Applying the Neoliberal Hatchet, Destroying Estonia's Economy

By Jeffrey Sommers and Dr. Markku Sippola
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The elite financial press continues to promote their Baltic austerity model. Last month Michael Hudson and Jeff Sommers showed how Anders Aslund, from the bank-funded Petersen Institute, kicked the snowball down the hill to roll and grow regarding the latest incarnation of the Baltic Tiger myth. Soon, Robert Samuelson and The Washington Post followed Andersen's lead by peddling poor Latvia as their poster child for austerity's "triumph.' Now that Latvia's "achievements" have been debunked, they have moved on to promote Estonia. This was most recently been done by The Wall Street Journal, where they have rhapsodized over plucky Estonia's economic brawn, while comments on their blog sites toss "take that, Paul Krugman!" swipes at Keynesians.

Many economists and financial press writers mimic children on amusement park rides. They think their austerity policies are "steering" their vehicle rather than being guided by underlying structural forces. This is only half true in the case of Estonia. I was a featured speaker for a debate with an *Eesti Pank* (Estonia's Central Bank) member in debate this past June for a recorded event at Tallinn Technology University. Neoliberals attending gushed like pre-teens at a Justin Bieber concert exalting "how did you do it?" The Bank official refreshingly responded with Baltic modesty, "we were born lucky." What did he mean? This certainly was not the answer economists wanted! The Bank official cited Estonia's geography as their fortuitous comparative advantage.

In short, the Estonian "model," essentially, is to have its capitol, Tallinn, connected to Helsinki by almost 40 ferries a day and be only 18 minutes by helicopter for executives traveling between them. In fact, locals have come to reference Tallinn and Helsinki as simply, "Talsinki." Thus, for this tiny country of 1.6 million people whose population would only rank as a mid-size metropolitan area in the US, its chief advantage has been to be plugged into one of the world's most successful social democracies. Finnish and Swedish companies seeking labor on the cheap can simply hop and skip over to Tallinn. Is it because Estonians are more productive that they go there? No. Then why? Lower labor costs, of course. Indeed, Estonians cleverly entice Scandinavian businessmen to come and escape "socialism." It's kind of like the excitement of leaving the reliable wife behind for a new tryst. This sometimes has its downsides. Estonians are not always known for their speed. Try calling SAS (Scandinavian Airlines) customer service and you can see this on display as an Estonian call center rep will bureaucratically take you on a tortoise-speed "run" through their system–that said, however, done with the greatest professionalism. If it's professionalism or high-quality design you want, you can find both in Estonia, but don't expect speed.

What is the reality of Estonia's economic model? One, it has US GINI coefficient levels. If you like massive inequality, then you found the right place with Estonia and the Baltics generally. Secondly, they have effervescing unemployment and social pathologies only somewhat mitigated by Estonian labor (and business) exiting to and from the neighboring labor and business markets of Finland.

Indeed, the so-called Estonian "success" has delivered purchasing power rates only a third below Greece's, even though Estonia sits next to, and is really integrated into, one of the world's richest purchasing power countries. Linguistically, Estonian and Finnish are mutually understandable. This make for easy penetration of each other's business and labor markets. Data released by *Statistics Estonia* on 2009 reveal huge poverty for a European Union country. About 16 per cent of the Estonian population or about 211,000 people lived in relative poverty in 2009. The situation has not got any better in the two subsequent years – and the austerity measures are not likely to make things better. About the only thing good that can be said, is that Estonia's model has worked better than Latvia, where their austerity and flat taxes have produced an exit of Biblical proportions that threatens to destroy that country.

Paradoxically – but perhaps not surprisingly – Estonia, is the country least resorting to the internal devaluation policy of the Baltics (judged *a posteriori*). Yet, it is outperforming the other Baltic countries in recovering from the crisis. By this logic, then, if anything, it should be argued that the weaker one implements austerity and internal devaluation the better an economy performs! True, the point of departure has been different in Estonia than in Latvia and Lithuania: Estonia was the economically best off of the Baltics before the crisis. It did not need to rescue failed banks–as Estonia's financial institutions are all foreign-owned, and thus they have no domestic banks to bailout.

The downside of near total foreign ownership, however, is they have to make all their debt-service payments to foreign nationals in a kind of new debt serfdom reflective of the days of Swedish, German, and Russian feudalism in Estonia, as Michael Hudson has noted.

How much has neighboring social democratic Finland helped Estonians in coping with their problems? The Finns offer lots of short-term jobs in construction, services and other industries. Elaborating further, it is estimated that since the new millennium between 92,000 to 133,000 Estonians worked abroad. This corresponds to 14-19 per cent of the total workforce. Indeed, almost, 3 per cent of the Estonian workforce went to work abroad in 2009 alone. This means that a considerable proportion of the workers have opted for a temporary job abroad – in most cases Finland. There is a clear upward trend with regard to the intentions to emigrate.

In 2006, 26 per cent of working-age Estonians considered emigration, whereas in 2010, no less than 38 per cent contemplated it. But, have migration intentions changed from short-term to longer-term? No less than 13 per cent of the potential emigrants have expressed their desire to leave Estonia permanently. The youngest cohort (the 15-24 years old) in a study by Brit Veidemann showed the most enthusiasm about leaving. One need not elaborate on what this means for a nation already in demographic collapse. It is to be noted that this cohort was least interested in this option in 2006, before austerity was introduced. Yet, a survey conducted in 2009 among Estonian emigrants evidenced that while a quarter of the respondents wanted to return to Estonia, 45 per cent of them intended to stay in the countries to which they escaped.

There is a good deal of grousing on internet chat forums about rotten work conditions and miserly salaries in Estonia. This argument is supported by a survey conducted among Estonians in 2010 concluding that 40 per cent of working-age people were afraid of dismissals, and 49 per cent of them were dissatisfied with promotion and developmental prospects in their work.

In sum, we strongly encourage *The Washington Post*, *The Wall Street Journal* and other outlets to stop promoting Estonia and Latvia's austerity policies as solutions to economic crisis in the US or other European nations. Doing so only reveals why protests have emerged in over 80 countries and in nearly 2000 cities over the increasing dysfunctionality of neoliberal economic policy. To take liberty with Tacitus, "they keep making crises and call it prosperity," Wall Street and their ideologists are massively out of touch with reality. Their tragic-comedy can no longer be sustained.

It is disingenuous at worst and lazy at best to advocate the United States follow the model of these tiny Baltic states each with less than 2 million people. Do we really want to create even more poverty and unemployment? Where would the 50 million Americans under a Baltic scale austerity regime escape to? Canada? Mexico? The Virgin Islands? Baltic workers have been pushed to flee in massive numbers. We need to get real and recognize both the outright failures of the Baltic austerity solution and the highly specialized environments that their circumscribed successes have produced. Suggesting they are replicable in the US or larger European nations is the height of irresponsibility.

***Jeffrey Sommers** is an Associate Professor of Political Economy in Africology at the University of Wisconsin-Milwaukee and Visiting Faculty at the Stockholm School of Economics in Riga. He can be reached at: Jeffrey.sommers@fulbrightmail.org*

***Markku Sippola** is postdoctoral researcher at the Karelian Institute, University of Eastern Finland. He has studied labour market regimes, industrial relations and Nordic firms' investment strategies in Russia and CEE countries. He can be reached at: markku.sippola@uef.fi*