants was meant to signal a break with the past inequities of the tsarist regime. Second, political leaders hoped that through land reform they could out-flank the communists who were agitating for more radical changes, such as collectivization and full-scale central planning. Finally, they hoped to undermine the domestic political influence of foreign elites, such as Baltic Germans (Rauch, 1995: 87–89).

With these goals in mind, the provisional government enacted the Estonian Land Reform Act on October 10, 1919. On the eve of the reform, rural land in Estonia had been distributed among 51,640 small farms and 1,149 large estates. The reform expropriated 1,065 of the large estates, including private estates of the Baltic German nobility, tsarist state lands, and agricultural lands owned by the churches (Raun, 2001: 128). Ethnic Estonians with large land holdings were typically spared. Former landowners were not compensated until 1926, but at that point those who had owned arable land only received 3 percent of its pre-war nominal value, while those who had owned forest land received nothing (Jørgensen, 2006).

The expropriated land was then redistributed to peasants, transforming large estates into small family farms and creating close to 56,000 more small holdings (Rauch, 1995: 89). While this sort of land reform was common throughout Eastern Europe at this time, Estonia's was considered especially radical, given the low compensation rates and the fact that it was ethnically targeted (Jørgensen, 2006). Another unique feature of the Estonian

land reform is that it emphasized economic viability: the property was redistributed not by fixed minimum or maximum hectares, but by viable units that could support a family with two horses (Jørgensen, 2006: 79). This allowed Estonia to develop a relatively prosperous agricultural sector with yields that were comparable to those of Latvia, Lithuania, and Poland in the 1930s (though below that of Scandinavia) (Raun, 2001: 129).

Estonia's first ultrademocratic constitution

The Interim Government's next task was to create Estonia's first constitution. Its structure has been called ultrademocratic in the sense that there were few checks on the majority party's power (Taagepera, 1993: 53). Adopted in June 1920 and implemented in December of that year, it ostensibly divided power between the legislative, executive, and judicial branches. The legislature, however, wielded the bulk of the power. It elected—and could dismiss—the prime minister. It also selected the judges of the Supreme Court (Raun, 2001; Taagepera, 1993). The prime minister had no power to call for an election as in other parliamentary systems. This asymmetry proved quite unstable, with prime ministers and governments changing, on average, every eight months between 1919 and 1934 (Taagepera, 1993: 53). The legislature was unicameral, so factions would easily push their agendas through.¹ All 100 members of parliament were chosen from a single, nationwide district. Parliamentary seats were allocated through proportional representation, and parties with as little as one percent of the vote could obtain seats. This institutional arrangement permitted 14 parties to gain seats in the 1923 parliament, making it one of the most fractionalized systems in the world (Taagepera, 1993: 53). As we will see, the electorate ultimately soured on the arrangement, and the institutional pendulum swung from ultrademocratic to authoritarian.

An important achievement of this period was the 1925 Law on Cultural Self-Government for National Minorities. A unique development at a time when cultural and ethnic minorities were being scapegoated throughout the world, the law guaranteed Estonia's significant minorities the right to arrange their own cultural affairs and practices (Alenius, 2007).

A failed coup

One of the first challenges to the new republic was a coup d'état. On December 1, 1924, several hundred communists attempted to overthrow the government. They were supported by the Soviet Comintern, the Soviet Communist Party's international organization for the promotion of communism. And it appears that many of the plotters were Russian. Russia had deployed troops along the Estonian border, evidently waiting for a signal from their comrades to invade. As with the Soviet invasion of 1918, the communists believed that this small contingent would light a spark that would be fanned by the Estonian masses yearning for their own socialist revolution. They were mistaken (Raun, 2001: 115; Taagepera, 1993: 54). No one came to the aid of the plotters and the coup was put down within hours. In fact, the coup seemed to drain the Communist Party of its political strength in Estonia (Raun, 2001: 115).

From ultrademocratic to authoritarian state

The 1920s were a period of rising nationalism and authoritarianism throughout the world. And as the decade wore on, Estonia's ultrademocratic constitution became increasingly unpopular. In 1933, the right-wing League of Veterans of the War of Freedom (popularly known as the Vaps) proposed to amend the constitution to create a strong presidency. Another ultrademocratic feature of the constitution was that just 25,000 signatures were needed to hold a referendum for constitutional change (Griffin and Kasekamp, 2001). The Vaps easily met this threshold and their proposals were adopted in a nationwide referendum by 73 percent of the electorate (Taagepera, 1993: 55). It was assumed that the Vaps would take control in the next election, and they began to threaten their opponents with retaliation once they gained power. But they were outmanoeuvred. Before they could take control, Prime Minister Konstantin Päts became the acting president, and he asserted the right to exercise all of the newly granted presidential powers. In March 1934, he declared martial law, arrested 400 Vaps, suspended the parliament, banned all political parties, and indefinitely postponed elections (Taagepera, 1993: 55).

Päts ruled Estonia until the Soviet invasion of 1940, and because of his stranglehold on political competition the period became known as the Era of Silence. There were some bright spots, however. For one, he was seen by many as a milder alternative to the far more radical Vaps (Griffin and Kasekamp, 2001; Raun, 2001: 122-123). For another, toward the end of his term, Päts showed some indication of loosening his grip. He exercised power with caution, talked approvingly of shifting back toward more democratic norms, and granted amnesty to all political prisoners, left and right (Taagepera, 1993: 56–57). Institutional changes suggested that things might improve. On January 1, 1938, a new constitution went into effect, creating a bicameral legislature and reducing some powers of the presidency. It did not last long enough for us to evaluate it.

The Estonian interwar economy

The economy of Estonia faced many challenges throughout its 19 years of independence. Its infrastructure and productive capital had been decimated by years of war. It was suddenly cut off from Russia, its main trading partner. And the assets of many of its companies, held in Russian banks, had been confiscated when Russia nationalized the banks. As a result, when the country gained its independence many industries such as metallurgy were operating at a fraction of their pre-war capacity (Raun, 2001).

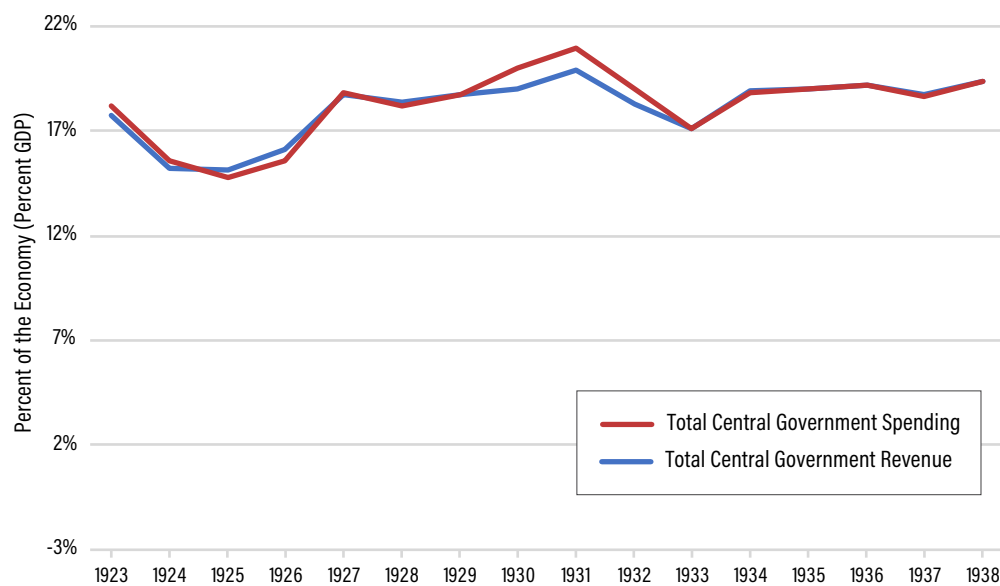
Estonia's leaders were also tasked with formulating economic policy. The tsars had been absolutist rulers. Their power derived from the support of the nobility, which represented just 1 percent of the population. As Daron Acemoglu and James Robinson put it, “Unsurprisingly, economic institutions [in tsarist Russia] were extractive, organized to make the tsar and nobility as wealthy as possible. The basis of this, as in many extractive economic systems, was a mass system of labour coercion and control, in the particularly pernicious form of Russian serfdom” (2012: 216). Even after serfdom was abolished—in 1816 in Estonia and in 1861 in the rest of the empire—village communes tightly controlled the

amount of land allocated to each household and circumscribed the economic activities that households could undertake (Nafziger, 2010). Tsarist Russia also took a decidedly mercantilist approach to economic development, believing that the road to prosperity was paved with protectionist tariffs and industrial subsidies (Pihlamägi, 1999: 16). Although independent Estonia's government permitted free enterprise, with relatively low taxes and minimal regulations, it inherited some of these interventionist impulses.

The provisional government established the Bank of Estonia (*Eesti Pank*) in 1919 and began issuing the Estonian mark in 1921. But like so many central banks of the era, it grossly mismanaged monetary policy. By statute, the mark was supposed to be backed by gold, but in practice the bank issued uncovered paper notes ("Eesti Pank," n.d.). The bank over-expanded credit, channelling it to well-connected politicians and insolvent firms, eventually precipitating a credit crisis in 1924 (Kõll and Valge, 1988: 32; Valge, 2003: 220; Pajos, 2016: 21–22). In June 1924, the bank introduced a new currency, the Estonian kroon. Based on the Swedish krona and backed by gold, the new currency was more stable, and monetary policy improved.

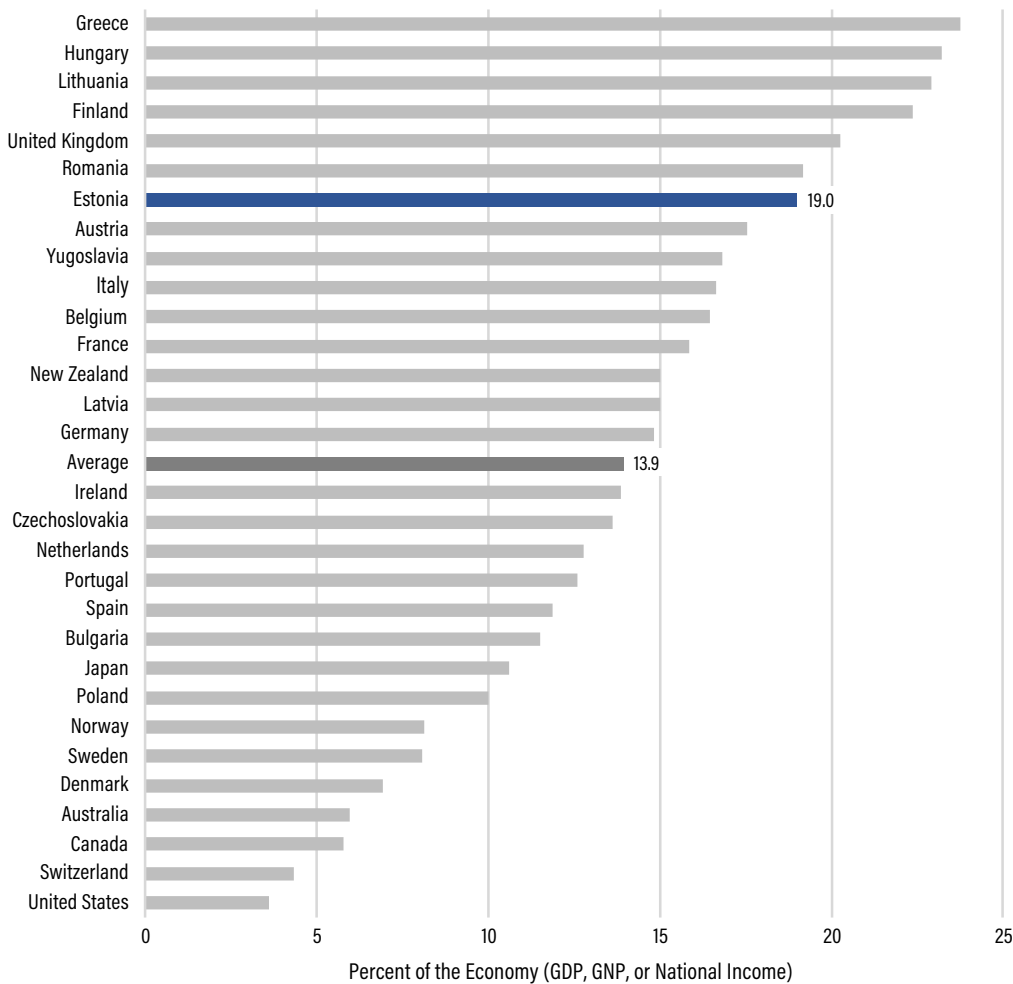
Figure 1.4 shows Estonian central government spending and revenue as a share of the economy from 1923 to 1938, and Figure 1.5 shows central government revenue in 1930 across several countries. Together, the figures show that Estonia's government consumed a comparatively large and modestly growing share of the nation's resources. Revenue and spending fell between 1931 and 1933, as world trade collapsed in the Great Depression. But from 1933 onward, both resumed their modest upward trend. At its peak in 1931, government revenue consumed about 20 percent of GDP.

Figure 1.4: Estonia's Central Government Spending and Revenue During Its Independence Years, 1923–1938



Source: Norkus, Morkevičius, and Markevičiūtė, 2021: 19.

Figure 1.5: Estonia Central Government Revenue, Compared to Others, 1930



Source: Norkus, Morkevičius, and Markevičiūtė, 2021: 18.

Foreign ownership of Estonian enterprise—especially British ownership—was common. It was so common, in fact, that critics referred to Estonia as a “semi-colony of big capitalist powers” (Hinkkanen-Lievonen, 1984: 263–65). Although Estonia’s early leaders spoke favourably of free trade, they maintained a high protective tariff throughout the interwar period (Pihlamägi, 1999: 92). Then, with the onset of the authoritarian era in 1934, government leaders explicitly embraced protectionist tariffs, economic nationalism, corporatism, and planning (Klesment, 2005). In the shadow of this high protective tariff, an extensive illegal trade in alcohol between Finland and Estonia developed (New York Times, 1932).

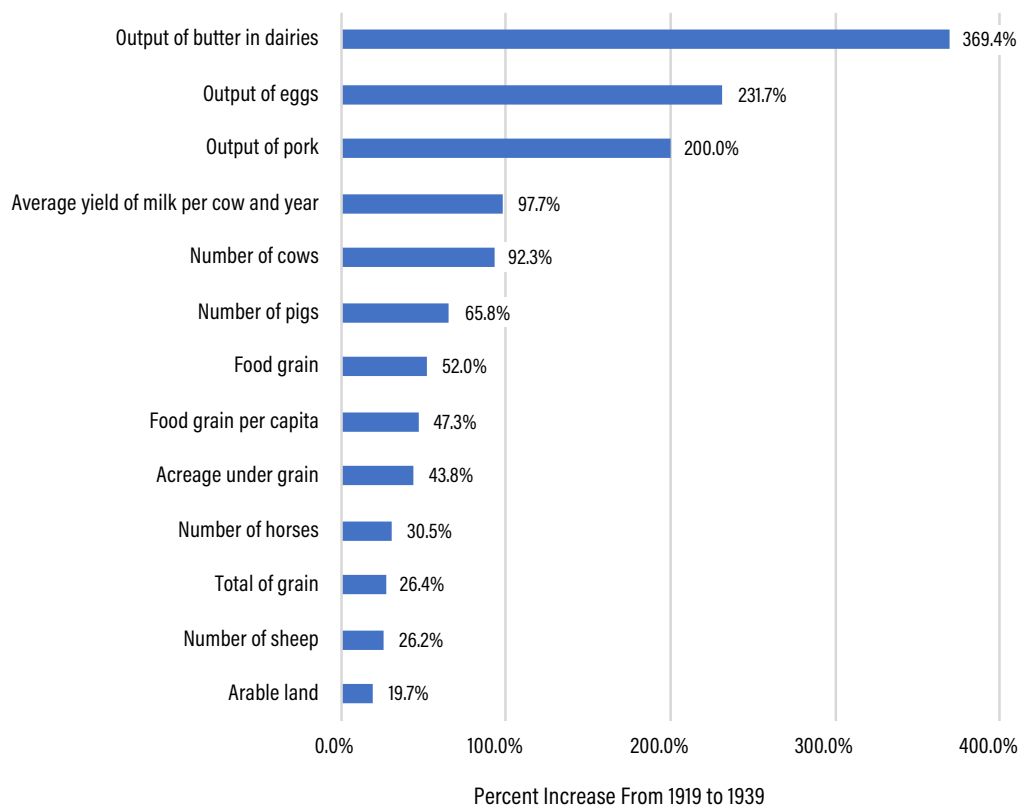
In embracing interventionist economic policies in the 1930s the country was not far out of step with other Western nations. Päts spoke favourably of Mussolini (Klesment, 2005: 128). But so did Roosevelt and the New Dealers in the United States (Boaz, 2007). And, like citizens of other Western capitalist nations, Estonians enjoyed a modest degree of

economic freedom. Domestically, they were able to trade with whomever they wanted to, on whatever terms they wanted. They were able to acquire and use property without much government interference, and they could count on courts to recognize their property rights. They were able to contract with one another, and their agreements were protected under the rule of law. Estonians were able to start and run their own businesses, and they had developed a reputation for entrepreneurial spirit (Liuhto, 1996: 122). This spirit had been nurtured through four centuries of interaction with German and Swedish entrepreneurs (Bohnet and Penkaitis, 1988: 36). To put it in the framework of the economic historian Deirdre McCloskey, Estonians who wished to be entrepreneurs were given the liberty and dignity to do so (McCloskey, 2011, 2016).

Government involvement varied by sector. Private enterprise expanded rapidly in agriculture and trade, where 90 percent of the 12,920 trading enterprises were in private hands by 1939 (Liuhto, 1996: 124). Most of these firms, however, were either small- or medium-sized agricultural and consumer products firms, and most industrial output was produced by state-owned firms, especially those in energy and timber (Raun, 2001).

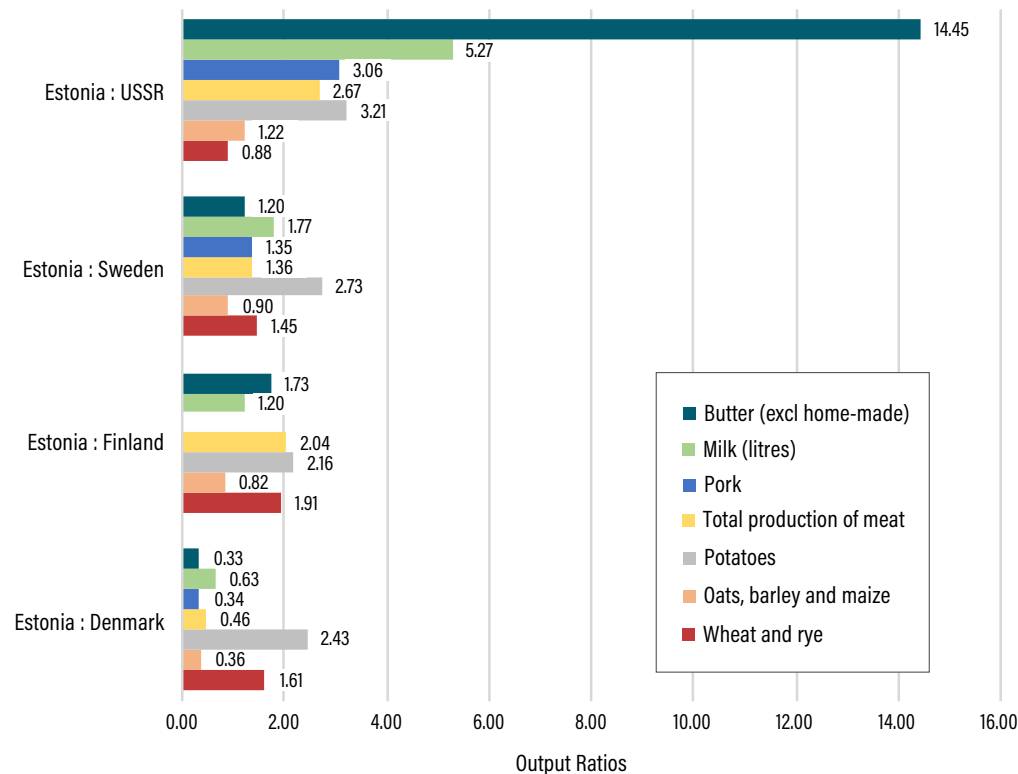
As shown in Figure 1.6, Estonia's small private agricultural firms managed to significantly increase their output throughout the independent era. The average yield of milk per cow per year, for example, nearly doubled from 1919 to 1939, while food grain per capita

Figure 1.6: Estonia's Agricultural Output, 1919-1939



Source: Kareda, 1947: 27.

Figure 1.7: Independent Estonia's Agricultural Production Per Person Compared to its Neighbouring Countries, 1939

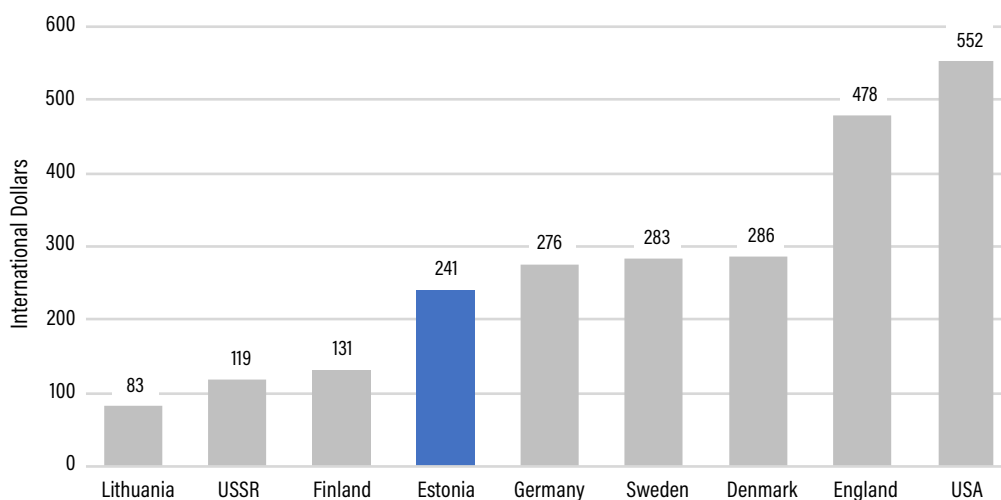


Source: Kareda, 1947: 28.

rose by more than 47 percent (Kareda, 1947: 27). Figure 1.7 shows Estonian agricultural production compared with that of the USSR, Sweden, Finland, and Denmark. Each bar shows the ratio of Estonian production per person relative to the comparison country. The Estonians out-produced the Soviets, the Swedes, and the Finns in six out of seven categories, sometimes by wide margins. Only the Danes were more productive than the Estonians, though not in all areas. Estonians were especially productive compared with the Soviets, producing more than three times as many potatoes, five times as much milk, and more than 14 times as much butter. As we will see, Estonia's neighbours to the East were already feeling socialism's effects.

While Estonia's state-dominated industrial sector was not as impressive as its agricultural sector, it did increase in both size and productivity. From 1933 to 1939, the value of industrial production increased by about 125 percent, while productivity per worker increased by about 26 percent (Liuhto, 1996: 29). Even though it was not known as an industrial powerhouse, 37.8 percent of all Estonian exports were industrial by 1937 (Kareda, 1947: 32).

In summary, the Estonian government played an active role in the economy during the interwar period, but this was not far outside the norm of Western capitalist countries in this time. It was also a considerable improvement over the tsarist regime, a time when

Figure 1.8: Average Annual Income Per Person, 1925-1934

Source: Dellenbrant, 1992: 199.

government leaders tightly circumscribed economic freedom and extracted as much wealth as they could from the people. As a result, the era produced improvements in living conditions for the vast majority of the population (Kareda, 1947). As Raun put it: “In terms of standard of living, Estonia’s position was comparable to that of other successor states in Eastern Europe” (2001: 132). Figure 1.8 shows average annual income per person in Estonia and eight other countries from 1925 to 1934.² The average Estonian was not as wealthy as the average American or Brit. But he earned 84 percent more than the average Finn and more than twice as much as the average person in the Soviet Union. All of that would soon change.

Notes

- 1 As Buchanan and Tullock (1962) explain, bicameral legislatures—especially those with different bases of representation—tend to check the power of interest-group coalitions. See also Grofman, Brunell, and Feld (2012).
- 2 The data are in international dollars. An international dollar is a hypothetical unit of currency that has the same purchasing power as the U.S. dollar in the United States at a given point in time.

BETWEEN TWO WOLVES: 1940-1944

“On June 21, 1940, without any violence, the socialist revolution triumphed in Estonia. By the summer of 1940, the working-class had truly become the dominant class in the country and thus predetermined its victory. The bourgeoisie had lost control over its military-bureaucratic apparatus and was unable to use it to suppress the revolutionary masses. The revolution had not been exported to Estonia; the action of the masses was the result of internal causes only.”

—Soviet booklet published in the 1950s (Quoted in Taylor, 2018: 83)

The Molotov-Ribbentrop pact

On August 23, 1939, Joachim von Ribbentrop, the German foreign minister, landed in Moscow. Stepping off the plane, he was greeted by six enormous Swastika flags. The Russians had obtained them from a Soviet propaganda film studio, where they had recently been employed as props in films denouncing the Nazis (Liulevicius, 2015: lecture 10). Now the flags were being proudly displayed, though they were carefully concealed from the street so that common Russians would not see them. Von Ribbentrop was rushed to the Kremlin, where he met with Stalin and finalized the details of the Molotov-Ribbentrop non-aggression pact around midnight. Von Ribbentrop’s Soviet counterpart, Vyacheslav Molotov, had only recently been appointed commissar of foreign affairs by Stalin. He replaced the Jewish Maxim Litvinov, who had been dismissed by Stalin as a conciliatory gesture to Hitler.¹ Once the pact had been agreed to, Stalin—who rarely drank—toasted to Hitler’s health (Liulevicius, 2015: lecture 10).

Although Hitler and Stalin characterized one another as ideological opposites, the dictators had more in common than totalitarian terror. For his part, Hitler’s National Socialist party platform (published in 1920) contained a half dozen planks that lived up to the socialist part of its name. These included “breaking the slavery of interest” (plank 11), “nationalization of all businesses which have been formed into corporations” (plank 13), “communalizing of big department stores” (plank 16), “expropriation of land for communal purposes without compensation,” the “abolition of ground rent,” and the “prohibition of all speculation in land” (plank 17) (Holocaust Encyclopedia, 2020).²

Figure 2.1: Joseph Stalin (left) and Joachim von Ribbentrop in 1939 celebrate the Molotov-Ribbentrop non-aggression pact. Its secret protocols relegated Estonia to the Soviet sphere.



Source: Bundesarchiv, Bild 183-H27337 / CC-BY-SA 3.0

Though Hitler may not have known it at the time, Stalin had already shown a Hitlerian capacity for mass murder. Over the preceding three years, Stalin had killed 247,157 citizens of the Soviet Union in the Great Terror (Snyder 2022: 103; Conquest, 2007). The historian Timothy Snyder describes it this way:

As of the end of 1938, the USSR had killed about a thousand times more people on ethnic grounds than had Nazi Germany. The Soviets had, for that matter, killed far more Jews to that point than had the Nazis. The Jews were targeted in no national action, but they still died in the thousands in the Great Terror—and for that matter during the famine

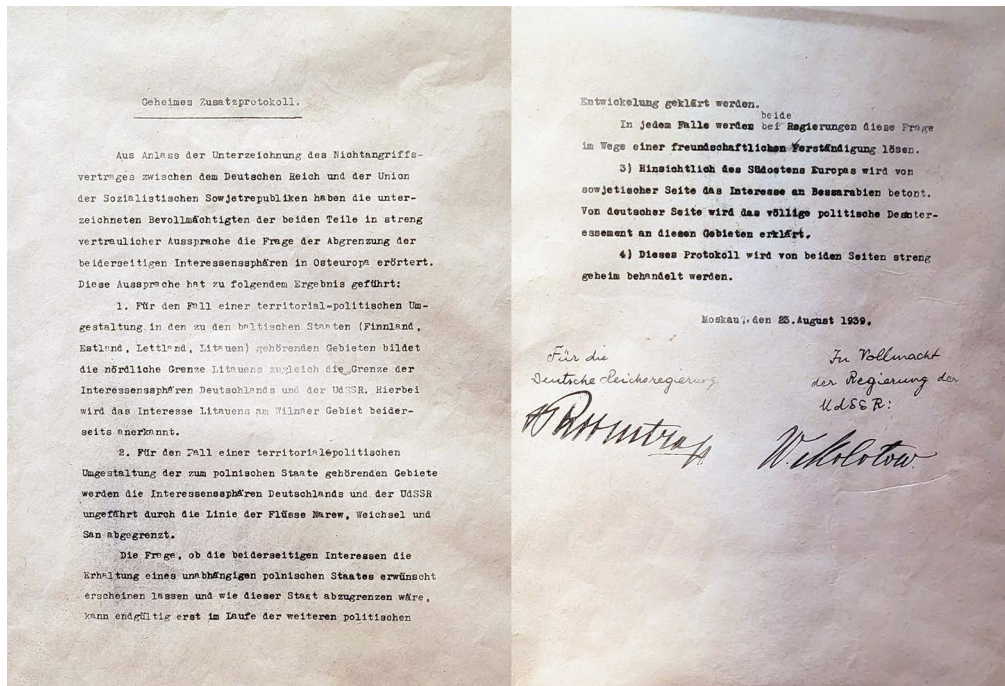
in Soviet Ukraine. They died not because they were Jews, but simply because they were citizens of the most murderous regime of the day. (Snyder 2022: 110)

There was also a practical element to the alignment. Stalin felt he had more to gain from aligning with Germany than with Great Britain and France. And as Stalin later put it, he and Hitler had a “common desire to get rid of the old equilibrium” (Snyder, 2022: 115).

In any case, the pact publicly committed Nazi Germany and the USSR to mutual non-aggression. But it was the secret protocols of the pact—denied by the Soviet Union for a half century—that reshaped the world and threw Estonia into a half-decade of crisis (see Figure 2.3 for a timeline of events). The new allies agreed to carve up Europe, splitting Poland down the middle, and granting Finland, Estonia, Latvia, Lithuania, and Romania to the Soviets.³ Hints of the secret protocols reached the Baltics within days. The new allies wasted no time. On September 1, 1939, Germany invaded Poland from the west and on September 17 the USSR invaded from the east. Less than a week later, the Nazis and Soviets were both in the Polish city of Brest-Litovsk holding a joint parade. By the end of the month, the invaders were in control of Poland.⁴

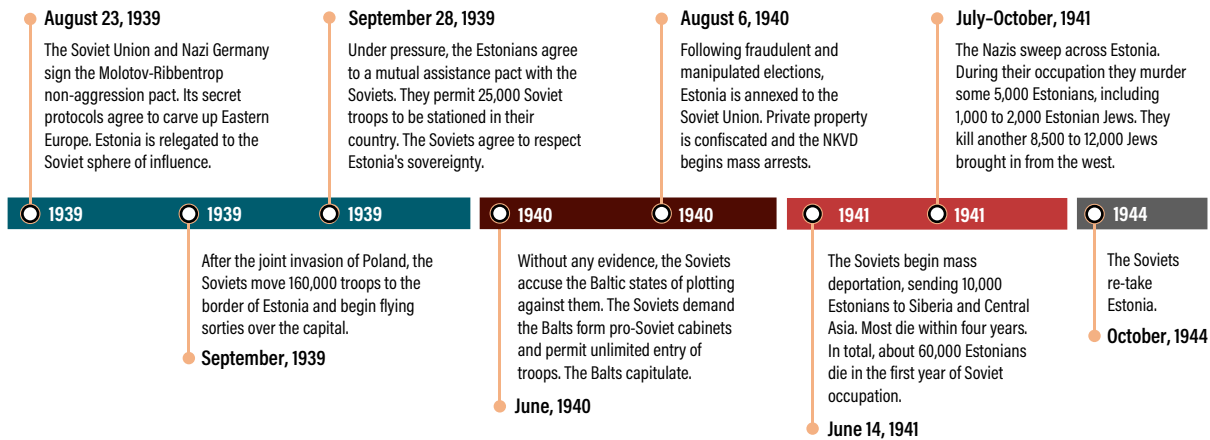
After this demonstration of power, the USSR shifted 160,000 troops to the border of Estonia. On the other side, Estonia’s army numbered just 16,000. By late September the

Figure 2.2 The secret additional protocol of August 23, 1939 to the non-aggression pact between Nazi Germany and Soviet Union.



Source: Thoralf Schade, CC BY-SA 4.0 <<https://creativecommons.org/licenses/by-sa/4.0>>, via Wikimedia Commons

Figure 2.3: Estonia's Years in Crisis



Soviets were patrolling Estonia's territorial waters, while bombers were invading its air space, flying low over Tartu and the capital, Tallinn (Taagepera, 1993: 59; Raun, 2001: 141). On September 27 an Estonian delegation was summoned to Moscow. There, the Soviets demanded the right to place 35,000 troops on Estonian territory. Stalin himself joined the negotiations, lowering the demand to 25,000 troops. Feeling that they had no other choice, the Estonians acceded to these demands and signed a mutual assistance pact with the Soviets on September 28th. In it, the Soviets explicitly renounced any intention of infringing on Estonia's sovereignty (Taagepera, 1993: 60–61; Raun, 2001: 141). Similar agreements were struck with the other two Baltic nations, Latvia and Lithuania. The Soviets then turned to Finland, where they met with greater resistance in the Winter War. Though they had to concede some territory, the Finns ultimately won their sovereignty. As we will see, some in Estonia saw the Finn's example as an alternative to appeasement.

In June 1940, without offering any evidence to substantiate the claims, the Soviets accused their Baltic "friends" of plotting against them. The Soviets demanded that the Baltic nations form pro-Soviet cabinets and permit unlimited entry of Soviet troops (Taagepera, 1993: 60). The three nations were given hours to respond. All three capitulated. Thus in the second week of June, 1940—the same week that Paris fell to the Germans—the Baltic states fell to the USSR. To offer a veneer of local support, the Soviets then staged an uprising with Soviet troops and communist officials masquerading as locals demanding a Soviet takeover. The final contrivance was a choiceless and manipulated election held in mid-July of 1940. In many places, voters had to vote in the open, under the watchful eye of armed Soviet troops. By accident the Soviets released the "results" of the Baltic elections before they had actually occurred, and in one Lithuanian district voter turnout was a remarkable 122 percent (Liulevicius, 2015: lecture 10)!

After this, the new People's Assembly—with Soviet troops in the Assembly hall—petitioned for admission to the Soviet Union (Taagepera, 1993: 63). The Soviets gladly accepted, annexing Estonia on August 6, 1940. Konstantin Päts, who had outmanoeuvred his

rivals to become an Estonian strongman, now meekly submitted to foreign occupiers. He and his entire family were deported to the Urals. He was eventually forced into a Soviet mental hospital in Kalinin because he believed he was the president of Estonia. He died there in 1956 (Rausing, 2014: 28).

Estonia was now the Estonian Soviet Socialist Republic (ESSR), a territory of the Soviet Union. For the next five decades, the Soviets would insist that Estonia had willingly joined the Soviet Union (Taagepera, 1993: 60). As late as 1990, Mikhail Gorbachev was still implying that it was a mutual arrangement, calling it a “marriage.” This helps explain why he was deeply unpopular in the Baltic states, even as he was adored by so many in the West (Taagepera, 1993: 60; Thomson, 1992: 22). Many countries, including the United States, refused to accept the legality of the annexation. And as we will see later, the Estonians used the questionable legality of their annexation as a legal and moral rallying cry when the opportunity for true independence came in the 1990s.

The Socialist legacy

As the Soviets moved in, their guide was socialist ideology. For twenty-three years this ideology had reigned in Soviet Russia. Before we examine the results of the socialist experiment in Estonia, let us briefly recount the history of socialism in Soviet Russia. This will help us understand the legacy that the Estonians were inheriting.

In a traditional socialist economy, the state owns and operates the means of production (see Boettke, Zhukov, and Mitchell, 2023, for more details).⁵ There were two main goals of socialism: To eradicate want from the human experience, and to create a society with material and social equality between individuals. Marx believed he had discovered the natural and inevitable stages of human history (this is one of the ways Marxists distinguish his “scientific socialism” from the “utopian socialism” of his predecessors). Feudalism, he believed, would naturally lead to capitalism; capitalism would give way to socialism; and under socialism, the state would eventually wither away, leaving the stateless ideal of communism. Importantly, Marx believed that capitalism, with its “massive” and “colossal productive forces” would lay the foundation for socialism (Marx and Engels, 1848).⁶

The first attempt at central planning hadn’t worked out that way. In the first three years after the Bolshevik Revolution, the Soviets tried “war communism,” or “pure communism,” in Russia. In the words of economist Jack Hirshleifer, this was “the most extreme effort in modern times to do away with the system of private property and voluntary exchange” (Hirshleifer, 1963: 15). The state took over and ran almost the entire Russian economy; it conscripted labour; and it requisitioned all agricultural output in excess of what was deemed necessary for farmers to live. It was a disaster. Total economic output fell 69 percent between 1913 and 1921. Large-scale industrial production 79 percent, coal production 69 percent, pig iron 97 percent, steel 95 percent, and exports 98 percent (Boettke, 1989: 226). By 1921, Russians were earning 37 percent of what they had in 1913 (Markevich and Harrison, 2011: 687).⁷ The historian William Chamberlin called

it “one of the greatest and most overwhelming failures in history,” while H.G. Wells asserted that “never in all history has there been so great a debacle before” (quoted in Boettke, 1988: 78).⁸

Even true believers in the Soviet Union like Nikolai Bukharin could see that pure communism had been a mistake. Bukharin, a one-time architect of war communism, had read and appreciated Ludwig von Mises's critiques of central planning (more on which below). And as the Soviet economy collapsed, he grew willing to concede that, from the “point of view of economic rationality,” comprehensive central planning had been “sheer madness” (quoted in Boettke, 1989: 159). He and others convinced Lenin to try a different tack.

Declaring war communism to be a mistake, Lenin then introduced the New Economic Policy (NEP) in 1921 (Dobb, 1948: 123). Although the state continued to own and operate major nationalized businesses, the NEP represented a significant step toward greater economic freedom. It ended labour conscription, abandoned central planning of the entire economy, permitted private enterprise in small industries and trades, and replaced compulsory requisition of agricultural output with a tax (Hirshleifer 1963, 29). This approach worked better. Incomes started rising, and by 1924, Russians were earning about 80 percent of what they had in 1913. But this was a far cry from the “abundance” promised by Marx and Engels. In fact, as late as 1928, average Russians were still not earning as much as they had in 1913. The country remained poor by international standards (Markevich and Harrison 2011, 687, 692). And, of particular concern to socialist leaders, Russia had still not industrialized (contrary to Marx's theory of history, the revolution had not occurred in an advanced capitalist country but in an agrarian, pre-industrial one).

Many Bolsheviks had always viewed the NEP with suspicion. They said it stood for “new exploitation of the proletariat” (Figes, 2008: 7). So, eager to jump-start industrialization and promising “revolution from above,” Stalin decided to abandon Lenin's reforms. His instrument was the first Five-Year Plan, implemented in 1929. Although it made a few concessions to the NEP—people were allowed to freely exchange some goods and services, but at state-determined prices—it was still a dramatic return to central planning and collectivization. At the centre of this new central plan were two transformative policies: forced collectivization of agriculture and breakneck industrialization. Since the global communist revolution had not yet taken off, the plan now was to build “socialism in one country,” and this, according to Stalin, required “the utmost expansion of our industry” (quoted in Boettke, 1989: 373). The plan aimed to suppress consumption, in the hope that this would increase investment available for industrialization. It also aimed to move food and capital out of agriculture and into industry. Lenin liked to think of the country as one big company, and under Stalin's Five-Year Plans bigger was almost always better. As Åslund put it, “gigantomania was the hallmark of communism,” as we will see later, this didn't always sit well with the Balts, who “cherished a petty bourgeois ideal of peasants, craftsman, and shopkeepers that represented the normality of the interwar period” (Åslund, 2012: 187).

As always, to support these economic aims, the socialists sought to control culture as well. To encourage asceticism, they built a “cult of struggle,” always emphasizing that today’s sacrifices would yield tomorrow’s plenty (Figes, 2008: 73, 187). They used the cult of struggle to explain away inefficiency and ineptitude, telling the public that counter-revolutionary forces were committing industrial sabotage. In fact, because these forces were prone to fight harder as the communist dream drew closer, broken-down machines and badly-laid plans were merely evidence that socialism was about to achieve all that had been promised. To encourage a culture of hard work, they lionized those who pushed themselves the hardest in the name of the state. This particular cult became known as the “Stakhanovite movement,” taking its name from Aleksei Stakhanov, a miner who allegedly moved gargantuan quantities of coal in the name of the revolution (Figes, 2008).

Like pure communism, the first Five-Year Plan was an unmitigated disaster. Productivity declined in both agriculture and industry, and famine soon spread through the North Caucasus, Kazakhstan, the Volga region, and—above all—Ukraine. The Soviets never kept records on how many died. The Soviet census of 1937 reported eight million fewer people than it had earlier projected; the difference included both direct famine victims and the children they didn’t have. Stalin had the report—and its authors—buried (Snyder, 2022: 52). The best estimates suggest that something like five and a half to seven million people died (Snyder, 2022: 52; Markevich and Harrison, 2011: 694; Conquest, 1986). People ate dirt. People ate people. It was horrific. And it was avoidable.

Why socialism fails

This man-made tragedy illustrates how and why socialism fails. It comes down to a troika of problems: the control problem, the knowledge problem, and the incentive problem.

The control problem suggests that socialism and totalitarianism go hand-in-hand. In a centrally planned socialist economy, the planners who wish to reallocate capital or labour must exercise extraordinary control over the people. They must override people’s plans to work, shop, invest, and exchange with whomever they want, on whatever terms they want. And to do this, they must apply force or the threat of force. In practice, this often means secret police, a network of informants, forced-labour camps, extradition, and mass murder. Once the state has created this apparatus, it will tend to attract the worst elements of society, especially those who are willing to exploit tribal instincts to seek and maintain power. Quite often they will employ these instruments against marginalized groups. Power corrupts. But it also discriminates.

Stalin’s Five-Year Plan called for the state to seize farmland and equipment. Peasants were forced to work their former lands under state control. And crops were taken as state property. As Snyder puts it, the communist future:

required heavy industry, which in turn required collectivized agriculture, which in turn required control of the largest social group in the Soviet Union, the peasantry. The peasant, perhaps especially the Ukrainian peasant, was unlikely to see himself as a tool in this great mechanization

of history. Even if he understood entirely the final purposes of Soviet policy, which was very unlikely, he could hardly endorse them. He was bound to resist a policy designed to relieve him of his land and his freedom. (Snyder, 2022: 24)

Understandably, many peasants fought back or slaughtered their livestock instead of turning it over to the state. As peasants resisted seizure of their land, their equipment, and their food, the state demonized them as a “class” bent on subverting the socialist dream. Every class needs a name, and for this one, the Soviets chose “kulak.” It was a Russian word for “fist” or “tight fist,” and it had been used at the end of the Russian Empire as a derogatory term for wealthier peasants, especially those who might have gotten their wealth through fraud or theft.

It was a made-up designation. Kulaks were not a coherent ethnic or social group. Most descended from serfs. And most had gotten their wealth because they worked hard and made wise choices. But to the Soviets, a kulak was anyone prosperous enough to own a farm, especially if they had the temerity to want to keep owning it. In December of 1929, Stalin had announced that kulaks would be “liquidated as a class.” His poet laureate, Ilya Ehrenburg, described their crimes in a Soviet-approved novel from 1934: “Not one of them was guilty of anything; but they belonged to a class that was guilty of everything” (quoted in Joffe, 1999).

To encourage this liquidation, posters were distributed with the title “We will destroy the kulaks as a class!” One featured “a kulak under the wheels of a tractor, a second kulak as an ape hoarding grain, and a third sucking milk directly from a cow’s teat” (Snyder, 2022: 25). Another poster depicted a large man being put in his place by a fist. The caption at the top is a quote from Lenin: “The most brutal kulaks, the most rude, the most savage, exploiters who have more than once restored the power of landowners, tsars, priests and capitalists in the history of other countries.” The words at the bottom read: “Down with the fist from the collective farm” (translation by the current authors).

The Russian war correspondent Vasily Grossman was one of the first journalists to see a Nazi death camp. He later wrote two (Soviet censored) novels, drawing parallels between Nazism and Stalinism. In his last, unfinished, work, *Everything Flows*, he has a character describe Stalin’s Hitlerian approach to the kulaks: “In order to kill them, it was necessary to declare that kulaks are not human beings. Just as Germans said that Yids are not human beings. That’s what Lenin and Stalin said too: The kulaks are not human beings” (Grossman, 2009: 119).

In practice, three local officials—the local leader of the party, the state prosecutor, and a member of the state police—were empowered to designate anyone a kulak. As one local party leader put it, “we create kulaks as we see fit” (Snyder, 2022: 26). Some were murdered. Most—about 1.7 million—were exiled to a system of concentration camps known as the Gulag (Snyder, 2022: 27). There, about 10-15 percent of them died as they were worked to exhaustion.

Figure 2.4: Soviet Anti-Kulak Poster



Source: Artom Kutuzov, Public domain, via Wikimedia Commons

If the control problem requires planners to command the minute aspects of peoples' lives, the knowledge problem suggests that planners will lack the knowledge to issue wise or coherent orders. To operate, let alone thrive, a society must harness and employ the knowledge of its members (Mises, 1920; Hayek, 1945; Lavoie, 1985).⁹ But as the economists Ludwig von Mises and F.A. Hayek explained, useful economic knowledge often concerns what might seem like trivial or mundane matters: the condition of the soil in Saaremaa after a storm, a Tallinn factory worker's newfound skill with a lathe, or a Tartu family's need for extra bread after taking in relatives. Useful knowledge is also often tacit and contingent—think of a worker's preferences for a certain boss or an entrepreneur's trust in a certain supplier. This type of knowledge cannot be communicated, even if one were instructed to do so. Importantly, some economic knowledge can only be known when a decision-maker is faced with a decision. This sort of knowledge is only gained through trial and error. All of this knowledge is highly dispersed. It is found in the subjective, even contradictory beliefs, interests, and values of countless market participants.

In a market economy, Mises and Hayek argued, prices elicit this dispersed knowledge, turning it into signals to which others may react. If consumers come to value crackers (made with soft white wheat) more than rolls (made with hard red winter wheat), then they will bid the price of white wheat up relative to the price of winter wheat. Farmers will respond by planting more of the former and less of the latter. In Hayek's words, this

process allows people to “fit their plans in with those of others” without any central coordination or coercion (Hayek, 1945: 521).

But for this process to work, prices must emerge from the free choices of individuals exchanging rights over private property. Moreover, farmers must be allowed to try out new ideas, to experiment with novel products, production techniques, prices, and management strategies. As Hayek would later put it, competition serves as a “discovery procedure” (Hayek, 2002). In this way, the market process helps sort between the merely technologically feasible and the truly economically valuable, with value being determined by the subjective preferences of consumers, by the family in Tartu.

Because central planners set prices by diktat and because their plans do not countenance the chaos of market experimentation, they are unable to make use of this local knowledge. They are blind, guessing at the marginal value that consumers place on goods as well as the marginal opportunity cost of producers. This is the essence of the knowledge problem. According to Mises and Hayek, this problem makes central planning extremely difficult, perhaps even impossible.

Finally, socialism is doomed by the incentive problem. Stated simply, almost no one in a socialist state is incentivized to serve the general interest. As Milton and Rose Friedman said of states in general, in a socialist state, “there seems to be an invisible hand, but it operates in precisely the opposite direction from Adam Smith’s: an individual who intends only to serve the public interest by fostering government intervention is ‘led by an invisible hand to promote’ private interests, ‘which was no part of his intention.’” (Friedman and Friedman, 1990: 5–6).

Private farmers working their own fields are rewarded (through profit) for creating value for their customers and punished (through loss) for wasting time or resources. Their personal benefit is therefore a direct function of the value they create for others. Likewise, they are rewarded for balancing current and future needs. They must keep their equipment in good working order if they want to use it next year and they must save enough seed grain from the current crop to plant the next. On the other hand, if they spend too much time oiling their tractors and not enough time running them, or if they save more seed grain than they need, they will be wasting time and resources, and the price of their carelessness will be forgone profits.

On a collective farm, however, all of the incentives were backwards. There might be 300 farmers on a single collective farm. So a farmer who worked long hours to increase yields would only capture one three-hundredth of the benefits while bearing all of the costs of his effort. If he abused the collective tractor or failed to maintain it, he would only bear a fraction of the cost of a new one. So why bother? Collectivized farmers were compensated for their labour, not for the value they created for consumers. So, they paid little attention to their output and shirked whenever they could, making only enough for their own families to survive. This is one more reason why the state sought to control them; they had no incentive to control themselves.

Similarly, socialist planners had little incentive to make workable plans. They gained power and perquisites by catering to the desires of their superiors, not by creating value for customers. So the state set the price of a bull at less than the price of a bottle of vodka, while one day's work on a collective farm could buy a farmer one one-hundredth of a pack of cigarettes (Taagepera, 1993: 81). The Estonian novelist Heino Kiik immortalized the experience in his (banned) book *Tondiõmaja* (Haunted Inn). In it, he describes the madness of requirements to harvest at a planned date rather than when the fruit was ripe, or of state requisitions that took all of the seed grain, making next year's harvest impossible (Taagepera, 1993: 81).

Without open competition or experimentation, no one could challenge an existing farm if they thought it was failing to meet society's needs or if they thought it was using resources foolishly. Instead, failing state firms tended to attract more resources, as it was assumed that more money would solve their problems. This, in turn, encouraged the managers of firms to perform badly.

Most private firms operate under a "hard budget constraint."¹⁰ Their only sources of revenue are paying customers and willing investors. A firm that isn't creating net value for society won't be able to raise enough revenue from these sources to cover its costs and will soon face bankruptcy. In this way, hard budget constraints incentivize firms to create value for customers without wasting resources. But as the Hungarian economist János Kornai explained, most firms in a socialist state face "soft budget constraints," because the state is almost always willing to cover their costs to meet the dictates of the plan:

Whether profitable or loss-making, this did not affect an enterprise's subsequent operation or development. Losses were either covered automatically, or its administratively controlled prices would be adjusted from time to time to its costs. What was demanded above all from existing SOEs [state-owned enterprises] was fulfillment of its production plan. Investment decisions prescribed firstly what capacity was to be created and when production was to begin; expected profitability did not play any essential role. There was of course a cost target, but exceeding it was ignored. What was punished was late completion of the new facility. (Kornai, 1986: 35)

Managers also learned that they could personally profit by engineering shortages and selling the rationed goods on the black market (Levy, 1990). As the economists Andrei Shleifer and Robert Vishny explain it, "The key feature of socialism is that the decision makers who determine the prices and output of firms do not, to a first approximation, keep any of the profits." If, however, they can create a shortage of the good they are supplying, then "potential customers [will] try to obtain it by offering bribes and favors to the bureaucrats in the ministry (and to the managers of firms)" (Shleifer and Vishny, 1992: 238). Thus, while the knowledge problem might have caused planners to either set prices too high or too low, the incentive problem biased the errors in one direction, to set prices too low. The knowledge problem and the incentive problem worked together to produce one of the main characteristics of socialist economies: they were shortage

economies. Throughout the socialist world, consumer shortages were more common than surpluses.

Because decision-makers profited through the creation of shortages, they were rewarded for destroying value rather than creating it. No society can grow wealthy this way. And because they personally gained at the expense of others, they were rewarded for subverting the system's fundamental promise of equality through socialism. No society can maintain the support of the population under such an obvious contradiction.

Together, the control, knowledge, and incentive problems led to stagnation and privilege. It was the opposite of the socialist promise of abundance and equality. But this was the society that the Estonians inherited in August 1940.

The Soviets take control of the economy

In their first go of it, the Soviets only managed to hold on to Estonia for a year. This is because in June 1941, the Germans turned on their erstwhile allies and invaded the Soviet Union. By the end of August the Germans had taken Tallin, and by October they were in control of all of Estonia (Taagepera, 1993: 68). As we will discuss below, the Soviets re-invaded two years later, in January 1944, and they finally reestablished control in October of that year. Both occupations were brutal.

Germany had been Estonia's historical enemy, dating all the way back to the extractive Baltic German barons, so the initial Soviet occupation might have been seen as a relief, compared with the alternative. But as Rein Taagepera, an Estonian political scientist, puts it: "within a year, Stalin had succeeded in turning the Estonians around" (Taagepera, 1993: 67). Many Balts, in fact, greeted the Germans with excitement when they invaded, not yet appreciating the terror that the Nazis would unleash (Liulevicius, 2015: lecture 11). By the war's end, it was clear that both the Nazis and the socialists were terrorists. Taagepera describes Estonia during World War II as "between two wolves," while another writer says that the nation was "torn between two masters" (Taagepera, 1993: 68; Taylor, 2018: 69).

Why were these occupations so awful? The threat of Nazi Germany is easy enough to comprehend. The Nazis were ideologically committed to the supremacy of Germany and the "Aryan" race; all other peoples and nations were either expendable or usable in service of the German cause. But why was socialism—an ideology dedicated to equality and to the betterment of workers—so ruthless in practice?

One simple explanation can be found in the dearth of local support for communism. There were only about 120 or 130 active local communists in Estonia at the time of the Soviet invasion (Taylor, 2018: 83). With so little local support, the Soviets felt compelled to "liberate" the unwilling population at the point of a gun.

Other explanations have to do with the knowledge, incentive, and control problems inherent to socialism. In the first year of occupation the control problem loomed

especially large. First and foremost, planners had to override the innate human desire to acquire and hold property. Marx and Engels had put it plainly in the 1948 Communist Manifesto: “The theory of the communists may be summed up in a single sentence: Abolition of private property” (reprinted in 1969: 22). In the Soviets’ first year of occupation, all of Estonia’s banks were seized, as were most commercial enterprises and factories with more than ten to twenty workers (Taagepera, 1993: 65). Nationalization began in July 1940 and in less than two months, nearly 90 percent of industry and transport was run by state-controlled firms and state agencies (Raun, 2001: 151). As with any application of force, violence often erupted during these seizures. Crissa Constantine was visiting a friend who worked at the bank in Old Tallin when the Soviets arrived. She ran out the back as the communists fired a fatal bullet into the bank manager’s head (Constantine, 2000: 61).

During this first occupation, the Soviets left most farms in private hands. They did, however, cap the size of each farm at 30 hectares, expropriating, without compensation, all land in excess of that amount. They also took any land belonging to cities or to churches. About half of this land was then redistributed to landless peasants and smallholders (Raun, 2001: 152)

Private noncommercial property was also taken, including the contents of safes, houses that were larger than 2,000 square feet, and bank accounts that had more than 1,000 rubles (about US\$834 today) (Taagepera, 1993: 65). Dwelling spaces, which in 1940 had averaged about 15.5 square meters per person (Misiunas and Taagepera, 1993: 364), were now limited to no more than 9 square meters per person (Raun, 2001). Families who had larger living spaces than this were forced to let strangers into their homes. In large cities, all buildings over 220 square meters were nationalized, while in small towns the maximum was 170 square meters (Raun 2001).

According to socialist ideology, this property had been acquired through exploitation of the working class, so it was taken back for the benefit of the people at large. The Soviets sold the policy as “War against the palaces!” But they also believed that it would make the Estonians into better communists. As the historian Orlando Figes has put it, “By forcing people to share communal apartments, the Bolsheviks believed that they could make them communistic in their basic thinking and behavior. Private space and property would disappear, the individual (‘bourgeois’) family would be replaced by communistic fraternity and organization, and the life of the individual would become immersed in the community” (Figes, 2008: 9).

Jaak Jurison was a boy in 1940 when the Soviets arrested his father for being “a non-desirable element to communist society” and sent him to Siberia (Jurison, 2016: 46). Jaak never saw his father again, and soon afterward his family was ordered to cordon off half of their apartment, so that the other half could be occupied by another family whom the Soviets had evicted from their own home. As he later recalled, “According to the Soviet rulers, our apartment was overly spacious for us, and therefore we had to relinquish half of our living space” (Jurison, 2016: 50). His experience appears to have been shared by many Estonians.¹¹

In practice, individual Soviet soldiers—not the people at large—acquired many of the spoils of war. As Anne Applebaum relates:

Liquor and ladies' lingerie, furniture and crockery, bicycles and linen were taken from Poland, Hungary, Czechoslovakia, the Baltic and the Balkan states as well as Germany. Wristwatches seemed to have almost mythical significance for Russian soldiers, who would walk around wearing half a dozen at once if they could. An iconic photograph of a Russian soldier raising the Soviet flag atop the Berlin Reichstag had to be touched up to remove the wristwatches from the arms of the young hero. (Applebaum, 2012: 78–79)

These soldiers were often shocked to see that, contrary to the propaganda they had been fed, those who lived outside of the socialist regime were prosperous. Many of them took this as further evidence that the wares must have been ill-gotten. Others simply didn't understand what they saw. There are stories of Soviet soldiers eating toothpaste, falling off of bicycles, and wearing bras as earmuffs (Snyder, 2022: 139). They would attempt to wash their hands in toilets, complaining, "The capitalist system is terrible. Each time you pull the chain, the water doesn't run long enough to finish washing" (Jurison, 2016: 41).

Estonia's workers, in whose name the revolution was fought, were also victims. Marx had famously promised "from each according to his ability, to each according to his needs" (Marx, 1875). But the Soviets found that it was hard to motivate people to work for the benefit of others, so they offered a slight tweak. Article 12 of the Soviet Constitution read: "In the U.S.S.R. work is the obligation and a matter of honor of every able-bodied citizen in accordance with the principle: 'He who does not work, neither shall he eat.' " ("Constitution (Fundamental Law) of the Union of Soviet Socialist Republics," 1936).

While trade unions had previously organized strikes on behalf of workers' welfare, they now became tools to enforce workers' discipline. Harsh new labour laws required workers to submit to the authority of their managers. Workers with an unexcused absence or who were even 20 minutes late would lose a quarter of their wages for six months (Misiunas and Taagepera, 1993: 34). Authorities lengthened the average work day to nine hours and no longer permitted workers to freely change jobs (Klesment, 2009). Those who left work without a manager's permission or who refused to transfer to another plant were sent to prison for two to four months (Taagepera, 1993: 65).

Though workers were now said to own the factories, they could not be trusted to work in them without extensive oversight. A communist leader, E. Kadakas, put it this way in the Chamber of Deputies: "We must watch closely the activities of servants of the old order. We must with merciless severity eradicate the vicious elements from the Soviet community. It is not easy for the new members of the Union to collaborate with the officials inherited from the old regime" (quoted in Kareda, 1947: 75). To watch workers closely, secret agents were posted to each factory to spy on workers. When an Estonian factory worker disappeared,

his friend and coworker made the mistake of complaining about it at work: “So this is what they call Communist freedom. This is no longer a factory, it is worse than prison!” As if to prove his point, he was arrested the next day (quoted in Kareda, 1947: 76).

As discussed above, chronic shortages are endemic to socialism. And in Estonia, these shortages appeared as soon as the socialists arrived (Taagepera, 1993: 64). They were exacerbated by an artificially low exchange rate. Before the Soviets arrived, Estonians could exchange one Estonian kroon for 10 to 15 Russian rubles. Now, one kroon would only buy 1.25 rubles. In contrast, armed with their artificially strong ruble, the Russian army managed to clear out most of the store shelves (Taagepera, 1993: 64). While nominal salaries rose, prices rose faster, so by early 1941 the purchasing power of the median wage had declined by 15 percent for food and 65 percent for textiles (Taagepera, 1993: 65). Food prices had not gone up as much as textile prices because farmers were turned into slave laborers, compelled to deliver 30 to 50 percent of their yield to the state at only one-sixth of the previous, market-determined price (Taagepera, 1993: 65).

Under the new central plan, the interests of Estonians were often subordinated to those of the USSR. For instance, many large textile, engineering, electro-technical and timber plants that had produced for the Estonian market were now made to produce exclusively for other Soviet Republics (Kareda, 1947: 65–66). Industrial products and foodstuffs were exported to Russia, despite shortages in Estonia (Kaelas, 1956: 4; Poom, 1980: 97–80; Klesment, 2009: 255). The primary focus of new investment in Estonia—oil, shale and gas—was intended to maintain the heating and power supply for Leningrad (Kukk, 2005: 132; Klesment, 2009: 259).

The Soviets take control of society

The totalitarian nature of socialism was another important explanation for its ruthless implementation. Marx had believed that the “superstructure” of a society, by which he meant its culture, ideology, norms, and civil institutions, gave ideological support to its “base,” by which he meant its productive arrangements (Marx, 1970). After Marx’s death, Marxists would use the term “false consciousness” to connote the ways in which ideological and institutional elements of a society would delude people into supporting their own exploitation by capitalists (Engels, 1893).

To prevent this, the Soviets (and indeed, socialist regimes everywhere) attempted to engineer their own false consciousness by taking control of all aspects of civil society: politics, radio, cinema, stage, art, literature, journalism, education, publishing, and even the boy scouts. In a word, their aspirations were totalitarian. The twentieth century’s most sophisticated student of totalitarianism was the German American historian and philosopher Hannah Arendt. In her penetrating analysis, the goal of such a state is to create a “totalitarian personality,” a “completely isolated human being who, without any other social ties to family, friends, comrades, or even mere acquaintances, derives his sense of having a place in the world only from his belonging to a movement, his membership in the party” (Arendt, 1973:323).

Arendt was, of course, a critic of totalitarianism. But Bolshevik true believers didn't sound terribly different. Lenin's wife, Nadezhda Krupskaya, averred that to allow "a distinction between private life and public life will lead sooner or later to the betrayal of Communism." And Stalin maintained that "A true Bolshevik shouldn't and couldn't have a family, because he should give himself wholly to the Party" (Figes, 2008: 2). Zlata Lilina, a Soviet educational theorist, believed that "By loving a child, the family turns him into an egotistical being, encouraging him to see himself as the centre of the universe." In the place of such "egoistic love," socialists suggested that the state should encourage "rational love" of the broader "social family" (quoted in Figes, 2008: 8).

The word "totalitarianism" was coined by a critic of the Italian dictator Benito Mussolini. Characteristically, Mussolini embraced the epithet and offered what is perhaps its most fitting definition: "Everything within the state, nothing outside the state, nothing against the state" (quoted in Applebaum, 2012: 24). And as soon as they took control of Estonia in August of 1940, the Soviets began to move everything within the state.

The socialist concepts of revolution and struggle were another source of terror. According to Marx, the capitalists had won their wealth through exploitation of the worker. So violence and revolution were the only way for the worker to get it back. According to the Bolshevik propagandist Aleksandr Voronsky, the most important part of being a revolutionary was "the habit of dividing people into two camps: us and them" (quoted in Slezkine, 2017: 55). The "us" had gained superior consciousness by studying the nature of capitalist exploitation and appreciating Marx's inevitable stages of history. The "them" were still ignorant, still philistine, still slaves to their own acquisitiveness. They were, according to Voronsky, marked by their "primeval and utter swiftness," by their "driveling, hiccuping, and lip-smacking gluttony, the unctuousness mixed with beastliness" (quoted in Slezkine, 2017: 56).

Naturally, the capitalists didn't see it that way. As they saw it, they had acquired their property through legal, peaceful, and entirely voluntary means. But because the socialists were convinced that they were entitled to the wealth of others and the others were so obviously beastly, conflict was inevitable.

The unique political status of the Baltics likely contributed to the scale of totalitarianism practiced there. While Poland, Romania, Czechoslovakia, Bulgaria, and Hungary were under the Soviet's thumb as puppet states, they were ostensibly independent countries. The Baltics, however, were fully annexed to the Soviet Union, along with a dozen other republics, from Belarus to Tajikistan. They were therefore subject to the principle of democratic centralism. In practice, this meant that local leaders could suggest changes in policy, but in all important respects, the final decision was always Moscow's (Bohnet and Penkaitis, 1988: 35).

Estonia's location at the far western edge of the Soviet frontier also likely contributed to its subjugation. Tallin is just 50 miles from Helsinki, across the Gulf of Finland. Although Estonians would later benefit from their proximity to the West, they paid a price for it in

the early years. The Soviets feared that the Balts might be a source of Western ideas within their own country, and so they quickly moved to “Sovietize” them (Taagepera, 1993: 64). This meant that all of non-Soviet civil society had to be stamped out.

The state immediately took over private schools, and began printing diplomas with Lenin’s and Stalin’s pictures on them (Jurison, 2016: 50). Bookstores were ordered to remove politically unsuitable material, such as any reference to the Estonian flag (Taagepera, 1993: 66). The government-controlled State Publishing House took over all book publication. Existing books were banned and destroyed—70,000 theological texts alone were burned at Tartu University. The state assumed control over newspapers and magazines. Church holidays were forbidden. Public celebrations of Christmas were outlawed. Radios that could pick up foreign signals were confiscated (Jurison, 2016: 63). And private organizations, such as the Academy of Sciences, were disbanded (Taagepera, 1993: 66). Independent Estonians had developed a large network of private social institutions—choirs, sports clubs, libraries, sobriety meetings, Swedish-minority schools, and agricultural mutual benefit societies. The Soviets eliminated them all (Rausing, 2014: 69).

The predecessor to the KGB, the People’s Commissariat of Internal Affairs, or NKVD, was instrumental in this Sovietization process. NKVD officers arrived as soon as Estonia was annexed, and they began making arrests at the rate of 300 a month (Taagepera, 1993: 66). When transliterated into Estonian, NKVD spells “SARK,” the Estonian word for coffin (Taylor, 2018: 82). Soon after the NKVD’s arrival, the coffins began to fill up.

The NKVD targeted all government leaders and anyone it considered elite. As one historian put it, “The Russians instituted a purge which carried away anyone who might lead public opinion, anyone who might stand, in town or village, in profession or institution, as a protagonist or symbol of Estonia” (Jackson, 1948, quoted in Taylor, 2018: 92). The charges ranged from terrorism and treason, to sabotage and espionage. They executed 300 senior officials at Patarei prison in Tallin (Taylor, 2018: 91). The irony is that few Estonians actively resisted the initial Soviet invasion. Most believed either that it was better than the German alternative, or that resistance was pointless. But the brutal tactics of the NKVD *created* a resistance movement.

“Indiscriminate mass terror,” as Taagepera put it, began on June 14, 1941 (1993: 66). The NKVD had compiled a list of (mostly urban) Estonians whom it deemed dangerous. It included stamp collectors and those who spoke Esperanza, as these cosmopolitan pursuits were deemed a distraction from the task of building a socialist state (Taylor, 2018: 91). Crissa Constantine, the young woman who had run out of the back entrance of a bank as its manager was murdered, was riding in a carriage with her family to Kadri to buy farm supplies on June 14th:

As we approached the town, we were inundated by a revolting stench of human feces and cattle excrement. I leaned over the rim of the carriage

and vomited out my breakfast while the others coughed. Then we heard piercing shrieks and penetrating moans of agony.... There must have been over a thousand women and children and a few old men being herded like animals into the filthy cattle trains that were waiting on the tracks (Constantine, 2000: 66).

In one night, 6,640 people were deported (Taagepera, 1993: 66). Taagepera records that:

Families were awakened, given a few hours to pack, taken to railroad stations, and separated without forewarning. The men, technically "arrested," were sent to northern slave labor camps, while women and children, technically "exiled," were to fend for themselves on Siberian collective farms. (Taagepera, 1993: 66)

Tiia-Ester Loitme was 14 when she was deported to Siberia with her mother and three sisters, while her father was sent to die in a Leningrad prison:

I did not cry, because it was so unreal. You see, when you get up in the morning to go to school, you have a piano exam that day, and end up in a cage like an animal, you have to say that it's bizarre. There was one person who screamed horribly throughout the whole journey. It was this woman who had been picked up, and she didn't know what had become of her four small children. Her constant wailing the whole way there was absolutely chilling. (Quoted in Tusty and Tusty, 2006).

Irena Wiley, the wife of the US ambassador to Latvia, was in Estonia at the time and observed that "The Russians broke up families by deporting the husband, wife and children, and then dumping them separately, like unwanted garbage, all over Siberia and Central Asia" (quoted in Taylor, 2018: 93). The totalitarian state was creating Arendt's "completely isolated human being." Total deportations exceeded 10,000, about 1 percent of the population (Taagepera, 1993: 67). Of the 6,500 women and children who were deported, only half were still alive at the end of the war. Of the 3,500 men, just 200 were alive in 1942 (Taylor, 2018: 92).

The Soviet press characterized it as a voluntary relocation to the "happier east" (Taylor, 2018: 92). The personal accounts of the deportees, whose lives were forever changed, belie this notion. Ten-year-old Rein Vare was sent to Siberia with his mother and sister, while his beloved father, a schoolteacher, was sent to die of hunger in the Isaroskino prison camp. Much of Rein's diary is devoted to his father. Rein mistakenly believed he was still alive. Much of the rest of it is covered with tombstones, each one representing a lost playmate. Rein and his sister were eventually released. His mother tried to follow them but was rearrested before she could reach them. In 1951, Rein was arrested again and sent back to Siberia. It seems to have broken him. When he was finally allowed to return to Estonia in 1958, he was unable to hold down a job. He died of alcoholism in 1984 (Laar, 2011: 29).

One week after the deportations, the Nazis launched Operation Barbarossa, their surprise attack on the Soviet Union. In response, the Soviets conscripted 33,000 Estonian men into the army, threatening their families with reprisals if they refused (Raun, 2001: 157). Tasked with dangerous construction work, underfed and underclothed, 12,000 of these men died (Taylor, 2018: 94). In total, between political murders, deaths in concentration camps, deaths in work camps, and deaths in exile, about 60,000 men, women, and children—about 6 percent of the population—lost their lives in the first year of the Soviet occupation (Taagepera, 1993: 67). In time, the Estonians would face more mass deportations and killings at the hands of the Soviets. But for now, they had another wolf to contend with.

The Nazis take control

The Nazis swept across Estonia in just four months. As the Soviets retreated, they pursued a scorched earth policy, burning fields, homes, and factories in an effort to leave the Nazis with little of value (Raun, 2001: 157). The Germans met with limited local resistance, as the Soviet's year of looting, mass deportation, conscription, and scorched earth had managed to alienate almost all of Estonia. For years, Soviet propagandists used this fact to tarnish the Estonians as fascist sympathizers (Taylor, 2018: 94). In fact, the Estonians only begrudgingly welcomed the Germans because they were chasing the Soviets out.

For his part, Hitler believed that Estonia and the other Baltic states would provide Germany with living space, *Lebensraum*. The Baltics were to be conquered and exploited, their cultures eventually replaced by the supposedly superior German culture (Taylor, 2018: 96). To this end, 5,000 Estonians were murdered or died in Nazi death camps in Estonia (Taagepera, 1993: 69). Some were set on fire after being forced to dig their own graves (Constantine, 2000: 77). Still, in their bizarre hierarchy of races, the Germans believed the Estonians were inferior to the Aryan race but superior to the Slavs, so the Nazis treated most Estonians better than they did other peoples they conquered (Taylor, 2018: 95; Raun, 2001: 166).

Most. But not all. About 3,000 Estonian Jews escaped to the Soviet Union as the Nazis approached. For the time being, they would be safer there as the Soviet's own anti-Jewish terror would not begin until 1948 (Figes, 2008: 446). But 1,000 to 2,000 Jews remained in Estonia (Taagepera, 1993: 70; Raun, 2001: 166; Taylor, 2018: 95). All but twelve, who managed to stay hidden, were murdered by the Nazis (Rausing, 2014: 182). Uku and Eha Masing were responsible for saving one of them. Uku was an Estonian philosopher at the University of Tartu. Through his work he came to know Isidor Levin, a Jewish folklorist and theologian. The Masings helped Levin evade the Nazis for years, sheltering him, supplying him with food, and lying to the Gestapo about him. For their bravery, they were later awarded the Righteous Among the Nations award by Israel's Holocaust Museum (Rausing, 2014: 93). The Germans also brought in Jews from Poland, Germany, and elsewhere, establishing death camps in Vaivara, Klooga, and Liiva (Rausing, 2014:

92). Between 8,500 and 12,000 Jews and Roma are believed to have perished in these camps (Taylor, 2018: 94; Rausing, 2014: 23).

In much of Eastern Europe, the continuity between the Soviet and Nazi terror campaigns did not go unnoticed by the populace. In Minsk, the capitol of Belarus, Nazi vans patrolled the streets looking for lost Jewish boys or girls. The people called these vans by the same name as the NKVD trucks that had scooped people up during the Great Terror: “soul destroyers” (Snyder, 2022: 236, footnote 28).

Families that had found themselves hosting socialist invaders or other families now had to put up with German soldiers living in their homes. Voldemar and Elise Kaljo and their two small children, Viive and Endel, lived on the island of Saaremaa. Voldemar was a merchant ship captain whose vessel had been confiscated when the Soviets took over. The Soviets had forced him to continue sailing, carrying Soviet troops and passengers from Tallinn to Leningrad. He was never seen again. When the Germans arrived, a Nazi soldier took up residence with Elise and her children. He took a special interest in six-year-old Viive, often asking if he could take the young girl hunting in the woods. Elise would claim that her daughter was not home and then instruct Viive to sneak out and hide at her friend Lilian's house down the lane (McGinn, 2023).

The Germans consolidated all three Baltic states into a single occupied German territory they called Ostland. Instead of re-privatizing the land and productive property that the Soviets had taken, the Germans simply took it over, handing it over to German firms (Taagepera, 1993: 69; Raun, 2001: 164-5). Only 12 percent of the land that had been confiscated by the Soviets was returned to its previous owners (Kareda, 1947a: 111-14). And instead of restoring the Estonian kroon, the Germans imposed another confiscatory exchange rate, requiring 10 rubles for one ost-mark. Together with the previously established exchange from kroon to ruble, in total 90 percent of pre-war savings were wiped out (Taagepera, 1993: 69). Consistent with national socialist ideology, the Germans limited individual economic freedom, employing state power to centrally plan the economy through large monopolistic firms (Raun, 2001: 164-5).

The Germans did reinstate Estonian laws, as long as they didn't conflict with German laws. They also reopened courts and returned some houses to their previous owners (Taylor, 2018: 98). They took a less totalitarian approach to civil society, permitting the possession of radios that picked up foreign signals and allowing pre-war publications to circulate again, with less censorship. Ironically, because the Nazis were singularly focused on Germany and the Germans, they were less concerned with what Estonians read or did. Nazi ideas about race and history, however, were added to textbooks (Taagepera, 1993: 69; Taylor, 2018: 98; Jurison, 2016: 63).

We can glean some understanding of the Estonians' sentiments toward their German occupiers by looking at the German effort to recruit Estonians for the war. In August 1942 the Germans established a volunteer force known as the Estonian Waffen-SS. Only 500 Estonians volunteered. Raun suggests that the meagre response was due to three factors: “the

Germans refused to support Estonian independence, there was little interest in fighting outside Estonia, and the Waffen-SS units were expected to accept Nazi ideology” (2001: 158). Next, the Germans turned to compulsory conscription, but this only netted some 5,300 men for the Estonian legion. An almost equal number chose instead to cross the Gulf of Finland—a dangerous endeavour during wartime—so they could fight the Soviets under Finnish rather than German command (Raun, 2001: 159). The real change came in early 1944 as the Soviet army approached the border. At this point, Estonian resistance leaders began to encourage Estonians to comply with German conscription orders, believing that armed Estonians might be useful against both Germans and Soviets (Taagepera, 1993: 70). At this point, 38,000 Estonians signed up, and eventually the numbers grew to some 70,000 (Taagepera, 1993: 70).

The Soviets return

It is said that Stalin’s greatest strategic blunder was to trust Hitler, and that Hitler’s had been to double-cross Stalin. The Führer misjudged the scale and difficulty of subduing the vast Soviet empire. He also underestimated Stalin’s willingness to sacrifice Soviet soldiers for the cause. The Soviets reinvaded Estonia in January 1944, and their reconquest was complete in October of that year (Taagepera, 1993: 71). In a familiar dance, Estonians asserted their independence as the Germans retreated. In September 1944, acting President Jüri Uluots appointed Otto Tief, a lawyer and veteran of the War of Independence, prime minister. Tief formed a government, reestablishing the independent Republic of Estonia. On September 18 his government hoisted the Estonian flag over Toompea Castle, the ancient seat of the Estonian government in Tallin. He managed to declare Estonian neutrality over the radio. He also officially demanded that the Nazis depart, a symbolic gesture, as they were already on their way out. But the flag only flew for four days. The Soviets tore it down on September 22, a day that Estonians now commemorate as “Resistance Day” (*ERR News*, 2022, Sept. 22). Tief was arrested and sentenced to the Gulag. Some 60,000 Estonians escaped to Western Europe as the Soviets moved in (Taagepera, 1993: 71).

In all, Estonia lost about a quarter of its population through death, deportation, and exile during World War II (Kangilaski and Salo, 2005: 37). Though the Soviets and the Nazis were at pains to characterize one another as ideological opposites, most Estonians never understood the distinction. Both regimes brought murder, misery, and subjugation. Both denied the basic humanity of the Estonian people. And both acted with unwavering certitude that their awful misdeeds would lay the foundation for a bright and beautiful future. The Estonians must have felt like the animals on Orwell’s farm: “The creatures outside looked from pig to man, and from man to pig, and from pig to man again; but already it was impossible to say which was which” (Orwell, 1945: 54).

Notes

- 1 Stalin was antisemitic himself, and Molotov lost the job a decade later in part because his wife was Jewish (Snyder, 2022: 350).

- 2 Though Hitler often denounced communists, he took no interest in economics and many of these planks may have been concessions to others in the Nazi Party (Shirer 2011: chapter 4 audiobook).
- 3 Initially, Lithuania was included in the German sphere. But after Germany and the USSR had invaded and occupied Poland, the two allies met again in late September 1939 and agreed to transfer Lithuania to the Soviet sphere.
- 4 We tell the full story of Poland's invasion and occupation in Boettke, Zhukhov, and Mitchell (2023).
- 5 We use the word "traditional" here to distinguish the socialism of Marx, Engels, Lenin, and others, from the capitalist welfare-state variety of socialism that has become popular in recent years in the West. This latter version of socialism does not entail as much government control over the economy as is implied by traditional socialism.
- 6 "The bourgeoisie, during its rule of scarce one hundred years, has created more massive and more colossal productive forces than have all preceding generations together. Subjection of nature's forces to man, machinery, application of chemistry to industry and agriculture, steam-navigation, railways, electric telegraphs, clearing of whole continents for cultivation, canalization of rivers, whole populations conjured out of the ground – what earlier century had even a presentiment that such productive forces slumbered in the lap of social labour?" (Marx and Engels, 1848: 17)
- 7 Economic historians Andrei Markevich and Mark Harrison note: "output fell most precipitously *before* 1919, when the Red and White armies clashed most fiercely. The decline was concentrated in the sectors subject to nationalization; half of the decline in large-scale industry over the entire period took place in 1918 alone. This suggests strongly that the confrontational policies of 'war communism,' with widespread state confiscation of property and rule by decree, caused greater disruption than the fighting" (2011: 687).
- 8 It is not easy to differentiate the effects of war communism from the civil war itself, and it is likely that both contributed to the economic collapse. The subsequent adoption of the NEP, however, suggests that the socialists themselves saw total communism as a mistake. For more details, see Boettke (1988, 1989) and Hirshleifer (1987).
- 9 For a comprehensive review of this debate, see Lavoie (2015) and Boettke (2000).
- 10 We say "most," because there are inevitably some privileged firms in even ostensibly free enterprise economies. For more details, see Mitchell (2012).
- 11 His story is movingly told in *The Last Train from Estonia*. Crissa Constantine, mentioned earlier, tells her harrowing story in *Banished from the Homeland*.

SOCIALISM IN ESTONIA: 1944–1991

“Enne nälg, siis viletsus (first hunger, then misery).”

—Estonian saying (Taylor 2018, 109)

The socialists retake control of the economy

Now firmly in power, the Soviets picked up where they had left off, initiating a new round of expropriations. All commercial enterprises were taken over by the government, with only state and co-operative stores permitted (Kareda 1947, 119). By 1947 the last small service enterprise was expropriated (Taagepera, 1993: 82). The total number of shops, however, fell from 8,800 in independent Estonia to just 1,044 in July, 1946 (Kareda, 1947: 119). Former owners and managers were kept on—without pay—while company books were audited. Then they were fired and not allowed back on the property (Kareda, 1947: 63).

Nationalized firms were subordinated to one commissariat or another, and all operations were directed in accordance with the overarching all-union plan. The plan dictated “the quantity and assortment of output, purchases of inputs (from whom, and in what quantities), the delivery obligations of the enterprise, prices, wages, staff establishments, costs, and much else besides, depending on the industry in question” (Nove, 1990: 256). This does not, however, mean that the plan had any coherence (Mertelsmann, 2006: 32–35; Klesment, 2009: 258). Blinded by the knowledge problem and hamstrung by the incentive problem, central planners had a difficult time knowing how and where to direct hundreds of thousands of workers and assets. Seeing no use in wasteful duplication, planners sought to consolidate competing firms, but one firm’s assets were often dismantled and removed before another firm was ready to receive them. The experience of the chemical plant Kemax is emblematic. The plant, which supplied Estonia’s soap and paper industry, was “hurriedly dismantled and the whole equipment, including valuable vacuum apparatus, was taken to Sonda, a small borough, where it lay for a long time unprotected in the open, rotting and rusting” (Kareda, 1947: 68).

Managers and entrepreneurs—those with local and tacit knowledge of how to run their businesses—were fired, deported, or murdered (Klesment, 2009: 253–54). Those who were fired were often brought back on (without pay), once it was clear that no one else could do their jobs (Kareda, 1947a: 62–64). New Russian managers, often with little understanding of the business, the culture, or the language, were brought in. Sometimes

the results were tragic. Other times they were comic. And sometimes they were both. One Russian commissar of an industrial enterprise reported to the central authorities that he had discovered evidence that his capitalist predecessor had been embezzling large sums of money. In the accounting statements he had found daily transfers to a Mr. Saldo, without any receipts. At some point the authorities discovered that “Saldo” stands for “balance” in Estonian bookkeeping (Kareda, 1947: 62).

Private, nonproductive property was also targeted. All cars and bicycles were taken. Reversing decades of progress, the horse-drawn cart once again became the principle means of transportation (Kareda, 1947: 119). The maximum dwelling space per person was now reduced from nine to just six square meters per person (Taylor, 2018: 123). Recall that as recently as 1940, the average Estonian enjoyed 15.5 square meters of living space.¹ Houses that exceeded this size were once again subdivided, and strangers were once again forced to live together. When new apartments were built, they featured communal kitchens and bathrooms that were shared by multiple families. In an effort to move food production and consumption to state-owned kitchens, apartments sometimes had no kitchens at all. As Nikita Khrushchev's son, Brown University Professor Sergei Khrushchev explained, “in Stalin's time, the theoretical idea of communism declared that all people have to be equal and the women have to be free from the slavery work in the kitchen. There mustn't be a kitchen in the apartment. You will go and eat in the cafeteria.” Russian-American chef Anya Bremzen recalls that in the Soviet cafeterias and canteens the women still cooked, only now the food was terrible (Nelson and Silva, 2014).

All privately-owned real estate was also nationalized (Feldman, 1999). From then on, the state owned the land, and individuals could ask permission to use it. It was still possible for individuals to build, buy, and sell buildings in newly created housing cooperatives, but their property rights did not extend to the soil. In most cases, however, the state owned both the land and the buildings. By the time Estonia regained its independence in 1993, the state owned 64 percent of all housing (Feldman 1999, 167).

There was an egalitarian aim in reducing and equalizing dwelling space. But it also served the planners' conviction that, left to their own devices, people would consume too much and too frivolously (Boettke, Zhukov, and Mitchell, 2023: 20–21). Planners believed that they could curb this tendency by forcibly reducing consumption and channelling more of society's wealth toward investment. To that end, socialist states invested about 30 percent of national output, compared with 10 percent in capitalist societies (Clark and Wildavsky, 1991: 104, 274). They also directed this investment toward what they believed to be worthy sectors: heavy industry and defence, rather than consumer goods or services. Only about one-eighth of all investment went to consumer goods; all the rest was swallowed up by heavy industry and military industrial production (Kareda, 1947b: 118).

In Estonia, planners initially moved resources into oil-shale mining, machine building, and chemicals. Later, their focus was on electro-chemical and radio equipment (Klesment, 2009: 250). As in the first year of occupation, the plans tended to serve the needs of Russians rather than Estonians. But despite the heavy investments and mechanization,

oil shale production per worker was lower in 1950 than it had been in 1939 (Taagepera, 1993: 82). Even as late as 1955, total industrial production was still below pre-war levels (Klesment 2009: 259; Mertelsmann, 2003: 151–69). As more resources were channelled into heavy industry and industrialization, basic consumer goods were ignored.

And as in all socialist states, shortages were rampant (Taylor, 2018: 122). As we explained above, these shortages arose, in part, because the knowledge problem made it nearly impossible for planners to set prices correctly. But they were exacerbated by the incentive problem, which encouraged socialist managers to set prices below the equilibrium, generating a shortage so that they could then sell goods on the black market. We see evidence of this process in the fact that black market prices were typically well above state-determined prices (Kaelas, 1958: 101–2; Klesment, 2009: 256).

Shortages were managed, in part, by government-issued permits entitling the bearers to purchase certain items. Shortly after they reinvaded, for example, socialist planners took control of several shoe factories in Estonia. State radio reported that they were producing between 450,000 to 500,000 shoes per year. But only 2 to 3 percent of Estonian workers received permits to buy them (Kareda, 1947: 119). Similarly, Estonians were allowed to buy none of the 3-4 million tins of fish canned in Estonia's canneries (Kareda, 1947: 119).

The socialists retake control of the populace

As before, the socialists' efforts to control the economy led to efforts to control the populace. And as before, the NKVD took the lead. Now, however, they were aided by a new agency, the ministry for state security (MGB). These secret police began by interviewing all Estonians over the age of 12 (Raun, 2001: 173). Their aim was to identify those who might pose a political threat to the socialist state.

The Soviets tended to assume that anyone who had survived the German occupation must have collaborated with the Nazis (Taagepera, 1993: 79). Lev Netto was a Muscovite who came from a family of Estonian communists; his father had helped Lenin seize power in 1917. Lev had been captured by the Nazis in 1944 and imprisoned in a German POW camp. He managed to escape, and then spent two months in an American camp. The dedicated communist was determined to return to the Soviet Union, and when he managed to do so, he joined the Red Army and served for two more years. After the war, however, he was picked up by the NKVD and accused of betraying his country. When they tortured him and threatened to arrest his parents, he gave a false confession. He was sentenced to 25 years hard labour and another five in exile (Figes, 2008: 468-9).²

Paul Winterton, a British journalist, was in Estonia from 1942 to 1945. As he put it: "For Russians Estonia was now a vital frontier zone where they could not risk an unreliable population. For the Estonians, the occupation meant imprisonment behind the barred doors of the Soviet state" (quoted in Taylor, 2018: 110).

Following the NKVD interviews, widespread arrests began in October of 1944, the first full month of Soviet reoccupation. A young university professor, Jaan Kross, was arrested

for the crime of having been earlier arrested by the Nazis. This, the Soviets concluded, was evidence that Kross was some sort of Estonian nationalist. Many were arrested for who they were, not for what they had done. Those with wealth, or land, or connections to the previous regime were especially likely to be arrested. Officials had quotas to meet, and some were simply arrested in order to meet those quotas. By the end of 1945, 10,000 had been arrested. Half would die within two years. They were not executed but overworked in slave labour camps (Taylor, 2018: 111). At the end of 1944, the Soviets began mass deportations, sending 30,000 Estonians to other parts of the USSR for labour service. (Taagepera 1993, 71). They joined the ranks of the 2.4 million forced labourers who worked as slaves throughout the Soviet Union by 1949. In fact, conscript labourers constituted between 16 and 18 percent of the Soviet workforce between 1945 and 1948 (Figes, 2008: 467).

In Stalin's view, these deportations would not only supply the necessary labour to industrialize, they would also rid Estonia of the ideologically uncommitted, and make room for an infusion of immigrants from throughout the Soviet Union—especially Russians—who were to be imported into Estonia. The newcomers would teach the Estonians how to build a socialist state. As for the deportees, the assumption, as Snyder has put it, was that “those deported could be better assimilated into Soviet society when they were separated from their homes and homelands” (Snyder, 2022: 329). Once again, the state was attempting to create Arendt's “completely isolated human being.”

One way to isolate an individual is to turn him against his family. To that end, the state poured enormous time and attention into re-educating the young. Socialists believed that human nature could be remade, and that education was the key to this transformation. The three instruments of change were public schools, the Pioneers (which had replaced the outlawed boy scouts), and the Komsomol (officially, the All-Union Leninist Young Communist League, a sort of youth division of the Communist Party). As one influential socialist education theorist put it:

We must make the young into a generation of Communists. Children, like soft wax, are very malleable and they should be molded into good Communists.... We must rescue children from the harmful influences of the family.... We must nationalize them. From the earliest days of their little lives, they must find themselves under the beneficent influence of Communist schools.... To oblige the mother to give her child to the Soviet state—that is our task. (Quoted in Figes, 2008: 19)

Classrooms had “Lenin Corners,” quasi-religious shrines to the founder. Schools were organized as microcosms of the state: “Work plans and achievements were displayed in graphs and pie-charts on the walls; classes were organized like regiments; and the daily running of the school was regulated by a bureaucratic structure of councils and committees, which introduced the children to the adult world of Soviet politics” (Figes, 2008: 20–21). Like their parents, children were encouraged to denounce peers who strayed from the party line. As Figes puts it, “The playground, especially, was a breeding ground

of informers” (Figes, 2008: 37). Children marched and were drilled. Ida Slavina recalls marching down the street with her schoolmates past offices and factories. If anyone left their work to gawk at the children from the windows, the children would berate them in unison: “Home-sitters, window-watchers—shame on you” (quoted in Figes, 2008: 22). Mart Laar, the first elected post-Soviet prime minister of Estonia recalls that the first sentence he learned in kindergarten was “I love Lenin and I love peace” (quoted in Taylor, 2018: 135).

As any grade school teacher can attest, children are often indiscrete when it comes to family secrets. Capitalizing on this proclivity to share, the Pioneers encouraged children to inform on their parents (Figes, 2008: 129). The state even built a cult around one 13-year-old boy, Pavel (Pavlik) Morozov, who informed on his father. Pavlik was allegedly a member of the Pioneers. And, as the propagandists told it, he was such a dedicated communist that he turned his own father into the authorities for conspiring against the state. Tragically Pavlik was murdered soon afterward. And though the circumstances of his death have never been clear, the Soviets found it extremely useful. Soon there were plays, songs, poems, operas, and biographies lionizing Pavlik, the young hero who put socialism above family (Figes, 2008: 122–29).

As one woman put it:

In a society where it was thought that people were arrested for loose tongues, families survived by keeping to themselves. They learned to live double lives, concealing from the eyes and ears of dangerous neighbors, and sometimes even from their own children, information and opinions, religious beliefs, family values and traditions, and modes of private existence that clashed with the Soviet public norms. They learned to whisper. (Quoted in Figes, 2008: 270)

Children were also used as tools to coerce false confessions. Children as young as 12 could be held criminally responsible and so could anyone whose relative was in prison for a crime against the state (Figes 2008, 247). This leverage—and, of course, the threat of torture—helps explain why so many were willing to confess to such crimes. Beyond this leverage, there was another reason to arrest children: the mass incarceration of adults had created so many orphans that dangerous gangs of children roamed the streets, harassing people for food, committing petty crimes, and practicing prostitution (Figes, 2008: 98).

Communal living was another means of control. Soviet planners and architects prepared for a time when all property—even clothes and underwear—would be shared and domestic responsibilities, from cooking and cleaning to childrearing, would be shared. Few houses were built like this, but it was a dream (Figes, 2008: 9).

The reality was more prosaic. In communal apartments, several families were forced to live together in a space that had previously been occupied by just one. Multiple families, sometimes dozens of people, had to share a kitchen and a bathroom. The leaders called

it “condensation” (Figes, 2008: 9) The people called it being “densed up” (Nelson and Silva, 2014). Communal kitchens made it easier for authorities to keep tabs on the population. As the Russian poet Edward Shenderovich put it, “Communal kitchens were not places where you would bring your friends. I think that was one of the ideas for creating a communal kitchen. There would be a watchful eye of society over every communal apartment. People would report on each other. You would never know who would be reporting” (quoted in Nelson and Silva, 2014). In fact, the state deliberately placed party activists and loyalists into homes whose occupants were suspect (Figes, 2008: 174).

There may have been some benefits to communal life. Anya Bremzen (the chef who lamented the terrible food in the canteens), remembers that there was always a grandmother in a communal kitchen to look after the children (Nelson and Silva, 2014). But for most, the communal kitchen was a source of tension. As Shenderovich put it: “Five different kettles, five different pots that are all marked. When relations between the neighbors were especially fierce, you could see locks on the cabinets.” Alexander Genis, a Russian writer and radio journalist goes further: “[A] communal kitchen was a war zone. During the Stalin era, it was the most dangerous place to be” (Nelson and Silva, 2014:). That’s quite the superlative, given that there were many dangerous places to be in Stalin’s Soviet Union.

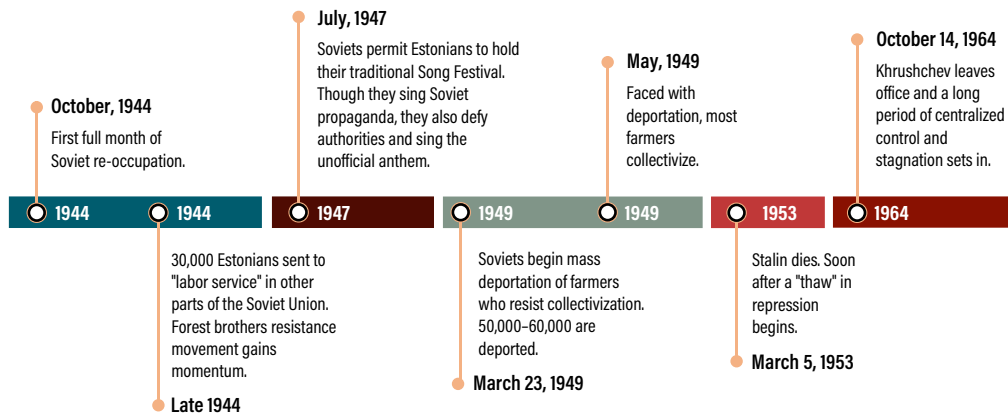
One man who spent time in a Soviet prison and in exile believed that “in some ways [communal life] was worse”:

In exile one preserved a sense of one’s self, but the repression I felt in the communal apartment was the repression of my inner freedom and individuality. I felt this repression, this need for self-control, every time I went into the kitchen, where I was always scrutinized by the little crowd that gathered there. It was impossible to be oneself. (Quoted in Figes, 2008: 186)

To help control the population, all Estonians over the age of 16, as with all citizens of the USSR, were required to obtain an “internal passport.” Without this all-important document, a person could do nothing. They could not work, or marry, or pick up a package at the post office. They could not even officially die (Baiburin, 2022). Those without passports “disappeared.” The word was often used as an action verb; for example, “the NKVD determined he was an enemy of the people and disappeared him.” As we will see below, passports allowed the state to control where people lived and worked.

But some things could not be controlled. In 1947 the Soviets decided to let the Estonians gather for their traditional song festival, with some carefully orchestrated modifications. Instead of traditional Estonian garb and colors, the festival grounds were adorned with giant pictures of Stalin and Lenin. And instead of traditional Estonian songs, the people were directed to sing love songs to communism and its leaders: “Oh Party of Lenin, the strength of the people, to Communism’s triumph lead us on!” A Soviet news bulletin

Figure 3.1: Second Soviet Occupation



then broadcast the spectacle to the rest of the world: “Singing people! In whose honor are they singing? National unity! Our strength! And our great father... Stalin!” (Tusty and Tusty, 2006).

The Soviets had asked the Estonian composer and conductor Gustav Ernesaks to write the official Estonian SSR anthem, which spoke of the “flourishing socialist country.” Ernesaks obliged, but he also set new music to “My Fatherland is My Love,” an Estonian favorite originally written for the first song festival in 1869. It spoke of a blossoming Estonia slandered by foreign envy but still loved by the people. Somehow, the song slipped by the Soviet sensors, and suddenly 25,000 Estonians were singing a love song to their country. It was sung in Estonian. And it became the unofficial national anthem (Tusty and Tusty, 2006).

New hierarchies emerge and a new privileged class arises

Passports also made it easier to establish and maintain hierarchy, an important feature of this ostensibly egalitarian society (Djilas, 1957; Baiburin, 2022). There were several dimensions to the hierarchy. One was nationality. The Soviet Union now comprised sixteen soviet republics, stretching from Estonia in the North to Tajikistan in the South, and each had its own culture, ethnic groupings, and languages (there were about 130 languages spoken throughout the USSR).³ But Russia was the first among equals. Stalin famously made this known at the close of the war when he raised a toast to “the great Russian nation,” congratulating Russians on their victory and ignoring the fact that more Soviet Ukrainians, Belarusians, and Jewish civilians had died than Russians. The Balts, it seems, were several stations below the Russians, though they were often treated better than the Muslims of the Caucasus and Crimea or the Slavs of Belarus or Ukraine (Snyder, 2022). These racist hierarchies appealed to the innate tribalism of the era, as well as to Stalin’s antisemitism. But textual support could also be found in Engels, whose “views on the Slavs were indistinguishable from those of Hitler,” according to the historian A. J. P. Taylor (quoted in Liulevicius, 2019: lecture 3).

New hierarchies also arose because of bureaucratization and central planning. Central planning required bureaucracy, and bureaucracies everywhere tend to become tiered over time. To ease the managerial and informational demands of supervision, bureau chiefs delegated authority to other managers and they, in turn, further delegated, creating a pyramid-shaped organizational structure (Mises, 1944/2007; Tullock, 1965). Managers soon learned that they could increase the perquisites of their positions by increasing the size of the operations they oversaw (Niskanen, 1971, 1975). This process naturally gave rise to the “nomenklatura,” a class of elite party and government officials who were trusted, and therefore entitled to power, prestige, and economic goods, which were otherwise scarce. In Estonia, there was considerable overlap between the Russian elite and the party elite. From 1945 onward, Russians dominated the Estonian communist party, while ethnic Estonians never constituted more than a minority of its members (Misiunas and Taagepera, 1993: 359; Taagepera, 1993: 116). Though the first local leader, Nikolai Karotamm, had been born in Estonia, he had spent most of his formative years in the USSR.

The shortage economy strengthened the position of the elite. Store managers, factory executives, and planning authorities used their positions to pilfer goods and sell them on the black market, where prices were typically much higher than the official rate. Indeed, as we explained above, this phenomenon is one reason why there *was* a shortage economy. An “economy of favours” developed. Known as *blat*, it was an informal network of suppliers and buyers. As Figes explains, “To get anything (a rented room, household goods, a railway ticket, a passport or official papers) required personal contacts—family and kin, colleagues, friends, or friends of friends” (Figes, 2008: 172). As a common proverb put it, “One must have, not a hundred rubles, but a hundred friends.” (Figes 2008, 172).

The Soviets adopted a curious attitude toward *blat*. On the one hand, they condemned it, cited it as evidence of counterrevolutionary capitalist conspiracies, blamed it for any deficiencies in the socialist system, and used it as an excuse to purge anyone who was politically inconvenient. On the other hand, the socialist system could not have operated without *blat*. It signalled the value of goods in a way that the state-determined prices could not. In a clumsy and inefficient way, *blat* permitted goods and services to go to those who valued them most, as evidenced by their willingness to pay bribes or black-market prices. Of course, it also allowed goods to go to those with the least qualms about breaking the rules. Finally, *blat* was a convenient means to reward top managers whose official salaries may not have been enough to get them to do their jobs. For these reasons, *blat* was tolerated and even encouraged, when it wasn't being blamed for all of socialism's problems (Ledeneva, 1998).

Finally, at the bottom rung of the socialist hierarchy were two entirely made-up classes: the kulaks and the enemies of the people. As we have discussed, the kulak class was invented because their lands were needed for the realization of the collectivist dream. To justify these takings, the kulaks were demonized. Later, when collectivization failed to produce the prosperity that had been promised, the kulaks became a useful excuse. Whenever socialized agriculture seemed to be failing, state propaganda would blame

kulaks for sabotaging it. Young boys and girls of the Pioneers were fed this story and instructed to spy on their families and neighbours in an attempt to catch kulak saboteurs (Snyder, 2022: 38). Even after collectivization (discussed below), labour and capital were siphoned from the countryside to feed the quest for industrialization.

The category “enemy of the people” was even more pliable. It could apply to kulaks, capitalists, ethnic minorities, nationalists, internationalists, left deviationists, right deviationists, religious leaders, cultural icons, or intellectuals. Above all, though, it applied to anyone who challenged the power structure of the Soviet state or Stalin himself. Of the roughly one million enemies of the people who were executed in Stalin’s great purges, many were true socialist believers (Conquest, 2007: 485).

Ironically, the attempt to control the Baltic population and force it into the new hierarchy created genuine enemies of the state. They proved much harder to control. They were the forest brothers.

The forest brothers

For most countries, World War II ended in 1945. But the arrests and deportations that began in 1940 and resumed when the Soviets reinvaded the Baltic states in 1944 sparked a guerilla resistance movement that would extend the war there for another decade or more (Raun, 2001: 174-5; Liulevicius, 2015: lecture 15). The first resistance fighters appeared in the swamps and forests of Estonia and called themselves *metsavenmad*, or “forest brothers” (Raun 2001, 174-5). Soon there were forest brothers in all three Baltic states with the largest and strongest units found in Lithuania (Liulevicius, 2015: lecture 15).

Emboldened by the Finns’ success against the Soviets in the Winter War, many forest brothers may have concluded that they were wrong to have put up such little resistance when the Soviets initially invaded in 1939. As one brother told his family before going to the forest, “I did not serve the Germans. I am not going to serve the Russians. It is better to die” (Liulevicius 2015: lecture 15). The brothers were also buoyed by the hope that the West might one day intervene and honor the commitment to self-government laid out in the Atlantic Charter, signed by Churchill and Roosevelt in 1941. This notion was unintentionally nurtured by Soviet propaganda, which constantly warned that the Americans were going to attack any day (Liulevicius, 2015: lecture 15).

In Estonia the units largely operated independently of one another as it was too dangerous to risk coordination.⁴ In groups as small as 2 to 3 or as large as several dozen, these men—and sometimes women—would build increasingly elaborate bunkers in the woods. In hit-and-run operations they would impede Soviet collectivization and deportation efforts. Their main targets were not Soviet soldiers but the new tormentors, the NKVD and the MGB (Liulevicius, 2015: lecture 15).

The forest brothers’ numbers were strengthened whenever the Soviets made a new push to collectivize farms or to deport locals. They reached a maximum strength of about 10,000 fighters, peaking around 1946-48 (Taagepera, 1993: 78; Raun, 2001: 174-5). But over the

course of the forest war, as many as 30,000 Estonians may have participated at one time or another (Taagepera, 1993: 78), and they were likely supported by up to 20,000 noncombatants, who helped deliver food and supplies to the brothers (Taylor, 2018: 118). The Soviets attempted to break these connections in sometimes horrific ways. If a brother was killed in action, the Soviets would display his mutilated body in the local town square. Then, if a villager was overcome with emotion upon seeing the body, the Soviets would assume that he or she had aided the brother and make an arrest (Liulevicius, 2015: lecture 15).

In the winter months the brothers would spend long stretches of time underground, because it was not safe to leave footprints in the snow. In the summer they would gather around campfires and sing traditional Estonian songs. Hundreds of new songs celebrating the mythical life of the brothers entered the canon, nurturing the unique Estonian culture. *Metsavendad laul*, the “Forest Brother’s Song,” is illustrative (“Untsakad – Metsavendade Laul Lyrics + English Translation,” n.d.):

*There on the edge of the forest in a small house,
where my parents lived.*

*There on the edge of the forest in a small house,
the Reds have made their nest.*

*Forest brothers, we are.
We, forest brothers, are Estonians.*

*So we don't have any money,
we have to live in the woods,
and we can't, won't, don't want to,
we don't want to serve those bloody Russians.*

*Forest brothers, we are.
We, forest brothers, are Estonians.*

*And your eyes, black as blackberries,
will never, ever be forgotten.
Because your eyes, black as blackberries,
have won my heart.*

*Forest brothers, we are.
We, forest brothers, are Estonians.
And our flag, blue-black-white,
we still keep in honor,
And at dawn, then we'll find out
Who's the true Estonian among us.*

*Forest brothers, we are.
We, forest brothers, are Estonians.*

There is a story of an ethnic Estonian who served in the Soviet Army. In 1946 he was granted leave and went to see his family in Estonia. Walking alone in the wilderness he came across a lively camp. Assuming he had stumbled upon a traditional summer festival, he sat down and was welcomed. As he sipped moonshine vodka, however, he noticed the lyrics to the song that was being sung: “I want to be home when Estonia is free... when I hold the Estonian *kroon* in my hand.” His eye then caught the gleam of a stack of machine guns standing against a tree and it dawned on him that he was in a forest brother camp. His hosts, who had been waiting for this realization, then grabbed him, seizing his weapons and his papers. Then they laughed and handed him another mug of vodka and drank with him all night. He was allowed to leave the camp and, when he later reported his story to his superiors, he was punished and stripped of his rank for not arresting them all (Liulevicius, 2015: lecture 15; Huang 1999).

By the mid-1950s, the forest brothers began to disband. Some gave up after Stalin’s death in 1953 and the thaw in Soviet repression that succeeded it. Others were enticed out of the woods by the Soviet’s offer of amnesty in 1955 (Taagepera, 1993: 80). Finally, when the West failed to intervene following the Soviet invasion of Hungary in 1956, most of the rest decided that there was no use waiting in the woods for the Americans and the British to help (Taylor, 2018: 119).

But not everyone gave up. In September 1978, two KGB agents were investigating reports of a forest brother in the woods near the village of Paidra in Southeast Estonia. In what they called Operation Angler, they posed as fishermen and approached a 69-year-old man on the banks of the Võhandu River. His name was August Sabbe. For nearly three and a half decades he had been fighting the Soviet occupation of his homeland. They asked Sabbe for his picture, and one of the agents posed with him. Then they moved to arrest him. He fought back and all three ended up in the river. The agents managed to pull him out, and he surrendered. He then leapt back in the river and drowned. The agents claimed it was an accidental drowning. Others believe that the agents held him under. Still others claim that he deliberately wedged himself under a log, preferring to control his own fate to the end. He was the last known forest brother in the Baltics (Liulevicius, 2015: lecture 15).

As we will see, Sabbe’s story and those of his brothers, became an important element in the Estonian identity, nourishing the belief that Estonians should never submit.

Collectivization and deportation

The Soviets did not have sufficient time to collectivize agriculture during their first occupation of Estonia. And as their second occupation got underway, it looked like they might once again spare this sector. In fact, Soviet officials repeatedly denied that they had any intention of collectivizing at all (Purre, 1964: 8; Klesment 2009: 255). This would have made sense; it had been little more than a decade since up to seven million had needlessly died because of forced collectivization, from Kazakhstan to Ukraine. And even as the Soviets were taking over the Baltics, a new famine was beginning in Ukraine.⁵

But Stalin was not prepared to abandon socialism in agriculture. The apotheosis of socialist agriculture was the state farm, the *sovkhos*. This was a large state-created and state-run farm that would be organized and run like an industrial factory. The land and the equipment was to be taken from private landowners and owned by the state. The workers were to be paid regular wages that were set by the central planners. In the first decade after the war, however, state farms played a relatively minor role in Estonian agriculture. By 1950, only 4 percent of all cultivated land was run by state farms, and these farms only employed 12,500 workers (Raun, 2001: 180). The state farms were to be a model of future development, but before that model could be realized, socialist planners aimed to push farmers on to collectives, known as *kolkhoz*.

In these collectives, the state would take over and own the land, while collectivized farmers known as *kolkhoznik*, were to operate it. Initially, the state also owned nonland assets, such as tractors and feed stations. This created what economist call “a tragedy of the commons,” a condition in which collectively shared resources are abused and poorly maintained (Hardin, 1968). After 1958, *kolkhoznik* nominally shared ownership of these assets (Taagepera, 1993: 90). But unlike owners of genuine private property, *kolkhoznik* could not sell their shares of the property or take the shares with them if they left. And in most cases they couldn't leave, because the Soviet system of internal passports forbade relocation. *Kolkhoznik*, moreover, were paid based on their labour, not on profits, which made them more like employees than owners (Belov, 2013: 82). They were also not allowed to set their own terms of trade. Instead, they were required to sell their produce to the state at fixed prices. One exiled writer called it a modern form of slavery (Ekbaum, 1949; Klesment, 2009: 253). They were paid in grain instead of cash, and their payments were below what the market would bear. In fact, they were typically below production costs (Raun, 2001: 181). The state then sold the produce to the public at much higher prices, channelling the profits to the industrial sector.

Before the Soviets collectivized, they redistributed. The first step was to reinstate the 30 hectare size limit that had been imposed in the first occupation (Raun, 2001: 177). The government also confiscated any livestock or movable property and farm buildings that it believed had belonged to Nazi collaborators or kulaks. About two-thirds of this land and property was then divided among the landless, giving preference to Red Army veterans and their families (Raun, 2001: 177).

Next, the Soviets employed taxes and requisitions to make larger private farms unprofitable. The aim was to force farmers onto small, nonviable plots so that they would have no choice but to join collectives (Taagepera, 1993: 80; Misiunas and Taagepera, 1993: 96). For non-kulak farms, the steeply graduated tax topped out at 50 percent of the farm's income, to be paid in farm produce, such as grain, potatoes, or milk. For those who were designated as kulaks, however, the rate was as high as 75 percent of all farm income (Taagepera, 1979: 275). Employing Stalin's slogan “liquidation of the kulaks as a class,” the Soviets then deported about 1,200 kulak-designated Estonian families in 1947-48 (Raun, 2001: 178). Since large farms were more likely to be designated kulak farms, the operation naturally targeted the most successful and productive farms.

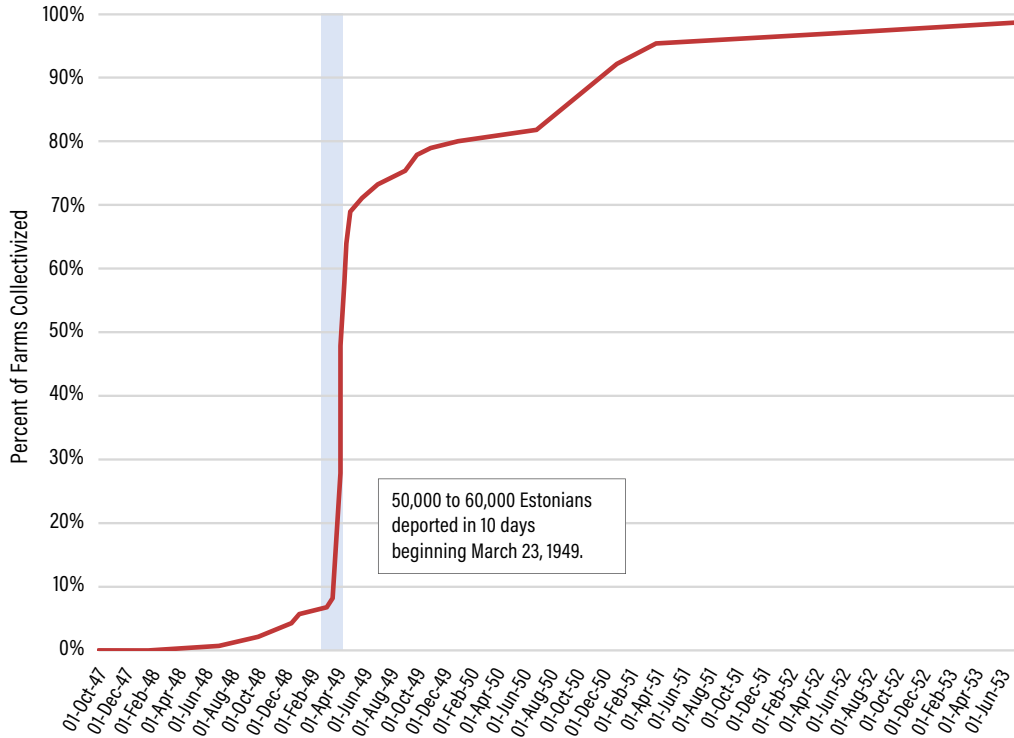
Despite these measures, however, the Estonians were stubbornly reluctant to give up their farms. The first collective farm in Estonia had been established on the island of Saaremaa in 1947, but by January of 1949 only 5.8 percent of farms had been collectivized (Taagepera, 1979: 265). Local communist leaders pleaded with Moscow for more time and asked that any collectivization be voluntary. But Moscow didn't see it that way. In their view, Estonian farmers had shown "great interest" in collectivization and the local party leaders were dragging their feet. As Taagepera acerbically notes, "It would seem that the further away Soviet Party organs were located, the earlier and clearer they perceived the 'great interest' shown by the Estonian farmers" (Taagepera, 1979: 271).

The Soviets then tried a new tack. On March 23, 1949, they began mass deportation of resistant Estonian farmers. In 10 days, as many as 50,000–60,000 people—up to 14 percent of all Estonian farmers—were deported. Another 20,000–30,000 hid or escaped (Raun 2001, 179; Taagepera 1979, 263). The horror that Estonia's urban population experienced on June 14, 1941, was now visited on the rural population (Taylor, 2018: 119). The deportees were given hours and sometimes even minutes to pack. Then, young and old were herded on to American-made Studebaker cattle trucks and shipped east (Snyder, 2022: 348). Most of the men were sent to labour camps across the USSR, while women and children ended up in Siberia. We do not know how many died (Raun, 2001: 179). Those who returned said that men typically lasted about three months before they succumbed to the weather or to starvation. Others died of diarrhea after eating rotting scraps of food. As one woman put it, "So was the communist empire built" (quoted in Rausing, 2014: 144).

Suddenly, Estonian farmers did show a keen interest in collectivization (see Figure 3.2). On March 20, just 8.2 percent of Estonian farms had been collectivized. But 23 days later, 58 percent of all farms were collectivized, and by the end of May, the proportion had risen to over 70 percent (Taagepera, 1979: 265). For years, the Soviets maintained that collectivization had been initiated by the peasants themselves (Klesment, 2009: 248; Buzulukov, 1950: 189–90). Naturally, the collectives were given Soviet names: "Lenin, Red Flag, Victory, Red Dawn, Hero, Red Star, New Life, Forward, New Way, Partisan" (Rausing, 2014: 94). Some of those who now worked the collective farms had only recently been transplanted from Russia and knew nothing about farming the poor Estonian soil. With no financial stake in the enterprise and little connection to the land, they neglected the animals and burned furniture and boats for firewood (Rausing, 2014: 94).

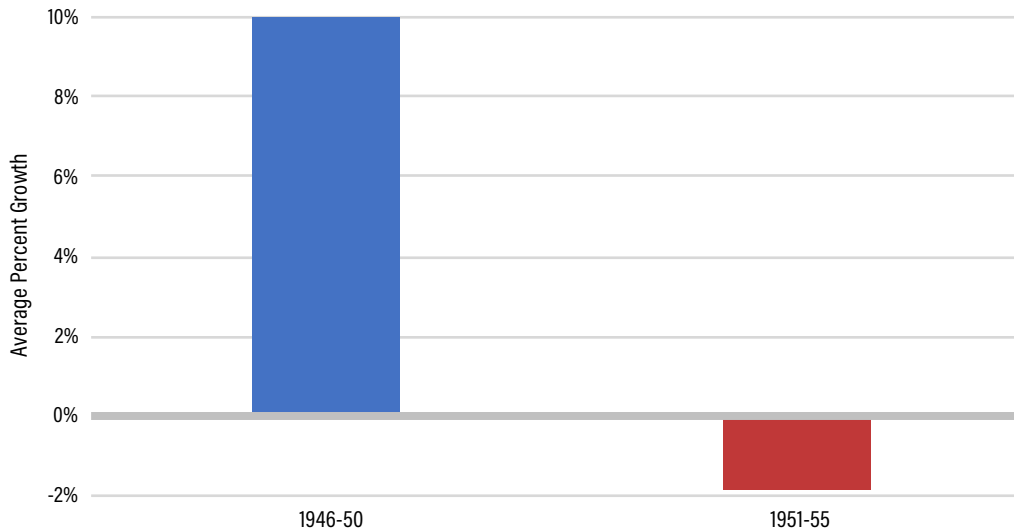
According to Estonia's first Five-Year Plan, collectivization was supposed to cause agricultural production to exceed its pre-war levels by 1947 (Klesment, 2009: 248). But by the Soviet's own (notoriously suspect) statistics, collectivization coincided with a precipitous decline in agricultural output (see Figure 3.3). The Soviets report that from 1946 to 1950, Estonian agricultural output had grown at an average annual rate of about 10 percent (note that this timespan includes some of the post-collectivization period, so the pre-collectivization growth was likely higher). From 1951 to 1955, however,

Figure 3.2: Effects of Mass Deportation on Farm Collectivization Rates



Source: Taagepera, 1979: 265.

Figure 3.3: Estonian Agricultural Output Before and After Collectivization



Source: Raun, 2001: 180

agricultural output declined at an average rate of 1.85 percent per year (Raun 2001, 180). Comparing the period 1951-1955 with that of 1946-50, grain production declined 32 percent, potato production declined 25 percent, and vegetable production declined

25 percent (Raun, 2001: 180–81). Yields per hectare were still below 1939 levels in 1960 (Klesment, 2009: 249).

Purges, Russification, and the historical gap

Following deportation and collectivization, the Soviet leadership purged the Estonian communist party of its top leadership, accusing it of “bourgeois nationalism.” Though the reason for the purge has never been definitively determined, most analysts believe that the Soviets thought leaders were insufficiently enthusiastic about collectivization (Taagepera, 1993: 86; Raun, 2001: 171). The head of the local communist party, Nikolai Karotamm, several ministers, and several top members of the Estonian Communist Party were fired, expelled, and deported (Taagepera, 1993: 86). They were lucky. Unlike the victims of the Soviet purges of the 1930s and 1940s, none were executed, though lower-level officials were sometimes worked to death in labour camps (Raun, 2001: 171–72). Russians and Russian-Estonians replaced all of the top leadership (Raun, 2001: 172).

The political purge coincided with a cultural purge. Consistent with Arendt’s formulation, it attempted to sever any source of social connection outside the state. Anyone with more faith in God than in the central plan was a particular threat. So, in an act that Khrushchev would later condemn as “monstrous,” 281 Jehovah’s Witnesses were deported in 1951 for their opposition to collectivization and conscription (Taylor, 2018: 119)

More than anything, however, it targeted Estonian culture and identity. Estonia’s most famous novelist Friedebert Tuglas was blacklisted for showing bourgeois sympathies. He became a “nonperson,” one whose name could not be mentioned. The playwright Hugo Raudsepp was deported to Irkutsk and died within a year (Taagepera, 1993: 86). Other cultural leaders were compelled to condemn themselves or their colleagues so as not to share the same fate (Taagepera, 1993: 86). Estonian monuments were jackhammered and statues were melted down. In 1928 the Estonians had erected a statute of King Gustavus at Tartu University. It was a tribute to the Swedish monarch who had brought land rights and prosperity to Estonia in the seventeenth century. When the Soviets melted it down, they are believed to have used the metal for a statue of Lenin, in whose name Estonian property had been taken (Taylor, 2018: 110).

Receiving foreign mail or listening to foreign radio became a crime, and since Estonia was well within the reach of Finnish signals, radios were once again confiscated (Jurison, 2016: 63; Taagepera, 1993: 87). Naturally, cultural output declined. With its dearth of art, music, and literature, the period became known as the “historical gap” (Taagepera, 1993: 87).

Russian culture and Russian people were to replace Estonian culture and Estonian people. Some Russians moved to Estonia of their own accord, as the province was more prosperous than Russia, but other Russians were brought in against their will to Russify Estonia (Taagepera, 1993: 82). According to Taagepera, “Russians were presented as superior to Estonians and other nations. The tone resembled that of Nazi

propaganda, only with the term 'German' replaced with 'Russian'" (Taagepera, 1993: 87). Ethnic tensions between Russians and Estonians simmered. Those Russians who spoke Estonian with a Russian accent often mispronounced the "e" in "Estonian" and were soon dubbed "Yestonians." It was a jab at their mispronunciation. But it was also a pun on the English "yes," since these transplants never said no to Moscow (Taylor, 2018: 122). As a result of Russification, the share of ethnic Estonians in Estonia fell from 94 percent in 1945 to 72 percent in 1953. According to Taagepera "It was a slow genocide—and it was intentional" (Taagepera, 1993: 83–84).

Living a lie

A common coping mechanism in the totalitarian state was to hide one's true self. As one Muscovite confided to his diary:

One cannot speak of anything or with anyone. The whole secret of behavior is to sense what something means, and who means it, without saying anything. You have to eliminate completely in yourself any remnant of the need to "speak from the heart." (Quoted in Figes, 2008: 254)

Some kept their true selves hidden nearly all their lives. An Estonian named Boris Ioganson was born to a family that had been designated "enemies of the people." His father and his grandfather had both been arrested during the Great Terror of 1937. Boris lived with his wife Antonina for 40 years without ever revealing this dark secret. It wasn't until the 1990s that he finally worked up the courage to tell her the truth. When he did, Antonina revealed that her father had also been arrested as a kulak, and that Antonina and her family had been sent to slave labour camps in the Gulag (Figes, 2008: 185).

The thaw and new means of control

In a highly centralized, totalitarian state, an imperfection in a single blood vessel can alter the lives of tens of millions. On March 1, 1953, Joseph Stalin's left-middle cerebral artery burst. He died four days later (Turner, 2023). The man of steel's death left a power vacuum, and as his lieutenants jockeyed for control of the Kremlin, the entire Soviet sphere entered what has come to be called "the thaw." The term comes from a novel by Ilya Ehrenburg, the Russian writer who had earlier described the collective "guilt" of the kulaks (Alexeyeva and Goldberg, 1993). For Estonians, political and social repression eased for a time. And when it returned, it took a different, less conspicuous form (Taagepera, 1993: 90).

While Estonians, like Soviet citizens everywhere, were still sent to the Gulag after Stalin's death, nothing like the mass arrests and deportations of 1941 or 1949 ever happened again (Taylor, 2018: 127).

Most Soviet citizens were reluctant to openly celebrate Stalin's demise, but prisoners in the Gulag had little to lose and rejoiced (Figes, 2008: 528). The Russians had previously freed prisoners upon the death of the tsar, and in keeping with that tradition, the Soviets

released about a million prisoners after Stalin died. But they were only the non-political prisoners and represented only about 40 percent of the total prison population (Figes, 2008: 535). The regime was more reluctant to release so-called political prisoners. Many leaders, including Khrushchev, had collaborated with Stalin in these arrests, and if the political prisoners were released now, some of these collaborators would be implicated in the repression (Figes, 2008: 535). The prison-industrial complex also resisted change. If the Gulag was emptied, tens of thousands of prison guards and administrators would lose their jobs. So, to prove that political prisoners were too dangerous to be released, guards began provoking prison fights and riots (Figes, 2008: 530).

Some prisoners had their own plans. One was Lev Netto, the Red Army soldier of Estonian extraction who had been sentenced to 25 years in Norilsk for the crime of being captured by Germans during the war. When prison guards shot at a convoy of prisoners on their way to work, Netto helped organize a hunger strike in the summer of 1953. He and his fellow strikers didn't ask to be released. They just wanted better treatment and punishment for the guards who had murdered their fellow prisoners. The Norilsk uprising was the largest in Gulag history, involving some 20,000 prisoners (Figes, 2008: 529). Though the strike was put down, it led to further calls for the release of political prisoners. The regime ultimately gave in and began releasing political prisoners. The Gulag system was finally abolished in 1960.

Those who returned to Estonia told their loved ones that they survived Siberia by eating grass and digging holes in the ground for shelter (Rausing, 2014: 144). Jaan Kross, the young professor who had been arrested by the Soviets for the crime of having earlier been arrested by the Germans, was released from his prison camp and allowed to return to Estonia in 1954. In time, he became Estonia's most famous novelist (Taagepera, 1993: 93). Otto Tief, the leader of the ephemeral four-day government of 1944, was also released from Siberia in 1956. He was allowed a brief visit to Estonia before being sent to Ukraine and then Latvia (Taylor, 2018: 127). Some never came home, and it was only then that their loved ones finally understood that those who had been sentenced "without rights to correspond" had in fact been shot (Figes, 2008: 581).

The use of force became less common, but its threat remained. The Soviet invasions of East Germany in 1953, Hungary in 1956, and Czechoslovakia in 1968 made this clear enough. Thaw or not, open challenge to the status quo was not tolerated. While Stalin's successor, Nikita Khrushchev, initially permitted some degree of cultural autonomy, he grew less tolerant of cultural and political dissent once he consolidated power in 1957 (Taagepera, 1993: 92). Khrushchev was eventually removed in a coup in 1964. And his successor, Leonid Brezhnev, was even less tolerant (Taylor, 2018: 133).

The Soviets reduced the size of their repression force during the Khrushchev and Brezhnev eras and brought fewer convictions against anti-Soviet agitators. They did not, however, abandon totalitarianism. Instead, they changed their tactics. Now agents would pay dissidents a visit, let them know that they were being watched, and admonish them to step in line. Between 1971 and 1974 alone, 63,100 such warnings were delivered throughout the Soviet Union (Laar, 2011: 53).

While the KGB (and the NKVD before them) had previously preferred to keep their activities quiet, they now decided to make a show of a few high-profile cases. In 1980, for example, Mart Niklus took 15 pictures of Tartu and smuggled them to Finnish students. The pictures showed crumbling infrastructure, dilapidated buildings, goats grazing in a city park, and a radio tower used for jamming signals from the West. Niklus was also known to speak openly about the Molotov-Ribbentrop pact. In January of 1981 he was arrested and sentenced to 10 years hard labour and another five years in exile (Taylor, 2018: 135). His mother was allowed to visit him in prison. But when he spoke to her in Estonian he was beaten (Rausing, 2014: 173). He later became a member of parliament once Estonia reclaimed its independence.

Despite this show of force, dissidents continued to test the state, seeing just how far they could go. And many were willing to pay a price to demonstrate the continued brutality of the regime. Lagle Parek had already paid a price when she began testing the regime in the 1970s and 1980s. Her father had been shot by Soviets in 1941, a few months after she was born. She and the rest of her family had then been deported in 1949, but they returned in 1955. As an adult, she came to work for the Institute of Cultural Monuments, where she secretly helped coordinate and organize dissent. Much of her effort focused on making sure those on the other side of the iron curtain knew what was happening in Estonia, both good (Independence Day celebrations that the state could not suppress) and bad (fake elections, human rights abuses, and economic stagnation). Her dissidence earned her four years in prison in the 1980s. But it also earned her the appreciation of her countrymen and a top position in the government once freedom was restored (Taagepera, 1993: 113).

Some undermined the legitimacy of the state without ever running afoul of it. Few managed this feat better than Gustav Ernesaks, the chief conductor at the song festival who had set new music to “My Fatherland is My Love,” giving birth to the unofficial Estonian anthem. Ernesaks was massively popular; Taagepera calls him a “national treasure” (Taagepera, 1993: 141). While his song never appeared on the official program after 1947, the maestro allowed it to be sung at the end of each festival. Estonians were especially defiant at the 1969 festival. After two days of singing songs about communism, Lenin, and Marx, the choirs refused to leave at the official conclusion of the program. Soviet brass bands tried to drown them out, but it was no use. As one participant later put it, “If 20,000 people start to sing one song, you can’t shut them off” (quoted in Tusty and Tusty, 2006).

The treadmill of economic reform

Following Stalin’s death, soviet leaders pursued a series of economic reforms in the hopes of reviving the moribund economy. They successively eased and then reasserted control in a pattern that the Soviet specialist Gertrude Schroeder called the “treadmill of reform” (Schroeder, 1971). While the treadmill featured periods of greater local autonomy, the Soviets never abandoned the basic socialist formula of centralized economic planning, with little room for individual economic freedom or property rights.

At first none of Stalin's economic decrees were rescinded, and it looked like some controls might even be tightened. Estonian farmers, for example, were ordered to sow corn, even though it did not ripen that far north (Taagepera, 1993: 89). Fortunately, the local communist leader Johannes Käbin acted as a buffer between the Estonians and the leaders in the Kremlin, and he managed to persuade the Kremlin to allow farmers to grow potatoes instead (Taylor, 2018: 130).

In time, restrictions on movement were eased. Those who had been brought to Estonia as forced labourers were allowed to leave, and those who had been exiled were allowed to return (Taagepera, 1993: 90). Administrators at the provincial level were also given greater control over economic matters. In 1957, regional economic councils known as *sovmarkhozy* were established. This meant that, for a time, the Estonian SSR became the unit for economic planning (Taagepera 1993, 90). It was still central planning, but the centre was Tallin, not Moscow.

The next year, Khrushchev admitted that collective agriculture was not meeting the needs of the people (Purre. 1964: 14–15; Klesment, 2009: 256). He moved to ease the state's grip on collective farms, allowing *kolkhozniks* to collectively own assets such as tractors and feed stations (Taagepera, 1993: 91). This marginally increased their incentive to look after this equipment. However, since they could not sell their ownership rights and there were more than 50 co-owners on each farm, these incentives were still weak.⁶ It remained a tragedy of the commons, but the common pool was smaller. More importantly, the state eliminated compulsory product deliveries and raised the prices it paid to above confiscatory levels. From then on, farmers would be paid in money wages rather than in a share of their crop. As a result of these changes, agricultural productivity rose (Taagepera, 1993: 91).

With the basic socialist formula unchanged, however, none of these measures produced significant improvements in living standards. By 1965, Khrushchev was out, and his successor Brezhnev decided to eliminate the local economic councils and return to more centralized control, believing that recentralization would permit greater industrial concentration and thus greater specialization (Klesment, 2009: 251). Just 15 percent of industry remained under the purview of local planners; the rest was directed at the national level (Taagepera, 1993, 95). Moscow was once again at the centre of central planning; the treadmill had turned full circle.

Planners also experimented with the consumption/investment tradeoff. From the earliest days of central planning, the Soviets had always attempted to suppress consumption. Believing workers and consumers to be shortsighted, planners thought that they could boost long term growth by limiting consumption and channelling savings into investment (Clark and Wildavsky, 1991: 104, 274). As we have noted, this bias toward investment was exacerbated by the knowledge and incentive problems. As a result, store shelves remained bare, and basic items—flour, meat, shoes, soap, chocolate, and toilet paper—could only be found on the black market. Every language spoken in the Soviet Union developed its own expression for “not available.” In Estonia, it was *ei ole* (Rausing, 2014: 25).

By the late 1950s, the shortage economy had become the butt of ubiquitous anticommunist jokes. Perhaps the most famous of these featured a man attempting to buy a car. He is told that there is a 10-year waiting list and agrees anyway. Once the deal is struck, he asks the seller whether he can pick the car up in the morning or the afternoon. "It's 10 years from now," replies the seller, who asks "why does it matter?" "Because," says the man, "the plumber is coming in the morning." For the Soviet leadership, the shortage economy was more than an embarrassment. It showed that, decades into the socialist experiment, the system was coming no closer to Marx and Engels's promise to supply "an abundance of goods...for all its members." Worse still, while socialism was supposed to create a new, selfless "Soviet man," shortages seemed to bring out the worst in people. Black marketeering didn't just normalize lawlessness, it also normalized the commodification of friendship and familial relations. People used one another as instruments to obtain what the command economy would not supply them (Boettke, Zhukov, and Mitchell, 2023: 34). It was Marx turned on his head.

In the late 1950s, the Soviets tried a new approach. In 1957 Khrushchev gave a speech in which he vowed to "catch up and overtake the United States" in the production of basic necessities and consumer goods (Scherrer, 2014: 10). Two years later, in an effort to bridge the cultural divide between their two countries, the Americans and the Soviets held exhibits in one another's countries. The Soviet exhibit in New York showcased Sputnik. The American exhibit in Moscow showcased kitchen appliances. In what became known as the "kitchen debate," Vice-President Richard Nixon was on hand in Moscow to give Khrushchev a tour through the typical American kitchen, with its modern dishwasher, range, and refrigerator. Khrushchev dismissed the fancy time- and labour-saving devices, asking Nixon if Americans had a device that would help them chew and swallow their food (Pilcher, 2008: 97). But the long neglect of the Soviet consumer was clear for all to see (on American-made TVs). And Khrushchev again vowed to surpass the Americans.

To achieve this feat, planners decided to abandon the longstanding effort to suppress consumption. Instead of purposefully throttling consumer goods, they instead subsidized them. It took some time for the planned economy to respond, but from 1968 to 1975, washing machines, vacuum cleaners, and refrigerators were more abundant in Soviet Estonia than they had ever been (Taagepera, 1993: 98). The Soviets not only stepped up production of their own consumer goods, they also allowed their citizens to buy more from abroad. This, however, exposed the poor quality and drab designs of socialist wares. As the sociologist Elena Bogdanova recounts, "Imported goods showed Soviet consumers a completely different standard of quality and a different notion of the variety of goods" (Bogdanova, 2015: 119).

The problem, however, ran deeper than policy. It wasn't just a matter of *choosing* to save less and consume more. Without private property, without free exchange, without open competition or market-determined prices, the knowledge and incentive problems would not go away. The Soviets had gone into debt to subsidize washing machines and

refrigerators. But producers had neither the knowledge nor the incentive to continue coordinating the production process to meet consumers' needs (Kahk and Tarvel, 1997: 126–30; Klesment, 2009: 260). By 1975, the production process was so inefficient that the system could no longer supply consumer goods, even though the regime wanted it to. The materialist experiment ended, and once again consumer goods were in short supply (Taagepera 1993, 98).

On the edge of an empire

Estonia's position on the western edge of the Soviet empire made it a target for Russification from the beginning of the Soviet occupation. And that never changed in the five decades of Soviet control. Over time, however, its location became more of an asset than a liability to the Estonians.

The Estonian coast was heavily fortified. Watchtowers with powerful searchlights stood guard at regular intervals along the entire coastline, and there were areas where the public was not allowed to access the sea (Rausing, 2014: 2). Like the Berlin Wall, the watchtowers were meant to keep Estonians in, not westerners out. And like the wall, officially called the “Anti-Fascist Protection Rampart,” the official name of the Estonian coast conveyed just the opposite of its purpose. It was, according to the government, a “border protection zone.”

Another purpose of the protection zone was to keep Western goods and ideas from reaching Estonians. This proved difficult, because a large diaspora of Estonian exiles was eager to share the outside world with their friends and family in Estonia. Estonians were eager to share their experiences as well. Andres Küng was a Swedish journalist whose parents were Estonian exiles. They visited Estonia in 1970 and Küng managed to interview some locals. One told him, “Tell the world we have survived and will never become Russians or communists.” When Küng published this, he was never allowed to return (Taylor, 2018: 134).

In the end, the 50 miles of water between Tallin and Helsinki was not wide enough to keep all goods and ideas at bay. The geographic gulf was narrowed by shared historical, cultural, and linguistic bonds between the Estonians and the Finns. Though the Finns were always careful not to antagonize the Soviets, they did their best to keep these bonds strong. Finnish President Urho Kekkonen, for example, pushed for the establishment of ferry service between Tallin and Helsinki. He prevailed in 1965, and the twice-weekly ferry became a source of smuggled dissident literature and art (Taylor, 2018: 133, 138).

Technology narrowed the gulf further. In time, Estonians were able to receive phone calls from abroad, though they were never able to call out (Taylor, 2018: 136). From 1966 to 1971, about 20 percent of Estonians were in range of Finnish TV towers, and when a new tower was built in Helsinki in 1971, this number jumped to 50 percent (Taylor, 2018: 138). As was their wont, the Finns did not openly criticize the Soviets on TV, but their broadcasts showed Estonians what life was like beyond the iron curtain. Even Karl

Figure 3.4: Soviet-era Watchtower in Käsmu, Estonia, on the Baltic Sea



Source: [istockphoto.com/gert4u](https://www.istockphoto.com/gert4u)

Vaino, the Russian-born Soviet Estonian leader during the 1980s admitted in 2000 that he had watched Finnish TV, allowing that it “made us think.” Remarking on this, Neil Taylor dryly writes, “Clearly not enough” (Taylor, 2018: 139).

In time, however, Estonians benefitted from not only their proximity to the West, but also from Soviet policies designed to manage that proximity. In particular, the Soviets knew

that Estonia was the only connection that many Westerners had with the USSR, and so they aimed to make it a “shop window” advertising the benefits of socialism (Laar, 2011: 53). Their shop window status allowed Estonians more social freedom than others in the Soviet Union. Estonians were allowed to read Kafka and Dostoyevsky, even though Russians were not (Taagepera, 1993: 93). They were also allowed to purchase cheap, subsidized energy and raw materials and enjoyed greater economic freedom than others in the Soviet Union (Laar, 2011: 53). These concessions may have contributed to Estonia’s relative prosperity, compared with the rest of the USSR (discussed below). Estonia’s prosperity, as well as its connections to the West, were obvious to Solzhenitsyn. When the famous Russian dissident visited Tartu in 1965, he remarked that:

The whole city seemed to be part of Europe, entirely beyond Soviet borders. A Russian trying to master Estonian is such a rarity that he is always greeted warmly. For the first time in my life, I felt safe abroad, as though I had left the USSR and broken away from the accursed surveillance of the KGB. (Quoted in Taylor, 2018: 138)

While they may have been freer and more prosperous than just about any other Soviet state, the Estonians were hardly grateful. The Balts in general were known as the least-contented of all Soviet citizens (Laar, 2011: 53). And as Taylor puts it, “there was never a period of time between 1945 and 1991 when Estonia and its Baltic neighbours did not cause trouble to Moscow” (Taylor, 2018: 131).

Notes

- 1 By comparison, in 2021 the average Estonian had more than five times as much space (Statistikaamet, 2021).
- 2 His experience was not unique. Soviet soldiers liberated from German POW camps were often sent straight to the Gulag, under the assumption that they had collaborated with their captors (Liulevicius, 2015: lecture 13)
- 3 In 1956 this number was reduced to 15, when the Karelo-Finnish Soviet Socialist Republic was absorbed into the Russian Soviet Federative Socialist Republic.
- 4 In Lithuania the units were largely connected.
- 5 About a million Ukrainians starved after the war. Most of the rest were fed by western Ukraine, which had not yet been collectivized (Snyder, 2022: 335; Conquest, 1986; Applebaum, 2017).
- 6 See Raun (2001: 179) for the number of families per kolkhoze.

LIVING STANDARDS IN LATE SOCIALIST ESTONIA

“Now, in old age, they had little medical or dental care, their bodies marked by ‘bad governance,’ that seemingly abstract concept.”

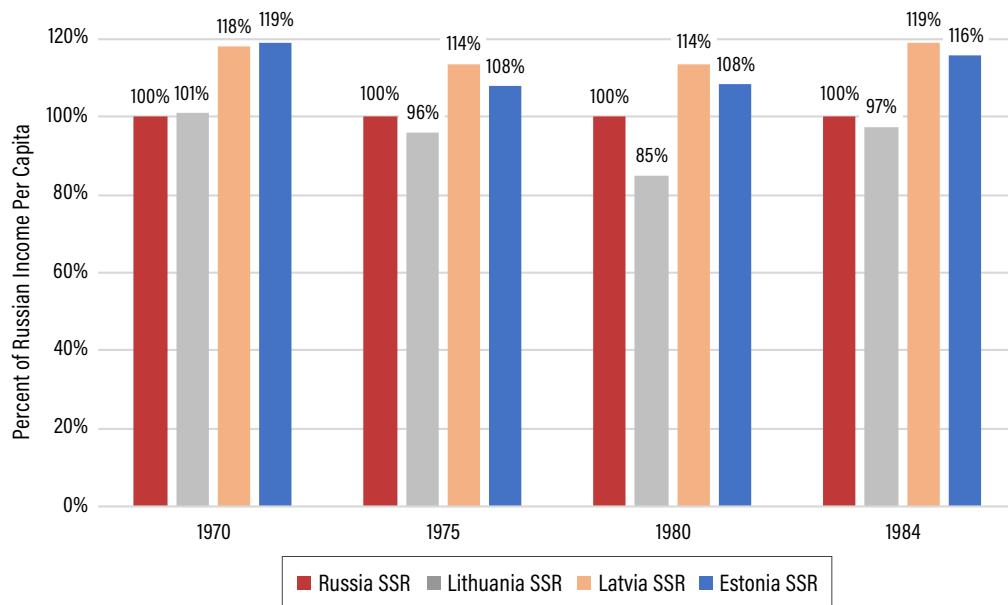
—Sigrid Rausing (Rausing 2014, 40).

Estonian and Russian standards of living compared

For those behind the Iron Curtain, the 1970s and 1980s have come to be known as the era of “late socialism” (Jõesalu, 2010). The phrase has two meanings. To the true believer, “late socialism” referred to the period just before the realization of communism. The reactionary forces were nearly defeated, and the revolution was nearly won. All the sacrifices of the socialist era would finally become worth it. The state would wither away, and a new epoch of abundance and equality would begin. The second meaning only became apparent in retrospect; it was the era of late socialism because the whole system was about to come crashing down.

But for most Estonians at the time, neither description would have seemed accurate during the 1970s or 1980s. There weren’t many Estonian true believers to begin with. And by the 1970s, it was becoming harder to believe in communism. The terror of the Stalinist years had long-since passed. But so, too, had the hope of the thaw years. Now, all that was left was stagnation and suffocation (Taagepera, 1993: 77). For most, it was obvious that the communist utopia was not about to be realized. But few could have imagined that the mighty Soviet state was about to fall, or that it would come down with so little bloodshed. We will tell the story of the fall in the next chapter. Here we explore what life was like for the average Estonian in the late socialist era.

Soon after the Soviets took over and began instructing the Estonians on how to build a more prosperous socialist economy, a joke began to circulate: “How many five-year plans are needed before Estonians are reduced to a Russian standard of living?” (Taylor, 2018: 110). By the 1980s, it was looking like this would never happen. Estonia and Latvia had always been the most prosperous of the Soviet republics, and it didn’t look like this was ever going to change. Figure 4.1 shows national income per person in each of the three Baltic republics as a share of income per person in the Russian Soviet Republic. In 1984, Estonian income per capita was about 16 percent greater than Russian income per capita.

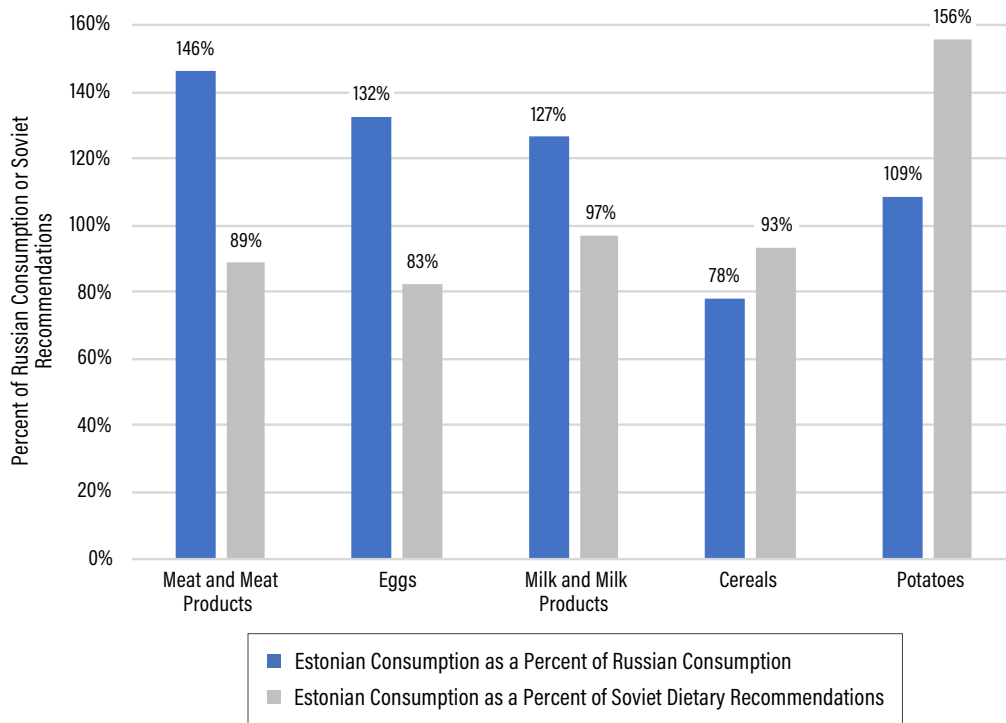
Figure 4.1: Baltic National Income Per Capita as a Percent of Russian National Income Per Capita

Source: Bohnet and Penkaitis, 1988: 36.

There are three primary reasons for the relative prosperity of Estonia (Bohnet and Penkaitis, 1988: 36). First, as explained earlier, the Estonians had developed a moderately prosperous economy during their era of independence. By the time the Soviets took over, Johann Voldemar Jannsen's vision of an educated Estonia had been realized. The well-trained factory workers, managers, and farmers knew what they were doing, even if they were hamstrung by the control, knowledge, and incentive problems. Second, by virtue of their proximity to the West and to their connections with the large Estonian diaspora, Estonians continued to have more interaction with Westerners than just about anyone in the Soviet Union. This interaction permitted modest levels of cultural and economic trade. Third, their status as the Soviet shop window meant that Estonians were permitted more economic freedom and more subsidized resources than their Russian comrades.

These factors made Estonians more productive than others in the Soviet Union. And even within the context of the USSR's regulation of wages and salaries, they were able to earn higher incomes than Russians because they were more likely to work in more productive sectors, and/or because they were more likely to make bonuses for meeting or exceeding their targets (Bohnet and Penkaitis, 1988: 37). As shown in Figure 4.2, this allowed Estonians a better diet than Russians. Average Estonians ate 46 percent more meat and meat products than average Russians. They consumed 32 percent more eggs, 27 percent more milk, and 9 percent more potatoes. They only lagged Russians in cereal consumption. Still, with the exception of potatoes, Estonians were not consuming the recommended amount of these items, according to Soviet dieticians.

Figure 4.2: Estonian Food Consumption as a Percent of Russian Consumption per Soviet Recommendations, 1970



Source: Bohnet and Penkaitis, 1988: 36.

Comparing Estonian and Finnish incomes

To outdo the Russians or their dietary recommendations, however, is no feat. We can obtain a better perspective on the living standards of Estonians if we compare them to their neighbours to the north, the Finns. Estonia and Finland have much in common. Their languages belong to the same Finno-Ugric language group. They are both predominately Lutheran. They were both subjects of first Swedish and then Russian rule. They both fought and won their independence following the October Revolution of 1917, whereupon they both became parliamentary democracies with the rule of law and relatively market-oriented economies. Before World War II, they both enacted agrarian reforms, joined the League of Nations, and formed strong Western-oriented trade relations. Besides this, they have similar climates, disease environments, geographies, and natural resources (the Finns have more forest land, while the Estonians have more agricultural land). Finns and Estonians even share a cultural habit of referring to themselves as resilient, or gritty (*sisu* in Finnish, *johnn* in Estonian) (Taagepera, 1993: 5).

They might have shared the same economic fate when both countries were invaded by the Soviet Union in the fall of 1939. But while Estonia quickly capitulated, Finland chose to fight. The Winter War was costly for Finland. In order to end it, they agreed to give up 9 percent of their territory (much of it in the industrialized southeast), and to pay the

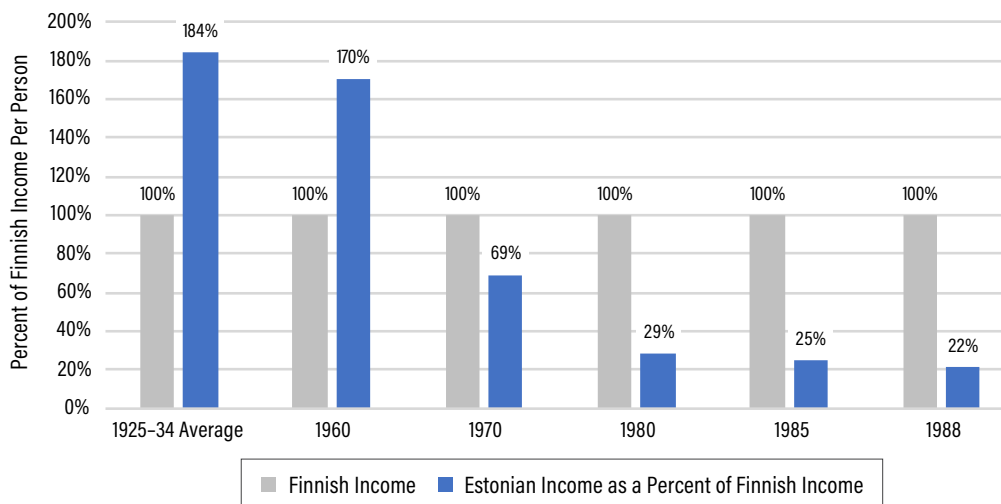
Soviet Union \$226 million over eight years, the equivalent of US\$4.7 billion (in 2022 dollars) (*St. Petersburg Times*, 1952, Sept. 1). When he signed the agreement in March 1940, Finnish President Kyösti Kallio declared, “Let the hand wither that signs this monstrous treaty!” (Incredibly, he developed paralysis in his right hand a few months later [Fadiman, 1991: 320]).

With the signing of that treaty, however, their paths diverged, and “more than a thousand years of Estonian and Finnish shared history was eclipsed by about 50 years of the Soviet occupation” (Bocharnikova, 2021: 83). We know what path Estonia took. Finland, for its part, continued to have a modestly market-oriented economy with the rule of law and economic freedom. Given their divergent economic policies and otherwise similar conditions, the Finnish-Estonian comparison has been a common one for economists and social scientists (Sinilind, 1984; Dellenbrant, 1992; Lugus and Vartia, 1993; Bocharnikova, 2021).

Recall from Figure 1.8 at the end of chapter 1 that from 1925 to 1934, the average Estonian earned about 84 percent more than the average Finn. Figure 4.3 uses the official exchange rate between the Finnish markka and the Russian ruble to show how Estonian incomes fared relative to Finnish incomes as the socialist experiment played out. In 1960, Estonians were still earning more than Finns. But by 1970, Estonians were earning 69 percent of what Finns were earning, by 1980 it was 29 percent, and by 1988 they were earning just 22 percent of what their Finnish brothers and sisters were earning. In other words, according to the official exchange rate at the time, Finns were earning 4.6 times as much as Estonians by 1988.

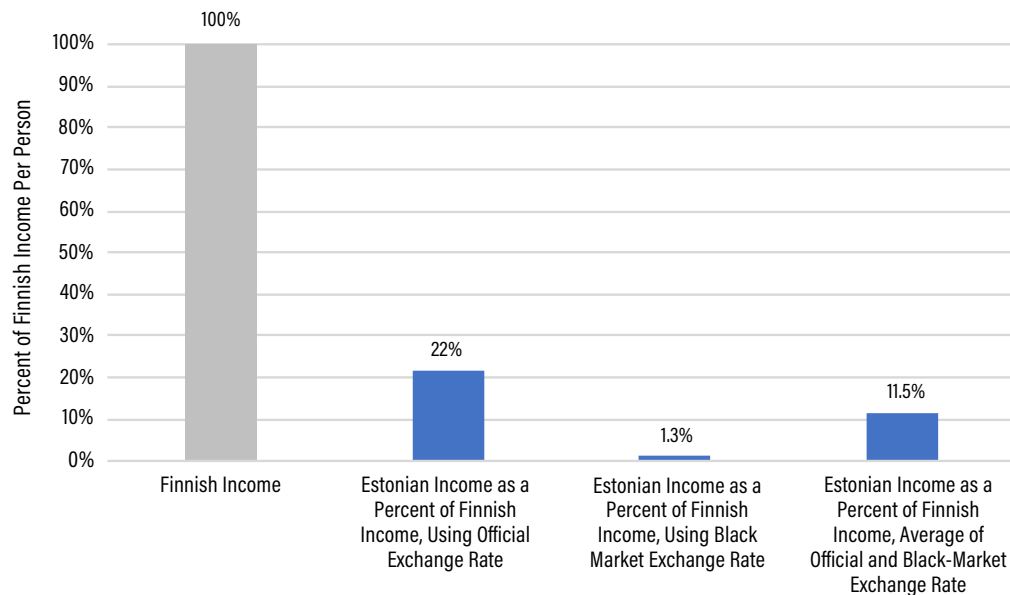
Even this dismal picture overstates Estonian prosperity, however. That’s because the official exchange rate—by which 1 Finnish markka was worth 6.86 rubles—overvalued the ruble. Due to the poor state of the Soviet economy, those who were able to would

Figure 4.3: Per Person Income, Estonia vs. Finland, Using Official Currency Exchange Rates, 1925–1988



Sources: 1924–1934: Dellenbrant, 1992: 199; 1960–1988: Hagfors and Kuus, 1993: 310.

Figure 4.4: Per Person Income, Estonia vs. Finland, Using Alternative Measures of Exchange Rates, 1988



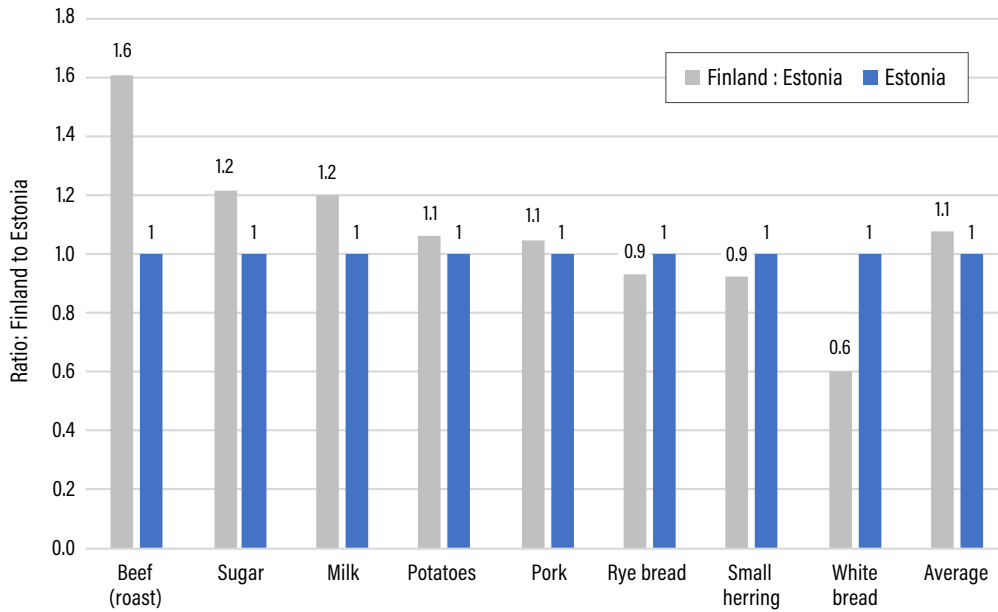
Source: Hagfors and Kuus, 1993: 310.

avoid paying the official, overvalued, exchange rate. If they could, they would use the black-market rate. And on the black market, 1 Finnish markka only bought 0.4 rubles, instead of 6.86 rubles. If we use this alternative exchange rate, we get a better sense of the relative purchasing power of the Estonians and the Finns. Figure 4.4 shows Estonian income per person relative to Finnish income per person in 1988, displayed in the official exchange rate, the black-market exchange rate, and the average of the two. Using the black-market exchange rate, Estonians earned a mere 1.3 percent of what their Finnish neighbours earned. This is probably a lower-bound estimate of the Estonian standard of living. If we take the average of the two calculations, they earned just 11 percent of what their neighbours earned. No matter what exchange rate we use it is clear that, after nearly 50 years of socialism, Estonians' income had fallen well behind that of the Finns, whom they once led.

The labour cost of goods

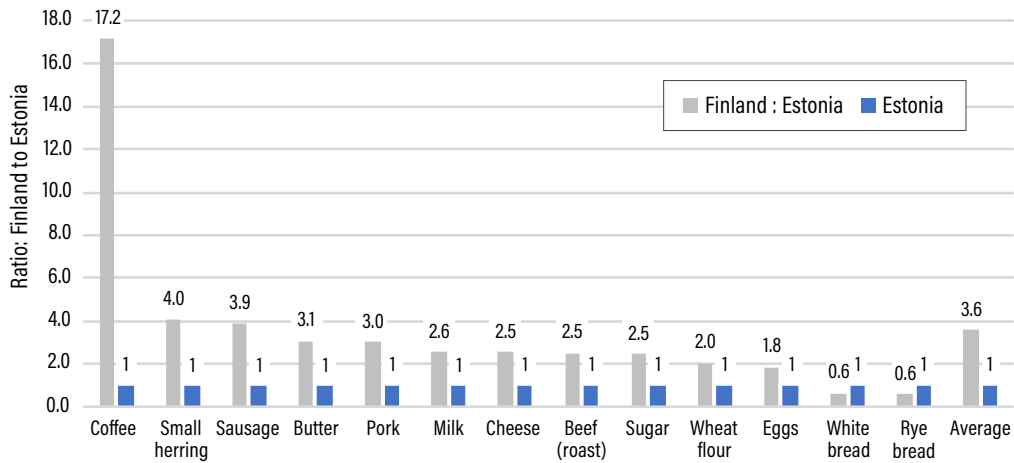
As the Finns pulled ahead, the necessities of life became cheaper for them. Figure 4.5 shows the relative amounts of food that a blue-collar worker could purchase in each country after an hour's work in 1938. For each pound of roast beef that an Estonian worker could buy in 1938, a Finn could purchase 1.6 pounds. And for every loaf of white bread that an Estonian could purchase, a Finn could purchase 0.6 loaves. Figure 4.5 suggests that before the Soviet takeover of Estonia, the cost of living was roughly comparable in the countries. After a day's work, the average blue-collar Finn could purchase more of some items and less of others. But the average ratio among the eight items is very near 1:1.

Figure 4.5: Food Affordability Comparison Between the Average Finn and the Average Estonian in the Pre-Soviet Era, 1938



Source: Sinilind 1984: 25

Figure 4.6: Food Affordability Comparison Between the Average Finn and the Average Estonian, after Decades of Soviet Rule in Estonia, 1983



Source: Sinilind 1984, 26.

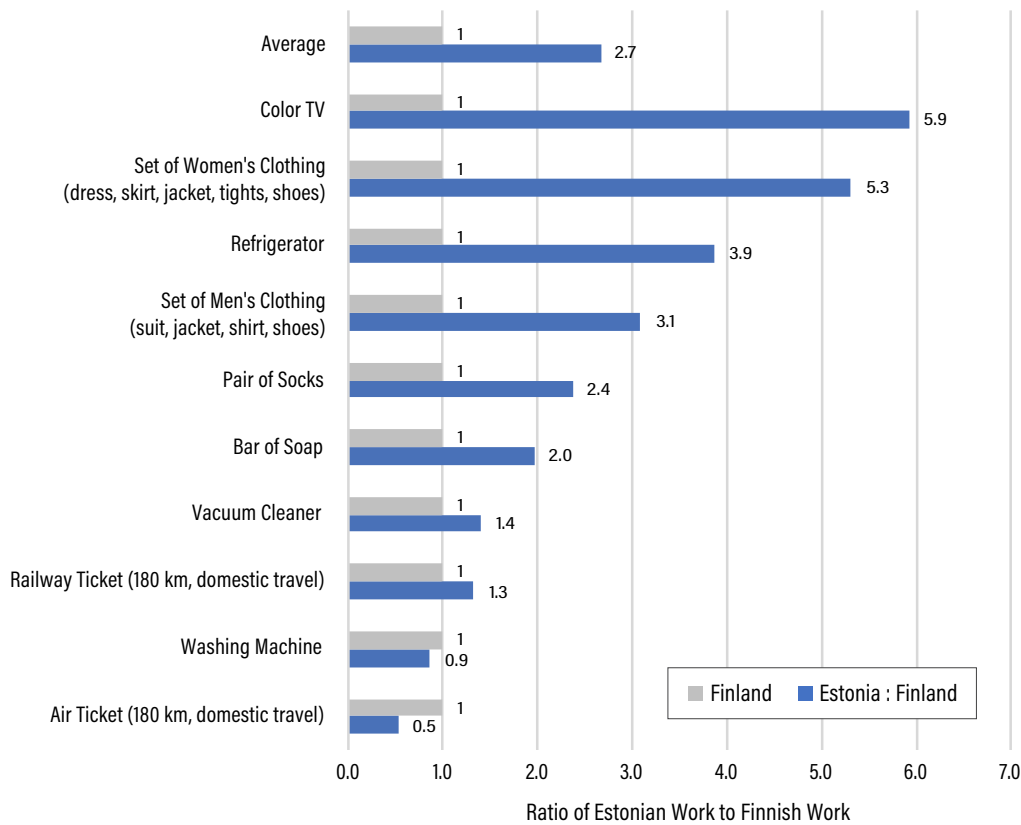
Now compare this with the relative purchasing power of blue-collar workers in 1983. This is shown in Figure 4.6. At that time, compared with a blue-collar Estonian, the average blue-collar Finn could buy twice as much wheat flour; two-and-a-half times as much sugar, beef, and cheese; and seventeen times as much coffee. Across the fourteen items for which we have comparable data, Finns could purchase, on average, more than three-and-a-half times as much food. The only exceptions were white and rye bread, which were highly subsidized throughout the Soviet Union. Even this exception, however, shows

the disfunction of the socialist system. Because processed bread was so highly subsidized, it was cheaper for farmers in some socialist countries to feed their animals bread rather than unprocessed grains (Reaves, 1981).

Figures 4.5 and 4.6 tell us how much more food Finns could buy relative to Estonians after a given amount of work. Another way to get at the same idea is to look at the relative hours of work that Estonians and Finns had to do before they could afford certain items. Figure 4.7 shows this information for 1988. To afford a colour TV, Estonians had to work nearly six times as many hours as Finns and to afford a set of women’s clothing, they had to work over five times as many hours. The only items that they were able to purchase with less work were a washing machine and domestic air travel (most Estonians, of course, were not allowed to travel internationally during most of the Soviet occupation).

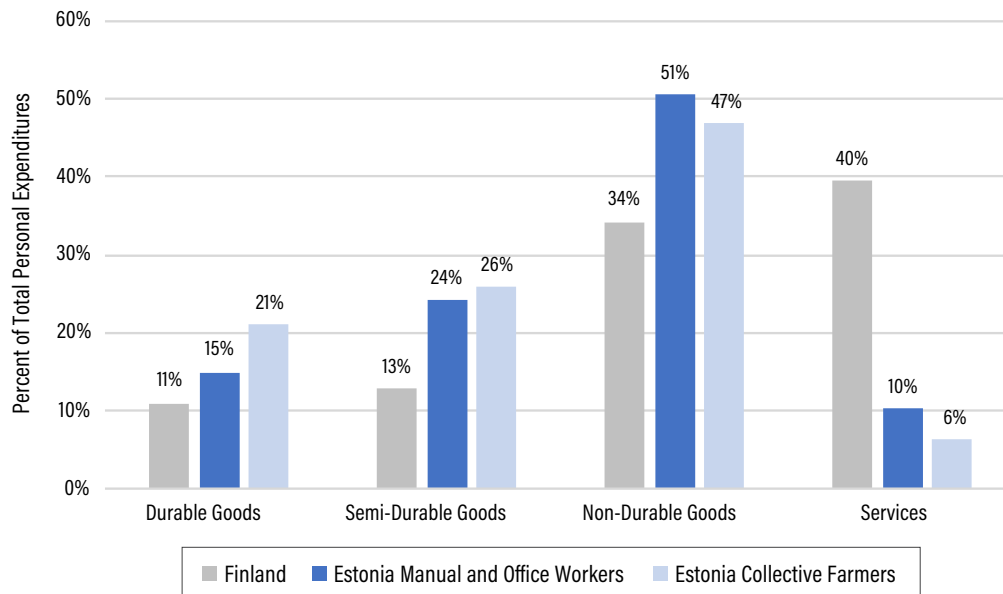
Figure 4.8 shows how Estonians and Finns spent their money. In both countries, the largest category of spending was nondurable goods, which includes food. Since Estonians’ incomes were lower than Finns’ incomes, however, Estonians had to devote a larger share of their budget to food, leaving less for other types of spending. And because the socialist plans had long neglected services, Estonians spent very little on services.

Figure 4.7: Length of Time Required to Work to Afford Basic Commodities, Estonia vs. Finland, 1988



Sources: Clothing: Laar, 2011: 72; all other items: Hagfors and Kuus, 1993: 313.

Figure 4.8: Amount of Money Spent on Goods and Services, Estonia vs. Finland, 1990



Source: Koljonen, Venesaar, and Viies, 1993: 187.

The shortage economy

Figures 4.6 and 4.7 implicitly assume that these items were available. We know, however, that there were chronic shortages of most items in socialist Estonia—especially the sort of durable consumer goods shown in Figure 4.7. An Estonian woman who saved up and worked five times as long as a Finn to purchase a set of women's clothes would typically have to wait weeks or even months to obtain everything she wanted.¹ Or an Estonian lucky enough to obtain a car might not be able to keep it running for the lack of gasoline and mechanics. When a new, eight-pump gas station with no repair shop opened in Tallin in the 1970s, the event was so remarkable that it merited a front page story in the official daily newspaper (Taagepera, 1993: 98).

The absurd waste of time spent queuing was satirized in the novel *The Queue* by the Russian novelist Vladimir Sorokin. Sorokin deftly skewers the strange reality of hundreds, even thousands of people standing in line for weeks on end. They do crosswords. They fall asleep. They sip vodka and eat ice cream. They flirt and fight. And they fall in and out of love. Many don't even know what they are waiting for. They just joined the crowd figuring that anything worth the wait must be worth having (Sorokin 2008). Deprived of ordinary goods and services, citizens in socialist states were often highly materialistic, coveting the items that their economy could not reliably give them.

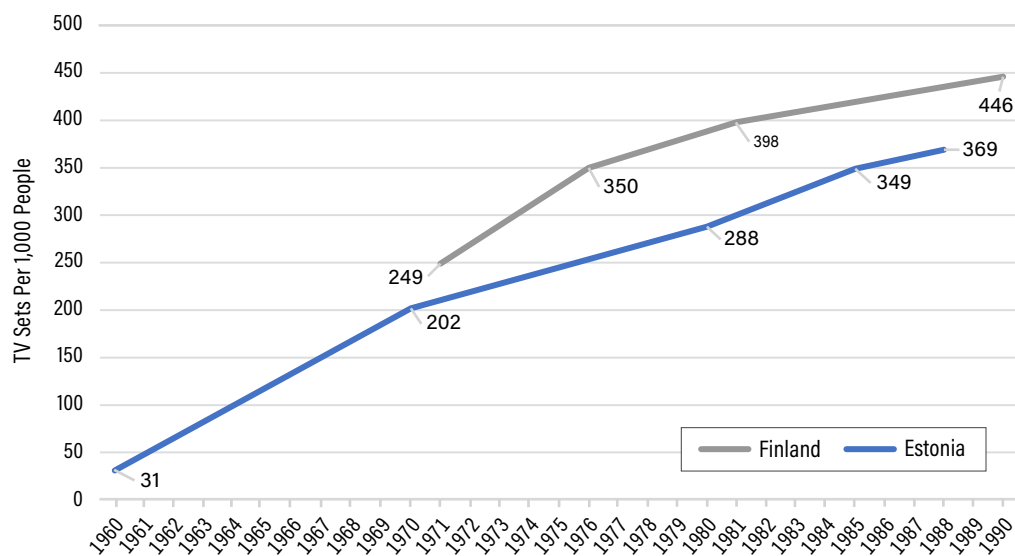
Occasionally, planners attempted to utilize relief from the shortage economy as an inducement to work. On the island of Saaremaa, for example, officials held a socialist competition in which the grand prize was the right to buy a car—not the actual car itself, but the right to be moved to the top of the list (Taagepera, 1993: 98). The elite, on the other

hand, didn't have to wait. They could shop in their own stores that were well-stocked with sought-after items. Those who weren't so lucky turned to the black market. Or they turned to friends, family, and acquaintances who might have access to a particular good. They also stole. Factory and farm workers who held the positions of suppliers (*"varustaja"* in Estonian) were in a particularly good position to appropriate property for their own use. By one estimate, 30 percent of all the gasoline assigned to kolkhozes and state enterprises was stolen for private use (Taagepera, 1993: 98).

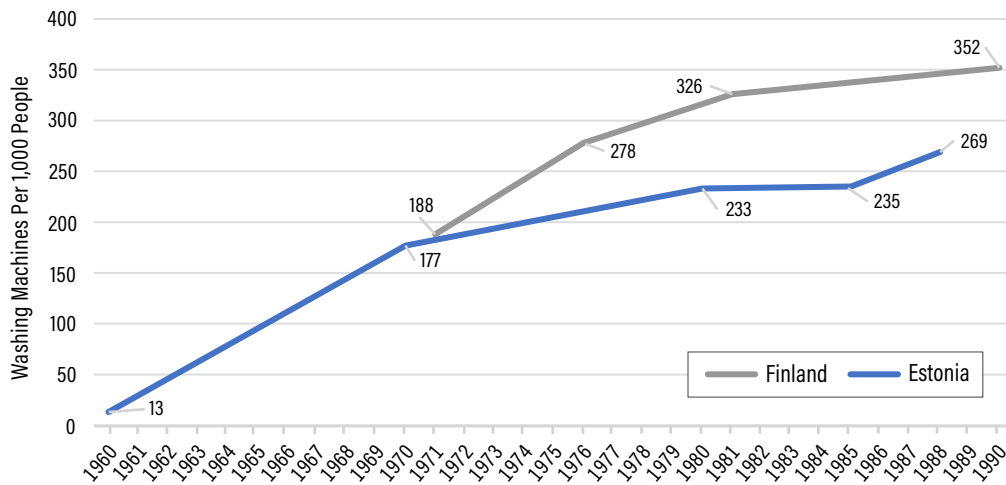
The rest just waited. And elaborate cultural norms developed to handle their wait. Customers, for example, would spontaneously organize committees to govern queues. According to the rules of these committees, people would take turns waiting in line for one another. To keep their places on the list, customers had to show up in person at designated times, say twice a day. In between those times, a dozen or so members of the committee—usually large men—would take longer shifts, standing guard through the night. Their job was to guard the queue from thugs who might jump it. As Clark and Wildavsky describe it: "Those who have not spent three hours every third night on refrigerator duty may have trouble empathizing" (Clark and Wildavsky, 1991: 142-43).

Keen to mark their progress toward Khrushchev's goal of catching up to and overtaking the Americans, the Soviets kept track of durable goods per citizen. Their data, when compared with Finnish data, offers a window into the relative prosperity of the two peoples. Figures 4.9 through 4.15 show the number of TV sets, washing machines, vacuum cleaners, telephones, cars, refrigerators, and sewing machines per 1,000 people in the two countries. The data are not perfect. Other countries with similar data tend to report the percentage of households with at least one of these items rather than the number items per 1,000 people. That is a more helpful statistic because it will not be inflated by a small

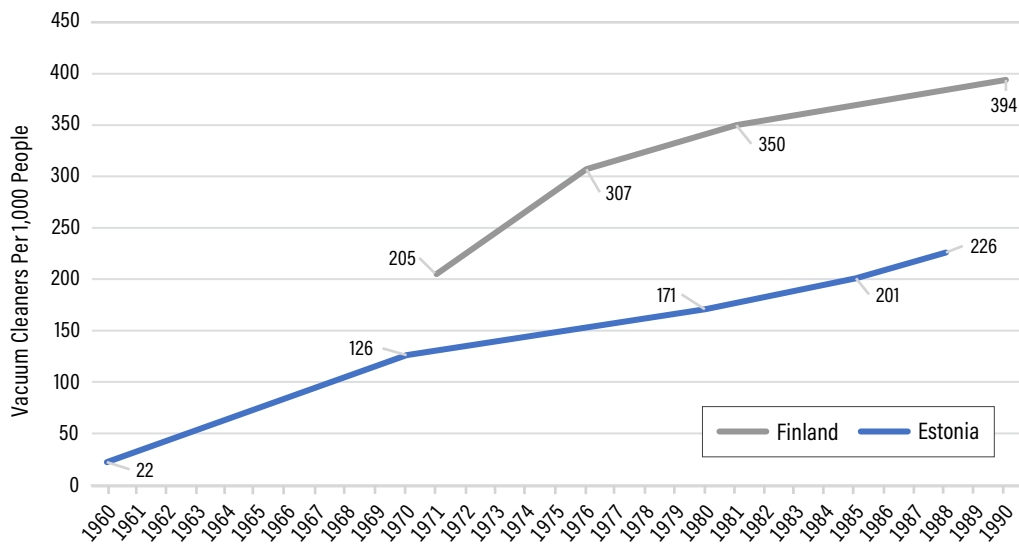
Figure 4.9: Finns Had about 20% More TV Sets than Estonians



Source: Koljonen, Venesaar, and Viies, 1993: 226.

Figure 4.10: Finns Had about 30% More Washing Machines than Estonians

Source: Koljonen, Venesaar, and Viies, 1993: 226.

Figure 4.11: Finns Had about 75% More Vacuum Cleaners than Estonians

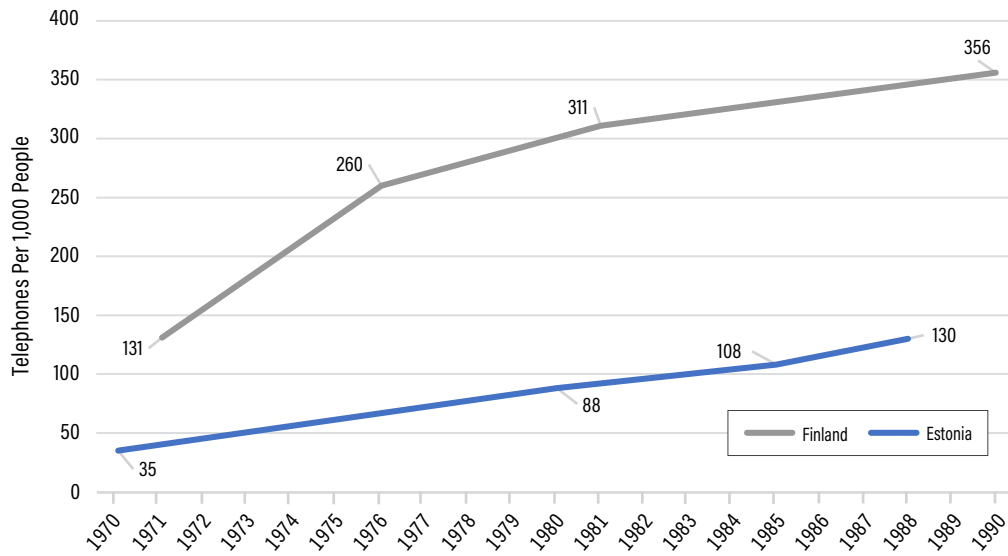
Source: Koljonen, Venesaar, and Viies, 1993: 226.

percentage of households (or offices, or party headquarters) with multiple items. Still, the data tell us something. And what they tell us is that, compared with the Estonians, the Finns had about 20 percent more TVs, 30 percent more washing machines, 75 percent more vacuum cleaners, nearly three times as many telephones, more than twice as many cars, and about the same number of refrigerators and sewing machines.²

The shortage economy did not hit all sectors. Soviet planners devoted enormous sums of money to military projects and to the space race, and so there was no shortage of rockets. But as the Croatian journalist Slavenka Drakulić explained to an academic audience, other needs were entirely ignored:

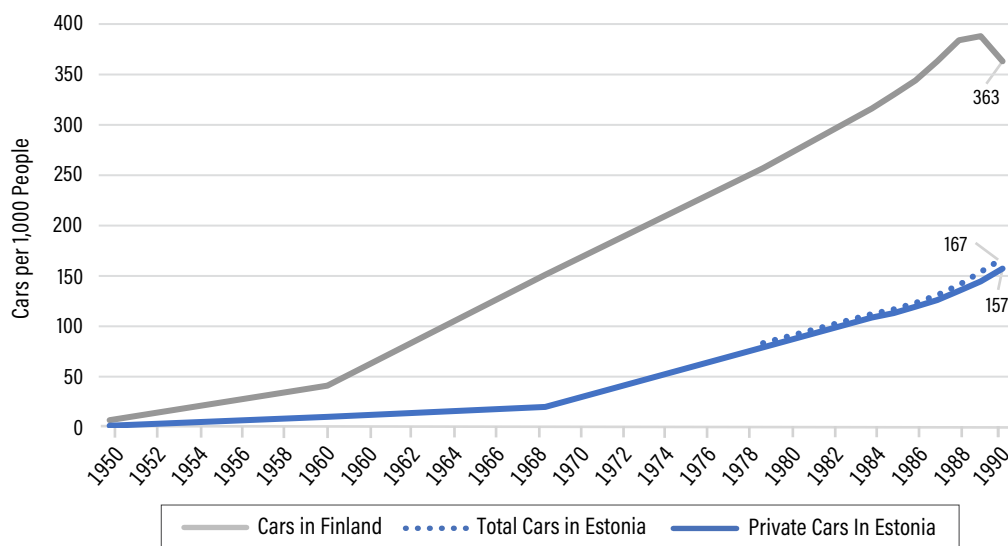
But before I started my speech [to the academics], I took out one sanitary napkin and one Tampax and, holding them high in the air, I showed them to the audience. “I have just come from Bulgaria,” I said, “and believe me, women there don’t have either napkins or Tampaxes—they never had them, in fact. Nor do women in Poland, or Czechoslovakia, much less in the Soviet Union or Romania. This I hold as one of the proofs of why communism failed, because in the seventy years of its existence it couldn’t fulfil the basic needs of half of the population.” (Quoted in Drakulić, 2016: 120)

Figure 4.12: Finns Had Nearly Three Times as Many Telephones as Estonians



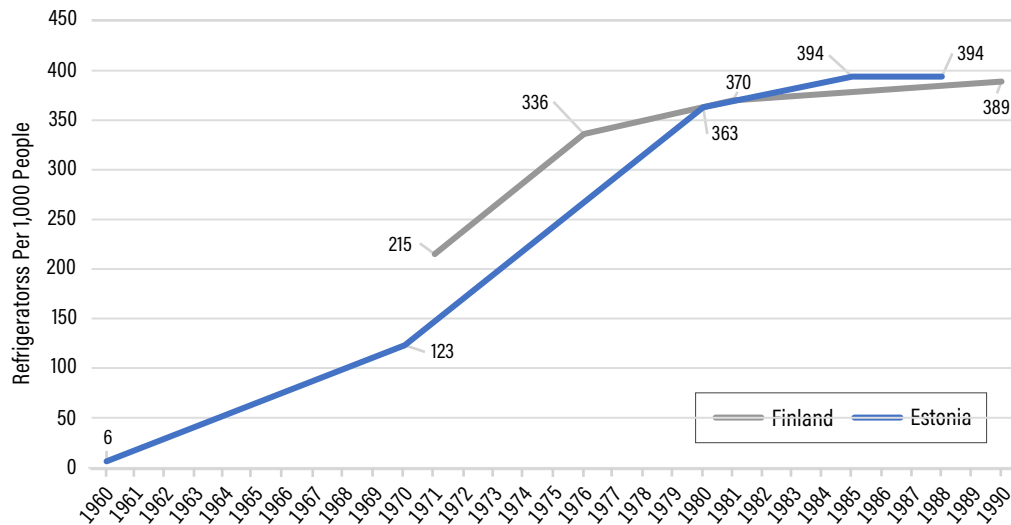
Source: Koljonen, Venesaar, and Viies, 1993: 226.

Figure 4.13: Finns Had More than Twice as Many Cars as Estonians



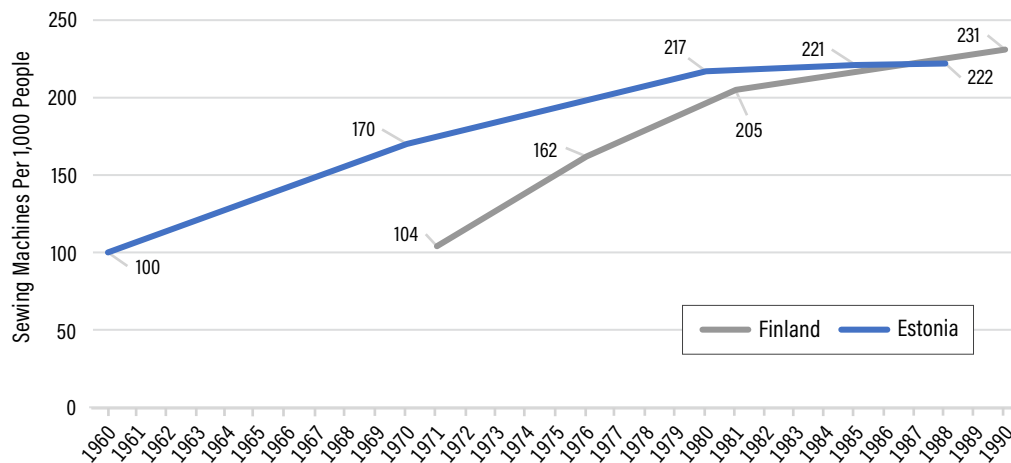
Source: Koljonen, Venesaar, and Viies, 1993: 227.

Figure 4.14: Starting in the 1980s, Finns and Estonians Had About the Same Number of Refrigerators



Source: Koljonen, Venesaar, and Viies, 1993: 226.

Figure 4.15: Until the Mid-1980s, Estonians Had More Sewing Machines Than Finns



Source: Koljonen, Venesaar, and Viies, 1993: 226.

The low-quality economy

The data presented above also implicitly assumes that Finnish and Estonian goods and services were of comparable quality. They were not. Products sold throughout the Soviet Union were notoriously shoddy. They often needed to be fixed or improved as soon as they were bought. Mikhail Gorbachev complained in 1987 that the government's many rockets had no trouble finding Venus or Haley's comet, but somehow their kitchen appliances never seemed to work (Gorbachev, 1987: 21). Consumers would re-sew the seams on brand new clothes and take apart and re-assemble brand new appliances. Clothing, buildings, and food were invariably described as drab and bland. In their effort to industrialize food production, planners ordered the mass production of canned meat, fish, and soup. "The whole of the

Soviet Union, all 120 different ethnic groups were suddenly being served exactly the same stuff,” says Grisha Freidin, who grew up in Moscow and later taught Russian literature at Stanford. “Choices for this or that food, the tastings, took place at the politburo level. The kinds of candies that were being produced was decided in a special meeting with Stalin and [Vyacheslave] Molotov” (Quoted in Nelson and Silva, 2014:)

Sociologist Elena Bogdanova wrote her PhD dissertation on consumerism in the Soviet Union. She reports that:

Consumers complained about the lack of goods, the poor service at the drycleaners and in restaurants and stores, and about the rudeness, boorishness, and indifference of shop assistants. They complained about the poor quality of shoes, clothing, cloth and materials, about the low quality of furniture and toys, about paint which ‘doesn’t paint’, and about skis to which it was impossible to fasten bindings. They complained about the shortage of fresh flowers in city stores, about queues and the violation of queuing rules; about poor work transport, and so on. (Bogdanova, 2015: 121)

For much of the socialist era, blue jeans were unavailable. Ironically, the regime saw this quintessential symbol of the workingman as a sign of Western decadence. By the 1980s, however, they had decided to permit them to be sold. Bogdanova relays one young woman’s experience buying them:

– I remember when I bought my first jeans. They were not the right size for me—too small. Somebody in the Institution told us that jeans were available in ‘Sportivnyi’ department store. And we forgot about the lectures, and ran there. The jeans coast about 30 rubles. That was a full scholarship for a month. There was a horrible crowd.

– And could you try on the jeans?

– Oh! That was out of the question! I gave my money to somebody, through the crowd, and somebody gave me back a bag with jeans. And size? They were about three sizes too long for me, and too tight. I could hardly pull them on. And the length.... I saw that guys roll them up, and I’ve also got to do that. There was some kind of label on the jeans. Not a proprietary label, but ordinary. After the first washing that peeled off, and I was almost crying. (Bogdanova, 2015: 120).

Foreigners who visited Estonia or other parts of the Soviet Union were especially attuned to the comparatively poor quality of goods and services there. When the anthropologist Sigrid Rausing visited Estonia in 1991, she encountered TVs that didn’t work, cars that routinely broke down, phone lines that crackled and dropped calls, ubiquitously poor customer service, and filthy and dilapidated buildings everywhere. Local Estonians told her not to drink the tap water as it was unsuitable for drinking. So she bought a bottle of sparkling water and accidentally swallowed bits of crumbling glass (Rausing, 2014:

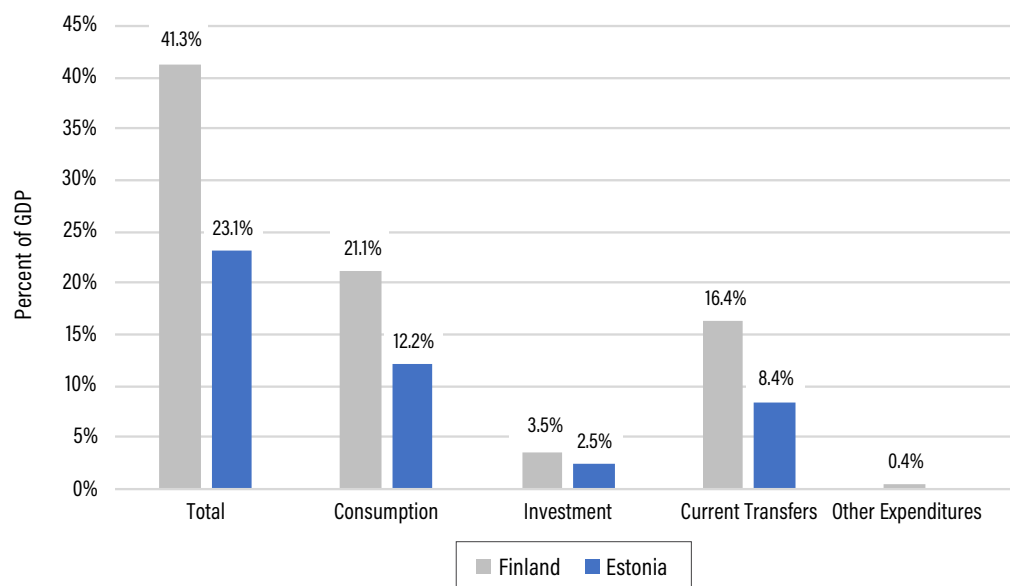
17). After the fall of communism, want ads in the retail sector specified that applicants were “to have never worked in retail trade in Soviet times,” and “to have never worked in service in the Soviet era.” (Bogdanova, 2015: 118).

Social services

Surprising as it sounds, socialist governments typically devoted a smaller share of their economies to the provision of social services than did Western capitalist governments. Because the government owned and operated the means of production, most of its energies were devoted to running factories and farms. And since it ran those factories and farms so inefficiently, few resources were left for social services. Even if they had more resources, however, it isn't clear that socialist planners were interested in spending much more on social services. Their focus was on industrialization and many, especially in the Stalinist era, worried that if social spending was too generous, workers would not work. This concern is reflected in the Soviet Constitution's warning, mentioned earlier, that “He who does not work, neither shall he eat” (“Constitution (Fundamental Law) of the Union of Soviet Socialist Republics,” 1936).

In any case, Estonia fit the pattern. Figure 4.16 shows total spending on public services as a share of the economy in Finland and Estonia in 1990. It also shows the major categories of public spending as a share of the economy in each country. While the Finns devoted more than 41 percent of their economy to public services, the Estonians devoted a little over 23 percent of their economy to public services. As a share of its economy, public consumption, investment, and transfers were all lower in Estonia than in Finland. And given that the Estonian economy was a fraction of the size of the Finnish economy on a

Figure 4.16: Spending on Public Services as a Share of the Economy, Estonia vs Finland, 1990



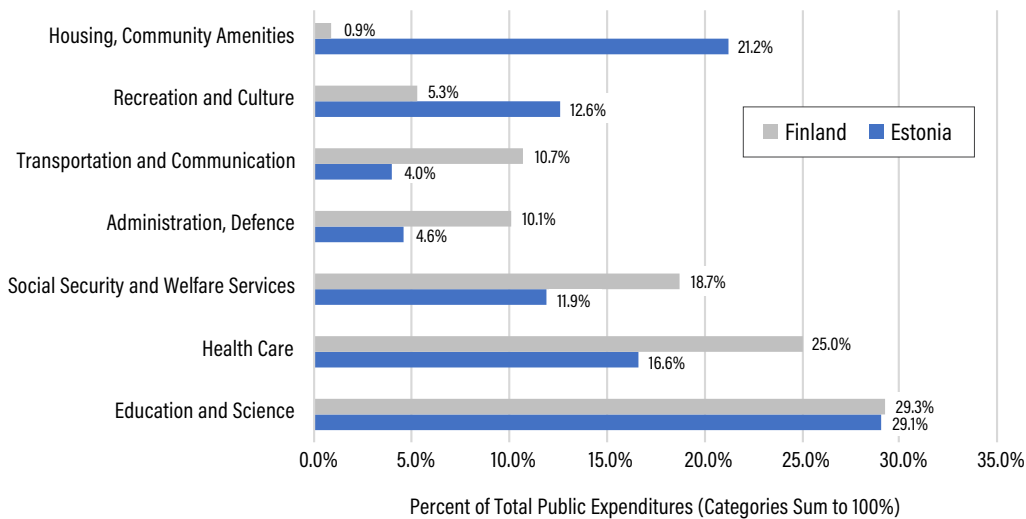
Source: Järviö and Venesaar, 1993: 230.

per capita basis (see Figure 4.4 and the discussion above), the Estonian SSR clearly spent much less than Finland on government services.

Figure 4.17 shows the breakdown of public spending by category. As in Finland, the largest category of public spending in Estonia was education. Estonia and Finland both devoted about a third of their budgets to this area. The education systems in Estonia and Finland were broadly comparable insofar as they both offered free, compulsory education to all children, for nine grades, starting at age seven. (Järviö and Venesaar, 1993: 264). The content of the instruction, however, was radically different. In Finland, public education was centered on practical skills: reading, writing, and arithmetic. In Estonia, public education was centered on political skills: communist values, the supremacy of the Soviet system, and the rituals of socialist life (Figes, 2008: 20).

In Estonia, the next largest category of public spending was housing. It consumed more than 20 percent of the Estonian budget. This was followed by health care (16 percent), recreation and culture (13 percent), social security and welfare (12 percent), administration and defense (5 percent), and transportation and communication (4 percent). Compared with the Finnish government, the Estonian government devoted a significantly larger share of its budget to culture and housing. Cultural spending in Estonia aimed to develop what Arendt called the “totalitarian personality.” It funded libraries stacked with socialist books, museums to extol socialist achievements, theatres to host socialist performances, clubs to reinforce the socialist ethos, and—above all—radio and television to spread the socialist message and the state’s perspective (Järviö and Venesaar, 1993: 273; Applebaum, 2012: 34–35). We will address housing at greater length in the next section. But note here that the share of the Estonian budget devoted to housing was more than *twenty* times that of the Finnish share.

Figure 4.17: Government Spending by Category, Estonia vs Finland, 1990



Source: Järviö and Venesaar, 1993: 231.

Together, housing and culture consumed about a third of the Estonian budget. Compared with Finland, Estonia devoted smaller shares of its budget to all other areas, including transportation and communication, administration and defense, social security, and health-care.³

In both Finland and Estonia, social security and welfare services included old-age pension payments, disability insurance, and other social services. And in both countries, pensions were the dominant subcategory. Compared with the Finnish government, however, the Estonian government spent less, offered a narrower set of services, and generally offered inferior services (Järviö and Venesaar, 1993: 248). By 1980, for example, Finland supplied every sixth elderly and disabled person with home help, whereas, a decade later, Estonia was only supplying two out of every 1,000 elderly and disabled people with such services (Järviö and Venesaar, 1993: 248). In 1990, the average Finnish pension was 42 percent of the average wage, whereas in Estonia it was 33 percent of the (much lower) Estonian average wage (Järviö and Venesaar, 1993: 245). The Finns had about twice as many housing units per person for the elderly and disabled. The one exception to the trend was child-care; the Estonians had about twice as many daycare slots as the Finns. In all, by the end of the 1980s, Estonian spending on social security and welfare services was roughly equivalent to Finnish spending two decades earlier (Järviö and Venesaar, 1993: 281).

Housing

Housing in late socialist Estonia was limited, cramped, and mediocre. There were several reasons for this. To begin with, the socialist dream of communal living had corralled Estonians into small, shared spaces, abused and neglected through a decades-long demonstration of the tragedy of the commons. Adult children often still lived with their parents. Strangers who often didn't get along had to live together. Divorced couples who more than likely did not get along often had to live together (Morton, 1980: 254). In the late 1980s, 70 percent of housing stock was owned and operated collectively—64.5 percent by the state and 5.6 percent by cooperatives (Aarma, Laakso, and Loikkanen, 1993: 349).

Second, for the first several decades of the socialist reign, planners had simply neglected housing, just as they had neglected consumer goods. While the Soviet Constitution gave every family a right to a dwelling, the central plans were focused on industrialization (Aarma, Laakso, and Loikkanen, 1993: 341). It was not a priority to build homes for the mass of people who left their farms to run Stalin's factories (Morton, 1980: 235). And demand for housing was especially high as thousands of Russians poured into Estonia to Russify the population (Taagepera, 1993: 81). Capital and labour, planners believed, were better employed in the factories. So families were crammed into dormitories, barracks, or communal houses and apartments. According to Khrushchev, it was only after Stalin died in 1953 that "the leadership really faced up to the problem of how serious our housing shortage was" (Khrushchev, 1974: 102).

His solution was for the state to build as many units as it could as fast as it could (Morton, 1984: 72). The XXII Party Congress, held in 1961, declared that the housing shortage

would be ended by 1971, and that by 1980, every family would have their own, fully equipped flat (Aarma, Laakso, and Loikkanen, 1993: 341). Khrushchev more than doubled the capital investment in housing, and for the next several decades about 2.2 million new housing units were built throughout the Soviet Union each year (Morton, 1984: 236). But it was not enough to keep up with demand. Throughout the Soviet Union, new households formed through marriage or divorce at the rate of 3.3 million a year (Morton, 1980: 237). By 1970, for every 100 housing units in the Soviet Union, there were still some 128 families waiting for housing (Morton, 1984: 236). The goal of housing every family by 1980 came and went. In 1988, the Soviets created their last housing targets. They aimed to house every family by 2000 (Aarma, Laakso, and Loikkanen 1993: 342).

Khrushchev explicitly directed planners to sacrifice quality for quantity, asking them “Do you build a thousand adequate apartments or seven hundred good ones?” (Khrushchev, 1974: 102). As one official put it, “There are many reasons for inferior work, but the most typical is the desire to ‘just get done with the project.’ The main thing is to hand over the building on or ahead of schedule. That is why quality is sacrificed right and left in the scurry to meet the deadline” (Morton, 1984: 73). It is estimated that when Estonians moved into their units, they typically spent about 10 percent of the value of production fixing and upgrading them (Aarma, Laakso, and Loikkanen, 1993: 346). Despite the low quality of construction, production was costly. The energy consumption per square meter of construction in Estonia was four times that of comparable buildings in Finland and Sweden (Aarma, Laakso, and Loikkanen, 1993: 347).

But beyond communalism and neglect, Estonian housing was hampered by simple economics. The state was the monopoly supplier of housing, and so it paid little attention to consumer needs or interests. As the Sovietologist Henry Morton put it, “Since the government has a monopoly on housing production, as on almost everything else in the Soviet Union, competitive bids for design are rare. Quality and design, therefore, are unimportant to builders, who are rewarded for producing according to plan. Since housing remains in short supply, and the government is the sole producer, the consumer has little choice but to accept the product when it is offered” (Morton, 1984: 73).

The socialist pricing policy was also a significant problem. Soviet planners fixed the monthly rent in 1928 and did not change it for the next five decades. There were two rent rates: 13.2 kopeks per square meter in small towns, and 16.5 kopeks per square meter in large cities. These rates applied across the entire Soviet Union, irrespective of local demand or supply. The features, quality, or condition of the space did not affect the rent. Nor did location, location, location. At these rates, rent payments were less than 3 percent of the average worker’s salary in 1987-88. Most spent more on tobacco and alcohol (Aarma, Laakso, and Loikkanen, 1993: 367–68). The fixed rate was well below the market rate and covered only a third of the cost of housing, the rest being covered through state subsidies (Morton, 1984: 70; Aarma, Laakso, and Loikkanen, 1993: 349).

With rents so far below the equilibrium rate, the quantity demanded far exceeded the quantity supplied. Like everything else in the shortage economy, the scarce housing supply

was allocated on the basis of Party seniority, connections, and queues (Morton, 1980). As Morton put it, "Government agencies...distribute all state housing (and must approve cooperative and private housing transactions) but do not do so equitably on the basis of need, and never have." (1980: 253–54). In 1990, some 23 percent of the Soviet population was on a housing wait list, and the average wait time was about 8 years. The nomenklatura could skip the lines, however, and about 9 percent of housing was allocated outside of waitlists. In nomenklatura-rich Moscow, 49 percent of housing was allocated outside the list (Aarma, Laakso, and Loikkanen, 1993: 349). In Estonia, Russian immigrants were also allowed to skip the line. For example, a secret decree passed in July of 1988 (Decree No. 344-3) required Estonian housing cooperatives to give preference to new immigrants who had worked 10 years in the Soviet far north (Taagepera, 1993: 140).⁴

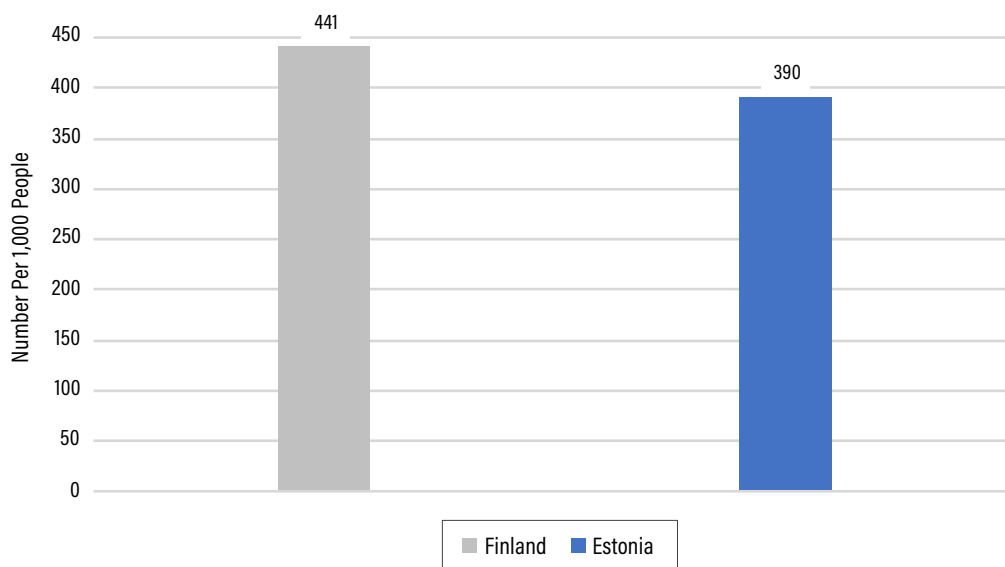
Since the state owned most housing, it was impossible to buy or sell a state-owned home or apartment. Somewhat absurdly, citizens were allowed, however, to "exchange" dwelling spaces with one another if they could find someone willing to swap with them, and if they could convince the government to permit the exchange. Since it was rare for two people to want one another's places, elaborate and inefficient multiparty exchanges emerged. Andrei Sakharov, the famous nuclear scientist and dissident, offers one such example.⁵ He and his wife wanted to move in to a four-room flat with his mother-in-law, daughter, son-in-law, and two grandchildren. It was communally occupied by three other households, but all were willing to move too. As the *New York Times* reported:

As Dr. Sakharov told it, everyone welcomed the prospective move. Two of the women sharing the kitchen and bathroom of the communal flat had been quarrelling constantly. A widower wanted to give up his room for a separate one-room flat so that his mother-in-law could move in to help care for his three-year-old child. The rest saw a chance to improve their own living conditions. (*New York Times*, 1977, March 4).

In all, the exchange involved 17 persons, 5 flats, and took a year to arrange. Mrs. Sakharov could only explain it with the aid of a detailed diagram. The plan was initially approved by local authorities, but it was then vetoed by their superiors on the grounds that one of the women already had a living space that was six square metres larger than the legal limit and that the swap would give her another three-quarters of a metre (*New York Times*, 1977, March 4).

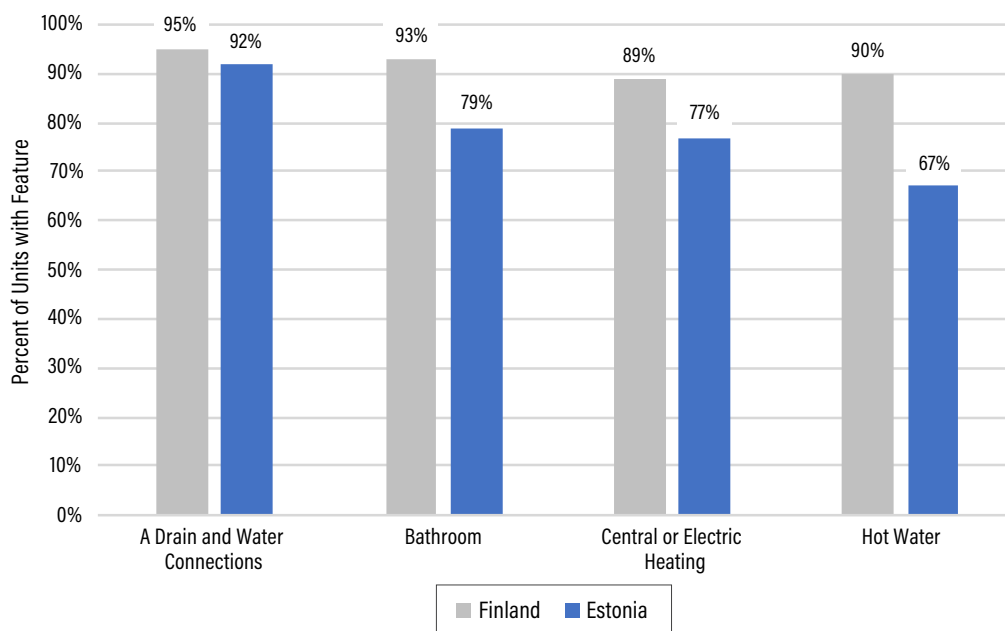
As in other respects, the Estonian housing situation was better than that of the Soviet Union at large. Under the Khrushchev housing push, 12,000 to 14,000 new dwellings were constructed each year in Estonia from the early 1960s through the late 1980s (Aarma, Laakso, and Loikkanen, 1993: 356). By 1991, there were 150,000 Estonians on the housing wait list. This was just 10 percent of the population, far less than the 23 percent in the rest of country (Aarma, Laakso, and Loikkanen, 1993: 350). But there was still inequity. Most of those who waited were ethnic Estonians, while most of the newly built housing was allocated to immigrants from other parts of the Soviet Union (Aarma, Laakso, and Loikkanen, 1993: 350).

Figure 4.18: Number of Dwellings Per 1,000 People, Estonia vs. Finland, 1989



Source: Aarma, Laakso, and Loikkanen, 1993: 361.

Figure 4.19: Dwelling Features in Finland, 1989, and Estonia, 1991



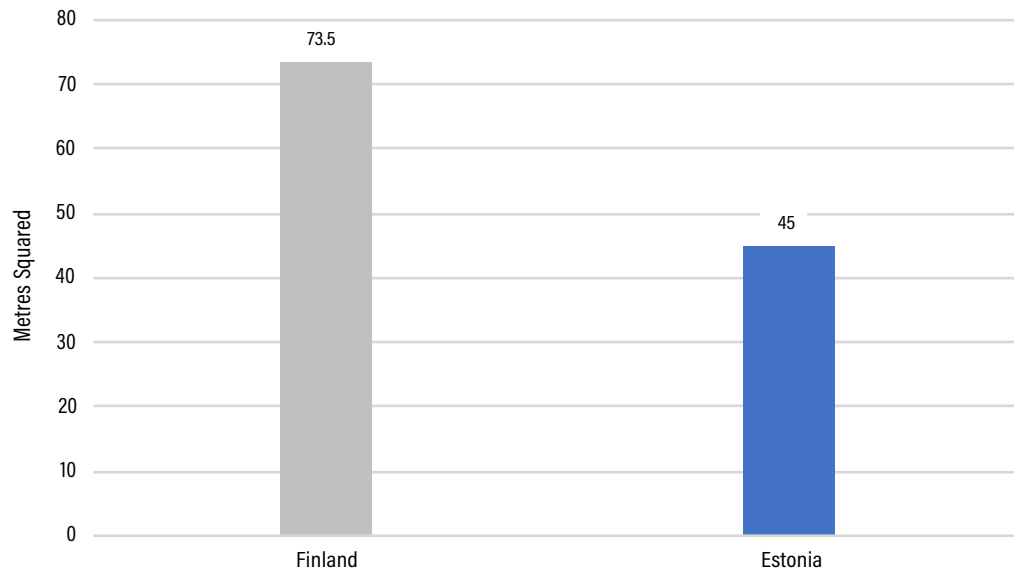
Source: Aarma, Laakso, and Loikkanen, 1993: 359, 361.

Recall from Figure 4.17 above that Estonia devoted more than 20 percent of its budget to housing, while Finland devoted less than one percent of its budget to housing. Despite all of this spending, Estonia’s housing stock was markedly inferior to Finland’s. For example, as shown in Figure 4.18, the Estonians still lagged the Finns with 390 dwellings per 1,000 people, compared with 441 dwellings per 1,000 people in Finland.

As shown in Figure 4.19, the Estonians also lagged the Finns when it came to dwelling features. Compared with Finnish homes, Estonian homes were less likely to have a drain and water connection, a bathroom, central or electric heating, or hot water. The latter two deficiencies would have been particularly noticeable in January, when the temperature rarely rises above freezing.

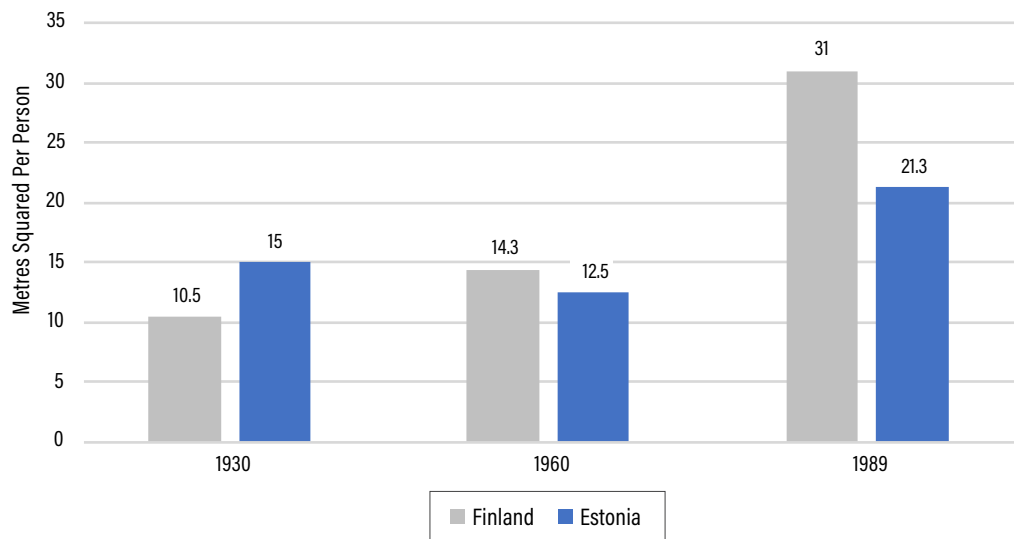
Cramped quarters were perhaps the most distinguishing feature of Estonian housing. In 1983, Soviet officials finally raised the normal maximum living space to 12 square meters

Figure 4.20: Dwelling Sizes in Metres Squared in Finland, 1989, and Estonia, 1991



Source: Aarma, Laakso, and Loikkanen, 1993: 362.

Figure 4.21: Living Space Per Person, Metres Squared, Finland and Estonia, 1989



Source: Aarma, Laakso, and Loikkanen, 1993: 363-64.

per person (Morton, 1984: 74). They even allowed people to live in larger spaces, if they were willing to pay triple rent (Aarma, Laakso, and Loikkanen, 1993: 367). Though larger spaces were now legal, they were not easy to obtain. In late 1980s Estonia, to even get on a waiting list, a person had to demonstrate that they were currently crammed into a space that was between 5.5 and 7 square meters per person (Aarma, Laakso, and Loikkanen, 1993: 349). As shown in Figure 4.20, the average total dwelling size in Estonia was about 60 percent as large as the average Finnish home in 1990. Figure 4.21 shows average living space per person in Estonia and Finland in 1930, 1960, and 1989. While the typical Estonian had more space in 1989 than they had in 1960, they still lagged far behind the Finns. In fact, in 1930 the average Estonian had 43 percent more space than the average Finn, while in 1989 they had just 69 percent as much space. And they may have had to share some of it with a stranger.

Health

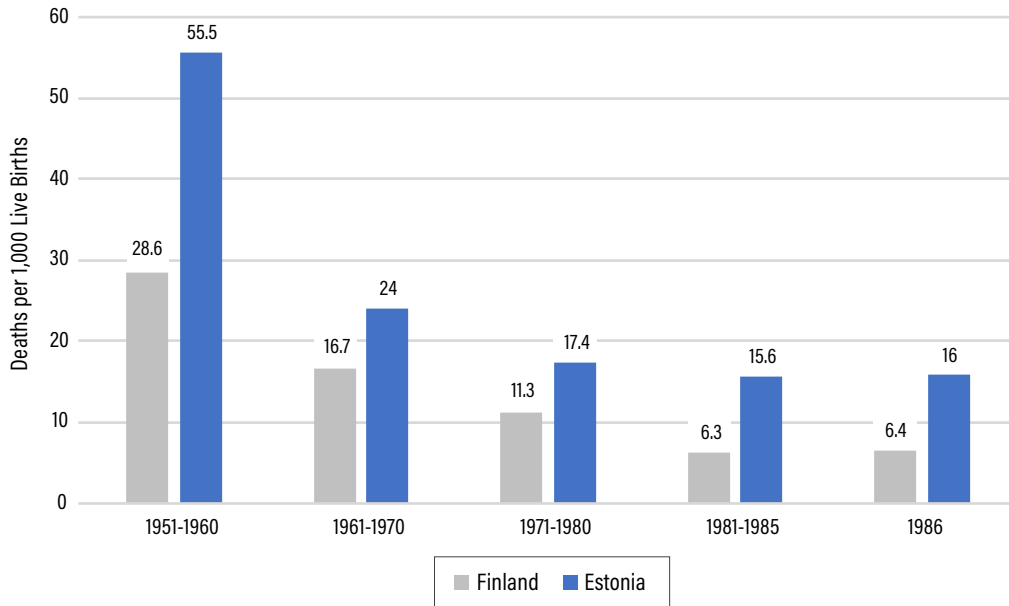
According to Sigrid Rausing, “The state of the people mirrored the state of the houses.” As she said:

The Swedes who had left as children had grown taller than their relatives who had stayed. They had their own teeth. They looked healthy and well, calm and confident. The ones who had stayed behind were stiff and bent, with bad teeth, raised on poor food, on caution and mistrust. Now, in old age, they had little medical or dental care, their bodies marked by ‘bad governance,’ that seemingly abstract concept, just as ‘good governance’ was written on the bodies of the Swedes. (Rausing, 2014: 40)

Both Finland and Estonia offered state-subsidized and state-provided health care services to their citizens, either free of charge or for nominal fees. In Finland, however, there was also a private health care system. Patients could get their care in these private facilities and the state would pay the fees (Järviö and Venesaar, 1993: 282).⁶ As in other areas, the Estonians couldn’t afford to spend as much as the Finns (see Figure 4.16 above). There were about the same number of hospital beds per person in Estonia as in Finland, though in the late 1980s Estonia had more physicians and fewer nurses, midwives, and other care givers (Järviö and Venesaar, 1993: 254–55). Compared with Finnish healthcare, Estonian care was generally characterized as backward and inferior: the facilities were dated, there wasn’t enough support staff for the number of physicians, doctors were poorly compensated, and shortages of diagnostic equipment, surgical instruments, and medicines were common (Järviö and Venesaar, 1993: 252).

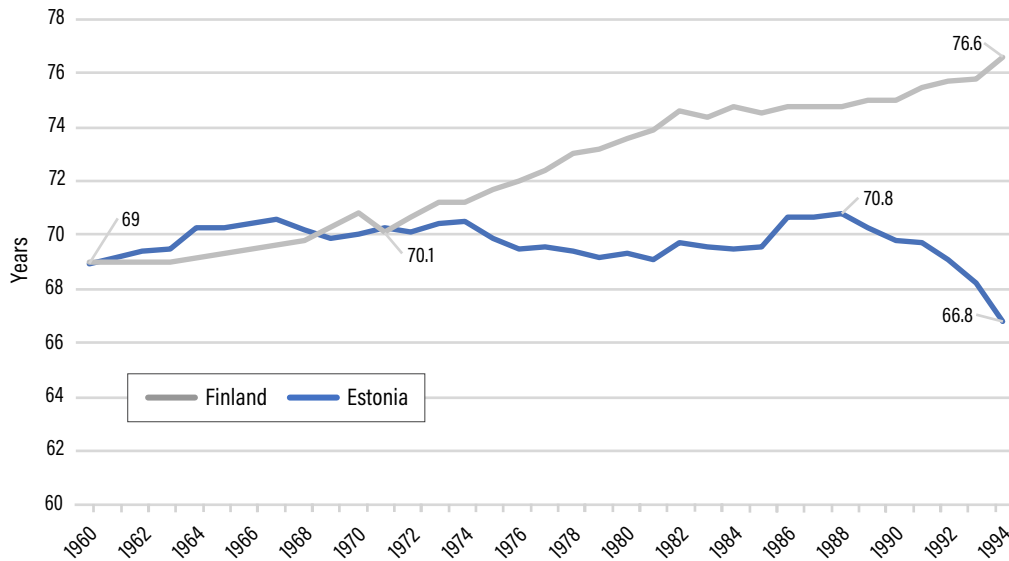
And as Rausing found, the consequences were written on the bodies and the faces of the Estonians. While Estonia managed to reduce its infant mortality rate in the 1950s and 60s, it remained stubbornly high. As late as 1986, for every 1,000 live births in Estonia 16 infants died (see Figure 4.22). Estonian children died at two-and-a-half times the rate of Finnish children. At the other end of the life cycle, the trend was just as grim. For most of the 1960s, Estonians could expect to live about as long as their Finnish cousins

Figure 4.22: Infant Mortality Rate, Finland vs Estonia, 1986



Source: Hindov, 1993: 42.

Figure 4.23: Collapse of Estonian Life Expectancy in the late 1980s



Source: OECD, 2018.

across the sea (see Figure 4.23). But starting in the late 1960s, the Finns began to pull ahead, while the Estonians began to fall behind. From 1970 through 1994, Finnish life expectancy grew by almost six years, while Estonian life expectancy declined by more than three years.⁷ By 1994, the average Finn could expect to live nearly a decade longer than the average Estonian. Already poor, nasty, and brutish, life in late socialist Estonia was increasingly short.

The Environment

Marx had once declared that capitalist progress was “progress in the art, not only of robbing the worker, but of robbing the soil” (Marx, 1867: 637). Yet by almost any measure, socialist states were more rapacious environmental bandits than capitalists (Peterson, 1993). Indeed, the deplorable state of the Estonian environment likely contributed to the population’s declining health.

In a market economy with well-defined property rights, the price system encourages efficient and responsible stewardship of resources. Firms with wasteful and inefficient processes pay the price for their carelessness, while those that manage to produce more with less can profit from doing so. When determined by the market, the prices of raw materials reflect relative scarcities, encouraging producers to economize on rare or valuable inputs and to find less resource-intensive ways to satisfy consumer desires. And when people and their property are protected through tort and property law, producers pay for environmental damage, again, encouraging them to find the least costly means of meeting consumer demands.

None of these conditions prevailed in socialist Estonia. Instead, the managers of monopolistic state firms made money whether they were careful or careless with their resources. Since the prices of raw materials were set by diktat rather than by market forces, firms failed to account for either the scarcity of their inputs or the more valuable ways these inputs might have been employed. Even if they lost money by using unnecessarily costly inputs or inefficient production techniques, firms could count on the state to cover their losses (Kornai, 1986). In fact, those with larger losses could often count on *more* support from the state.

Without market-determined signals of prices, profit, and loss, socialist economies were often characterized as “producer’s economies” that produced “for production sake” (Boettke, Zhukov, and Mitchell, 2023: 21). And lacking any better metric, planners rewarded managers for the sheer weight of their output. Production targets would be expressed in tonnage of output. Predictably, this yielded absurdly heavy products since, for example, it was easier to make heavier tin cans than it was to make more tin cans (Rausing, 2014: 17–18). By 1985, the emphasis on weight was so evident that even Soviet leaders like Mikhail Gorbachev were complaining that compared with capitalist economies, socialist economies used twice as much metal, 23 percent more fuel, and 30 percent more raw materials for each unit of output (Dobbs, 1989). Since state firms couldn’t be sued, their managers had little reason to worry about the damages they caused others. And since Estonia’s industrial planers lived in far-off Moscow, they had no emotional or cultural attachment to the land. It was a place where they would never live and that could be abandoned at any time (Taylor, 2018: 153).

All these tendencies were reinforced by the central directive to industrialize at all costs. As Stanisław Gomulka, the Polish-born LSE economist put it, socialist economies:

relied on a merciless exploitation (some would say short-sighted plundering) of the countries' natural resources of land, water, and minerals, and processing these resources in a rather wasteful way to produce poor quality products using methods of production which appeared to be what had been significantly more capital- and labor-intensive than need be. (Gomulka, 1986: 103)

As we discussed above, Estonian construction projects used four times as much energy as comparable projects in Finland and Sweden (Aarma, Laakso, and Loikkanen, 1993: 347). Estonia's two large thermal power plants in the northeast were among Europe's biggest polluters. They spewed heavy metals, fly ash, sulfur, nitrogen, and carbon oxides into the atmosphere, accounting for half of Estonia's air pollution (Marksoo and Kasepalu, 1993: 22). The annual mean concentration of sulfur dioxide in Tallin was five to six times higher than that of Helsinki, while in Narva, Estonia, it was five to seven times that of Tampere, Finland (Marksoo and Kasepalu, 1993: 23). By the end of the Soviet regime, Estonia had the highest CO² emissions per capita in Europe (Laar, 2011: 178).

The biggest source of water pollution was untreated sewage. While 100 percent of Finland's sewage water was treated biologically, only about 25 percent of late socialist Estonia's sewage was treated. And while 80 percent of Finland's lakes were rated as being in good ecological condition, just 20 percent of Estonia's lakes met this standard (Marksoo and Kasepalu, 1993:24, 25). Many of the coastal waters that had been trawled by Estonians anglers for 5,000 years were now too dirty to fish or swim in (Rausing, 2014: 69; Laar 2011: 178). Phenols in the river Purtse were 780 times the official limit, and colic bacteria levels in the waters off of Pärnu were 5,000 times the limit (Laar, 2011: 178). It wasn't until they gained their independence that the Estonians learned of the two Soviet-built nuclear power plants—comparable to the one in Chernobyl—in Paldiski (Laar, 2011: 178). It had escaped their notice, since all Estonians had been kicked out of Paldiski in 1940 to make way for Red Army personnel.

One especially obvious source of pollution was phosphate mining. The Soviets dug open-pit phosphate mines east of Tallinn in the 1960s. The phosphate, which is used to make fertilizer, lay below a layer of low-quality oil shale. The mining agency saw no use for the oil shale and simply dumped it. By 1987, 50 million tons of shale—rich in radioactive thorium, uranium, and radium—lay in heaps throughout the countryside, often catching fire, choking the air, and poisoning the groundwater (Taagepera, 1993: 120). As the 1980s drew to a close, Estonians decided to challenge a new Soviet leader over plans to further despoil their country. In what became known as the Phosphate Spring Estonian protesters scored their first victory against the socialist state, and it inspired them to fight for further change. We turn to that part of the story next.

Notes

- 1 Note that this is why the black-market-adjusted income depicted in Figure 4.4 (1.3 percent of Finnish income) is a more accurate description of Estonian living standards than the official exchange-rate income (22 percent of Finnish income). People did not want to do business in rubles because it meant queuing. The black-market exchange rate reflected the discounted value of doing business in the USSR.
- 2 For a time, the Estonians even had quite a few more sewing machines than the Finns, perhaps because it was common to mend poorly made clothes.
- 3 Some of these items, especially defence spending, were handled at the national level in the USSR.
- 4 When the decree was published in August 1988, it helped fuel the movement for independence that was already brewing.
- 5 His story is not unusual. The only thing unusual about it was that the Nobel laureate was able to get his story out to the Western press.
- 6 The private practice of medicine was only legalized in Estonia in 1987 (Järviö and Vene-
saar, 1993: 282).
- 7 Though we are only speculating, it is possible that the decline had occurred earlier and was only being reported as the country opened up.

THE SINGING REVOLUTION: 1987–1991

“Until now, revolutions have been filled with destruction, burning, killing, hate. But we started our revolution with a smile and a song.”

—Heinz Valk (Tusty and Tusty, 2006).

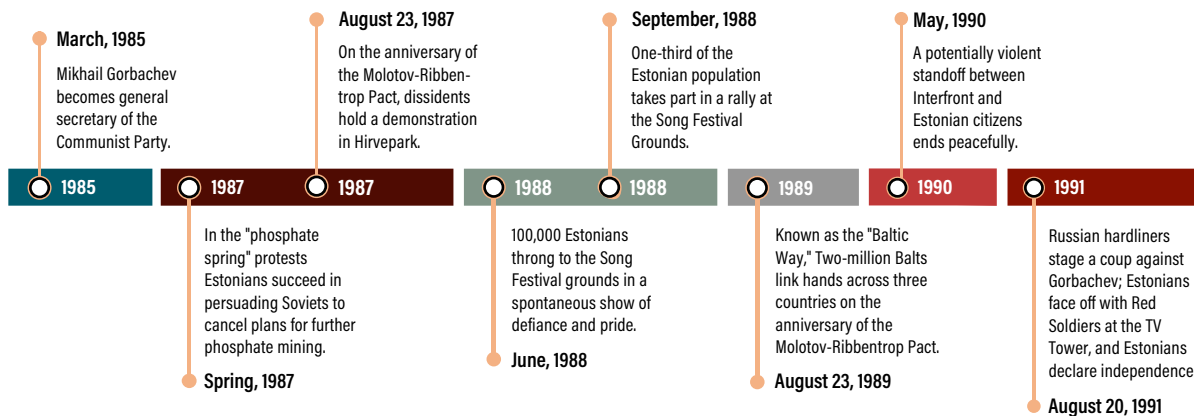
The phosphate spring

New phosphate deposits were discovered in the 1970s near the northern Estonian town of Rakvere. The deposits sat on a watershed, so mining them would have threatened to contaminate water supplies from the Parnu River, in southwest Estonia, to Lake Peipsi, in the east. Like all Estonian phosphorite, it was low in phosphate content, and estimates suggested that if it were mined, only 1 percent of it would have actually been used (Taagepera, 1993: 122–23). If they had been guided by the profit motive, Soviet mining executives would have left the phosphate in the ground. It simply wasn't worth the effort. But the planners had no such guide. To them, the new deposits looked like an opportunity to meet the central plan's mining targets, no matter the economic benefit or environmental cost. Even better, it offered an opportunity to bring in more Russian colonists to work the mines, serving the longstanding goal of Russification (Taagepera, 1993: 121). Plans were slated to begin operations in 1987.

Meanwhile, after a succession of aged leaders had died in office, the Soviet Union now had a new boss, Mikhail Gorbachev. He was the first general secretary of the Communist Party to have been born after the October Revolution. And though he was a committed Marxist-Leninist, Gorbachev saw that something had to change. If it didn't, the Soviet Union might not survive. The night before he was chosen as general secretary, he took a walk with his wife Raisa. She asked him if he really needed this. “We just can't go on living like this,” he told her (Zubok 2022). He called his reforms *perestroika* (“restructuring”) and *glasnost* (“openness”). Perestroika amounted to nothing (Boettke, 1993). Like others before him on the treadmill of reform, Gorbachev was not willing to challenge the fundamental structure of the socialist economy. But glasnost permitted just the sort of open conversation that was needed. And Estonians decided to test the limits of Gorbachev's tolerance for openness in the phosphate debate.

Marju Lauristin, the daughter of Estonian communists who had supported Stalin, did not share her parents' enthusiasm for the regime. By the early 1980s, she was a young intellectual and activist. In 1980 she had joined 39 others in signing the “Letter of 40,”

Figure 5.1: Singing Revolution



an open protest against Russification. Some signatories lost their jobs and others were harassed by the KGB, but the Soviet reaction had been relatively muted, likely because so many high-profile intellectuals had signed on. Now Lauristin and others decided to push back on the Soviet's phosphate plans. They viewed environmental protest as relatively safe, because it was perceived as technical and nonpolitical. As she explained years later, "In the Soviet Union, you could speak about the environment" (quoted in Tusty and Tusty, 2006). And considering Gorbachev's public commitment to glasnost, they calculated that he would not respond with force. It would have been noticed by his admirers in the West and would have been embarrassing. They were right. After a series of student-led protests in the spring of 1987, the Soviets agreed to drop their plans for open-pit mining of phosphate near Rakvere (Taagepera, 1993: 122).

Speaking the truth about their history

Flush with this victory, dissidents decided to push the envelope. Lagle Parek, the dissident who smuggled information about Estonian conditions to the West, had already spent four years in prison for telling the truth. Now she and others decided to tackle a much more controversial truth: the Molotov-Ribbentrop Pact. As she would later put it, "We came upon the idea that from a legal point of view all of Estonia's hardships were the result of the Molotov-Ribbentrop Pact. On this basis, we decided it was time to take action" (quoted in Tusty and Tusty, 2006).

As they saw it, the long-denied secret protocols of the pact were not just an embarrassing example of socialist collaboration with Nazis. They were also prima facie evidence that Estonia had been illegally annexed to the Soviet Union. Parek and her collaborators planned a demonstration in Hirvepark, a wooded park in Tallin, on August 23, 1987. It was the 48th anniversary of the Pact. The event was publicized by word of mouth and through illegal radio broadcasts on Voice of America and Radio Free Europe. Parek and her collaborators had no idea how many people would show up. To their astonishment, about 7,000 Estonians came out to demand that the hidden details of the Nazi-Soviet agreement be released. Though their microphones were cut off, the organizers used

rolled-up paper as makeshift megaphones and managed to make their demands heard. And to everyone's surprise, they were not arrested. Parek saw it as an "example of how courage can grow" (Tusty and Tusty, 2006). The first speakers had taken a great risk. But once they had taken that step, others were emboldened to follow, challenging the regime in increasingly pointed language. It was the first time in half a century that anyone had spoken out publicly about the pact without being arrested.

Song

Later that year, a young history teacher named Mart Laar collaborated with a dissident named Trivimi Velliste to form the Estonian Heritage Society. Their mission was simple—to speak the truth about Estonia and its history. But such a mission was revolutionary in a totalitarian state that so tightly controlled what could and could not be said about the past. Within four months, the Heritage Society had 10,000 members (Tusty and Tusty, 2006). They organized rallies and events, gaining momentum as 1987 turned to 1988. At a demonstration in Tartu, they dared to fly the national colors. But to avoid a clash with authorities, they flew each color—blue, black, and white—as its own flag. When everything is in the state and nothing outside of it, even colour coordination can be a protest.

Meanwhile, under Gorbachev's policy of glasnost, the Soviets themselves began to come to terms with their history. In June of 1988, the Soviet government cancelled all history examinations for elementary and high school students (Remnick, 1988). Officials now acknowledged that the textbooks on which the students had been raised were full of lies. Lenin's forced labour camps, Stalin's purges, the assault on churches and synagogues, the theft of private property, forced collectivization, deportation, murder, famine—all of it had either been glossed over or, as the editor of the Soviet Teacher's Newspaper put it, "existed in textbooks only as great triumphs" (Remnick, 1988). In unprecedented candour, the state newspaper *Izvestia* now acknowledged:

The history exam can be canceled, but no one has a right to cancel history itself, no matter how painful. It continues, and everyone now living must take part in its creation. Today we are reaping the bitter fruit of our own moral compromises and are paying for those things that we mutely accepted and supported and now do not know how to explain to our children. (Quoted in Remnick, 1988)

But there was one moral compromise that could not be abandoned, for doing so would threaten the existence of the Soviet Union: According to the state, the Molotov-Ribbentrop Pact had no secret protocols. The Baltic states had joined the Soviet Union of their own accord.

In the same month that the history exams were cancelled, a traditional summer concert was held in Tallinn. As in years past, it was tightly scripted by the Soviet authorities. This year, however, the singing continued after the event was over. As the authorities shut it down, the crowd spontaneously moved to the song festival grounds, where participants began to sing traditional Estonian songs in the Estonian tongue. Soon the word spread.

More and more people showed up, leaving work and running to join the spontaneous show of hope. Each night, thousands more showed up. Within a week, 100,000 Estonians were packed into the immense festival grounds. One day, a motorcyclist drove into the grounds waving the blue-black-and-white flag. This time, all three colors appeared on the same flag. Then, suddenly, flags appeared everywhere. They had been tucked away, hidden in homes for five decades.

Most of the songs were traditional Estonian folksongs that praised the land, the farms, and the heritage. But some were also defiant. A progressive rock band, In Spe, introduced a new song, *Isamaa Ilu Hoieldes* (When Holding Fatherland's Beauty):

*If you descend to lies
Upside down into dreams
Onto all fours under the commands
Onto the belly under the ruble.
Then you'll get fleas to the groin
Mange in the heart
Tapeworms in the head
Bones in the belly
Then you'll go to hell.*

*If you believe in yourself
Then you believe in the people
In farms, in wisdom
In teachings, in rights
In the birch forest near home
In the swallow on the horizon
Then you'll get a great spirit.
Then you'll get a better life.*

But for all the defiance, it remained a peaceful gathering. A young artist named Heinz Valk was in attendance. "Until now," he later observed, "revolutions have been filled with destruction, burning, killing, hate. But we started our revolution with a smile and a song" (quoted in Tusty and Tusty, 2006). Valk called it the "Singing Revolution" and the name stuck (Tusty and Tusty, 2006).

History was moving, but to where?

"History in Eastern Europe," wrote the political scientist Rein Taagepera in 1987, "has started to move much faster than we are used to" (Taagepera, 1993: 111). But not everyone in Estonia wanted it to move in the same direction.

Mart Laar and Trivimi Velliste of the Estonian Heritage Society were near the radical end of the spectrum. But they were still focused on the past and, in many ways, this fit with Gorbachev's glasnost. Bolder still was Lagle Parek. With her eye on a very different future,

she had formed the National Independence Party. She and her colleagues were prepared to push for a complete break with the Soviet Union. In fact, as they saw it Estonia was still an independent nation, as its annexation had lacked a legal basis from the beginning.

A new group formed in 1988 staked out a more moderate position. Led by Marju Lauristin and Edgar Savisaar, they called themselves the Popular Front. They wanted to push for greater autonomy by working within the Soviet system. As they saw it, their mission fit squarely within Gorbachev's plans for perestroika. In fact, the organization's short-lived initial name was the Popular Front for the Support of Perestroika.

Gorbachev had his own ideas about Estonia. In 1988 he selected an old friend from his teenage years in the Communist Youth Group, Vaino Väljas, to be the First Secretary of the Estonian Communist Party. Significantly more moderate than his predecessors, Väljas was prepared to act as a buffer between Moscow and Estonia.

Finally, there were the Russian Estonians. After five decades of Russification, about 40 percent of the Estonian population was Russian, and many of them saw talk of independence and Estonian identity as a threat to their way of life. In July of 1988, they formed a pro-communist group called Interfront. They, too, began holding rallies that numbered in the thousands.

In September 1988, the Popular Front organized a mass rally at the song festival grounds. No one could have imagined the turnout. More than 300,000 Estonians showed up. More than one in three Estonians was there. As a sign of the disagreement between the various groups, the Popular Front organizers did not let the more radical members of the National Independence Party take the stage. And while they did let members of the Heritage Society speak, they worried that they too were pushing the envelope too far. But despite these disagreements, the event succeeded in making its point. As First Secretary Väljas later put it, the rally showed Moscow "that to use direct force would be very, very risky" (quoted in Tusty and Tusty, 2006).

The Baltic way

With Väljas heading up the Estonian Communist Party, Estonians continued to test Moscow. When in 1989 the party passed legislation declaring Estonian laws would take precedence over those of the Soviet Union, Gorbachev decided they had gone too far. He summoned a delegation of Estonian Communist leaders to Moscow, reminding them that there was a 10-year sentence for anyone who willfully violated the Soviet Constitution. On television, Estonians watched Gorbachev counsel their leaders in no uncertain terms: "Don't make a fuss. Understand? I'm ready to listen and discuss everything. One condition though: We have to search for our answers only in the framework of socialism" (Tusty and Tusty, 2006).

By August 1989, even the relatively moderate leaders of the Popular Front were prepared to make a fuss. August 23 was the 50th Anniversary of the Molotov-Ribbentrop Pact. To commemorate the day, the Estonian Popular Front worked with sister organizations in Latvia and Lithuania to organize a two-million person, 670-kilometre human chain of

Figure 5.2: The Baltic Way. Two million people join hands in a 670 kilometre human chain across the three Baltic states.



Photo credit: Aivars Liepiņš, used with permission.

clasped hands. Coordinated through radio and word-of-mouth, the chain stretched all the way from Tallin in Estonia to Vilnius in Lithuania. They called it “The Baltic Way.” The organizers ensured that Western TV journalists were on-hand to show the world that the Balts had a mind of their own. The Soviets, predictably, accused the Balts of whipping up hysteria. But four months later, Gorbachev himself was forced to admit, finally, that there were indeed secret protocols to the Molotov-Ribbentrop Pact, and that the Nazis and the Soviets had agreed to divvy up Europe in 1939 (Tusty and Tusty, 2006).

Tickets to Siberia

The Baltic Way was more than a wildly successful publicity stunt. Just as Lagle Parek had predicted, by exposing the secret origins of Estonia’s annexation, the legal basis for Estonia’s membership in the Soviet Union was now in question. Now Mart Laar took it a step further. If Estonia had not been legally annexed, he figured, then it only made sense for Estonians to register themselves as citizens of a country called Estonia. To that end, they organized a large-scale citizen registration drive, handing each person an official registration card with their name and a citizen registration number on it. Knowing the risk they were asking people to take, the organizers approached their task with dark humour, referring to each card as a “ticket to Siberia.” Approximately 860,000 people—nearly every adult in the country—signed up to get a ticket (Tusty and Tusty, 2006). Next, in February 1990, these newly minted citizens voted for a new governing body, which they called the Congress of Estonia. It may have been the only privately organized general

election in world history (Taagepera, 1993: 174). Though the Congress of Estonia was a governing body, it had no government to direct. Nor were its members prepared to take the next plunge and declare independence.

But at the same time, the official democratic body of Estonia was passing into the hands of reformers. In March 1990, genuine, competitive elections were held in the Estonian Supreme Soviet. They were the first multiparty elections in the history of the Estonian SSR. Both independence-minded Estonians (about 60 percent of the population) as well as anti-independence colonists (about 30 percent) took part. The rest were split. The Popular Front won about 45 percent of the seats, the largest bloc, but not a majority. Anti-independence candidates took just under a third of seats. It wasn't enough to stop the Popular Front, but it did mean that the independence-minded members were going to have to stick together if they wanted to get anything done (Taagepera 1993, 178). In one of their first actions they renamed their governing body. Instead of the Estonian Supreme Soviet, it was now the Estonian Supreme Council.

In May 1990 the Supreme Council voted to make it illegal to fly the Estonian SSR flag. Gorbachev said they were in open defiance of Soviet laws. In response, the communist group Interfront decided to march on Toompea Castle, the mediaeval Estonian capitol building. Some 5,000 Interfront rioters stormed the castle, climbing in through the windows and up on the roof, where they tore down the blue, black, and white Estonian flag. Members of the Supreme Council took to the radio and asked the public to come and defend their government. Within minutes thousands of Estonians had surrounded the capitol building, trapping the Interfront rioters inside. Tensions were high and bloodshed seemed imminent. But remarkably, the crowd parted, allowing the members of Interfront to pass through unmolested. Marju Lauristin, then a member of the Supreme Council, addressed the crowd:

Dear people, thank you. We were sure that if you came to help us, that you would do it in the way you did. With your intelligence, your songs, your heart. That is when we are at our strongest. Thank you. thank you. thank you. (Quoted in Tusty and Tusty, 2006).

Another coup and another declaration of independence

Though it may be apocryphal, Lenin is said to have observed that “There are decades where nothing happens; and there are weeks where decades happen.” The third week of August, 1991 was such a week. Its events were set in motion the prior summer. By that time, Gorbachev was ready to make previously unthinkable concessions. In an attempt to maintain some semblance of the empire, he suggested a reorganization of the Soviet Union that would make the USSR into a confederation of independent states. Dubbed the “New Union Treaty,” the Supreme Soviet in Moscow spent much of 1991 hammering out the details. Meanwhile, in March 1991, the Estonians held a nationwide public referendum on independence; 77.8 percent of voters chose independence (Taagepera, 1993: 194). The referendum had no force of law, but it made the public's desires clear.

Gorbachev planned to sign the New Union Treaty on August 20, 1991. But Soviet hardliners denied him the chance. One day before the scheduled signing, a small group of hardliners, including Vice President Gennady Yanayev, staged a poorly organized coup d'état. Placing Gorbachev under house arrest in his dacha, they declared Yanayev the acting Soviet president and immediately dispatched a Soviet Red Army garrison with 80 tanks to Estonia (Taagepera, 1993: 200). Their orders were to impose martial law and arrest the local leadership (Taylor, 2018: 171). The coup leaders issued similar orders to local Red Army troops already stationed in Estonia but, to their credit, none of these mostly ethnically Russian soldiers obeyed (Taylor, 2018: 171). They might not have agreed with the Estonians politically, but they had lived among them for too long to turn on them.

Over the next 48 hours, two extraordinary dramas unfolded in Tallin. The first was at Toompea Castle, where the members of the Estonian Supreme Council met in a special session to decide the fate of the nation. The second, just over 12 kilometres to the east, was at the radio and TV tower. Built for the 1980 Olympics, the 22-story tower was the main means by which Estonians communicated with themselves and with the outside world. Naturally, the totalitarians wanted to take it over. Everything within the state, nothing outside the state, nothing against the state. As the Soviet troops closed in, just four men stood guard: two Estonian police officers, a member of the Estonian Defence League, and a TV technician. Then, local Estonians began showing up. They ringed the station with their cars and trucks, ready to defend the tower and the four men inside. No doubt, everyone on the scene was keenly aware that 14 Lithuanian demonstrators had been killed by the Red Army in the Vilnius TV tower during a similar confrontation just seven months earlier (Taylor, 2018: 167).

A few miles west, the representatives of the fledgling Estonian democracy were debating the most important vote of their short political careers, “A Resolution on the National Independence of Estonia” (Taagepera, 1993: 268). As in 1917 and 1944, the Estonians saw opportunity in Russian chaos. Most were inclined toward a full break with the Soviet Union. But while moderates were comfortable with a declaration of independence, the radicals did not want to give the impression that they were *leaving* the USSR. As they saw it, they had never legally joined. As the debate wore on, members of the Supreme Council called on members of the Congress of Estonia—most of whom took the more radical position—to join them in the debate. In the end, they struck on a compromise “to affirm the national independence of the Republic of Estonia” (Taagepera, 1993: 202). The vote came on August 20, shortly after 11 p.m., and it was unanimous. At great personal risk, Vaino Väljas, Gorbachev's old friend and hand-picked leader of the Estonian Communist Party, voted for independence (Tusty and Tusty, 2006).

Police officer Juri Joost, still holed up on the 22nd floor of the TV tower, watched the vote, later saying that it “brought us great joy because now we were fighters for an independent republic” (Tusty and Tusty, 2006). At dawn the next day the tanks arrived, and the Red Army began to penetrate the human shield surrounding the tower. As the soldiers moved to break through to the 22nd floor, Joost played what he called his “trump card”: he told the soldiers on the other side that if they broke through, he would trigger the tower's

freon fire extinguishing system, killing everyone, including himself. The soldiers hesitated, debating what to do for another 12 hours.

In that short time, everything changed in Moscow. Boris Yeltsin, the leader of the Russian SSR, denounced the plotters and the coup fell apart. One day after Estonia declared its independence from the USSR, Russia, too, seceded. The Red Army withdrew from the TV tower, and the four men came down from the tower to the applause of the Estonians gathered outside. The Singing Revolution was over, and not a single drop of blood had been spilled.

BUILDING A FREE SOCIETY: 1992–

“Just do it.”

—Mart Laar (Taylor, 2018: 187).

A new start

It is often said that it is easier to tear down than to build up. This is especially true when people don't know how to build, only to resist. For five decades Estonians had honed the habits of resistance, distrust, and skepticism. This may explain why they didn't take to the streets to celebrate their independence (Taylor, 2018: 173). Perhaps they thought of the Estonian idiom, “Ära hõiska enne ohtut”— “Don't cheer before the evening.” It was a warning that they should not celebrate too soon. There was too much to do.

Edgar Savisaar, the cofounder of Popular Front, was the prime minister when Estonia gained its independence. He had come a long way, having been born in Harku Prison in 1950 where his parents were serving time for resisting collectivization. But Savisaar proved to be a polarizing figure, and he had to resign a few months later when he attempted to declare a state of emergency. He saw it as the only way to continue providing basic government services, while his critics saw it as a power grab (Taylor, 2018: 177). The more tactful Tiit Vähi stepped in as acting prime minister until elections could be held.

Members of the Estonian Supreme Council and the Congress of Estonia joined together to write a new constitution which, following the amendment process established in the 1938 Constitution, was then referred to the public for their approval. The country's Third Constitution incorporated elements from both the 1920 and 1938 Constitutions and explicitly stressed continuity with the republic before the Soviet and Nazi invasions. It vested legislative powers in a unicameral parliament (the *Riigikogu*), created a presidency with mostly ceremonial powers, and vested executive powers in a prime minister selected by parliament. Citizenship was limited to those born before 1940 and their direct descendants, even if they had lived abroad. Others could apply for citizenship after living in the country for two years and after showing some proficiency in Estonian. This approach to citizenship permitted thousands in the Estonian diaspora to become Estonian citizens, even if they'd never set foot in the country. At the same time, it denied citizenship to thousands of Russians who had lived there for years. The decades-long policy of Russification had sown the seeds of racial tension between Russians and Estonians that would continue for

some time (Taylor, 2018: 179). Former high-ranking officials and KGB operatives were barred from office for 10 years (Laar 2011, 186). The Constitution was approved by 91 percent of voters in a referendum held June 28, 1992, and the first elections to parliament were held that September (Taylor, 2018: 180).

Long a one-party state, Estonia now had a surfeit of political parties, and the 1990s were characterized by shifting coalitions and governments that came and went and sometimes came back (Taylor, 2018: 188). The first post-Soviet elections, held in September 1992, made Mart Laar, the co-founder of the Estonian Heritage Society, the prime minister. At 32 years old, the history-teacher-turned-activist may have been the youngest prime minister in the world. He was joined by ministers of justice, defense, and foreign affairs that were all 30 or younger (Laar, 2011: 188). When the news spread that the young prime minister listened to Queen, Led Zeppelin, Phil Collins, and Guns 'n' Roses, the country began to develop a reputation for youthful energy. For their president, parliament turned to the writer, film director, and statesman Lennart Meri, whose deep foreign connections served the country well in its first years on its own. Though he was 63, Meri, too, contributed to the country's youthful image. He was a lifelong technophile, having built (illegal) radio receivers in his 20s so he could hear signals beyond the iron curtain. When he visited the US in the 1990s he privately told colleagues that his meeting with Bill Gates would be more important than his meeting with Bill Clinton, and he returned determined to put the Estonian government on the cutting-edge of technology adoption (Taylor, 2018: 189).

New challenges

The challenges were immense. As Laar would later put it:

The fifty-year-long occupation left its devastating imprint. The economy was in a disastrous situation. In many respects the Baltic States were independent only on paper, in real life depending on Russia in almost all fields of economic activity. In early 1992 Estonia was both cold and hungry. Crime was starting to take control. The government's authority was weak and extremes on both the right and the left had to be suppressed. (Quoted in Taylor, 2018: 176)

Every post-communist country entered what the Hungarian economist János Kornai called a "transformational recession" (Kornai, 1994). Estonia entered its recession in 1989. As always, the official prices of most goods were well below the market equilibrium, creating widespread shortages. But as inflation raged and supply chains were disrupted during the transition, the gap between the official and black-market prices grew. When Britain's ambassador to Estonia assumed his post in Tallinn in January 1992 he reported that food and power shortages were rampant, and that the only items that could be had in the stores were bread and root vegetables (Taylor, 2018: 176). Meanwhile, the Soviet Union had resorted to the printing press in order to pay its bills, so equilibrium prices on the black market skyrocketed. The Estonians were still using the ruble in January 1992 when

Russia liberalized prices. Suddenly, even legal prices shot up, and annualized inflation reached 1,000 percent in one month (Taylor, 2018: 178). Ironically, this led to a shortage of bank notes.

The inflation problem was addressed rather quickly (more on which below). But other problems could not be solved overnight. New institutions had to be built. Estonia lacked a functioning court system that would protect property rights and contracts. It lacked a functioning banking system to allocate capital and savings and manage risk. It lacked a functioning housing market with firms and regulators to handle the sale, registration, and finance of real estate. The government had no experience taxing private firms. And though it had been trying to do it for decades, it seemed not to understand how to provide adequate infrastructure or social services that were comparable to the standards set by Western capitalist countries.

While it had to build, Estonia also had to dismantle. It needed to eliminate the vast and intricate system of privileges afforded to the Communist Party elite, the *nomenklatura*, and Russian citizens (Liivik, 2020). It had to transfer productive property back to the private sector. And it had to transfer nonproductive private property back to its rightful owners.

Another intractable problem was the misallocation of labour and capital. At the sectoral level, Soviet planners had long neglected the service sector. In 1989, this sector accounted for more than 33 percent of Finland's GDP, while in Estonia, it was less than 16 percent of GDP (Ahde, 1993: 81). Meanwhile, at the firm level, soft budget constraints had papered over years of mismanagement (Kornai, 1986). Many firms and their managers were accustomed to getting paid, whether they created value for customers or not. As one of the present authors once put it, "most individuals...wake up every day and go to work at the wrong job, in a factory that is in the wrong place, to produce the wrong goods" (Boettke, 1993: 10). That all changed when they no longer had a guaranteed customer in the state, and for many firms it was a difficult reality.

More broadly, the economy suffered from a pathology of privilege (Mitchell, 2012). Though the system was falling apart, there were plenty of socialist elite members who stood to lose from reform, even if it would make the vast majority better off. Somehow, policy makers had to credibly commit to a shift in the rules so that the elite would no longer profit by immiserating the masses. At the same time, the new rules had to ensure that new predations could not occur and that insiders couldn't profit from the transition (Boettke, 2009). It was easy to commit to reforms; it was much harder to follow them through (Rodrik, 1989).

In some cases, the answers to these problems were technical, and the Estonians could turn to others for help. The German president and judge Roman Herzog advised Estonians in drafting their Constitution (Taylor, 2018: 180). And the Finns stepped in to help Estonians manage their businesses, especially as they set up banks (Taylor, 2018: 175). The IMF and other international organizations helped them formulate macroeconomic policies. The Estonians ignored some of this assistance, as when the IMF said that Estonia's flat-rate

income tax would be “too much, too soon” (Laar, 2011: 198). They also ignored the IMF when it advised Estonia against adopting a currency board. Later, when the board had proven to be a success, the IMF encouraged Bulgaria and Lithuania to adopt a similar approach.

But economies don't run on formal rules and institutions alone. They also require certain habits of thought, cultural norms, and shared understandings (McCloskey, 2011; Storr, 2013; Mitchell and Boettke, 2017). The economist Deirdre McCloskey has argued that a thriving market depends on the “bourgeois virtues” of courage, justice, temperance, prudence, faith, hope, and love (McCloskey, 2007; McCloskey, 2011). Like all peoples, Estonians had the capacity for these virtues. But they hadn't been used in quite some time.

Václav Havel, the poet-playwright-dissident who became Czechoslovakia's last president identified the problem in his New Year's address of 1990:

We fell morally ill because we became used to saying something different from what we thought. We learned not to believe in anything, to ignore each other, to care only about ourselves. Concepts such as love, friendship, compassion, humility or forgiveness lost their depth and dimensions and for many of us they represented only psychological peculiarities.... I am talking about all of us. We had all become used to the totalitarian system and accepted it as an unchangeable fact, and thus helped to perpetuate it. In other words, we are all—though naturally to differing extents—responsible for the operation of totalitarian machinery, none of us is just its victims; we are all also its cocreators (Quoted in Laar, 2011: 178).

Havel understood that the post-socialist, post-totalitarian society needed to develop newer and better habits. And that would take time.

Estonia just does it

Nearly everyone in post-Soviet states recognized the need for change. And there was broad agreement around what had to happen. This agreement was known as the “Washington Consensus” (Center for International Development, 2003). Its basic elements were:

- Fiscal discipline
- Substitution of broad-based spending (such as spending on public goods) for narrow spending on subsidies
- A broadened tax base with lower marginal rates
- Market-determined interest rates
- Competitive exchange rates
- Liberalized trade
- Liberalized foreign direct investment
- Privatization of state enterprises

- The elimination of anticompetitive regulations
- Legal security of property rights

What no one could agree on was the timing. Some counselled a gradualist approach. They worried that attempted reforms might not yield their expected results, and that policy makers would need time to adjust. They also worried that some aspects of the reform package might not work if other, mutually necessary policies, were not also in place. For example, hard budget constraints might lead to bankruptcies if financial markets were not yet up and running. Many simply worried that too much change too fast would be a shock to the system. These critics derided the fast approach as “shock therapy” (Wolf, 1999).

On the other hand, those who preferred to move fast worried that if change was too gradual, there would not be the political will to see it through. As Poland’s famous reformer Leszek Balcerowicz put it, “bitter medicine is easier to take in one dose than in a prolonged series of doses” (Balcerowicz, 1994: 86). Estonians raised on the “cult of struggle” and the treadmill of reform were probably especially suspicious of yet one more promise that today’s sacrifice would yield tomorrow’s gain. So it seemed quite possible that reformers wouldn’t get a second chance for a second dose. In answer to the concern about coordinating reforms, Harvard University’s Jeffrey Sachs warned that gradualism would yield “incoherence, not less pain. It would be as if the British decided to shift from driving on the left to driving on the right but decided to do it ‘gradually’—first, by having just the trucks shift over to the other side” (Laar, 2011: 190). Others worried about the pathology of privilege. As time passed, the elites who benefited from the current system might have an easier time hijacking or derailing the reforms (Sachs, 2012; Olson, 1965).

Another challenge was the complexity of the process. As the Swedish economist Anders Åslund put it: “what should be done in a situation where 1) nearly everything works poorly, 2) the necessary instrument of change (the state) is very weak, and 3) resistance from the old ruling class is fierce? The obvious answer is to choose as simple a solution as possible” (1994: 67).

For his part, Laar was firmly in the fast reformer camp. He also favoured simple reforms over complex ones. Adopting the appropriately capitalistic slogan, “Just Do It,” he was determined to transition Estonia to capitalism as quickly as possible. Years later, at Margaret Thatcher’s funeral, he credited the Iron Lady for teaching him that “If you want to do something, just do it, do not just stand there trembling” (quoted in Taylor, 2018: 187). And Estonia did it (see Table 6.1 for a list of reforms). Though Laar is appropriately credited with pushing simple and quick change, he didn’t act alone. And, as we will see, several important reforms continued after he left office.

Monetary reform

As it happened, one key change was forced upon Estonian by Russia. And it occurred before Laar was sworn in as prime minister. As we’ve noted, the Estonians were still using the ruble at the beginning of 1992. Since the Soviets had employed the printing

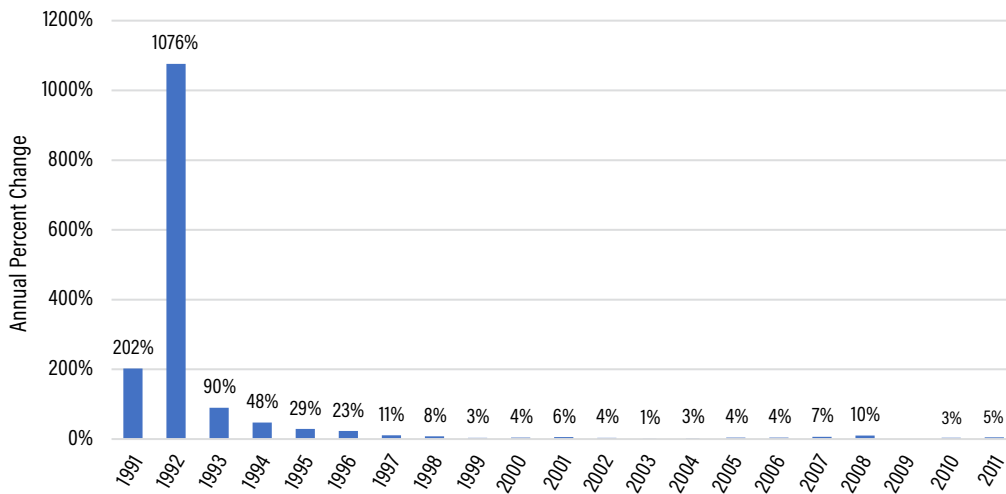
Table 6.1: Estonia Just Does It. A List of Reforms, adopted during the 1990s

A List of Reforms	
Monetary Reform	Introduction of the Estonian kroon, a hard currency backed by the deutschmark and maintained by a currency board.
Tax Reform	World's first flat personal income tax.
Spending Restraint	Reduced the size of government spending.
Fiscal Balance	Maintained a balanced, or near balanced, budget.
Free Trade	Unilaterally eliminated tariffs and non-tariff barriers to trade. Entered into free trade agreements and joined the EU and the WTO.
Privatization	Privatized state-owned firms.
Regulatory Reform	Eliminated regulatory burdens, and made it easier to register property and to start a business.
Hard Budget Constraints	Allowed the three largest commercial banks to go bankrupt, signaling a commitment to hard budget constraints and an end to corporate privilege.
Rule of Law and Minimal Corruption	Developed institutional rules and cultural norms that kept corruption to a minimum. Barred high-ranking soviet officials and KGB operatives from office for 10 years.

press to finance deficit spending, there was strong inflationary pressure throughout the former Soviet Union. While one could see this inflation in black market prices, the official prices in legal markets masked it. Then, in January 1992, Russia liberalized prices, which allowed years of pent-up inflation to suddenly become manifest (Taylor, 2018: 178). As annual inflation jumped to 1,076 percent (see Figure 6.1), Prime Minister Tiit Vähi pushed to reintroduce the Estonian kroon. Opting for the most credible commitment to stable monetary policy, the Estonian government created a currency board and charged it with maintaining a fixed exchange rate with the famously stable deutschmark. The currency board was possible because the country was able to reclaim ownership over large gold reserves deposited in Sweden, the UK, and Switzerland before World War II (Åslund, 2012: 143).

Beginning at 4:00 a.m. on June 20, 1992, Estonians were able to buy 1 kroon with 10 rubles. They could buy up to 150 kroons; above that, they had to pay 50 rubles per kroon. All Estonian kroons in circulation were then tied to the deutschmark at the rate of eight kroons to one mark. Inflation went from over 1,000 percent in 1992 to 90 percent in 1993 and continued to fall thereafter. As one observer put it, Estonia “had a hard currency overnight” (quoted in Taylor, 2018” 178). Economists like to say that monetary policy changes are subject to “long and variable lags,” and it did take some time for inflationary pressures to wash out of the system, but by the turn of the century Estonia’s

Figure 6.1: Estonian Headline Consumer Price Inflation, 1991–2001



Source: IMF, 2021.

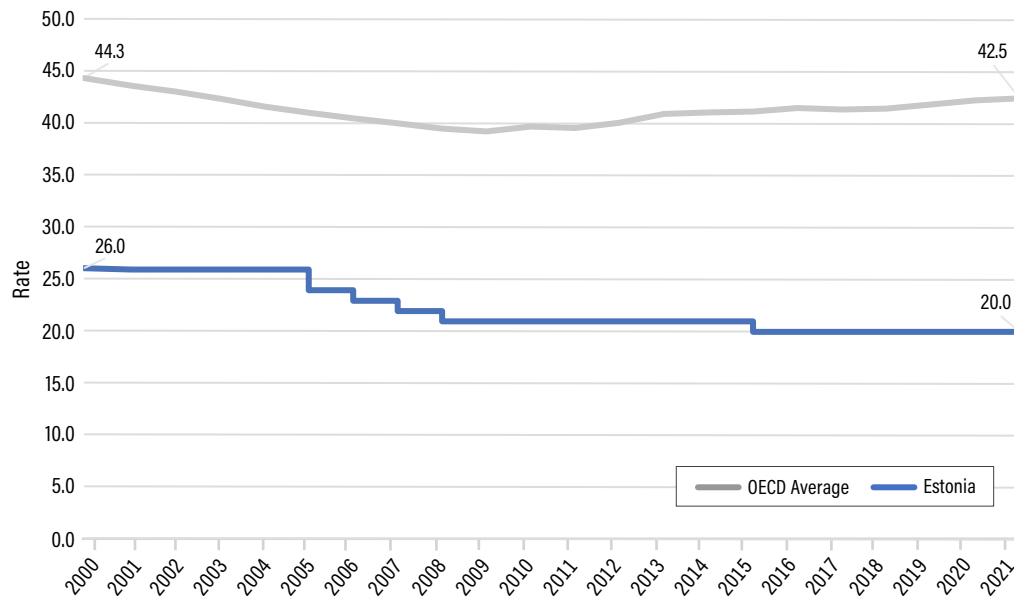
annual inflation rate was down to 3 percent and remained low for the next decade until Estonia adopted the Euro in 2011. In tying the kroon to the deutschmark, officials not only signalled that Estonians were serious about controlling inflation, they also signalled that they intended to build their new future looking West rather than East.

Tax reform

When Mart Laar became prime minister four months after the currency change, he moved to ensure that fiscal policy reinforced the nation's new-found commitment to monetary rectitude. Laar was committed to limited government and free enterprise. Ironically, his interest in the subject was unintentionally stoked by Soviet censors. Years later he recalled:

A lot of western countries, including the United States, gave us advice supporting a big state, big government, big expenditures, high taxes, and progressive taxation. And in this context, I must say it was very useful, again, to remember the Soviet time. Because the first time I heard the name Milton Friedman was in the deep Soviet time, when I read in the newspapers or in some propaganda newsletters of a very bad, dangerous western economist called Milton Friedman. (Quoted in Cato Institute, 2006:).

Borrowing an idea from Friedman, Laar's government implemented the world's first flat tax in 1994. Initially set at 26 percent, it was reduced in several steps to 20 percent by 2015 (see Figure 6.2). In 2021, it was the second-lowest top rate and less than half the average rate in the OECD (see Figure 6.3). Estonia's flat tax applies to all personal and corporate income above a minimum threshold, with no exemptions, deductions, or

Figure 6.2: Estonia's Flat Personal Income Tax Rate Compared to the Average OECD, 2021

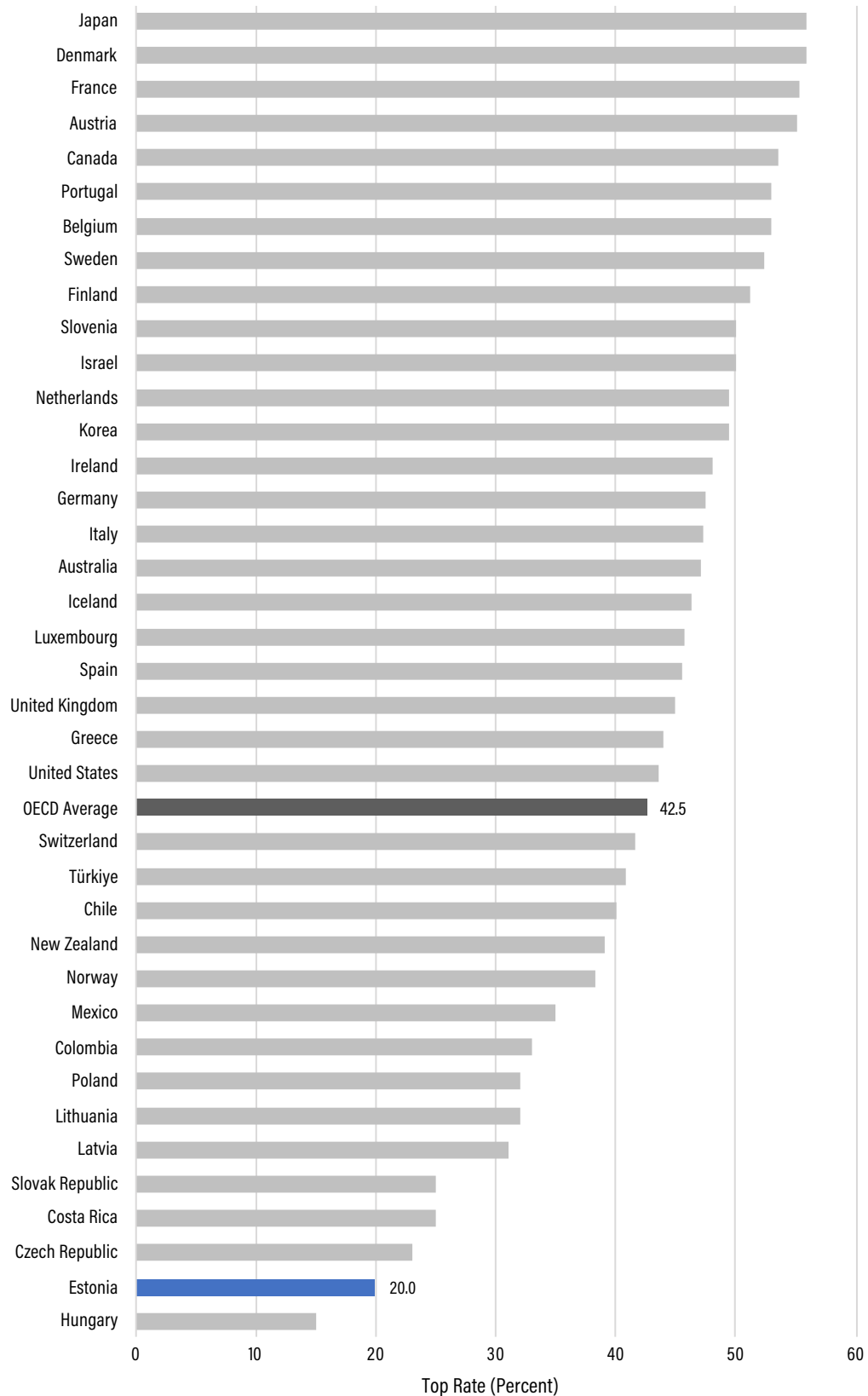
Source OECD. Stat, 2022

credits. To avoid double-taxation, it does not apply to dividends when the underlying profits have already been taxed. Because of its low threshold, the rate kicks in at just 30 percent of the average wage, so the country's income tax burden is broadly shared, especially by international comparisons (see Figure 6.4). To ease the burden of compliance, Estonia became one of the first countries in the world to permit citizens to pay their taxes online. Estonians soon found that their simple and easy to administer flat tax raised revenue without discouraging economic activity. Others took notice. After Estonia, the flat tax spread to other formerly socialist countries, including Lithuania, Latvia, Russia, Serbia, Ukraine, Slovakia, Georgia, Romania, and the Czech Republic (Aligica and Evans, 2008).

Estonia's flat tax also applies to corporate income. The marginal effective corporate tax rate (shown in Figure 6.5) is close to the statutory rate, reflecting the system's minimal loopholes. And while many countries distinguish between different forms of businesses (LLC, S-Corp, etc.), and between service companies and manufacturers, Estonia taxes all corporate income the same.

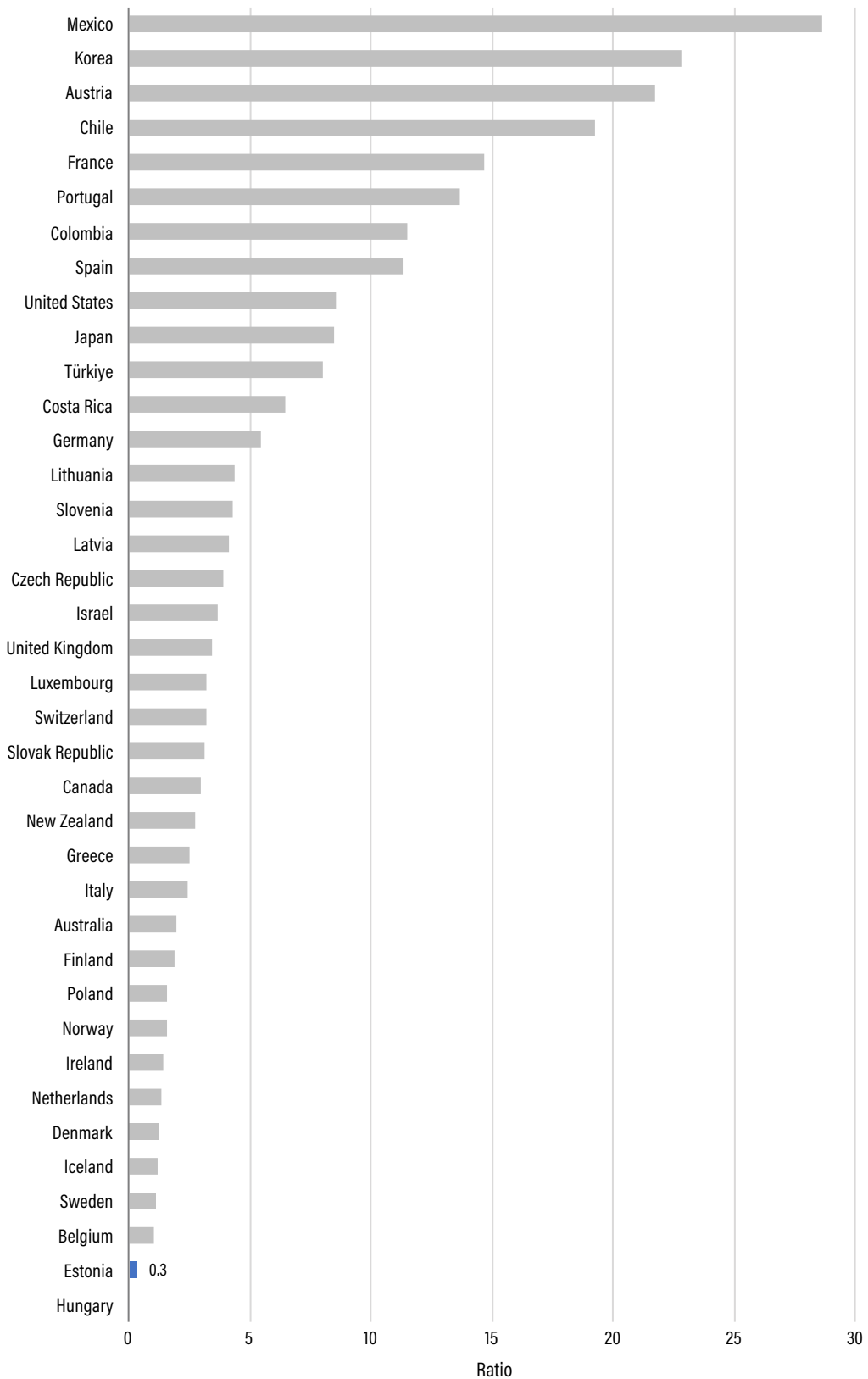
However, Figure 6.5 fails to capture Estonia's unique approach to business taxation. Most countries arrive at a firm's taxable income after complicated calculations that account for deductible expenses, limitations on deductions, exclusions, depreciation of equipment, amortization, exemptions, credits, and complex rules for foreign income. In Estonia, however, the corporate income tax rate is only levied on distributed earnings, allowing companies to reinvest their profits tax-free (Bunn and Hogleve, 2022). Estonian firms pay the simple flat tax when they distribute profits to shareholders, when they pay dividends,

Figure 6.3: Estonia's Flat Tax Rate is One of the Lowest Top Personal Income Tax Rates in the World (2021)



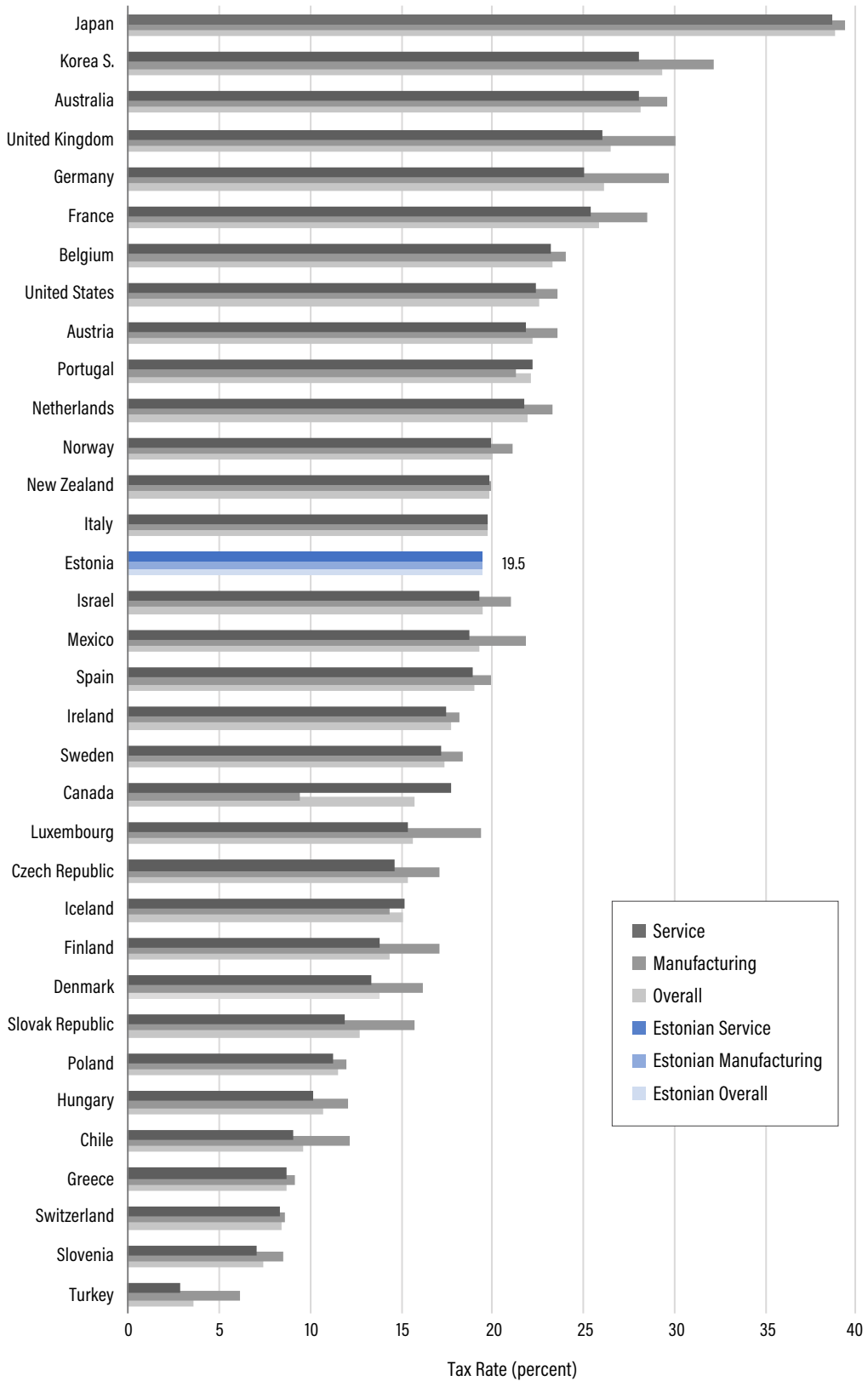
Source OECD. Stat, 2022

Figure 6.4: Ratio of Top Personal Income Tax Rate Threshold to Average Wage, 2021



Source OECD, Stat, 2022

Figure 6.5: Estonia’s Corporate Marginal Effective Tax Rate Only Applies to Distributed Profits, 2021

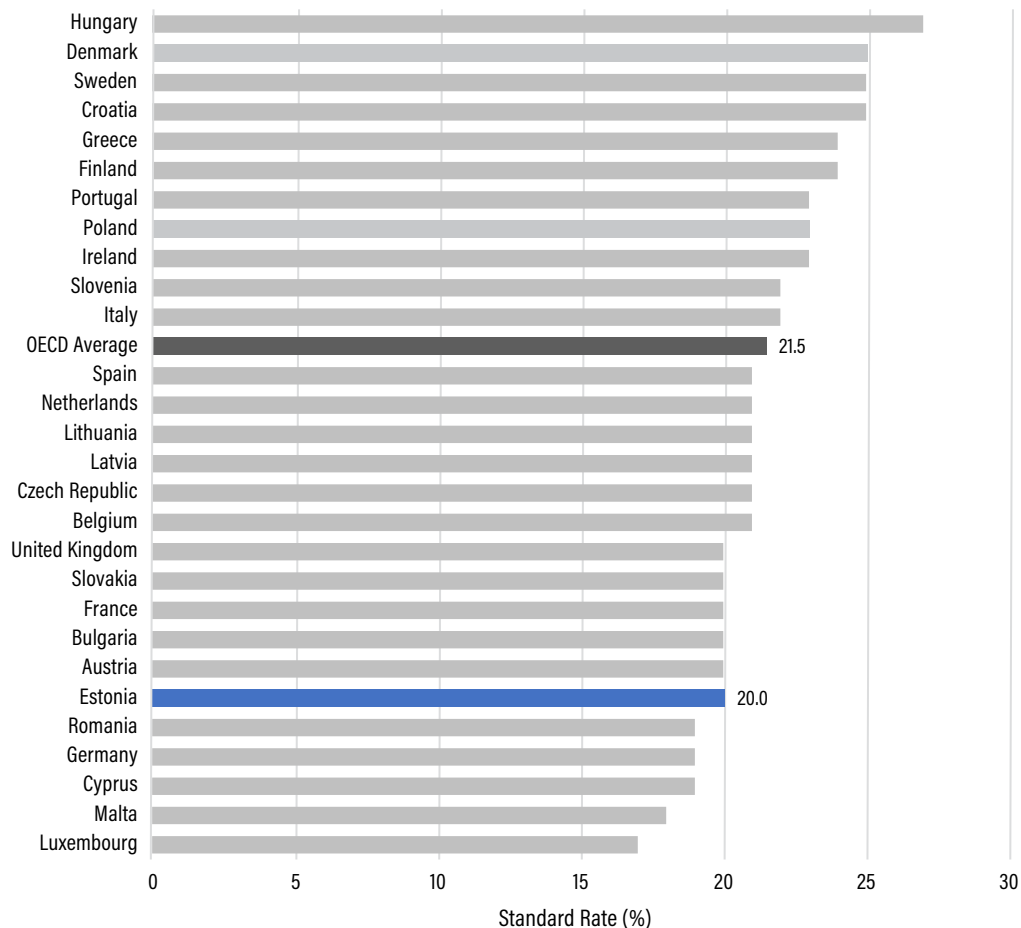


Source: Bazel and Mintz, 2022.

or when they buy back shares. To avoid double-taxation, dividends are exempt from individual income taxation (McBride, Watson, and York, 2023).

Estonia's approach to business-cost recovery has proved especially innovative. Most countries will not allow firms to deduct expenses when they occur, instead only allowing a firm to deduct the cost of capital equipment as it wears out. This practice raises the cost of corporate tax compliance by requiring firms to follow complicated "depreciation schedules" for each of their pieces of equipment. It also discourages the accumulation of capital, making firms less productive in the long run. In Estonia, however, since firms are only taxed when they distribute profits, expenses are automatically excluded from the corporate income tax base. Thus, even though Estonia's corporate tax rates are close to the international average, the Tax Foundation rates it the second-most competitive corporate tax in the world behind Latvia which also taxes distributed profits rather than traditionally defined corporate income (Bunn and Hogueve, 2022). It also means that Estonian firms only spend about five hours a year on tax compliance, whereas American firms spend 87 hours on compliance (McBride, Watson, and York, 2023).

Figure 6.6 Estonia's Value Added Tax Rate, 2022

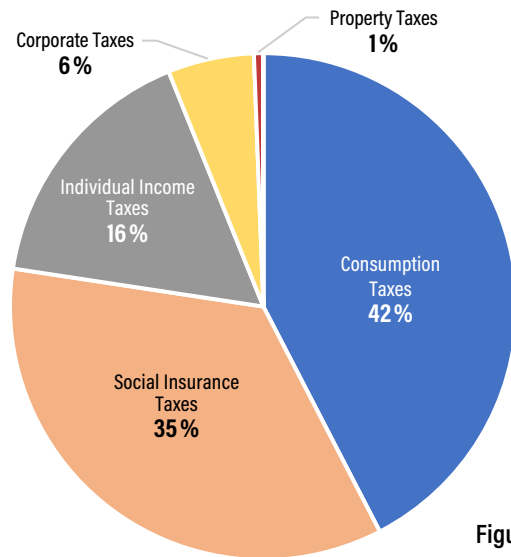


Source: Enache, 2022

Beyond its flat tax, Estonia instituted an 18 percent value-added sales tax (VAT), which has since been raised to 20 percent. Estonia’s VAT has a broad base and a low compliance burden (Bunn and Hogueve 2022), and it is the 6th-lowest rate in the OECD (see Figure 6.6).

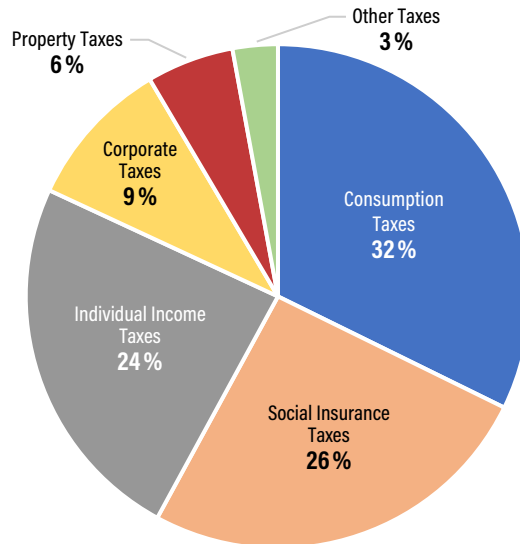
Initially, its other revenue sources were a modest payroll tax, profit tax, and land tax. But the government eliminated the profit tax in 2000 (Åslund, 2012: 138). The land tax only applies to the value of land, not to improvements on it, giving owners an incentive to improve their real property (Bunn and Hogueve, 2022). Compared with the average OECD country, Estonia relies more on consumption taxes and less on individual income taxes. It also devotes a larger share of its tax revenue to its social security fund (see Figures 6.7 and 6.8).

Figure 6.7: Sources of Tax Revenue, Estonia, 2021



Source: Bunn and Hogueve, 2022.

Figure 6.8: Sources of Tax Revenue, OECD Average, 2021



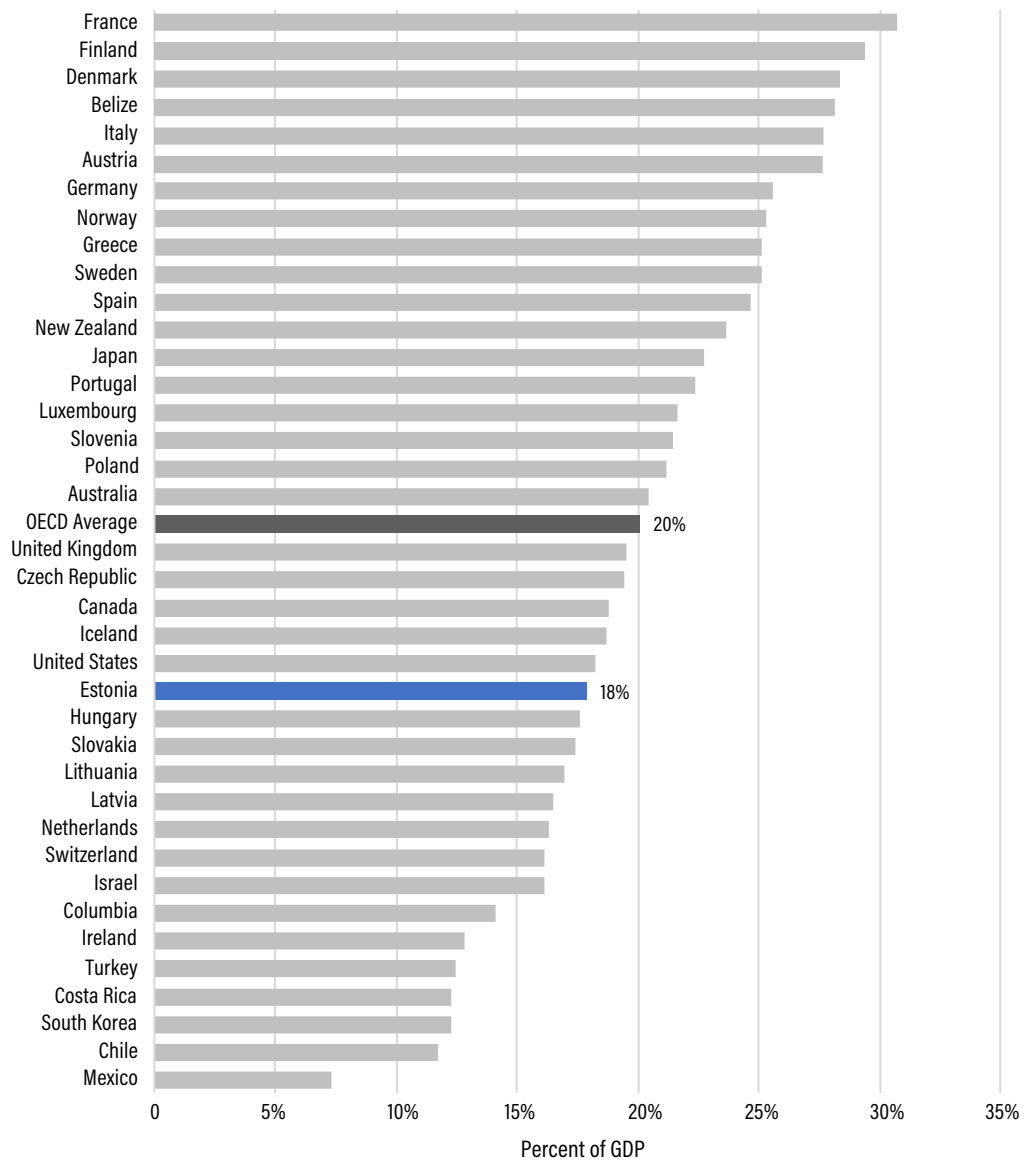
Source: Bunn and Hogueve, 2022.

Despite its few and relatively low taxes, the government manages to collect about 40 percent of GDP in government revenue, due to the efficiency of its system and the public’s high compliance with it. Overall, Estonia’s tax regime earned it the top ranking in the Tax Foundation’s first annual international tax competitiveness index in 2014, and it has continued to occupy that position in each of the subsequent indices (Bunn and Hogreve, 2022).

A traditional social safety net

Estonia’s approach to the social safety net has been less revolutionary. In fact, over time, its social policy has come to resemble more closely that of other Western democracies. Estonia has a traditional set of programs in its social safety net, including universal

Figure 6.9: Social Spending as a Share of the Economy, 2019



Source: OECD Data, 2023a.

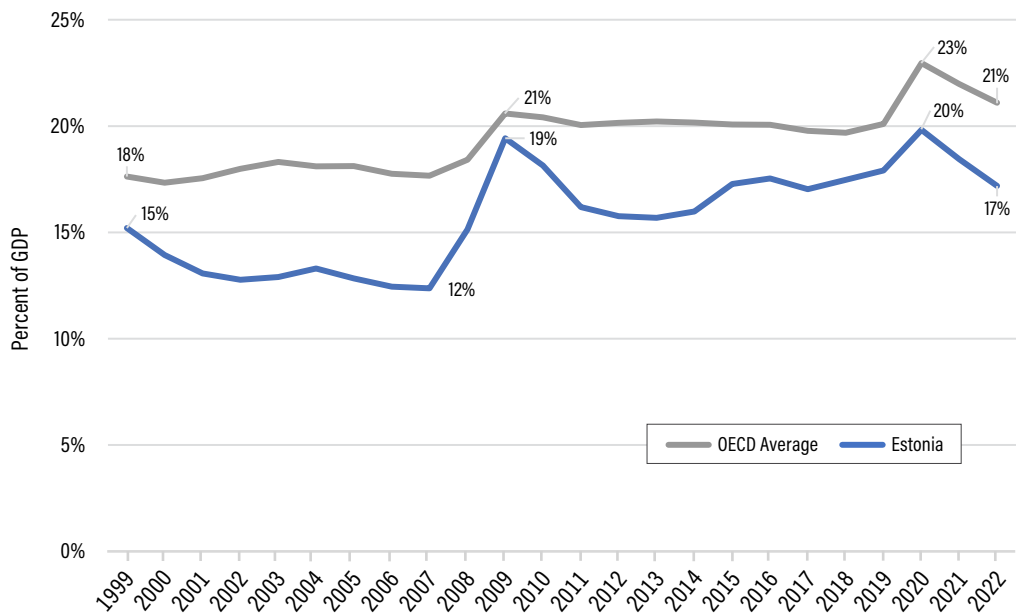
publicly funded health care, state-sponsored education, old-age and disability pensions, unemployment benefits, and assistance to needy families. As a share of its economy, Estonia spends slightly less on social services than the average OECD nation, but it is comparable to the US share and greater than that of other Western nations like the Netherlands and Switzerland (see Figure 6.9).

As in other Western democracies, Estonian social spending tends to ratchet up during crises, like the Great Recession of 2007-09 or the COVID pandemic of 2020-02 and then fall afterward, though not to its previous level. The economist Robert Higgs calls this the “ratchet effect” in crises (Higgs, 1987). And the ratchet effect is obvious when we look at government social spending as a share of the Estonian economy over time (Figure 6.10). It is also clear that, as Estonia has grown wealthier, its government has spent more on social programs per person over time (Figure 6.11). In 1999 Estonia spent about 38 percent of what the average OECD nation spent per person on social programs. By 2019, however, it spent 63 percent of what the average OECD nation spent.

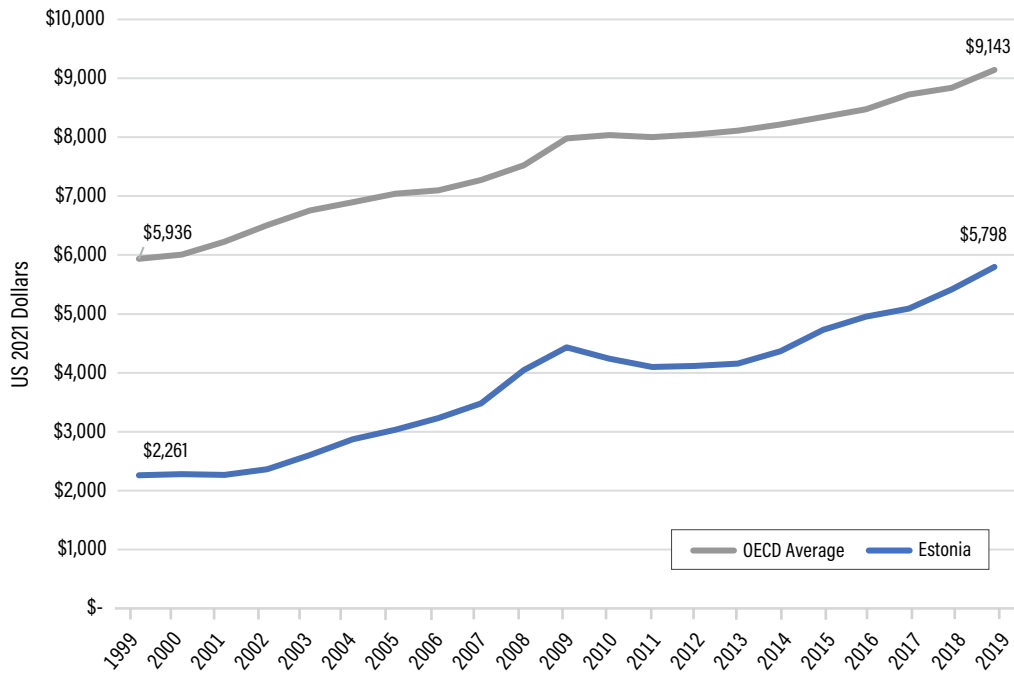
School choice

Johann Voldemar Jannsen’s vision of an educated country has been realized. Public funding follows students, whether they are enrolled in public or in private institutions. Though this has permitted a modest share of Estonia’s students to enroll in private schools (about 10 percent in recent years), the bigger impact has been on public schools that vie for students. The OECD calls this “a quasi ‘market’ for education,” in which “parents and

Figure 6.10: Government Social Spending As a Percent of the Economy, Estonia vs. the OECD Average, 1999–2022



Source: OECD Data, 2023a.

Figure 6.11: Government Social Spending Per Person, Estonia vs. OECD Average, 1999–2019

Source: OECD Data, 2023a.

students wield considerable power in this environment where information about schools is widely disseminated so that parents can make more informed choices and to encourage competition among institutions” (OECD, 2017: 20).

The Lenin corners are long gone. In their place, grade schoolers are taught entrepreneurship and coding (Kessler, 2023). It seems to have worked. While Estonia spends slightly less per student than the OECD average (US\$17,930 in 2020, compared with the OECD average of UD\$18,105), in terms of results it outperforms nearly everyone (IMF Data, 2023c). Among all OECD countries, Estonia’s 15-year-olds had the 3rd highest math scores (behind Korea and Japan), the second-highest science scores (behind Japan), and the highest reading scores (OECD Data, 2023b).

Fiscal discipline

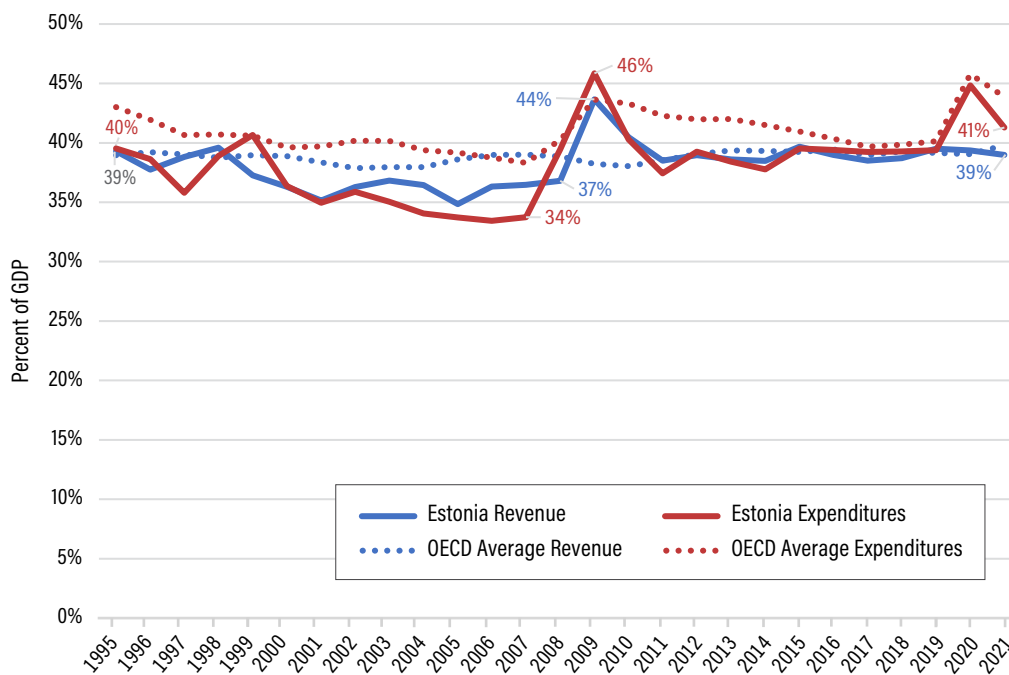
While most formerly socialist economies fell into large budget deficits as they transitioned—reaching 10 percent of GDP in some countries and averaging 5 to 6 percent of GDP in most—“One single virtuous stabilizer, Estonia, started its transition with a more or less balanced budget and maintained it” (Åslund, 2012: 124). The Laar government reduced the number of ministries and the civil service by about a third, and the governments that succeeded his continued to reduce spending as a share of the economy (Laar, 2011: 188).

Figure 6.12 shows Estonia’s general government spending and revenue as a share of the economy from 1995 (the earliest year for which we have comparable data) through 2021.

For comparison, it also shows spending and revenue in the average OECD country during this time. While the average OECD nation spent more than it collected in revenue in almost all years, Estonia typically spent less than it collected in most years. Estonia also typically spent less than the average OECD country, but the gap has been closing. Before the Great Recession, Estonian spending and revenue were both trending downward, but the recession reversed this trend, causing Estonia’s government to ratchet up spending. While spending as a share of the economy fell after the recession, it never returned to pre-recession levels. In fact, as a share of the economy, the government currently spends about the same amount as it did in 1995. Note that while the average OECD nation also increased spending as a share of GDP during the Great Recession, it did not increase revenue. Estonia, on the other hand, increased revenue as a share of the economy, which helped pay for its extra recession-related spending. It did not follow this pattern during the COVID-19 crisis.

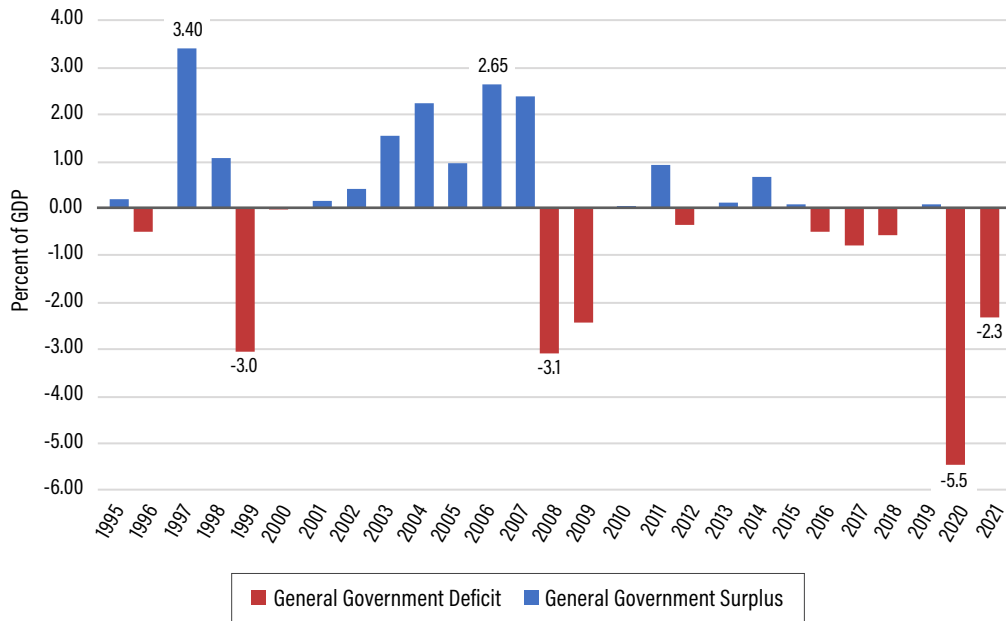
Figures 6.13 through 6.15 illustrate Estonia’s post-socialist commitment to fiscal discipline. Figure 6.13 shows the country’s general government balance from 1995 through 2021. In 16 out of 27 years, Estonia ran a surplus. Like most countries, its largest deficits occurred during crises (the Russian financial crisis, the Great Recession, and the Covid-19 crisis). But unlike most countries, its deficits shrank as soon as these crises were over. As a result, the country has accumulated a fraction of the debt that other countries have racked up. Figure 6.14 shows Estonia’s gross debt as a share of its economy as well as the average OECD nation’s gross debt as a share of its economy. For most of this time,

Figure 6.12: Revenue and Spending, Estonia vs. OECD Average, 1995–2021



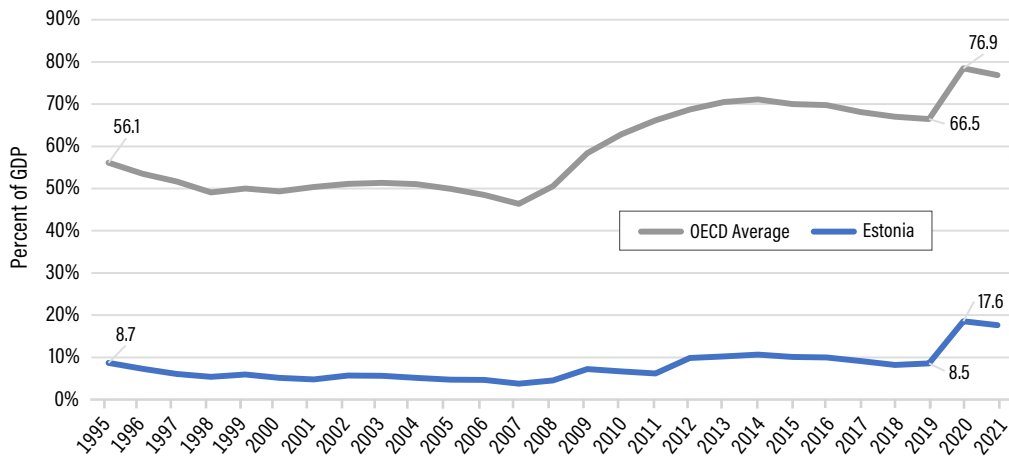
Source: IMF, 2021.

Figure 6.13: General Government Deficit/Surplus as a Percent of GDP in Estonia, 1995-2021



Source: IMF, 2023.

Figure 6.14: Estonia's Gross Debt Level As a Share of Its Economy, Compared to the Average OECD Nation, 1995-2021

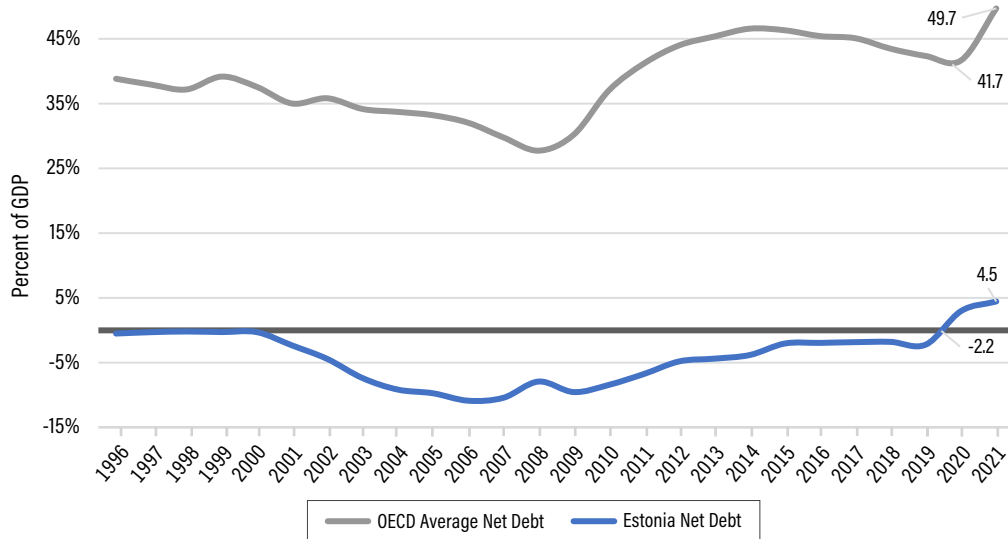


Source: IMF, 2023.

Estonia's debt was less than 10 percent of the size of its economy. And compared with the average OECD country, Estonia's gross debt share of the economy was about one-eighth as large. Estonia's debt rose precipitously during the COVID crisis. But because it was starting from such a low position, it is still less than 20 percent of its economy.

Gross debt, however, only accounts for a government's liabilities. It does not account for any offsetting financial assets held by the government. A government's net debt, by

Figure 6.15: In Most Years, Estonia's Net Debt as a Share of its Economy Was Negative, Indicating the Government's Assets Exceeded Its Liabilities.



Source: IMF, 2023.

contrast, accounts for these offsetting assets. Figure 6.15 shows the Estonian government's net debt and the average OECD country's net debt as a share of their economies. The average OECD nation's net debt during this period was over 38 percent of the size of its economy. Estonia's net debt for most of this time was negative, indicating that the value of the government's assets exceeded the value of its liabilities. Even when it started to accumulate debts in excess of its assets after the COVID-19 pandemic, its net-debt-to-GDP ratio was still one-tenth as large as the average OECD nation's.

Opening the economy for competition

Laar and his successors also reduced regulatory barriers to entry, allowing Estonians to start and run their own businesses. But from the very beginning, they had international competition. That's because Laar's government eliminated *all* customs tariffs. The country's rapid and sustained embrace of unilateral free trade is almost entirely unprecedented in world history (Feldmann and Sally, 2002). The government also began negotiating a free trade agreement with the European Union (EU) (Laar, 2011: 198; Taylor, 2018: 189). Ironically, Estonia had to reinstate some tariffs when it moved to join the EU, since aspiring members were required to have tariffs that were at least as high as those of member states. Similarly, in order to join the World Trade Organization, Estonia had to have some tariffs, if only to have something to negotiate over (Åslund, 2012: 100). The free trade agreement with the EU went into effect January 1, 1995, and that November the country applied for membership in the EU. Estonian voters approved EU membership by 66.8 percent in a nationwide referendum held in September, 2003, and the country formally joined the EU as part of the May 1, 2004, "Big Bang" enlargement, in which 10 countries simultaneously joined (Laar, 2011: 253).

Estonia's monetary, fiscal, regulatory, and trade policies proved that the country was committed to economic liberalization. In 1995, economists Andrew Warner and Jeffrey Sachs argued that trade liberalization was especially important for transition economies. Not only did open trade establish "powerful direct linkages between the economy and the world system," they argued, "but [it] also effectively forces the government to take actions on the other parts of the reform program and the pressures of international competition" (1995: 2). As Åslund explains, Estonia's "currency board, together with completely free trade, minimized government interference in foreign trade, rendering Estonia the freest trader and the least corrupt post-communist country (Åslund, 2012: 143).

Privatize, privatize, privatize, provided there is a rule of law

On a trip to China in 1979, Milton Friedman asserted that the priority for any transition is "privatize, privatize, privatize." Later, he amended this advice, claiming that we now have a better appreciation for institutions and so the key is "privatize, privatize, privatize, provided there is a rule of law" (Friedman, 2002). As it turned out, the institutional mechanisms of privatization made a big difference.

Privatization of small retail shops proceeded relatively smoothly throughout the transition economies (Åslund, 2012: 177). In fact, in one of the last turns of the treadmill of reform, the Soviets themselves moved to privatize small businesses near the end of the 1980s (Taylor, 2018: 175). This was one of the only instances in which the treadmill produced lasting and effective change, and it paved the way for further reforms after independence.

But transferring the ownership of gargantuan businesses—which characterized much of the economy—was a different matter. Here, as Åslund puts it, "all the political, economic, and technical problems of privatization coalesced" (2012: 177). There were several strategies for large-scale privatization, and Estonia used many of them. One strategy, pioneered by East Germany, was to use direct sales or investment tenders to transfer ownership of the firm to a few outside owners. Because only a handful of owners would acquire the entire business, they were incentivized to restructure it and make it profitable. This was ideal for firms in need of specialized, Western owners. Unfortunately, it was not transparent, and many perceived it as inequitable. And because the Germans were more concerned with unloading the firms than with making a profit, the prices they charged were low and the government lost quite a bit of money (Åslund, 2012: 180–81). Despite its drawbacks, this was the primary means of privatization in Estonia, and while it worked poorly in Germany, it seems to have worked reasonably well in Estonia (and in Hungary, where it was also the primary strategy), becoming a substantial source of revenue for the new country.

An alternative approach, recommended by many economists, was to issue vouchers to all citizens, who could then sell their ownership stake in the public enterprises. While this was seen as more equitable, it was difficult to administer and tended to result in highly diluted ownership stakes, leading to ineffective corporate governance (Åslund, 2012: 182). Estonia used a modified version of voucher privatization, instead using vouchers to transfer

ownership to managers and employees. This method had the advantage of being fast and easy to administer. On the other hand, since the old managers and employees became the new owners, they may have lacked the drive to undertake the necessary changes in business operations.

Finally, though it was not Estonia's primary means of privatization, the country was unique in using bankruptcy and liquidation as a deliberate strategy of privatization. This strategy had several advantages. It imposed a hard budget constraint on firms, encouraged them to oust bad managers, and it permitted a comprehensive restructuring of poorly run organizations (Åslund, 2012: 184–85). Where it was used in Estonia, it appears to have been a resounding success (Nellis, 1994; Kaufmann and Siegelbaum, 1997).

Overall, Estonia's privatization was judged a success, especially compared with that of other transition countries (Nellis, 1994, 1996; Åslund, 2012: 180–85; Kaufmann and Siegelbaum, 1997). By November of 1995 Estonia had privatized 90 percent of its industrial and manufacturing enterprises, generating over \$200 million in direct receipts for the government, with few accusations of corruption (Nellis, 1996: 1). Its strategies, moreover, generated secure and broadly recognized property rights, offering the new owners a strong incentive to create value for customers at minimal cost. They had managed to privatize *and* strengthen the rule of law.

Whenever possible, property was returned to its previous owners. Sometimes old land titles were still on the books and could be restored (Åslund, 2012: 186; Laar, 2011: 199). When their titles weren't recorded on government books, landowners could prove their ownership through other means. Veevi Kirschbaum and her husband had owned a building in Tallinn in 1950. It was a block of flats with a bakery on the ground floor. After the state seized their property, the Kirschbaums took the deed and buried it in the ground in a tin. Four decades later, her husband long-since deceased, Veevi dug up the tin and re-claimed her stolen property (Rausing, 2014:19). If it couldn't locate the previous owners, the government issued work-contribution vouchers to those who had contributed to the upkeep of dwellings or land. By 1997, 82 percent of Tallinn's dwellings were privately owned; by way of comparison, only 38 percent of Poland's urban dwellings were in private hands at that point, despite the Poles' three year head-start (Berend, 2009: 60–62). All told, about three-quarters of all farmland in the Baltics was transferred to its original owners through restitution (Åslund, 2012: 186).

Deregulation

Estonia continued to liberalize, even as governing coalitions shifted. Laar's first stint as prime minister ended in November 1994 (he returned in 1999), but his successors continued to push for greater economic freedom, especially on regulatory matters. According to the World Bank, by 2005, Estonians could register their property in 50.5 days, but by 2010, the government had managed to reduce the wait time to just 17.5 days (Djankov 2020). With its relatively few bureaucratic procedures, minimal paperwork costs, and short wait times, Estonia ranked 6th out of 187 countries in ease of property registration

in 2020 (Djankov, 2020). Regulatory reforms also made it easier to start businesses. It took the average Estonian 72 days to start a business in 2005. But by 2006, it only took 35 days, and by 2020, it took just 3.5 days. With lower regulatory compliance costs and fewer administrative procedures than most, in 2020 the World Bank ranked Estonia the 14th easiest country (out of 190) in which to start a business (Djankov 2020).

Hard budget constraints

Banking was a challenge in all post-communist countries. While socialist economies had organizations called banks, they didn't operate the way capitalist banks operate. Instead of channelling savings into investment or managing risk, their main responsibility was to transfer resources to state firms. In many cases, these organizations outlived the Soviet Union, leading to politically tainted lending and recurrent banking crises throughout the region. As one observer of Russian banking put it, "Usually banks attract deposits from the population and give credits to enterprises, but our banks take money from the state and put it into bank accounts in Switzerland" (Grigory Yavlinsky, quoted in Åslund, 2012: 131).

When banking crises occurred, many transition governments, like for example, Hungary's, bailed out the failing banks. Estonia set a different precedent.

Estonia faced a major banking crisis in late 1992. As usual, it went for a radical solution. Its commercial banks were forced to accept truly hard budget constraints. Revealing extensive fraud, the Bank of Estonia closed and bankrupted the country's three biggest commercial banks. The shareholders lost everything, and the depositors received only partial compensation. (Åslund, 2012: 131)

It was one more signal that the country was serious about its commitment to economic freedom. Private firms now had the freedom to run their own affairs, but that freedom came with responsibility for the consequences.

The world's first e-government

Lennart Meri's interest in technology also began to bear fruit when Estonia became the world's first electronic government, allowing citizens to perform 99 percent of administrative procedures online, 24/7, using a single ID card. Citizens can register their businesses, pay their taxes, and vote online. As with other aspects of reform, policy makers backed up these measures with a credible commitment: They passed legislation denying the government the authority to ask its citizens for the same information more than once in their lifetime (Ribes and Spiri, 2020). The e-government initiative also helped to keep corruption at bay. As Kaja Kallas, Estonia's current prime minister, recently put it, "You can't bribe a computer" (quoted in Kessler, 2023). Today, the Estonians advise governments around the world, helping them to implement their own e-governance (Kessler 2023).

Measuring Estonians' new freedoms

Though it is tempting to think of economies as either “capitalist” or “socialist”—as “free” or “unfree”—it is more helpful to think in terms of a spectrum. There are some governments that permit their citizens a great deal of economic freedom and there are some that limit it. When individuals have greater economic freedom, they are free to choose what to produce, how to produce it, with whom to exchange, and on what terms to exchange. They are free to form contracts with others, and they can assume that these contracts will be enforced through social norms such as etiquette, private organization like churches and business groups, or public institutions such as the rule of law. They are also free to acquire and use property. And again, they can assume that these property rights will be protected by social norms, private organizations, or public institutions.

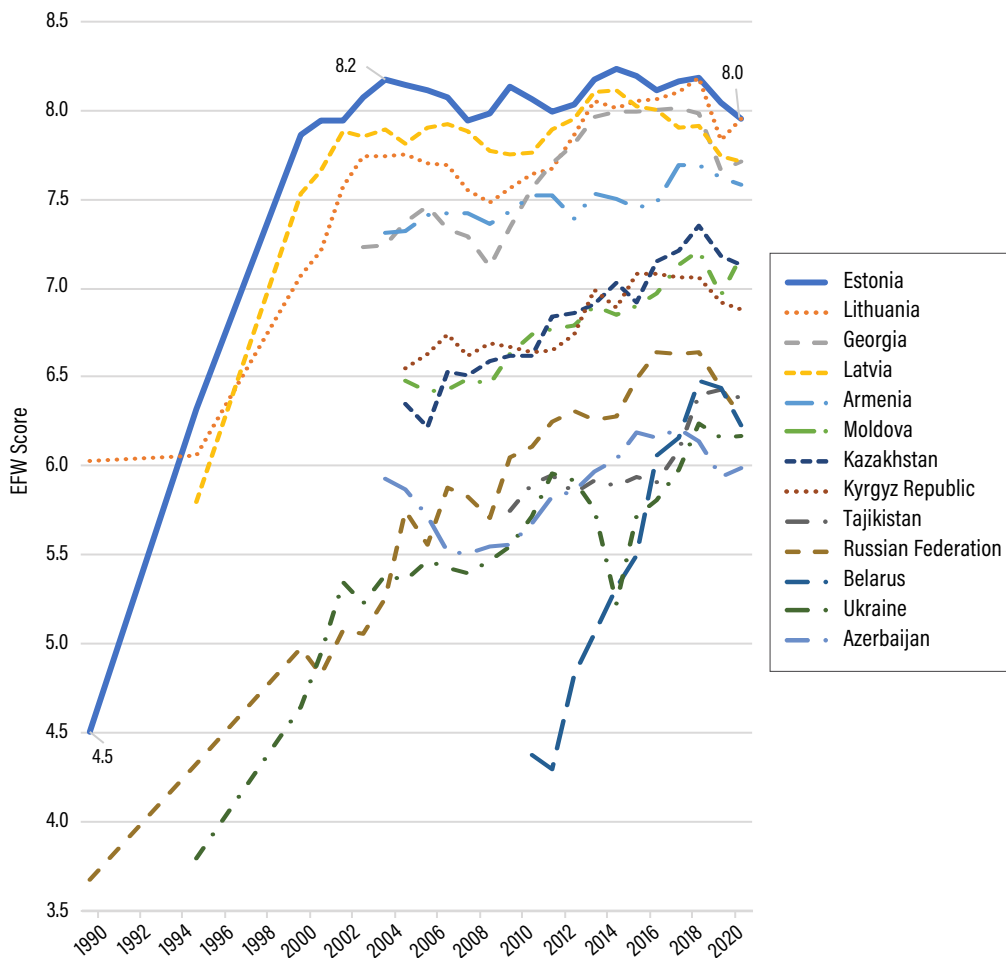
Those with economic freedom are not entitled to do whatever they want to others. They must respect the like liberties of their fellows; as the aphorism goes, “your right to swing your fist ends just where the other man’s nose begins.” There is no such thing as a completely economically free society, just as there is no such thing as a completely economically unfree society. But with careful definitions and good data, it is possible to define societies as more or less economically free.

In *Economic Freedom of the World (EFW)*, a publication released annually by the Fraser Institute, economists James Gwartney, Robert Lawson, and Ryan Murphy measure economic freedom in each of 165 jurisdictions around the world (2023). There are strong theoretical reasons to believe that people will prosper when they are permitted greater economic freedom (Mitchell and Boettke, 2017: 57–58). And EFW has offered economists an abundance of data with which to test this proposition. There have now been over 1,300 peer-reviewed journal articles citing the index. In a recent review of this literature, Robert Lawson reports that “Two thirds of the relevant studies found that economic freedom was positively related to economic growth, 72.5% to increased incomes and productivity, and 62.9% to increased entrepreneurship” (Lawson, 2022). To take one well-studied relationship, in 2021, average GDP per person in the top quarter of the most economically-free nations was 7.7 times greater than average GDP per person in the bottom quarter of least economically-free nations (Gwartney, Lawson, and Murphy, 2023: vii).

The authors of the EFW measure economic freedom with 45 distinct variables that together comprise five main areas of measured economic freedom: 1) size of government,¹ 2) legal system and property rights,² 3) sound money,³ 4) freedom to trade internationally,⁴ and 5) regulation of credit, labour, and business.⁵ From these components the authors create a summary score that theoretically ranges from 0 to 10, though in practice, the highest score is usually about 9 and the lowest score is usually around 2.

Figure 6.16 shows economic freedom in the former Soviet states from 1990 through 2021. Estonia’s scores are in solid blue while each of the other former Soviet states is displayed as a dashed line. Estonia’s measured economic freedom nearly doubled from 4.5 in 1990 to 8.2 in 2004. From there on out, Estonia’s economic freedom score remained steady

Figure 6.16: Economic Freedom of Former Soviet Countries, 1990–2021



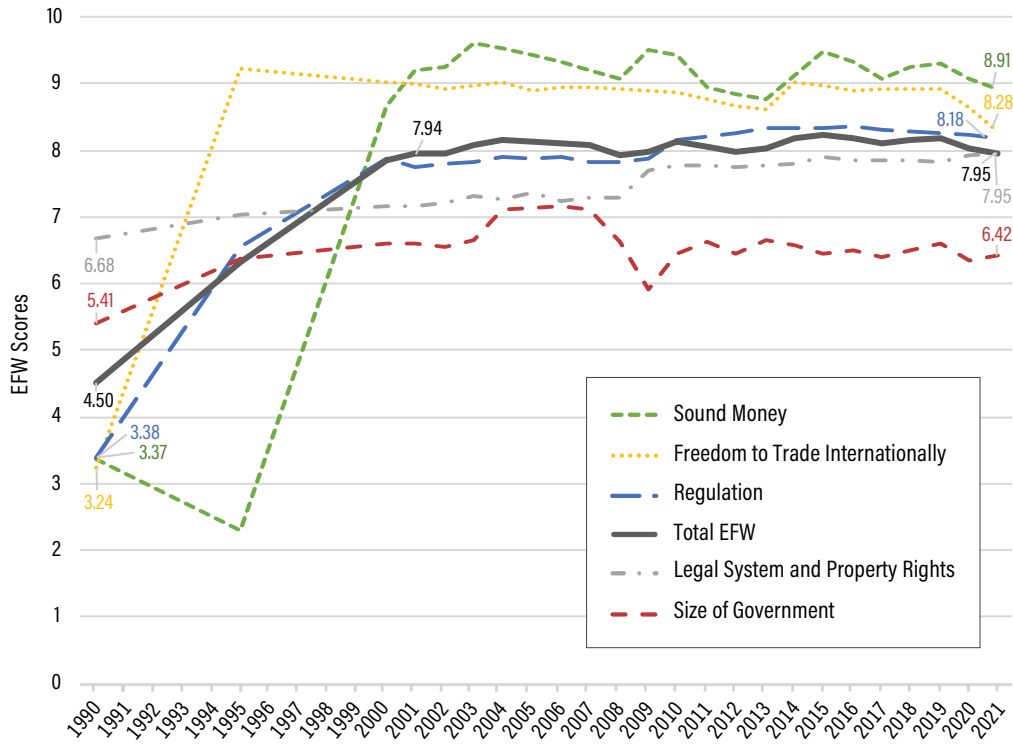
Source: Gwartney, Lawson, and Murphy, 2023.

Note: The governments of Uzbekistan and Turkmenistan do not publish enough data to calculate EFW scores, so they are missing. And data from some other former Soviet states have only become available in recent years.

at about 8 on the 10-point scale. Estonia, closely followed by her Baltic neighbors Latvia and Lithuania, clearly led the pack, rising faster and further than any other former Soviet state. By 2021, Estonia and Lithuania's scores were identical and the highest of any former Soviet nation.

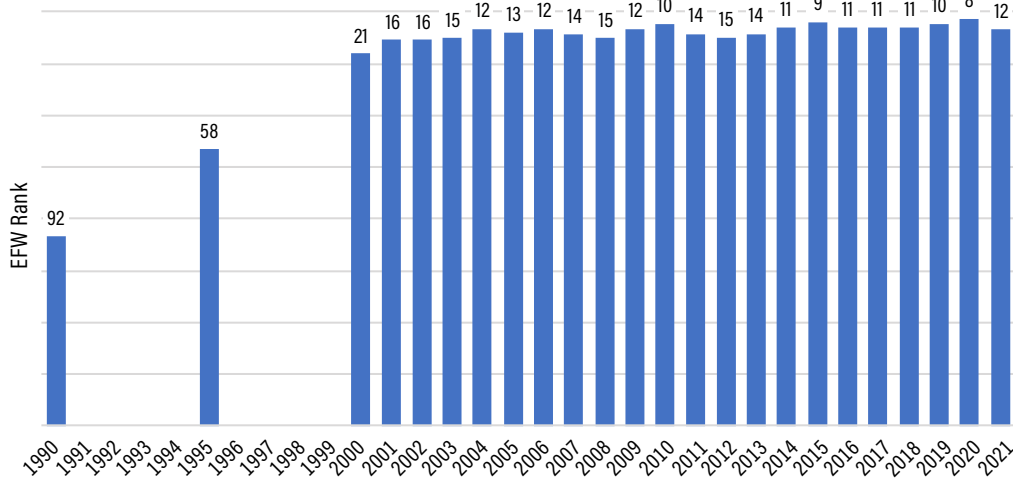
Figure 6.17 shows Estonia's overall EFW scores and the components of economic freedom. The country's improvement in economic freedom across all areas is evident, although it took some time for the long and variable lags of monetary reform to show up in the data. The growth of government after the Great Recession has lowered its size of government score while it continues to score highly in every other area. Figure 6.18 shows Estonia's world ranking in economic freedom. In 1990, the country's EFW ranking made it the 92nd-freest economy in the world. By 2001, it was the 15th-freest, and for the last decade it has held steady right around 10th place.

Figure 6.17: Estonia's Overall Economic Freedom and its Components, 1990–2021



Source: Gwartney, Lawson, and Murphy, 2023.

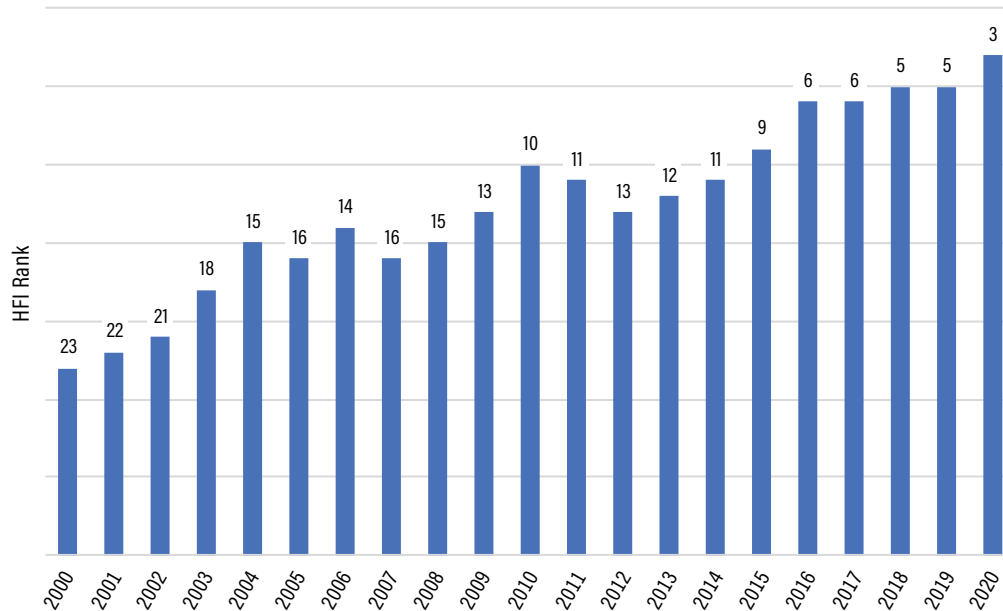
Figure 6.18: Estonia's Economic Freedom Ranking, 1990–2021



Source: Gwartney, Lawson, and Murphy, 2023.

Economic freedom matters. But it is not the only freedom that matters. The full spectrum of human freedom also includes personal freedoms such as the freedom to move, to worship, to associate and assemble, and to form relationships with others. As we've seen, the socialist effort to control economic freedom led to totalitarian repressions of personal freedom.

Figure 6.19: Estonia's Human Freedom Ranking, 2000-2020



Source: Vásquez et al., 2022.

In the years since they threw off the yoke of socialism, Estonians not only regained their economic freedom but also their personal freedom. The *Human Freedom Index* (or HFI) demonstrates this (Vásquez et al. 2022). Co-published by the Fraser Institute and the Cato Institute, the HFI takes the economic freedom indicators used in the EFW and adds an additional 41 indicators to obtain a comprehensive measure of human freedom. It's measures of personal freedom include the rule of law; security and safety; freedom of movement; freedom of religion; freedom of association, assembly, and civil society; freedom of expression and information; and freedom to enter relationships. Figure 6.19 shows Estonia's ranking in overall human freedom. In 2000, Estonia ranked 23rd out of 165 jurisdictions. By 2020, it ranked 3rd, just behind Switzerland and New Zealand (Vásquez et al. 2022, 149).

Freedom works

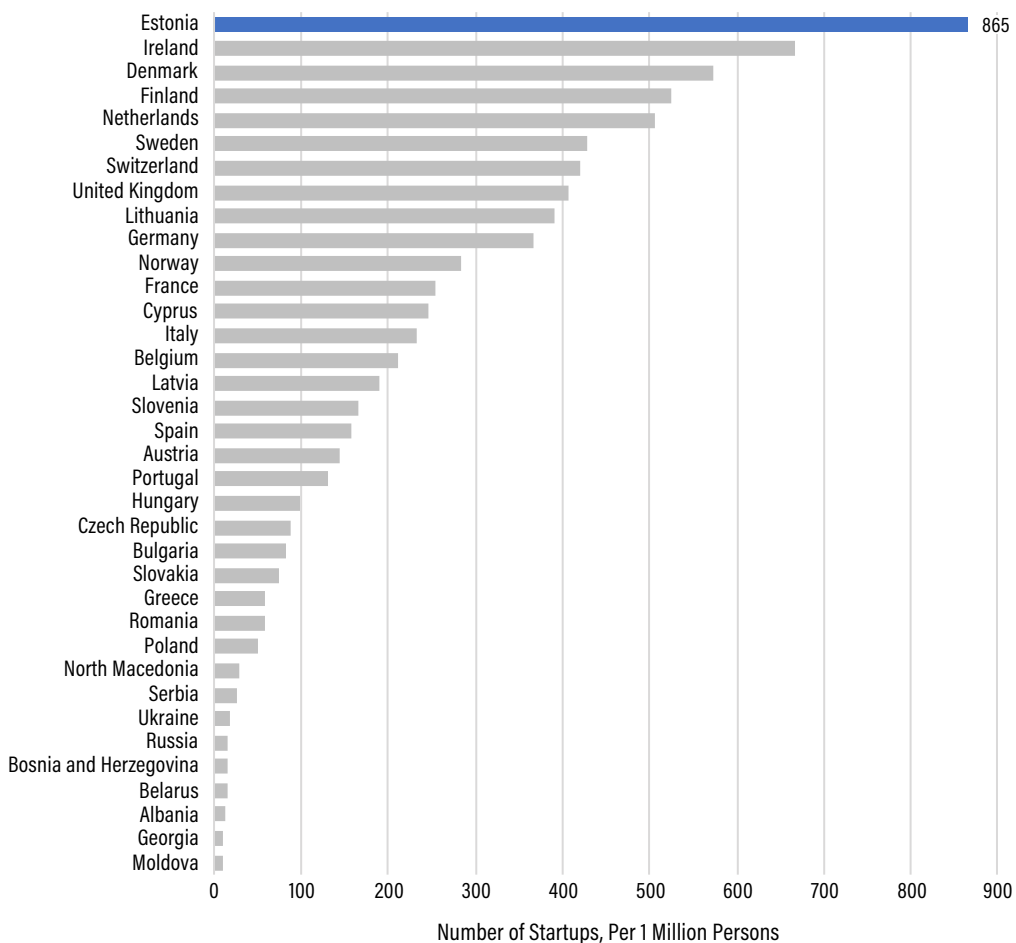
Free people are prosperous people. And Estonia soon demonstrated this. As we have discussed, Estonia was already more prosperous than other socialist countries when it gained its independence. But it also faced some challenges. Researchers have found that those transition countries that were ravaged by war, that spent a longer time under socialism, and that were annexed to the Soviet Union rather than placed under its thumb as satellite states generally fared worse than other transition countries (Mickiewicz 2005; Havrylyshyn 2001; Berend 2009). All of these conditions applied to Estonia. On the other hand, economists have also found that those that liberalized faster and that continued to maintain economic freedom fared better than others (K. N. Lawson and Lawson 2020; Grier and Grier 2021). This, too, applied to Estonia. By almost any measure, Estonia was

one of the success stories. On balance, it seems that the benefits of the country’s rapid and sustained embrace of economic freedom overcame the disadvantages of being a war-torn, annexed country that spent decades under socialism.

Entrepreneurship

The first signs of economic life were in retail trade. In Tallin, shortly after the country liberalized, bowling alleys, toy shops, cafés, and clubs began to appear (Taylor, 2018: 181). As in other areas, the Finns helped. About 40 percent of all revenue in these Tallin shops came from Finnish tourists (Taylor, 2018: 176). Compared with other transition economies, Estonians were especially quick to rekindle their reputation for entrepreneurship. One firm started in 1991 bought cheap Russian electric motors, melted them down, and sold the scrap to the west (Taagepera, 1993: 215). While startups accounted for about 33 percent of GDP in all post-communist societies in 1995, they accounted for half of GDP in Estonia (Johnson, Kaufmann, and Shleifer 1997; Åslund 2012, 189). By 2020, Estonia boasted more startups per capita than any other European country (see Figure 6.20). Ten

Figure 6.20: Business Start-ups Per Million Persons, 2020



Source: State of European Tech, 2020.

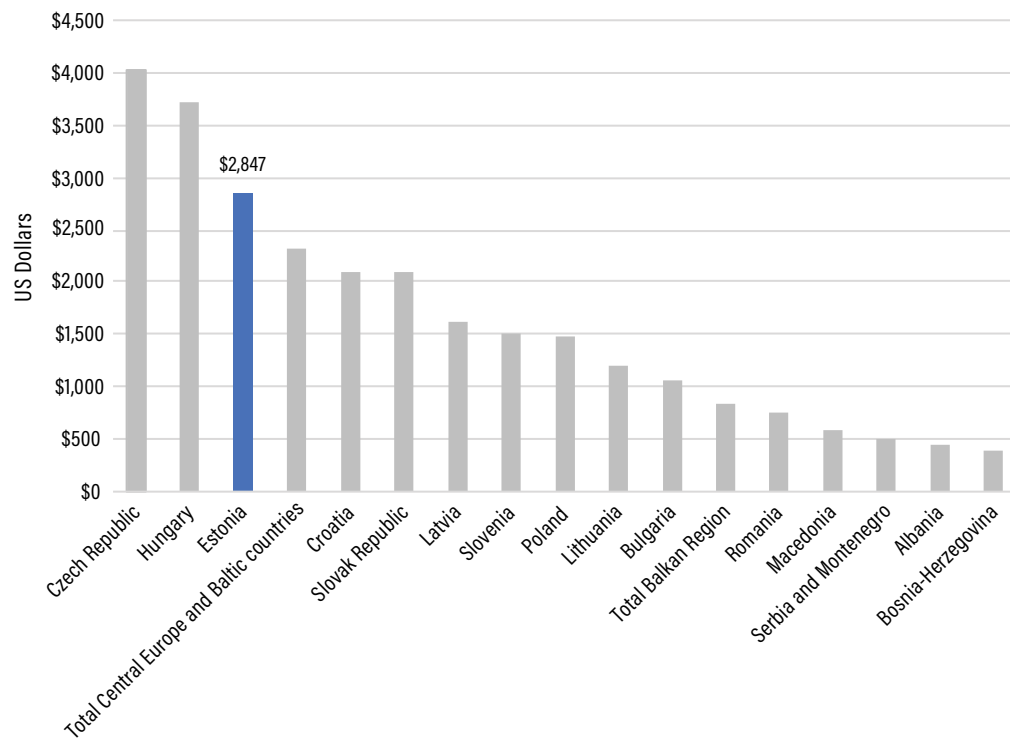
of these companies—Skype, Playtech, Wise, Bolt, Pipedrive, Zego, ID.me, Gelato, Veriff, and Glia—are “unicorns.” That is, they are startups valued at \$1 billion or more. In fact, Estonia also leads Europe with the most unicorns per capita (Kütt, 2022).

As broadband Internet spread, and as the country's reputation for e-government and e-commerce took hold, the technology sector became more prominent. In 1996, just 6 percent of Estonia's GDP was dedicated to high-tech production, but by 2000, this number had grown to 20 percent (Berend, 2009: 160–66). With the technical assistance from Finnish banks, Estonia went from an all-cash economy to all-electronic transactions, skipping checks (Taylor, 2018: 185). By 2016, 84 percent of Estonians had access to the Internet, well above the transition economy average of 69 percent, and even higher than the Western European average of 83 percent. (European Bank for Reconstruction and Development, 2016).

Foreign direct investment

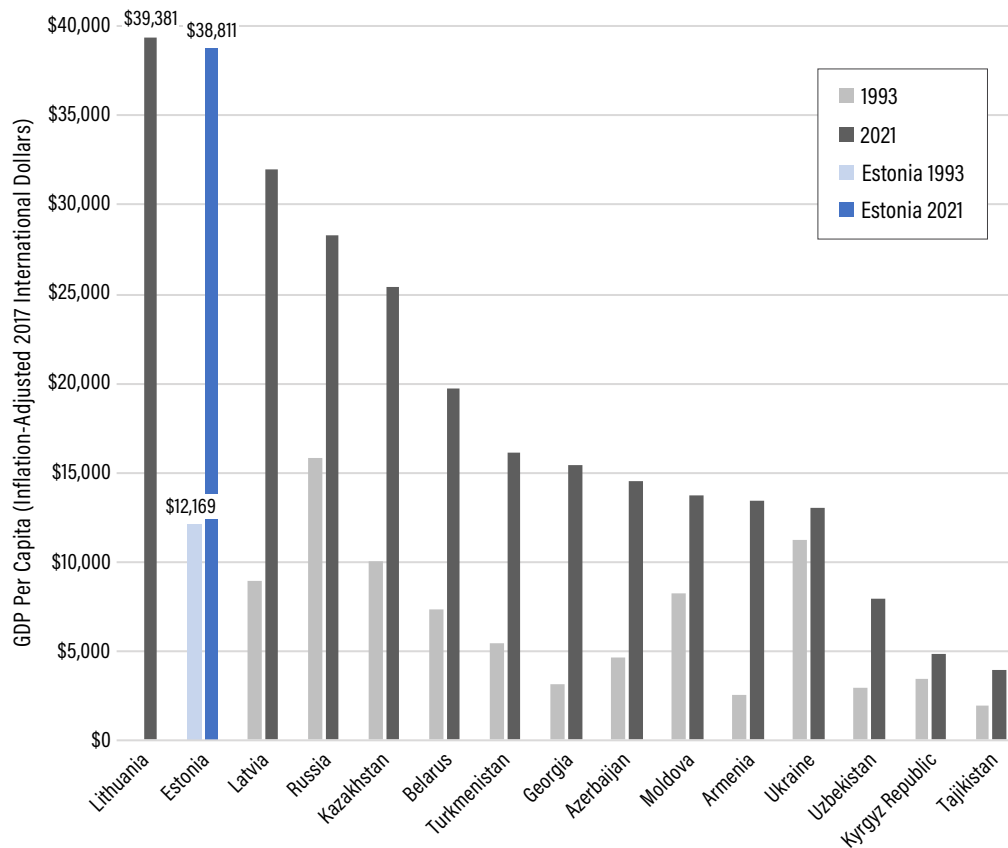
As the country opened up, foreign direct investment (FDI) poured in. From 1989 through 2004, foreigners invested more than \$2,800 per Estonian, more than any other former Soviet republic, though not as much as the former satellites Hungary and the Czech Republic, which had a three-year head start on the annexed countries (Figure 6.21).

6.21: Cumulative FDI Inflows Per Capita, 1989–2004



Source: Laar, 2011: 283.

Figure 6.22: Economic Output Per Person in Former Soviet Countries, 1993 and 2021



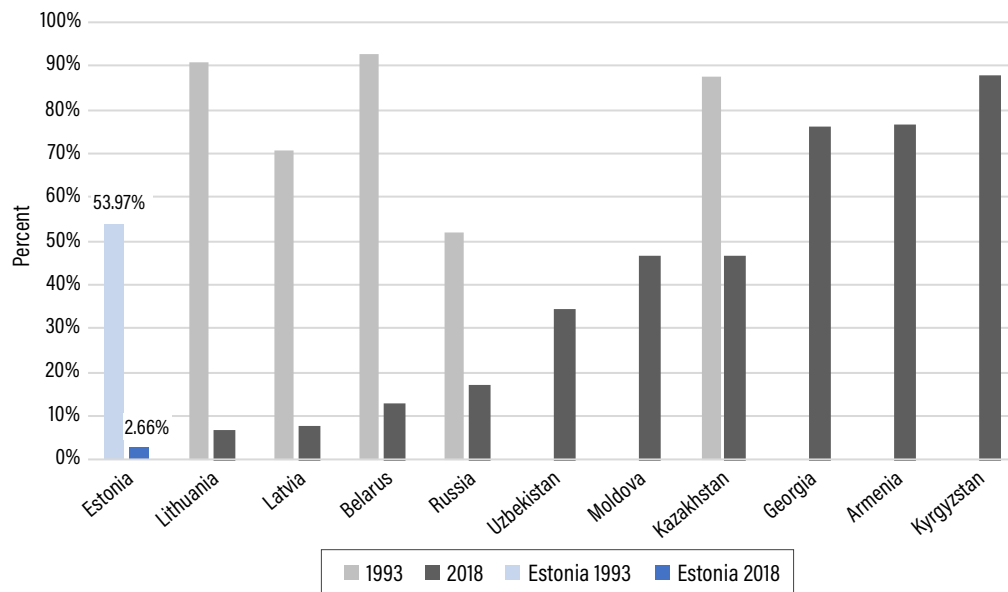
Source: International Monetary Fund, 2023.

Economic output per person

Figure 6.22 shows economic output per person, as measured by GDP per capita, in each of the former Soviet countries. The data are adjusted for inflation and for international price differences. In 1993, GDP per capita in Estonia was just \$12,169, but by 2021 it was \$38,811, more than three times as much. This made Estonia the second-most prosperous former Soviet state, just a hair behind Lithuania, which was equally economically free.

Estonia's growth is not just impressive compared with other former Soviet states. Out of 169 countries worldwide, it had the 17th-fastest growth in GDP per capita from 1993 through 2021. Of course, it is mathematically easier to triple a small number than it is to triple a large number. But Estonia's output levels are not small. By 2021, its GDP per capita level ranked 40th in the world, just above Spain (42nd), Poland (43rd), and Portugal (46th). In fact, only one other country in the world—Ireland—managed to grow so fast from 1993 to 2021 and achieve such a high level of income. If it continues to grow at this rate, Estonia's income per person will double again in 16.5 years. By contrast, it will take Russia 32 years for its income per person to double.

Figure 6.23: Poverty in Former Soviet States: Share of the Population Making Less than \$10/Day, 1993 and 2018



Source: World Bank Poverty and Inequality Platform, 2022

Poverty

As it grew wealthier, Estonia very nearly conquered extreme poverty (Figure 6.23). In 1993, more than half of the Estonian population lived on less than \$10 per day, in inflation-adjusted terms. While this was a small share for a socialist country, it was still astoundingly high. Yet, as the economic recovery took hold, Estonia's poverty rate plummeted. By 2018, it was less than 3 percent, the lowest of any formerly socialist country for which we have data.

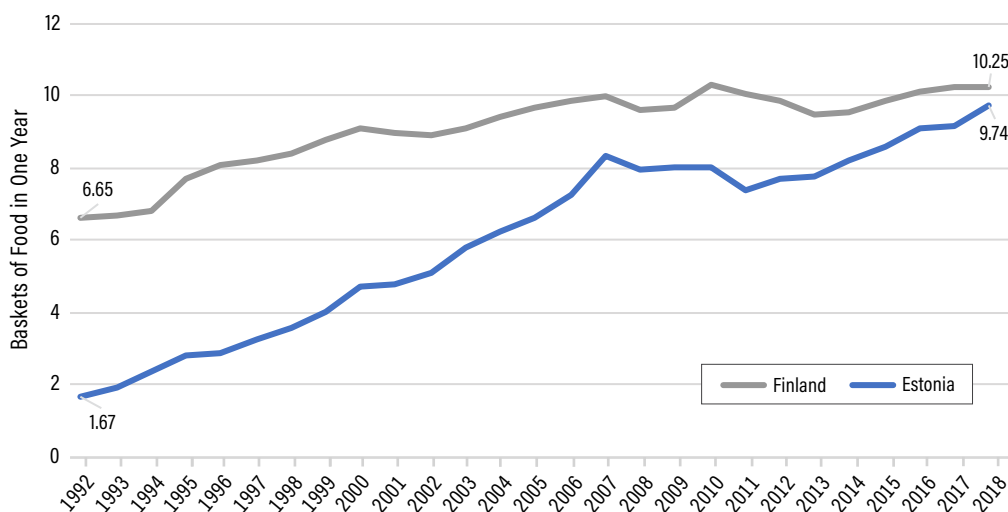
Food affordability

As Estonia climbed, it also made up much of the ground it had lost to Finland. One way to see this is to compare the amount of food that the average Estonian and Finn could purchase with one year's worth of wages. In 1993, the average Finn could buy 6.7 times an annual supply of food on his salary (Figure 6.24). This was about four times the amount of food that the average Estonian could purchase. By 2018, the average Finn had grown considerably wealthier and was now able to buy more than 10 years' worth of food on his annual salary. But his Estonian cousins had very nearly closed the gap and could buy 9.7 years' worth of food on their salaries.

Satisfaction

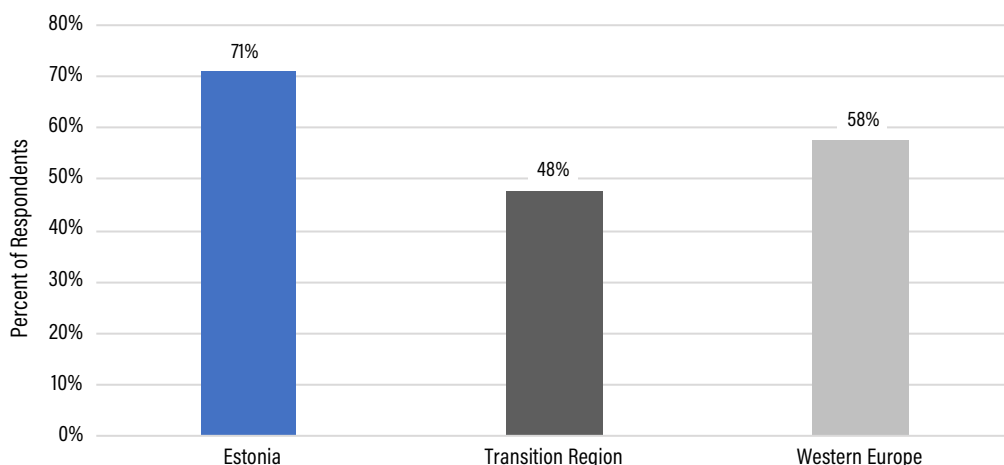
Public opinion surveys offer a window into the lives of Estonians. According to the European Bank for Reconstruction and Development, 71 percent of Estonians reported in 2016 that they were "satisfied with life, all things considered" (see Figure 6.25). Throughout

Figure 6.24: Number of Baskets of Food That Could Be Bought on the Average Wage, Estonia and Finland, 1992–2018



Source: Bocharnikova, 2021: 110–12.

Figure 6.25: Life Satisfaction, Estonia, Transition Region, and Western Europe, 2016

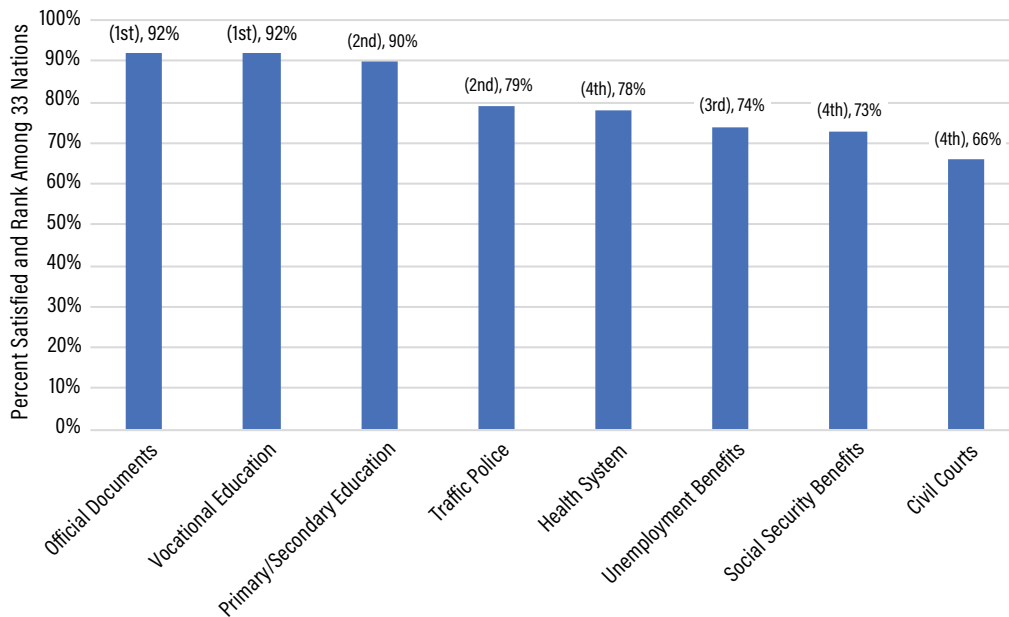


Source: European Bank for Reconstruction and Development, 2016.

the formerly socialist world, this figure was just 48 percent, and even in Western Europe it was only 58 percent. Eighty percent of Estonians were satisfied with their jobs, compared with 51 percent in the broader region. And more Estonians (52 percent) were optimistic about the future than were Western Europeans (36 percent) (2016).

Estonians were also satisfied with their government services. Figure 6.26 shows the percent of Estonians reporting they were satisfied with each of eight different government services in 2016. It also reports their ranking in 33 European nations. More than 90 percent of Estonians reported that they were satisfied with their government’s document services, vocational education, and primary and secondary education. More than 70 percent were satisfied with traffic police, the health system, unemployment benefits, and social security benefits, while 66

Figure 6.26: Percent of Estonians Satisfied With Public Services and Rank Among European Nations, 2016



Source: European Bank for Reconstruction and Development, 2016.

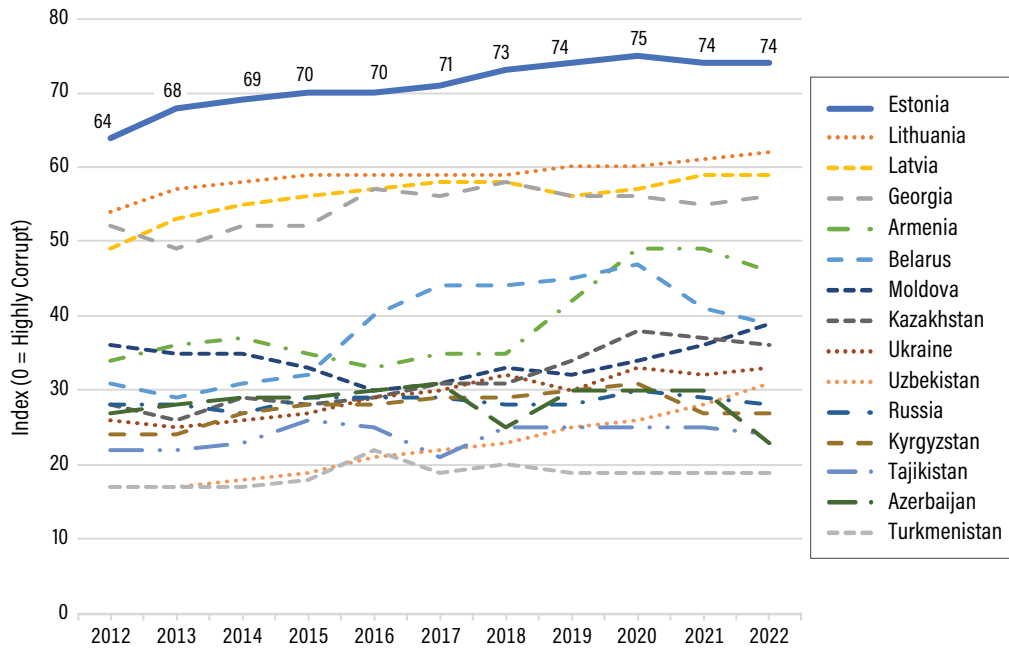
percent were satisfied with civil courts. In all eight categories, Estonians were among the top five most-satisfied citizens in Europe, and in five categories they were among the top three.

Corruption

As the old pathologies of privilege inherent to socialism were dismantled, corruption eased. In some ways this was no surprise. With government officials having less say over who could buy and who could sell, government officials were less likely to be bought and sold. And since former top officials were constitutionally barred from office for a decade, the elite could no longer profit at the public's expense. Still, most transition economies have been racked by corruption, as elites found ways to hold on to their privileged positions or to use their insider knowledge to profit during the privatization process. To compound the problem, culture tends to change very slowly, and cultural norms and habits such as *blat* often outlast the institutions and technologies in which they develop (Koyama and Rubin, 2022: 78).

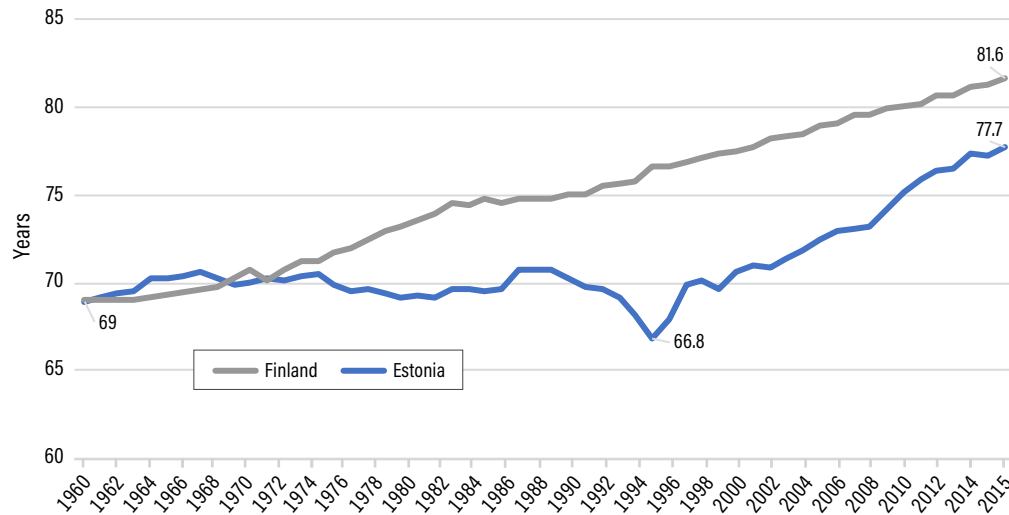
Still, Estonia managed to shake off the habits of corruption. Since 2012 Transparency International's Corruption Perception Index has measured corruption by combining surveys from 13 separate organizations. A score of 0 indicates that a country's public sector is perceived as highly corrupt, while a score of 100 indicates that it is highly clean. As demonstrated in Figure 6.27, Estonia is far and away perceived as the least-corrupt of the former Soviet countries. In fact, in the latest survey, Estonia was tied with Canada as the 14th-least corrupt country in the world, ahead of other famously clean countries like Japan and the UK (tied at 18th), France (21st), and the US (24th).

Figure 6.27: Corruption Perception Index, 2012–2022



Source: Transparency International, 2018.

Figure 6.28: Life Expectancy in Estonia and Finland, 1960–2015

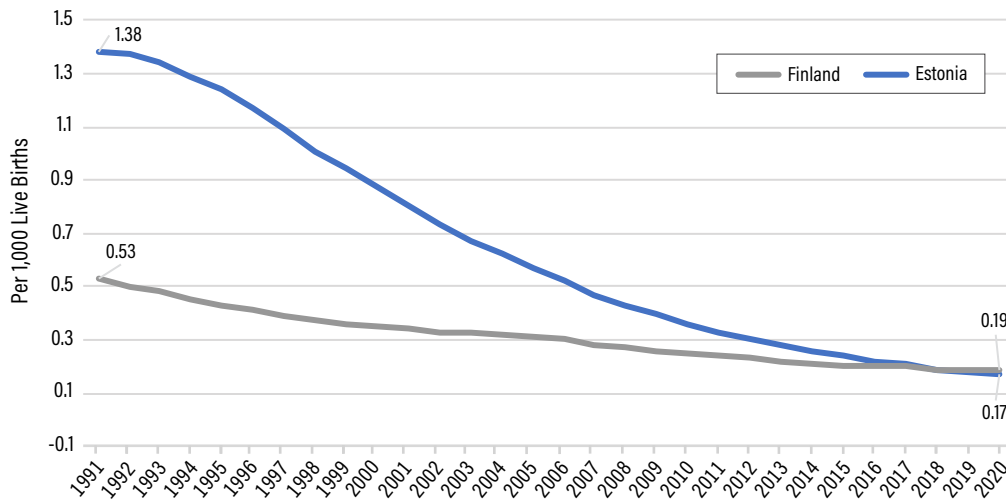


Source: OECD, 2018.

Life expectancy

Economic growth doesn't just buy more gadgets and baubles. It also buys more time. Earlier we discussed the collapse in life expectancy during the late socialist period. But in a dramatic turn-around, Estonians have narrowed the life-expectancy gap with the Finns (Figure 6.28). While the average Finn could expect to live 10 years longer than the average

Figure 6.29: Infant Mortality Rate, Estonia and Finland, 1991-2020



Source: World Bank, 2021.

Estonian in 1994, today the difference is less than four years. If this pattern continues, the gap will be completely closed by 2029.

Infant mortality

In an extraordinary triumph, Estonians have completely erased their gap in infant mortality rates with the Finns (Figure 6.29). In 1994, the average Estonian baby was two-and-a-half times more likely to die than the average Finnish baby. Now Estonian babies have a slightly better chance of survival than Finnish babies.

Summary

To put it briefly, Estonia's achievements are astounding. In their first post-socialist generation, Estonians have built an enterprising culture and a wealthy society. They have vanquished poverty, privilege, and corruption. They have extended life and made premature death exceedingly rare. It is no wonder that their well-educated children are so optimistic about the future. Their optimism is well-founded.

Notes

- 1 The size of government area is constructed with measures of government consumption, transfers and subsidies, government investment, top marginal tax rates, and state ownership of assets.
- 2 This area includes measures of judicial independence, impartial courts, protection of property rights, military interference in the rule of law and politics, integrity of the legal system, legal enforcement of contracts, the regulatory costs of the sale of real property, and the reliability of police.
- 3 This is measured by money growth, the standard deviation of inflation, inflation in the most recent year, and freedom to own foreign currency bank accounts.

- 4 This component includes measures of tariffs, regulatory trade barriers, black market exchange rates, and control of the movement of capital and people.
- 5 This area includes measures of credit market regulations, labour market regulations, business regulation, and freedom to compete.

CONCLUSION

In 1946, two years after the Soviets regained control of Estonia from the Nazis, a forty-three-year-old Englishman named Eric Blair rented a house on the northern tip of a Scottish island and sat down to write his last novel. He called it *1984*, publishing it under his penname, George Orwell. One of the many party slogans in *1984* dealt with how a fictional totalitarian state treats history: “Who controls the past controls the future; who controls the present controls the past” (Orwell, 1949: 313). The sentiment was echoed in one of the dark jokes repeated throughout the *nonfictional* totalitarian Soviet Union: “The future is certain; it is only the past that is unpredictable.” It was a jab at the Soviet habit of rewriting and sometimes re-rewriting history. But even after Gorbachev’s campaign for openness the Soviets continued to control the past, insisting that the Estonians had willingly wed themselves to the Soviet Union.

Estonians began to take control of their future when they dared to tell the truth about their past. On the anniversary of the Molotov-Ribbentrop Pact, a few brave souls shouted the truth through makeshift megaphones at Hirvepark. Later, hundreds of thousands sang the truth at a spontaneous gathering on the Song Festival Grounds. Next, two million Estonians, Latvians, and Lithuanians linked hands and looked into TV cameras to tell the truth to the whole world. In time, the truth set them free. And in their first free elections, they chose a historian as prime minister.

What lessons can we learn from this history? The first and most important is that socialism does not work. This lesson is especially valuable in light of the fact that about half of 18 to 34 year olds in economically free countries believe that socialism is an ideal system (Clemens and Globerman, 2023). But the reality of socialism is far from the promised ideal of material abundance and social equality. Nor does it permit, as Engels promised an “ascent of man from the kingdom of necessity to the kingdom of freedom.” (Engels, 1880: 85)

As the Estonians can attest, when the state owns and controls the means of production, real incomes stagnate. Workers are exploited. The soil is exploited. Goods and services—including social services—disappear. Unable to find what they want in the state stores, people commodify their relationships, using friends and family to obtain what the command economy will not give them. Social bonds fray. Health declines. While official incomes may grow more equal, new pathologies of privilege arise. A new class of bureaucratic and political elite ascends to control society’s economic decisions. This new class often breaks down along ethnic, linguistic, and cultural lines. Its members are spared many of the hardships of socialism, causing them to perpetuate the misery. Worse, they

find ways to exploit the system, profiting by destroying wealth rather than creating it. It bears repeating: actual socialism has been tried, and it does not work.

The second lesson can be put in Marxian terms. A society's "superstructure"—its culture, ideology, norms, and civil institutions—are tightly intertwined with its economic "base." Those who seek to control what people buy and sell, must also control what people think and say. The reason is simple. Most people *think* that they should be able to buy and sell whatever they want. Most think that they should be able to contract with whomever they want on whatever mutually agreeable terms they want. Most think that they should be able to acquire, keep, and use their personal property however they'd like. Even Stalin acknowledged this, telling a conference of kolkhoz laborers in 1935 that "a person is a person. He wants to own something for himself." It will "take a long time yet to rework the psychology of the human being, to reeducate people to live collectively" (Figes, 2008: 158).

This reeducation requires a totalitarian state. Everything—literature, art, education, music, folkdance—must be within the control of the state. "Everything within the state, nothing outside the state, nothing against the state." Ironically, the state's effort to control society is made easier because it already controls the economy. For example, the socialist state managed to control what artists painted by controlling access to the means of artistic production: an artist who wanted brushes and paint had to be a member of the artists' union. And to be in the union, artists had to make the sort of art that the state wanted them to make (Applebaum, 2012: 496).

The state also leveraged its control of personal property. Irena Dudareve was a factory worker in Azov in Southwest Russia. Her husband, Vasily, was a senior Party official and a dedicated communist. When he was targeted in Stalin's purge, Irena refused to denounce him. So she was expelled from the Party, demoted, and hit with a large back-tax on her apartment for "surplus living space." The state's control over the size of her apartment gave it control over her husband. Some people, of course, don't give up control so easily. Irena refused to denounce Vasily. He was shot anyway (Figes, 2008: 3057).

Vasily Selyunin, a Russian economist and early advocate for change, understood the inextricable link between personal and economic liberty. Taking advantage of glasnost, he wrote in May 1988:

Under total state ownership, the temptation arises to expropriate the individual himself, his physical and spiritual energies, in order to organize work according to a single plan and uniform procedures. Under such conditions, the individual can be viewed as merely a cog in a gigantic machine It would be strange to speak of the individual rights or civil liberties of a cog. (Boettke, 1990).

The first two lessons are warning signs about the danger of travelling the road to socialism. The last lesson tells us that it is possible to turn back. Even in a society where the state controls nearly everything, it is possible to return power to the people—to permit them to control their own lives, their own labour, and their own property. It is not easy.

Those who benefit from the pathology of privilege will resist. And even those who stand to gain from freedom are likely to be nervous about it. Those who have been raised in a cage are prone to agoraphobia when the door is sprung. But it is possible to turn back.

Estonians travelled further down the road to freedom than most. And they moved faster than anyone. How? We can only speculate. But it seems to us that one reason for this may be the strength of the Estonian “superstructure.” Certain aspects of Estonia’s culture and history made radical freedom a possibility. There is an old culture in a young nation. The old culture emphasizes grit and determination (*joon*). It values education, independence, and hard work. It sees dignity in bourgeois pursuits. The yeoman farmer is respected. And so is the entrepreneur. There is a nationalistic element to the Estonian culture, and at its worst it engenders distrust of non-Estonians (especially Russians). But it also seems to have encouraged the sort of collective sacrifice that a difficult transition requires.

But despite its ancient roots, the country is young. Its people only began to think of themselves as a coherent nation in the nineteenth century, and they didn’t become an independent country until 1920. When they did become a country, they only had two decades on their own. Though they built a prosperous society during that time, they also permitted their executive to become authoritarian. In 1991, there was a sense among the nation’s leaders that they had to get things right this time. They might not have a third chance.

They had help. There were technical experts from the IMF and Germany. There were customers from Finland. And there were enthusiastic supporters in the diaspora. But the Estonians themselves deserve most of the credit. They just did it.

Tallinn, Old Town, Estonia, at sunset.



Source: istockphoto.com\Eloi_Omella.

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ABOUT THE AUTHORS

Matthew D. Mitchell is a senior fellow in the Centre for Economic Freedom at the Fraser Institute. Prior to joining the Institute Mitchell was a long-serving senior fellow at the Mercatus Center at George Mason University, where he remains an affiliated senior scholar. He is also a senior research fellow at the Knee Center at West Virginia University.

Mitchell received his PhD and MA in economics from George Mason University. His writing and research focus on economic freedom, public choice economics, and the economics of government favouritism.

Peter Boettke is a professor of economics and philosophy at George Mason University, the BB&T Professor for the Study of Capitalism, and the director of the FA Hayek Program for Advanced Study in Philosophy, Politics, and Economics at the Mercatus Center at George Mason University.

Boettke's work has earned him numerous awards, including a doctorate *honoris causa* in social sciences from Universidad Francisco Marroquín in Guatemala and an honorary doctorate from Alexandru Iona Cuza in Romania. Boettke received his PhD in economics from George Mason University.

Konstantin Zhukov is a PhD student in the department of economics at George Mason University. He earned his MA in economics at Troy University, and his BBA in business and accounting at Northwood University. His research interests include Austrian economics and economic sociology.

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