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Foreword

The essential significance of the articles published in this fourth (autumn 2012) issue of the *Baltic Journal of European Studies* lies in a new perspective given to key issues in the field of socio-economic, transport and educational policy of the EU members at the Baltic Sea Rim.

Lessons from the Scandinavian countries are particularly important for small countries without natural resources. Human development is a key factor of sustainable competitiveness. Here, the educational system plays a crucial role, but not only on the high level, but on the primary and secondary levels as well. The competitiveness of Irish economy, for example, is closely linked to the reforming of the entire educational system from the primary to the university stage that—on the primary school level—started in the late sixties. Investment into the human factor is a long-term investment. Therefore, the linkage between the future development of the demand structure on the labour market and the priorities of higher education always has to be considered, and this is not an easy task in our rapidly changing world. It is important to minimise risks and enhance opportunities through constant monitoring of the ongoing processes.

Overcapacity of inadequately skilled labour can lead both to higher unemployment and/or to massive emigration of young educated people. In addition, we need adequately skilled labour that cannot be reached just through high-quality professional education, but has to include a number of personal characteristics that cannot be learnt in the official framework of education (skill-related, geographic and time-dependent flexibility, readiness to cooperation, innovative thinking, etc.). Finally, we have to create not only innovative people but also innovative societies that are able and willing to absorb the results of education and research. Since investment in human capital is a long-term venture, successful policies require continuity over democratic political cycles, transparent financing and clear priorities.

Ton Notermans, author of the article about the political sources of European Union imbalances, argues that the root cause of the current euro crisis were massive payments imbalances, with many peripheral countries in Southern Europe running current account deficits financed by capital inflows from the core countries. The common currency itself played a significant role in the build-up of these imbalances as it promoted capital flows to the periphery by removing the risk of devaluation, whereas the inability of the periphery to devalue in turn

meant that the core countries could exploit their institutional advantage in wage setting to significantly increase their price competitiveness. The author sees that the economic imbalances that caused the euro crisis are essentially political in nature as they result from both hard- and soft-currency countries seeking to avoid addressing fundamental policy inconsistencies. The hard-currency mercantilism of Germany and its smaller neighbours is inherently vulnerable to currency appreciation and thus needs to lock its main trading partners into a fixed exchange rate in order to survive.

Olga Nežerenko and **Ott Koppel** demonstrate in their article ‘Some Implications of the EU Rail Transport Policy on Rail Business Environment in CEE Countries’ that the organisation of rail transport in any CEE country located in the Baltic Sea region is not compliant with the respective EU legislation and the compliance with those legislative acts would require certain reorganisation at the government agencies’ level. The authors still doubt whether the establishment of an independent body only for the purpose of supervising competition on railways would be reasonable considering the small size of the Baltic States. Among other things it might appear necessary to transfer the shares of rail transport undertakings from holding companies to the governments or privatisation of companies. In other aspects, good reorganisation examples can be seen in the Nordic countries, particularly Denmark, where the legal (but not ownership) separation has already been completed.

Based on in-depth research in 2012, **Rasma Kārklīņa**, in her paper ‘New Forms of Democracy in Latvia’, focuses on new forms of self-governance and democratic participation in contemporary Latvia. She finds that the theoretical notions of deliberative democracy can be tested by examining the practices of how social groups participate in policy decisions on various levels of government. Under the sponsorship of the European Union and other external supporters, Latvia has developed formal mechanisms of popular participation in governance decisions. On the municipal level nongovernmental groups participate in deliberations about development strategies and discussions about how specific developmental projects might affect their environment. Local NGOs form one of the three partners in formalised “partnerships” with local businesses and municipal councils. This participatory involvement suggests that one can speak of a nascent “partnership democracy” in Latvia, and possibly other EU-influenced post-Communist states. In Latvia’s case, the recent tendency towards the involvement of “social partners” and the forming of partnerships and consultative councils in ministries, municipal councils, and other institutions, fits this category rather well.

Kaire Põder and **Kaie Kerem** in the article ‘School Choice and Educational Returns in the EU: With a Focus on Finland and Estonia’ find that one of the most meaningful problems in Estonia is the lack of continuity in the provision of educational services at the same level as in one of the most developed countries of this field in Europe—in Finland. By the very nature of the limited degrees of freedom in cross-country identification, the authors’ analyses can at best reveal broad patterns. And at the very least, a great deal of details of specific implementation issues related to school choice policy application must therefore be left for national approaches. Finland runs a rather limited choice policy, with almost no admission by academic records, no standardised testing or league tables, outperforming all other educational systems in the EU by far. Estonia, being relatively successful among the post-Communist countries, is much more choice-oriented, though mostly in urban settlement areas. The authors’ comparative quantitative analysis indicates that choice can be harmful in combination with unequal educational opportunities or insignificant in the case of high financing of education and equal opportunities to students.

Mihelis Grīviņš in the article ‘Implementation of Per Capita Education Funding in the Baltic States’ has focused on one of the most meaningful problems in education—how the decentralisation of education policy has been shaped at the national level and how its goals are elaborated at the local (municipal) level. To do this, the article analyses per capita education funding policy in the Baltic States. The author proceeds by analysing interviews with persons responsible for education organisation at the municipal level in Latvia. Estonia, Lithuania and Latvia have all introduced per capita funding in their education policy. Estonia introduced reforms in 1998, Lithuania in 2002, while Latvia in 2009. The three countries share many similarities in the policy implementation process and in problems they have to solve. Furthermore, all three countries with this policy have given greater voice in education planning to the local municipality and, as research attests, in all three states municipalities face similar problems in reform implementation.

Aksel Kirch and **Vladimir Mezentsev** in their article “Migration of ‘Knowledge Workers’ in the Baltic Sea Macro-Region Countries” have indicated that today the modernisation of the education system and function of academic science in universities are the two key elements of enhancing competitiveness in the whole society. Estonia’s recent backwardness in training highly qualified specialists (especially with a doctoral degree) has become one of the most problematic tasks in fulfilling the Post-Lisbon (Europe 2020) strategy objectives. One of the most essential problems is the lack of continuity in the provision of educational services at the same level as the best European universities. On

the other hand, this requires attracting new capital for investments into the economy and the development of human capital. To resolve these contradictions in Estonia, today a higher education reform in Estonia has been initiated. To make learning at the universities more resultant, the government of Estonia has planned to widen proportion to a fully state-commissioned study and Estonian universities are prepared for a major reforming process in the next three years (2013–2015).

Tarmo Tuisk's article 'The Ethno-National Identities of Estonian and Russian Youth in Respect of Their Primordialist or Situationalist Orientations' highlights that the majority of Estonia's population paradoxically continues to support liberal economic policies and thereby facilitates the deepening of cleavages among different ethnic and social groups. When using 'primordialism' and 'situationism' as independent variables in order to establish the socio-psychological underpinnings of the two largest ethnic groups' identities to study the background of the paradox, some very interesting findings became evident. The research results show that Estonians' society is predominantly primordialist. But there exists a noticeable distinction on the primordialist–situationist scale among Estonia's Russians—while their primordialists tend to be strongly bound to the Soviet past, situationists demonstrate a far more tolerant worldview by crossing the borders of ethno-nationalism and distancing from the history related to the Second World War.

*András Inotai and Aksel Kirch,
editors of the autumn issue*

Notes on contributors

Miķelis Grīviņš is researcher at the Advanced Social and Political Research Institute, Latvia. Additionally, he is lecturer at the University of Latvia where he teaches courses Sociology of Youth and Education and Marketing Research. His fields of expertise are education and education policy, identities, qualitative methods. In recent years Miķelis Grīviņš has participated and managed several research projects, both at Latvian and international level. He has published several articles on Latvia's education system.

Rasma Kārklīņa (aka **Karklins**) is professor emerita of Political Science at the University of Illinois at Chicago and currently participates in an interdisciplinary research project at the University of Latvia. Professor Kārklīņa has published widely on comparative political corruption, transitions to democracy, civil society, and ethnopolitics. Her most recent book *The System Made Me Do It: Corruption in Post-Communist Societies* (M.E. Sharpe, 2005) has been translated into Latvian, Russian, Polish, Serbian, and Bulgarian.

Kaie Kerem, PhD, is professor of Economics and head of the Department of Finance and Economics, TSEBA, the Tallinn University of Technology, Estonia. Her research interests cover a wide variety of topics in social and welfare economics—namely, health, welfare regimes and educational economics. Her recent publications (e.g., in *Journal of School Choice*, *Eastern European Economics*) have a comparative EU perspective. She is senior researcher in the project “Economic Fluctuations in Central and Eastern Europe: Causes, Consequences and Challenges” financed by the Estonian Scientific Foundation. She has supervised numerous master and doctoral dissertations and lectured a number of courses in Macroeconomics and European Economics.

Aksel Kirch, PhD, is director of the Institute for European Studies since 1998 and Chair for European Studies at the Tallinn University of Technology since 2009. He has conducted several sociological surveys, he is a co-author and co-editor of several books and many published articles: *Estonia on the way to Europe: Developing Economic Environment and Changing Identities* (2004), “Estonia must focus on the grand challenges of our time: the process of the implementation of the ‘Knowledge Triangle’” *Proceedings of the Institute for European Studies*, IUA-TTU, vol. 6 (2009).

Ott Koppel, PhD (2006), is professor of Transportation Logistics and acting head of the Department of Logistics and Transport at the Tallinn University of Technology. His research deals with infrastructure pricing, rail transport, intelligent transport systems and transport policy. He has been advisor to the management board of Estonian Railways and member of the supervisory board of EVR Cargo. He has authored or co-authored more than 30 scientific publications.

Vladimir Mezentsev has a master's degree in International Relations and European Studies from the International University Audentes in 2009. Since 2012 he has been PhD student at the Stradins University, Riga. His latest publication (co-authored by A. Kirch and O. Nežerenko) is ‘Estonia and other countries of the Baltic Sea Region as

actors of development: conceptual approach,' *European Integration Studies. Research and Topicalities*, no. 5 (2011), *Journal of Kaunas University of Technology*.

Olga Nežerenko, BA degree (2004) and MBA (2006) from the International University Audentes. Since 2008 has been a PhD student at the Faculty of Economics, Tallinn University of Technology. She is currently lecturer at the School of Economics and Business Administration at the Tallinn University of Technology. Her research interests are European integration, transport policy of the European Union, transport and logistics. Her latest publication (co-authored by A. Kirch and V. Mezentssev) is 'Estonia and other countries of the Baltic Sea Region as actors of development: conceptual approach,' *European Integration Studies. Research and Topicalities*, no. 5 (2011), *Journal of Kaunas University of Technology*.

Ton Notermans, PhD, has studied Political Science at the University of Amsterdam, the Freie Universität Berlin and MIT. He is currently associate professor of European Politics at the Department of International Relations, School of Economics and Business Administration, Tallinn University of Technology. Before coming to Tallinn he was director of studies of the School of International Studies of the University of Trento (Italy), interrupted by a one-year stint as Associate Dean of Academia Affairs at the Azerbaijan Diplomatic Academy.

His publications include *Money, Markets and the State* (Cambridge University Press 2000), *Regime Changes* (ed. with D. Forsyth, Berghahn 1997) and *Social Democrats and Monetary Union* (ed., Berghahn 2000).

Kaire Põder, PhD, is senior researcher of the Department of Finance and Economics, TSEBA, Tallinn University of Technology, Estonia. She is a principal investigator of the research project "School Choice Mechanism: Efficiency, Stability and Segregation in Matching Students and Schools in Estonia", financed by the Estonian Science Foundation. She is also senior researcher in the project "Economic Fluctuations in Central and Eastern Europe: Causes, Consequences and Challenges" financed by the Estonian Science Foundation. She has been the author or co-author of more than a dozen scientific articles about institutional economics, economic mechanisms' design and comparative politics. Her research interests intersect social sciences such as political science, economics and historical institutionalism. She is also lecturing Microeconomics and Industrial Organisation in TSEBA.

Tarmo Tuisk, MA in Social Sciences (Sociology) from the Tallinn University, is researcher of the Department of International Relations, TSEBA, Tallinn University of Technology. Since 2012, a PhD student of business administration at the same university.

He is the author and co-author of articles focusing on interethnic relations, ethnic and national identity and European integration. His latest publication (co-authored by A. Kirch and H.-H. Reinkort) is 'Estonians and Russians in Contemporary Estonia: Is the Past still Dominating the Present?' in J. Deutsch, M. Boehnke, U. Kühnen & K. Boehnke (eds.) *Rendering Borders Obsolete: Cross-Cultural and Cultural Psychology as an Interdisciplinary, Multi-method Endeavor*. Bremen: Jacobs University Bremen & International Association for Cross-Cultural Psychology (2011).

Predatory Preferences and External Anchors: The Political Sources of European Imbalances

Ton Notermans

Department of International Relations,
Tallinn University of Technology
Akadeemia tee 3,
Tallinn 12618, Estonia
E-mail: ton.notermans@tseba.ttu.ee

Abstract: *The economic imbalances that caused the euro crisis are essentially political in nature as they result from both hard- and soft-currency countries seeking to avoid addressing fundamental policy inconsistencies. The hard-currency mercantilism of Germany and its smaller neighbours is inherently vulnerable to currency appreciation and thus needs to lock its main trading partners into a fixed exchange rate in order to survive. The lack of an inclusionary post-war settlement meant that soft-currency countries were progressively unable to contain distributional conflicts without a fixed exchange rate anchor. As a result, wage costs came to diverge rapidly under the common currency thereby contributing to massive current account imbalances. Apart from the economic issue of whether balance should best be restored by internal or external devaluation, the more important question may be whether eurozone nations are politically able to implement regimes that depend neither on external anchors nor on mercantilist current account surpluses.*

Keywords: *Economic and Monetary Union, euro crisis, European imbalances, European Integration, Germany*

Few would have predicted it sixty years before, but the twenty-first century might yet belong to Europe.” (Judt, 2007, p. 800)

“No, I do not see the EU as an inspiration for the world. I see it as an undertaking that was ill designed due to too rapid expansion and that will probably fail.” (Lee Kuan Yew, quoted in ‘Wie Chinesisch wird die Welt?’ Zeit-Online, 6 September 2012)

1. Introduction

The root cause of the current euro crisis were massive payments imbalances, with many peripheral countries in Southern Europe running current account deficits financed by capital inflows from the core countries. The common currency itself played a significant role in the build-up of these imbalances as it promoted capital flows to the periphery by removing the risk of devaluation, whereas the inability of the periphery to devalue in turn meant that core countries could exploit their institutional advantage in wage setting to significantly increase their price competitiveness (Flassbeck, 2009, p. 66ff; Joebges, 2010). In Germany, for example, the average annual current account surplus increased from 0.47 per cent of GDP in 1988–1998 to 3.64 per cent in 1999–2011.

Although the introduction of the euro did bring the problem to a head, current account imbalances within the EU have shown a fairly stable pattern almost since the 1960s, with Germany, for example, only recording deficits on two occasions, namely in the wake of the second oil price crisis and after unification, whereas the Greek and Spanish accounts were in surplus for only 11 and 12 years, respectively, since 1960.¹ A durable adjustment of the traditional patterns of current account balances within the EU will thus be necessary if the stability of inter-European (economic) relations is to be safeguarded. Indeed, the EU itself has realised as much with the introduction of an Excessive Imbalances Procedure (EIP).

However, the core problem is that these imbalances are the result of deficit and surplus countries seeking refuge in a common currency in response to an inability to address fundamental policy inconsistencies. The hard-currency mercantilism pursued by Germany and its small neighbours is inherently vulnerable to currency revaluation. In a world in which the majority of trading partners has a preference for looser monetary policy, a priority for tight money should lead

¹ Source: all current account figures AMECO.

to currency appreciation and thereby eliminate current account surpluses. Hard-currency mercantilism in the end can survive only if the main trading partners adopt similar monetary preferences while refraining from devaluation, which of course has been the core of all German proposals for monetary integration, from Chancellor Brandt's 1996 proposals for Economic and Monetary Union (EMU) to the design of the common currency (Henning, 1994, Ch. 5).

Yet, in a fixed exchange rate arrangement with countries that have different wage setting dynamics, such preferences become predatory as the accumulation of imbalances since the introduction of the euro has shown. The problem has been familiar to Western Europe since the 1960s when, for example, Italy and France devalued occasionally in order to restore competitiveness. That the peripheral countries nevertheless agreed to the German design for monetary union was the result of their own inability to address domestic distributional conflicts. A fixed exchange rate, and later the common currency, here served the function of an external anchor to deeply fragmented and politicised industrial relations.

What has been lost from sight in the discussion about economic strategies to overcome the euro crisis (Weisbrot & Ray, 2011; Krugman, 2012), is that in view of the deep roots these imbalances have in the core and peripheral countries, durable current account reversals may be politically more problematic than commonly assumed.² Given that competitiveness is considered the key to growth and prosperity, for the surplus countries the main issue is that a successful (internal or external) devaluation strategy of the GIIPS³ countries which eliminates their current account surplus may easily be interpreted as a beggar-thy-neighbour strategy. For the Southern eurozone countries the issue of current account adjustment is even more problematic. The economic and social costs of the current internal devaluation strategy carry the clear risk that the polity will disintegrate and anti-EU majorities will form. But a strategy of external devaluation would rob the southern eurozone periphery of the external constraint, which was the reason they took flight in the euro in the first place.

The paper proceeds as follows: Section Two argues that the root of the common currency lie in a mutual desire by core and peripheral countries to avoid addressing domestic inconsistencies. Section Three speculates about the political feasibility of a durable current account reversal in Germany. Section Four provides the conclusion.

² A notable exception is Bonatti & Fracasso, 2012.

³ Greece, Italy, Ireland, Portugal, Spain.

2. Mercantilists and Anti-Mercantilists in Europe

At least since the return to convertibility in 1959, the exchange rate policies of West-European countries can be divided into three groups. The “hard-currency” group, comprising Germany, the Netherlands, Belgium and Austria, was averse to using currency devaluation to prop up domestic growth. With the partial exception of Austria, where the so-called Austro-Keynesianism had taken hold, the idea that growth depended on macroeconomic policies had never taken root. Instead, growth was interpreted as an issue of competitiveness and wage costs. Devaluation in this view was unnecessary if wage constraint was forthcoming and counter-productive if it was not. The political underpinning was formed by a political system in which Christian democrats were either dominant or held the balance with social democratic parties and a labour constituency in both parties. Based on such a strategy all four countries ran virtually uninterrupted current account surpluses during the Bretton Woods system (Table 1).

Table 1. Average annual current account balance (% of GDP)

Country	Average 1960–2011	Average 1960–73	Average 1974–84	Average 1985–2011	Average 1999–2011
Austria	-0.52	0.03	-2.61	0.05	2.06
Belgium	1.81	1.39	-1.38	3.32	3.64
Germany¹	1.57	0.82	0.63	2.35	3.64
Luxembourg	11.54	8.17	15.80	11.56	9.12
Netherlands	3.46	1.29	2.80	4.85	6.13
Denmark	-0.63	-2.16	-3.49	1.32	3.21
Sweden	1.93	0.63	-0.67	3.66	6.52
United Kingdom	-1.06	0.16	-0.28	-2.00	-2.25
Greece	-3.77	-1.68	0.62	-6.64	-12.25
Spain	-2.21	-0.33	-1.70	-3.39	-5.68
France	-0.29	0.42	-1.31	-0.25	-0.40
Italy	-0.03	1.36	-0.73	-0.47	-1.23
Portugal	-6.60	-2.64	-9.26	-7.56	-9.67

¹ Figures up to 1990 refer to West Germany only

Source: AMECO, own calculations

In Scandinavia and the United Kingdom instead, the concept that growth did depend on discretionary macroeconomic management had taken stronger root,

and, accordingly, the exchange rate would be adjusted in case of a conflict between external and internal balance. The political underpinning of this model was a dominant Labour party linked to a strong trade union movement. During the Bretton Woods period, the current account positions of this group were moderately negative for the UK and Denmark and positive for Sweden.

The third group consists of Spain, France, Greece, Portugal and Italy. Here the political system was much more polarised with Christian democrats facing communist parties in the democratic countries, whereas right-wing dictatorship ruled in Spain and Portugal until 1976 and 1974, respectively, while Greece was under military rule from 1967 to 1974. All countries on average were in current account deficit during the Bretton Woods period, although the deficit was very moderate for Italy and rather substantial for Portugal.

Since the mid-seventies all these systems have come under stress as the combined result of the questioning of the post-war political settlement and the radicalisation of the European Left, as well as the two oil price shocks. The initial reaction was rather similar in most countries and consisted of an attempt to exchange voluntary wage restraint for an expansionary fiscal policy and other measures dear to the heart of the trade unions. The success of such policies largely depended on the structure of industrial relations, with the northern countries potentially having an advantage over the much more divisive systems on the southern periphery. Accommodating macroeconomic policies, however, would run into trouble everywhere for two reasons. In tight labour markets, and with a radicalised Left, agreement to wage constraint became a threat to the legitimacy and the coherence of the Unions. Moreover, fiscal expansion in combination with the oil price shocks led to escalating current account deficits, except in Germany and the Netherlands, plus increasing budget deficits.

The commonly adopted solution consisted in increasing unemployment so as to restore the coherence of the system, but the way in which this was done differed quite radically. In the case of the Scandinavian countries and the UK, governments explicitly took the responsibility for this decision, arguing that the crisis resulted not from external factors, but from a failure in the domestic process of interest intermediation. In Britain the Conservative government of Margaret Thatcher declared outright war on the trade unions in 1978 and orchestrated a monetary crunch that led to unprecedented increase in unemployment. In 1982 a Danish conservative-liberal government decided to end the soft currency policy in reaction to the breakdown of wage moderation.

The fact that all four governments were able to successfully impose a new policy regime that explicitly denied that macroeconomic managements could

unconditionally accept a full employment target had two important consequences for the future of monetary integration. First, the responsibility for the deteriorating economic situation was not placed at the door of globalisation or some alleged German dominance. Secondly the government's ability to regain control of the economy out of its own accord allowed for a more relaxed approach to exchange rates policy, leaving the option open to relax the constraint in future. Consequently none of these countries felt the need to join the eurozone.

In the hard-currency countries the policy of negotiated wage restraint in exchange for macroeconomic policy concessions was short-lived. Since the late sixties even Germany and the Netherlands had not proven immune to the Keynesian orthodoxy. Especially for social democratic parties, the idea of discretionary demand management could fill the void left by the abandonment of socialist ideas. Yet, the survival of Keynesian ideas had depended on their being in no need for such policies in the post-war economic environment in which overheating was the more relevant problem.⁴ Once put into practice, the results were disappointing as budget deficits and inflation rates frequently increased without boosting growth. Implemented by the first leftist coalitions of the post-war period, the meagre results of demand management in Germany and the Netherlands quickly gained these governments a reputation for economic incompetence and, under the successive centre-right governments, prompted a return to the traditional policies of competitiveness through wage restraint in combination with fiscal restraint. In Germany, for example, the fiscal policies adopted by the SPD–FDP coalition after the 1978 G7 summit quickly came to be considered a failure as they led to higher budget deficits and inflation rates and the first current account deficit since 1965. The SPD quickly lost its reputation for economic competence, which was one of the core reasons for the fall of the government in 1982.

Yet, the return to hard-currency mercantilism could have easily failed if the main European partners had stuck to a more expansionary policy that prioritised full employment instead of low inflation and fixed exchange rates. In that case the Bundesbank's tight policies would have provoked substantial appreciation of the Deutsche Mark (DM) and thus current account deficits instead of surpluses. It is no coincidence that shortly after the DM was revalued in October of 1969, under pressure from the Bundesbank and the main trading partners but against the opposition of the Minister of Finance Franz Josef Strauß, the Minister of Economy Karl Schiller and substantial parts of German industry, Chancellor Willy Brandt proposed EMU at the Hague Council of December 1969. Indeed,

⁴ On the very limited importance of Keynesian demand management after 1945 see Bispham & Boltho, 1982 and Hall, 1989, pp. 367–368.

the problem was particularly acute for Germany. Because the DM had come to serve as a reserve currency, periods of dollar weakness provoked massive capital inflows and DM revaluation. As Jonathan Story (1999, p. 23) points out, US dollar weakness tended to redouble German efforts to tie the other European currencies into some kind of fixed exchange rate arrangement.

The core problem with Brandt's EMU proposal and all subsequent German plans for monetary integration was that it required other members to forego monetary autonomy. In the wake of the social unrest of May 1968 in France and the Hot Autumn of 1969 in Italy, neither country was prepared to do so. Similarly, in Spain, Portugal and Greece the consolidation of democracy after the end of military rule mandated growth policies so as not to rekindle a virulent left-right divide. Nor did the large economies outside of the EU, first and foremost the USA and the UK, show a willingness to adopt German-style policies while Japan continued to pursue a soft-currency mercantilism.

Pursuing more expansionary policies than the core countries around Germany inevitably would imply devaluation relative to the DM. However, such policies can only succeed with a disciplined system of wage-setting that prevents that the rise in import prices resulting from devaluation is fully passed on into wages. In neither of these countries was the highly fragmented and politicised industrial relations system able to provide such discipline with the result that a policy which ignored the exchange rate in order to stimulate growth would face the prospect of a runaway inflation. The same fragmentation and politicisation of the industrial relations system also explained why the attempt to buy wage restraint by means of fiscal concessions was unsuccessful. This constellation provoked repeated exchange crises which pushed governments towards restrictive policies. However, the polarisation and fragmentation of the political system failed to produce a consistent majority for such policies. Consequently, macroeconomic policies oscillated between expansionary phases in which central banks accommodated wage increases and public deficits, punctuated by bouts of tight money and budget consolidation (Lazaretou, 2003, pp. 27–29; Goodman, 1992, pp. 142–158).

In the end it proved possible to break this stalemate only in the 1980s with the help of the external anchor of a fixed exchange rate. The economic turmoil since the seventies did raise doubts about the wisdom of expansionary macropolicies, but the creation of a political majority proved possible only by invoking Europe and globalisation. The argument that there was no alternative to Europe, that is, to monetary integration and the acceptance of the SEA and Directive 88/361, which abolished all exchange controls within the Union, consisted

of four separate strands. First, integration was linked to the post-war project of economic modernisation, with the performance of the core countries cited as proof (Della Sala, 2004). Secondly, the argument for participating in fixed exchange rate regimes played heavily on national prestige. Having a weak currency and being left out of the various exchange rate arrangements was depicted as being relegated to second-class citizenship. Thirdly, globalisation was invoked to argue that in a world of liberalised financial markets there was no alternative to fixed exchange rates, conveniently ignoring that the re-emergence of international financial markets had wrecked the Bretton Woods fixed exchange rate arrangement in favour of floating. Finally, Europe came to serve as a scapegoat on which to deflect the domestic opposition that frequently arose when defence of the parity would require particularly restrictive policies.

3. The (in)vulnerability of hard-currency mercantilism

Far from having come closer to a solution of their problems, after more than two years of reforms the southern periphery finds itself in a particularly tricky conundrum. After over a decade of deteriorating competitiveness the revival of investment activity, which is the prerequisite for growth, will require a decisive boost to the private sector. As the current internal devaluation strategy is clearly dysfunctional, the best way to do so would be external devaluation—that is, euro exit. Southern governments will resist this solution to the bitter end because of the fear that the problems of the 1970s will re-emerge, in the sense that distributional conflict in societies marked by deep cleavages and a tradition of clientelistic government may be uncontrollable without an anchor to Europe. Perversely, the political effects of the current strategy seem to make such an outcome in case of a euro exit more likely because they strongly contribute to a fragmentation of the polity (Minder, 2012). By 2012, the second and third most popular parties in Greece were the communist and the fascist whereas in Spain the crisis has evolved into a threat of the territorial integrity of the state. Only in Italy has the current crisis led to a more united and more broadly supported government since the formation of a technocratic cabinet under Prime Minister Mario Monti. Yet, as Monti has pointed out, to prevent the emergence of an anti-European majority which might eventually force a euro exit, more support from the northern countries is needed ('Monti warnt...', 2011). Increased demand in the core states would greatly contribute to this so as to allow for a reversal of current account position with less draconian austerity. In this perspective, German policy decisions hold the key to the future of Europe.

Given the reluctance with which Germany has agreed to support Greece, and subsequently Portugal, Ireland and Spain, fears arose that the country, instead, would turn its back on Europe (Guérot & Leonard, 2011). Indeed, the case for fiscal mismanagement in Greece is not hard to make (Featherstone, 2011), whereas the German response to the fiscal problems that arose in the wake of unification were tackled by a series of reform programmes, the most extensive one being the Agenda 2010 of the SPD-Green coalition in 2003–2004. Many Germans thus understandably gained the impression of being asked to foot the bill for the unwillingness of others to shoulder the hardships required to put the economy on an even keel. The mood in Germany seemed to be well characterised by the slogan “We don’t need the PIGS, we have the BRICS”. Although that view maybe widespread, the German government cannot act on it for economic and political reasons. A reintroduction of national currencies can only imply a rapid appreciation of the DM which would be disastrous for the German export sector. Moreover, the prospect of being held responsible for the breakup of one of the core projects of European integration would have been politically unacceptable to any German government but especially to chancellor Merkel who likes to place her European policy in the tradition of Konrad Adenauer. As, for example, Minister of Finance Wolfgang Schäuble has made unmistakably clear in October 2012, Germany will do everything to keep Greece in the euro area.

The German strategy thus focusses on keeping the GIIPS in the eurozone while trying to reduce their public deficits and restore creditworthiness by fiscal austerity and by rekindling growth through structural reforms. German economic history seemed to provide clear confirmation for the correctness of such strategy, from Ludwig Erhard’s liberalisation after the 1948 currency reform and the Bundesbank’s early insistence of the virtues of tight money to Agenda 2010.

The mistake in this reading of history was to ignore that hard-currency mercantilism had only succeeded for such a long time because of the willingness of the Southern EU members to tolerate a deterioration of their competitiveness, and that only the latter’s need for a currency anchor allowed Germany to take a maximalist position in the negotiations from the “snake” to EMU and the SGP. It equally ignored that the Greek public debt could not have risen to the proportions it did, had it not been financed by, amongst others, German banks. Finally, that recipe ignored that the fiscal problem in Spain, Ireland and Portugal were largely the result and not the cause of the crisis (Vernengo & Pérez-Caldentey, 2012).

As the IMF had found out more than a decade earlier, such “Washington Consensus” recipes frequently tend to aggravate a crisis. The failure of such

strategies also in Europe, together with the threat to its exports from a breakup of the euro means that Germany is successively forced to abandon core tenets of its policy orientation. Adherence the “no bail-out clause” would have bankrupted Greece in 2010, implying its exit from the eurozone and major losses for (not only) German banks, and was thus quickly scuttled. The original expectation was that the first assistance package would suffice. Yet, Greece needed more assistance in October of 2011, which equally did not prove sufficient. A third package for Greece, and possibly a second package for Portugal and Spain, would not obtain a majority in the Bundestag because of opposition from the Liberal coalition partner FDP and from within the Bavarian CSU, who argue that the lack of success is due to unwillingness to consistently implement reforms.

Paradoxically, the effect of this opposition was that Germany had to agree breaking the taboo of the monetary financing of deficits. Austerity policies not only provoked a collapse of GDP but gave rise to at times bitter popular opposition. Both effects served to undermine confidence in the GIIPS countries threatening to set in train a cumulative process whereby higher interest rates further undermine economic prospects and thus further weaken confidence. Since it remained unacceptable to Germany to let Greece, and possibly Spain and Portugal go bankrupt, the solution consisted in having the ECB buy up potentially unlimited amounts of GIIPS bonds. Although this decision met with the opposition of Bundesbank president Jens Weidmann, the government has refused to support his position and has sought to stamp down on dissenting voices from the Bavarian CSU. No public outcry has resulted, mainly because there currently is no inflation problem and German voters are more concerned about the threat of unemployment than abstract discussion about the stability of the velocity of circulation.

Critical strains on the German model may instead easily develop once the public comes to realise that the correction of European imbalances will require Germany to accept current account deficits. The focus on competitiveness as the key to economic success implies a mercantilist zero-sum game understanding of international economic relations as competitiveness per definition can only improve relative to other countries. Successful internal or external devaluation strategies by the GIIPS countries would thus have to be considered a threat to the prosperity of the surplus countries. The German population might easily conclude that after making many sacrifices to improve competitiveness, now competitiveness would need to be sacrificed for the sake of European integration.

Social democratic think-tanks like the Friedrich Ebert Stiftung instead see an opportunity in the current situation as they advocate higher wage increases and

a more equal income distribution in order to boost German growth and imports (Dauderstädt & Dederke, 2012). Yet, apart from the question if the GIIPS countries are best placed to benefit from the growth of German demand, a high-wage strategy may only have been feasible as long as it seemed that Germany was immune to the crisis. But with austerity spreading throughout the EU, the US still recovering from the 2008 meltdown, and growth rates in China falling, economic prospects have started to darken rapidly also for Germany as of the summer of 2012.

To prevent faltering growth rates and current account surpluses from sparking an internal devaluation race and to convince the German public that the correction of European imbalances will not undermine prosperity, a turn to a domestically driven growth model would indeed be necessary. With the fiscal room of manoeuvre constrained that would require, similar to the policies that eventually overcame the Great Depression (Eichengreen & Temin, 2010), a decisive change in ECB priorities from fighting inflation to stimulating growth, combined with a re-regulation of financial markets that promotes productive as opposed to speculative investment. Such a regime change, however, would not only run counter to the core convictions of the current government and much of the opposition of SPD but would also be met with the concerted opposition of the German economics profession and thus will likely be resisted until the bitter end.

4. Conclusion

The most damaging effect of the common currency is that it has turned what should have been domestic debates about political priorities into recrimination between Member States. If any proof is needed that the European project is failing, it is the fact that Europeans have taken to calling each other PIGS again. Without a common currency, Germany would have needed to decide whether it prefers a super-hard currency at the expense of its export industry or would rather support the more expansionary monetary policy orientation of its larger neighbours. Without the euro, a sagging currency and the threat of being shut out of international financial markets would have required an ordering of domestic preferences some time ago in the southern periphery. Instead the blame game has erupted in full force in the eurozone and the much needed reforms in the southern countries lack legitimacy as long as they are being imposed by force from outside.

If only for that reason, a breakup of the eurozone may have salutary consequences. Of course, such a strategy is not without risk. In 1932, Germany found itself in a situation where both leaving and remaining with the common currency of that time, the Gold Standard, appeared to have unacceptable consequences. After the devaluation of Britain in September 1931, defending the old parity would undermine the export industry whereas devaluation was considered coterminous with hyperinflation. The solution it adopted was to shield its economy from the international system and create an economic empire to the east that was more compatible with its preferences (Ahamed, 2010, pp. 477–484). In countries like Greece and Italy, on the other hand, inability to supersede clientelistic notions of governance in favour of a national strategy, in the extreme case, might end up in a failed state scenario.

But these possibilities seem remote. To surmise that current German politicians might contemplate repeating the errors of the 1930s would seem ludicrous. In times of emergency at least Italy and Portugal do seem capable of much more effective government. Rather the risk is that the core countries, whose government do not even wish to contemplate that growth might rest on something else than structural reform and international competitiveness will persist in their current policies. At that point the EU would have managed the amazing feat of re-enacting the Great Depression when European governments similarly drove their economies over the cliff in order to defend a dysfunctional fixed exchange rate regime (Eichengreen & Temin, 2010). One thing is certain—the EU would not survive that.

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Some Implications of the EU Rail Transport Policy on Rail Business Environment in CEE Countries

Olga Nežerenko

Tallinn School of Economics and Business Administration,
Tallinn University of Technology
Akadeemia tee 3,
Tallinn 12618, Estonia
E-mail: olga.nezerenko@gmail.com

Ott Koppel

Department of Logistics and Transport,
Faculty of Civil Engineering,
Tallinn University of Technology
Ehitajate tee 5,
Tallinn 19086, Estonia
E-mail: ott.koppel@ttu.ee

Abstract: *The development of rail transport is the key to the integral development of the entire European transport system. In 2010, consultations were started to discuss the proposal of the European Commission for merging various EU directives relating to railway transport. In 2011, the European Transport White Paper was published; the paper lays down the transport policy for the current decade with a perspective up until the years 2030/2050. The principles of the White Paper are compliant with the general ideas of the Commission. Both of these documents see the strengthening of supervision at the national level as the key issue for improving the competitiveness of the rail sector; require the separation of ownership and using the first best infrastructure pricing solutions. The authors find that the following questions must be answered in order to implement these ideas: 1) how to allocate supervisory functions between the state and infrastructure manager; 2) which would be the best way for realising the unbundling of rail activities; 3) how can the sustainability of railways be ensured while using marginal cost pricing in the situation where formal transport policy does not allow state support for rail transport. The authors seek answers to these questions by comparing the situation in the Nordic and Baltic countries, as these two groups of countries illustrate two diametrically different approaches to the possible solutions.*

Keywords: *access charging, infrastructure investments, rail transport, transport policy*

1. Introduction

The transport system has always been playing an important role for the European Union and its member countries. The effective and integrated transportation links are the most important prerequisite for ensuring coordinated work of the EU's Single market. The transport sector accounts for about 5 per cent of the EU's GDP and it is considered to be an important tool against unemployment, as it directly employs around 10 million people (EU, 2011). The sustainable development of the EU transport system needs a set of appropriate law regulations. Economic, social and environmental dimensions of the transport policy are set up by the 2011 White Paper (*White Paper*, 2011), which stems from the earlier White Paper approved in 2001 (*White Paper*, 2001). A vision for a competitive and sustainable transport system needs considerable collaboration of all allied groups, whose activity predetermine the viability of the intention to create a single European transport area. The Baltic Sea strategy holds an important place among the EU strategies stressing the integration of various interest groups. It is an initiative of the EU, aiming to find solutions to the main bottlenecks of the region hindering the development of the area. The Baltic Sea strategy consists of two parts: a strategy document and an action plan accompanying the strategy paper (*Communication from...*, 2009). These documents define four strategic areas—environmental sustainability, prosperity, accessibility and attractiveness, safety and security.

Based on these areas, the action plan for the strategy is divided into 15 political fields, each of which contains particular projects that will be implemented within the framework of the action plan. From the point of view of the present article the most important one is political area No. 11 of the Baltic Sea strategy—To improve internal and external transport links. Among the flagship projects listed in the horizontal dimension of the vertical dimension “accessibility and attractiveness” (Complete the agreed priority transport infrastructures, Northern Dimension Partnership on Transport and Logistics, Develop the Baltic Motorways of the Seas Network, Shorter Plane Routes, Cooperate for Smarter Transport) should be pointed out prioritised investments in transport infrastructure, for example the Rail Baltic project. Meanwhile, the overall experience of certain countries (first and foremost in the Baltic states) in the implementation of international projects is so far insignificant. The competition is still a stumbling block, forcing

the countries to concentrate purely on the national transport market and to forget about developing the coherence between the national transport networks and to neglect building partner relations (Nežerenko, 2009). This is illustrated by the delays in implementing the Rail Baltic project mentioned above.

The EU development-oriented documents described above stress the importance of preferring the environmentally sustainable modes of transport, mostly waterways and railways, both from transport and regional policy aspects. The task of this article is to investigate some of the problems that have to be resolved in the CEE countries of the Baltic Sea region and Poland in order to achieve the targets laid down in the Transport White Paper and the Baltic Sea Strategy of the European Union. In the following part some of the postulates of the EU's transport policy that are significant from the point of view of achieving the set goals will be described.

2. Background

The process of rail market liberalisation started in 1991. The legislation is based on a distinction between infrastructure managers who run the network and the railway companies that use it for transporting passengers or goods. Different organisational entities must be set up for transport operations on the one hand and infrastructure management on the other. Essential functions such as allocation of rail capacity (the train paths that companies need to be able to operate trains on the network), infrastructure charging and licensing must be separated from the operation of transport services and performed in a neutral fashion to give new rail operators fair access to the market. The process of opening up the railway services market to cross-border competition is presented below. During the past decade, the following packages of railway directives were adopted:

- “The first railway package” of 2001, which enabled rail operators to have access to the trans-European network on a non-discriminatory basis, implemented a common licensing of the railway operators and guaranteed operators' rights for the use of railway infrastructure capacity;
- “The second railway package” of 2004. In the framework of this package the set of measures to revitalise railway transport was adopted. The rail freight market was fully opened to competition from the 1st of January 2007. Due to the implementation of the first two packages the decline in railway sector was temporarily stopped by 2007;

- “The third railway package” of 2007 aimed on completing the European regulatory framework for the rail transport, including the introduction of the European train driver license and strengthening rail passengers’ rights. The package provided for opening up the international passenger transport market by the 1st of January 2010.

Despite the fact that the packages of liberalisation’s measures are implemented (excluding market opening to domestic passenger rail services, which is going to be realised by the year 2012) there are still problems that need to be resolved, for instance:

- Inadequate regulatory oversight by national authorities, often with insufficient independence, competences and powers;
- A low level of competition due to market access conditions which are not sufficiently precise and therefore still biased in favour of the incumbents;
- Low levels of public and private investment, as the quality of infrastructure is declining in many Member States because of insufficient funding, investment in railway services becomes less attractive both for incumbent and new operators.

The European Commission set up proposals for adopting a new directive (*Communication from...*, 2010), which is focused on the resolving the abovementioned bottlenecks of the Single European Railway Area. The main solutions mentioned in the proposal are:

- In order to monitor competition situation on the rail transport service market, an independent surveillance body not subject to any of the ministries must be established;
- In addition to railway infrastructure managers, also transport undertakings or even third persons possessing infrastructure necessary for the provision of rail transport service can be natural monopolies;
- Rail infrastructure user fee must be based on the first best solution, i.e. marginal cost pricing with the possibility to apply mark-ups in the condition that market can bear it.

Thus, the proposal of the European Commission focuses on three main areas: supervision in the field of competition in railway transport, defining of companies in market dominant position and explaining them their obligations, and railway infrastructure access pricing.

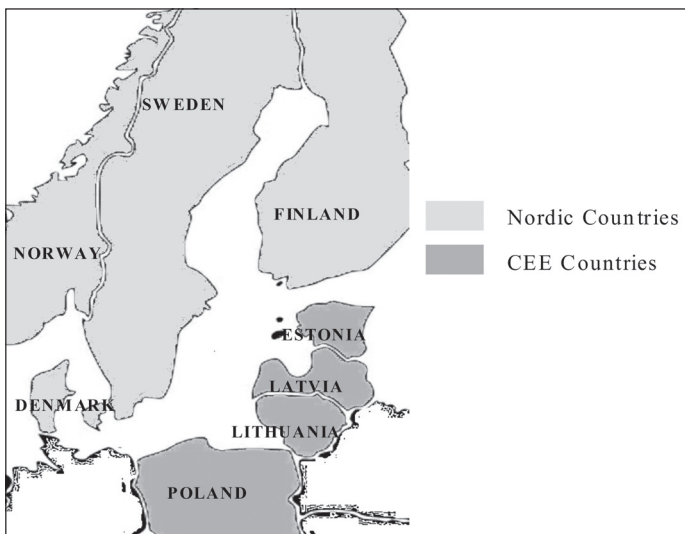
3. Method and Data

The authors are of the opinion that in the set of the circumstances mentioned above, the following questions need to be answered:

- How to allocate supervisory functions between the state and infrastructure manager if the organisational structure of rail transport has been made compliant with the EU legislation;
- Which would be the best way for realising both the horizontal and vertical separation of rail transport in compliance with the EU requirements;
- How can the financing of railway undertakings be ensured whilst using marginal cost pricing in the situation where formal transport policy does not allow supporting rail freight transport from the state budget?

The scope of the data used for the purposes of this article was defined on the basis of the following considerations. The Baltic Sea region includes the Baltic countries (Estonia, Latvia, and Lithuania), Denmark, Finland, Sweden, northern Germany, northern Poland, and part of Russia's Northwestern Federal District. Considering the importance of the Baltic Sea region in the transport links of Northern Europe, the EU has involved also Iceland, Norway and Belarus in implementing its Baltic Sea strategy. CIA World Factbook (2011) defines Estonia, Latvia, Lithuania, Poland, Belarus and Germany as CEE countries, whereas Norway, Finland, Sweden, Denmark and Iceland are defined as Nordic countries. Thus, the group of selected

Figure 1. Selected countries



Source: Authors' illustration

countries in this article includes the Baltic States and Poland from CEE countries, and the Nordic countries (excl. Iceland). The geographical position of the countries is depicted in Figure 1.

The paper uses the comparative analysis method.

The analysis is based on secondary source information provided by the railway infrastructure managers, rail transport undertakings of the region, national statistics authorities and international professional associations. In presenting conclusions and recommendations the specific features of rail transport in particular regions are taken into account: for example, in the Baltic States railway companies are mostly engaged in servicing transit freight originating from third countries.

4. Study

4.1. Institutions

According to Directives 2001/12/EC and 2001/14/EC of the EU, each member requires an independent regulatory body (though not necessarily of the government) whose task is to ensure a fair and non-discriminatory access to the rail network and services.

The regulators are usually established to carry out complex technical tasks which the government is unable or unwilling to do, partly because the government wishes to distance itself from responsibility for some decisions, but, having invested regulatory authorities with sometimes considerable powers which are more detailed and intrusive than any possessed by government over state-owned entities or industries, political or bureaucratic impatience or intolerance of that power sometimes takes over, and undue governmental pressure or interventions follow.

As a result, many countries are not able to completely withdraw from the elements of oligopoly or monopoly (see also below) in railway services—it is difficult for governments to give up control of their domestic railway sector and to abandon their basic rights in the formation of transport policy and oversight of railroad operators and service enterprises. Previously, a common idea that natural state monopoly on the market of railway services is a guarantee of the development of, at least, the railway infrastructure, has lost its relevance. Market liberalisation and the creation of independent institutions are the necessary prerequisites for the formation of long-term competitiveness of railways, including improving the quality of services provided by operators (Winsor, 2010).

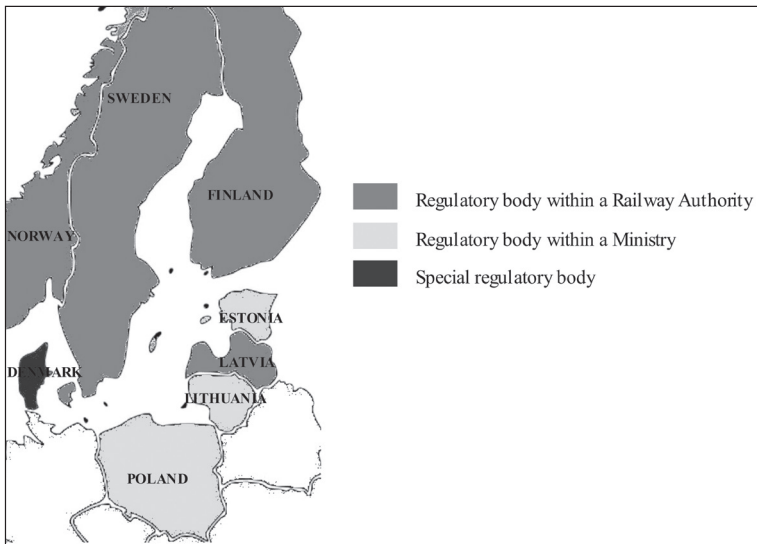
The level of independence of national authorities can seriously vary within the EU because the current EU legislation requires regulators to be independent of the infrastructure manager, but not necessarily of government. Therefore, the regulatory bodies in Europe can be divided into three categories:

- special regulatory bodies;

- regulatory bodies within a railway authority;
- regulatory bodies within a ministry.

While the model of the special regulatory body is the strongest form in terms of its powers and independence from the state and the infrastructure manager, regulatory bodies within a ministry can be considered the weakest form (IBM, 2011). Finland, Norway, Latvia and Sweden according to the presented classification have Regulatory Body within a Railway Authority. This model deals primarily with licences, safety and other railway-specific administrative tasks, although Finnish and Swedish railway sector are governed by the cross-sectoral transport authority (Finnish Transport Safety Agency and Swedish Transport Agency, respectively). Denmark is the only one among the countries under consideration that has established a special Regulatory Body, whereas in Estonia and Lithuania such agencies have been established within the administrative area of governing ministries (see Fig. 2).

Figure 2. Organisation of regulatory bodies for rail transport in selected countries



Source: IBM, 2011

A rail regulator independent of direct political control, with clearly specified powers and responsibilities and adequate resources, offers many advantages. It may offer the infrastructure manager the guarantee that the required level and quality of infrastructure will be consistent with the funding provided, and protect new entrants from arbitrary or discriminatory regulatory measures designed to protect the existing operator. Indeed, this degree of independence is even more

important when there remains a major state-owned incumbent operator, and particularly when this operator is part of the same organisation as the infrastructure manager. Given the existence of such a regulator, it is doubtful whether the right of appeal to a separate competition authority is either necessary or helpful; of course, recourse to the courts on matters of process (rather than substance) should be possible. At the same time it is important that general competition authorities have a strong role in developing government policy for the railways, for example in relation to the structural organisation of the sector, not least in order to guard against the dangers of regulatory capture (ECMT, 2005).

Therefore, considering the positions expressed in the EU transport policy documents and related studies, it would be necessary to reorganise competition supervision both in CEE and most of the Nordic countries. Based on the Estonian example, such reorganisation should involve establishing an independent supervisory body dealing with competition in railway. The position of such agency in the hierarchy of Estonian state institutions should be similar to that of the Legal Chancellor or the Auditor General.

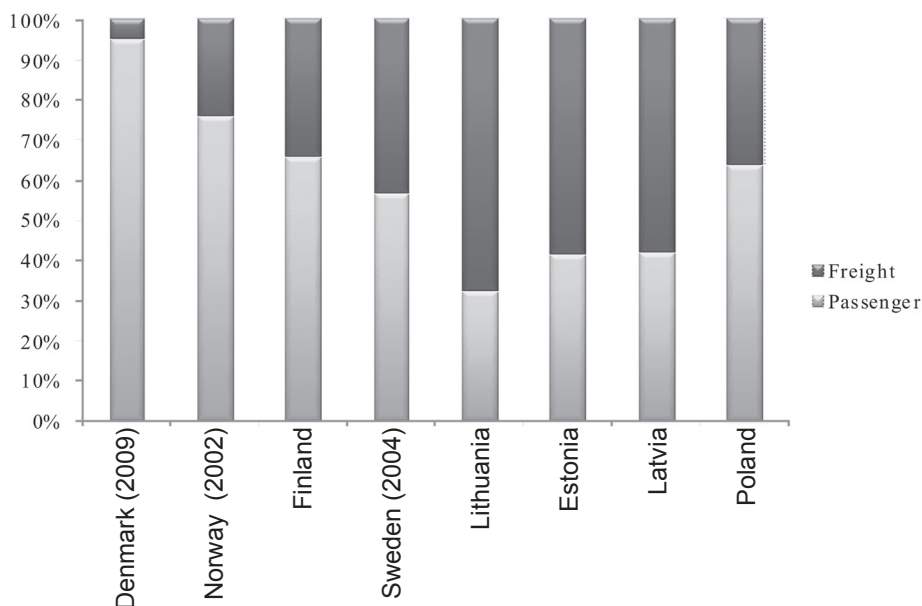
4.2. Organisation of rail transport

The issues and approaches to regulation are directly affected by vertical and horizontal separation (Thompson, 2009). Rail transport is a part of national economy from which it obtains its input and to which it gives its output. Therefore we cannot treat railway undertakings as subsystems of the system of rail transport in isolation from the context.

The most important sub-system of railway transport is the sub-system of railway infrastructure. Table 1 presents the parameters of the railway networks of the selected countries as of 2005 and in perspective until the year 2020. For historical reasons, these countries have two different track gauges, which is one of the factors hindering interregional cooperation. The table also indicates that there are no significant conventional and high-speed railway projects envisaged for the next decade (this does not include different routes for the Rail Baltic project).

Train traffic analysis for CEE and Nordic countries (see Fig. 3) shows that passenger trains prevail in most of the countries. This sets stricter requirements for the technical condition and safety of railway networks. There are also railway sections in the Baltic countries where the density of passenger trains is higher than the density of the freight trains but there are also many sections (e.g., Valga-Koidula in Estonia) for which under normal conditions exist no demand whatsoever.

Figure 3. Traffic-mix in selected countries 2007



Source: UIC, 2008

Table 1. Length and link type of TEN-T railways in selected countries

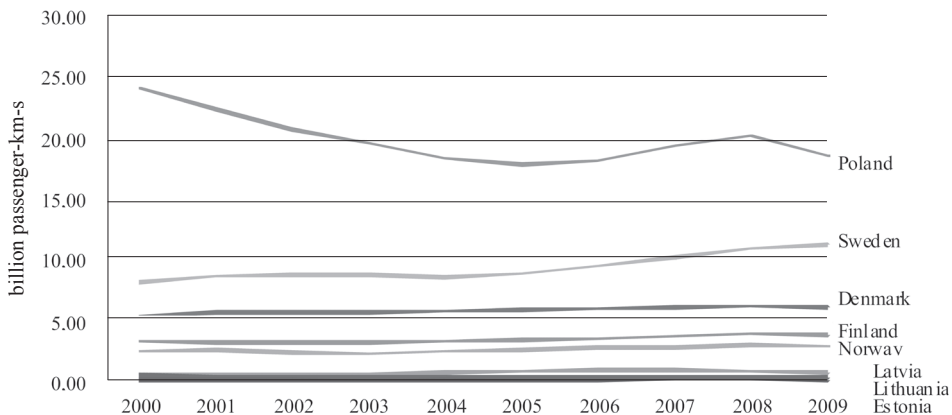
Country	Type (track gauge)	Length (km-s)		
		2005	2013	2020
Nordic countries				
Denmark	conventional (1,435 mm)	928	928	944
Finland	conventional (1,524 mm)	3,492	3,576	3,594
Norway	conventional (1,435 mm)	4,087	4,159	N/A
Sweden	conventional (1,435 mm)	3,181	3,181	3,181
	high-speed (1,435 mm)	1,600	1,600	1,600
	Total	4,781	4,781	4,781
CEE countries				
Estonia	conventional (1,524/1,520)	962	962	962
Latvia	conventional (1,520 mm)	1,340	1,340	1,340
Lithuania	conventional (1,520/1,435)	933	1,036	1,036
Poland	conventional (1,435 mm)	5,187	4,888	4,888
	high-speed (1,435 mm)	0	337	337
	Total	5,187	5,225	5,225

Source: DG Mobility and Transport, 2011, and UIC, 2008

Among the CEE countries under discussion, the share of rail passengers in the overall passenger turnover (incl. passenger cars) is the highest in Poland (6% in 2009) and the lowest in Lithuania (1%). This rate is considerably higher in the Nordic countries, reaching almost 10% in Denmark and Sweden.

In most of the countries, passenger transport by rail has not been affected by the economic crises as much as the other areas of economy, as there has occurred no significant reduction in rail passenger turnover (see Fig. 4).

Figure 4. Passenger turnover by rail in selected countries



Source: EU, 2011

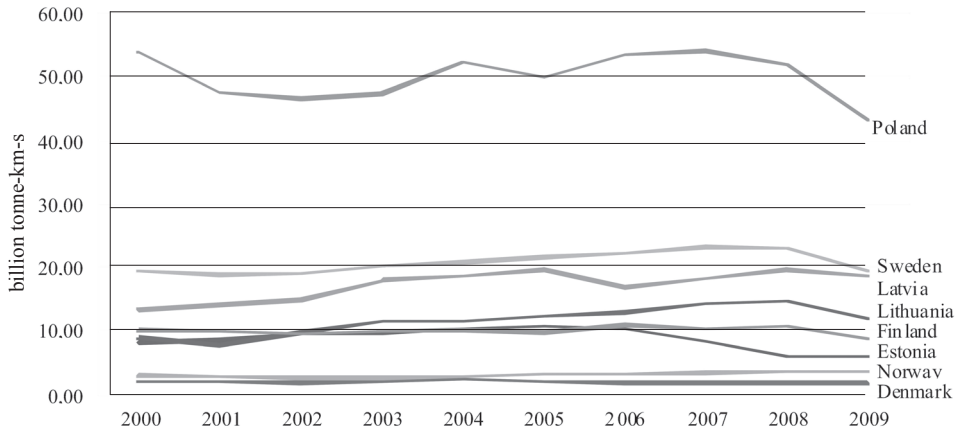
The share of rail transport in the overall freight turnover among the CEE countries of the Baltic Sea region has been the largest in Estonia (70% in 2007) and the smallest in Poland (37%). In the Nordic countries this indicator remains between 8 per cent (Denmark) and 34 per cent (Sweden) (EU, 2011).

During the economic crisis, a significant reduction of rail freight volume occurred in Poland and Estonia (see Fig. 5), whereas there was no such obvious reduction in the other countries under discussion. According to data provided by the Statistics Working Committee of the International Union of Railways (UIC) such reduction was of temporary nature, as rail freight volumes started to grow at the beginning of 2010.

Meanwhile, leaving aside the Baltic countries, the share of rail transport in the freight turnover of the European Union has not reached the set target—15 per cent share by the year 2010 (*European Transport...*, 2001). In order to improve the situation, the European Commission has made among many of its proposals the proposal for the endorsement of a new railway directive that

carries the idea of establishing a single European railway area. The main tool foreseen for achieving this objective is the unbundling of the currently vertically and horizontally integrated railway companies in order to ensure sufficient separation of railway infrastructure managers from freight and passenger transport undertakings. Such restructuring of railway companies is necessary for several reasons.

Figure 5. Freight turnover by rail in selected countries



Source: EU, 2011

Firstly, infrastructure managers working in a regulated business environment must be separated from freight and passenger transport service providers working on competitive market so that the infrastructure managers would treat all freight and passenger transport operators (including those belonging to a same group of companies) equally. So the companies would have more trust, new companies could enter the market more easily and there would be more competition. All that could have positive influence on freight transport charges.

Secondly, such separation of railway companies would prevent subsidising freight transport service on the account of regulated infrastructure service provision (or *vice versa*—Authors' note), which could affect freight transport charges in a way that would prevent freight transport undertakings from coming to the market.

Thirdly, in case of separation, the infrastructure managers can focus on their main activity—provision of services ensuring access to infrastructure (*Communication from...*, 2010).

There are several ways how to separate infrastructure managers from freight transport undertakings.

- 1) Recording revenue, expenses, assets and liabilities separately for different activities, i.e. the so-called accounting separation;
- 2) Functional separation of infrastructure manager, passenger and freight transport undertakings, i.e. the independence of infrastructure managers in groups of companies is ensured (separate organisation, independent decision-making system, independence of management, right to determine investments into network and keeping of confidential information);
- 3) Legal separation of infrastructure managers, passenger and freight transport undertakings in the course of which a separate undertaking dealing with infrastructure management is established inside a group of companies.
- 4) Ownership separation—the most radical way of separation, meaning that a railway company must fully or partially give up its ownership in freight transport undertaking (Kukke, 2011).

In broad terms, railways are organised as Ministries, state-owned enterprises and as independent corporations (though some or all of the equity may be owned by the state) (Thompson, 2009). The degree of separation in rail transport sector extends in the Nordic and CEE countries from functional separation to a complete ownership separation of infrastructure and operations (RGL Forensics, 2009). Within the geographical scope of the paper, there is a full vertical and horizontal ownership separation in the areas of infrastructure and operations in the Nordic countries like Norway and Sweden. In CEE countries, that is in Estonia, Latvia, Lithuania and Poland, there is functional, legal and accounting separation (see Fig. 6) of various forms that will be analysed in the present article using the example of Estonian Railways.

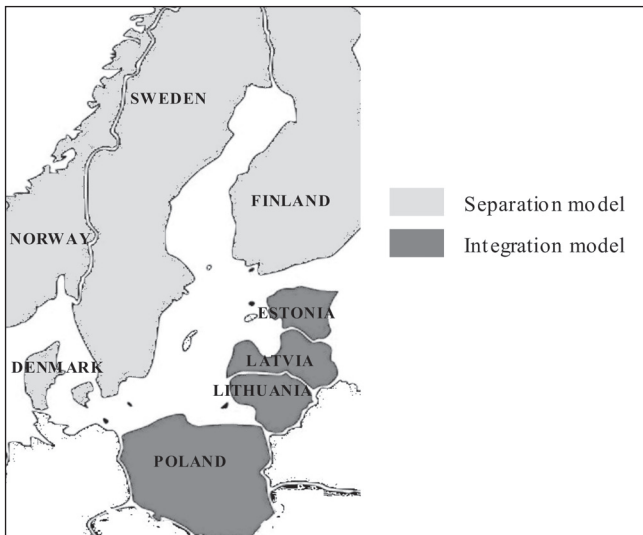
Estonian Railways, Ltd (EVR) is according to the OSJD (2002) the main railway undertaking in Estonia. EVR was a vertically integrated freight transport railway that was also the owner of the largest public railway network in Estonia. In the years 2001–2007, private investors owned 66 per cent of EVR's share capital, whereas today 100 per cent of the company's shares are back in government ownership. On 14 January 2009 EVR split into two new companies: AS EVR Infra dealing with railway infrastructure management and AS EVR Cargo providing freight transport and rolling stock services. Similar vertical separation has taken place in Poland and Latvia.

At the end of November 2010, the European Commission initiated legal actions against 13 Member States, incl. Poland, in the European Court of Justice, claiming that these countries have not implemented the First Railway Package of 2001 at a sufficient level. The main complaints of the Commission are as follows:

- The integration of infrastructure managers in the group of companies, the model selected by many countries, incl. CEE states in the Baltic, infringes the provisions of EU unbundling legislation.
- Member States do not ensure that their infrastructure charges pay sufficient attention to the market viability of individual market segments.
- There are no incentives for infrastructure managers to reduce costs and lower infrastructure charges.
- The regulatory authority does not have sufficient powers to conduct market polls (Deutsche Bahn, 2011).

The Government of the Republic of Estonia has passed a resolution about conducting the ownership separation of railway companies already in 2012 (see Fig. 7). The holding company Estonian Railways, Ltd was divided on 4 September 2012 into two separate companies, whereas the business name of Estonian Railways remains with the infrastructure manager AS EVR Infra.

Figure 6. Models of separation between operations and infrastructure in selected countries

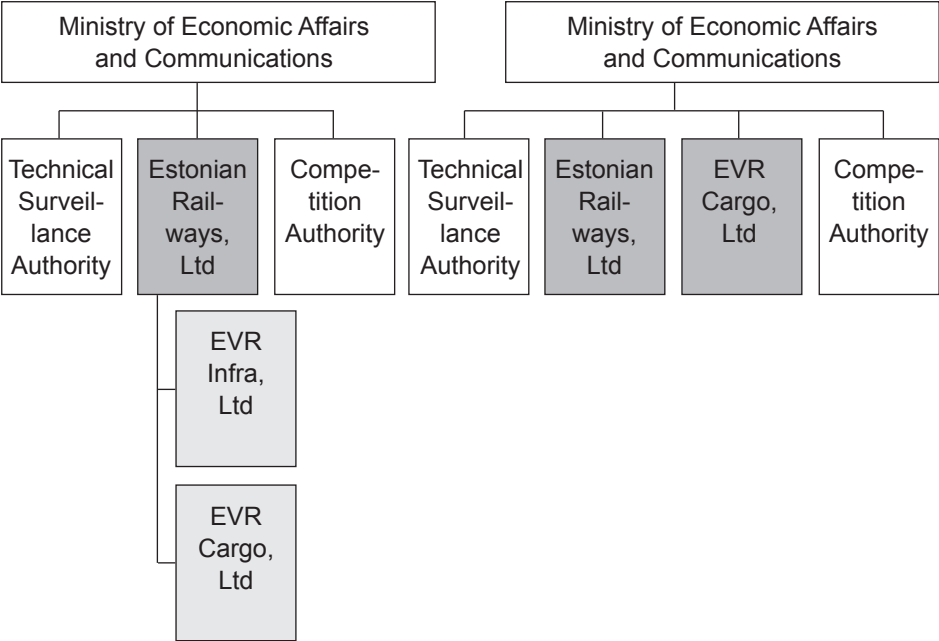


Source: IBM, 2011

Differently from Estonia, many European governments have stated publicly that their regulations were transposed in conformity with the Directives and are in line with the objectives of the railway packages. It has also been claimed that criticism can be levied as regards the Commission's procedures in that it is attempting to enforce its own ideas of regulatory legislation not by means

of parliamentary legislative proceedings, but in the form of extensive legal interpretation (Deutsche Bahn, 2011).

Figure 7. Model of organising rail transport in Estonia considering EU regulations



Source: Nežerenko and Koppel, 2012

The authors are of the opinion that this position is justified, as the Council of Ministers and the European Parliament had agreed that the first railway package was to grant the Member States a certain degree of freedom in transposition of the measures. This also refers in particular to the form of corporate structure, infrastructure charging and the decision on whether the incentive to reduce costs is to be designed as a performance regime, in the form of multiannual contracts or in some other way. Therefore, the reorganisation process in Estonia could prove to be unnecessary.

4.3. Rail infrastructure charging issues

In the previous section it was mentioned that the European Commission has complaints regarding infrastructure pricing mechanisms against many Member States. Therefore, the authors analyse the details of infrastructure pricing in the Nordic and Baltic countries.

Pricing theory is based on the perfect market, that is a market where the supply and demand are always in balance. As any other goods market, the rail transport service market is not a perfect one—market failures occur. In the context of this study, market failures mainly manifest themselves in the form of natural monopolies. A natural monopoly is defined as an undertaking who owns essential facilities, such as an infrastructure or other, which other persons cannot duplicate or for whom it is economically inexpedient to duplicate, and the access to which is essential in order to operate on the goods market. In order to regulate the activities of undertakings in a dominant position, the state can use different price regulation methods (Baumstark & Bonnaïfous, 1998).

In case of the best solution, a price is effective (optimal) when it equals both the marginal cost and consumer marginal surplus. Marginal cost is an extra cost incurred to produce a product or service unit, that is a change in total cost which equals a change in the volume of production by one output unit. Special methods for marginal cost pricing are: social marginal cost pricing (SMC); short-run marginal cost pricing (SRMC); short-run marginal social cost pricing (SRMSC); long-run marginal cost pricing (LRMC); long-run marginal social cost pricing (LRMSC); Ramsey pricing; cost-plus pricing (MC+).

The typology of special methods of marginal cost calculation universal methodology is based on the fact that if the time horizon is sufficiently long, all infrastructure management costs are variable costs. According to literature, in the case of SRMC-method a price is effective if capacity is limited or excessive, and in the case of LRMC-method if the capacity and demand are exactly the same. In the case of SMC-methods, all transportation system costs, both regarding the consumer and society in general, are included in price formation (Koppel, 2006).

Maximum efficiency obtained by marginal cost pricing in sectors with increased returns, for example in railway infrastructure management, is a decisive conclusion contributed by the theory of welfare economics. However, this theoretical result presents a number of problems (Baumstark & Bonnaïfous, 1998). The authors of this article find that such problems are manifested in the large investment need of railway infrastructure, competition for freight trains originating from third countries and cross-subsidising between freight and passenger transport taking place in the selected countries. Table 2 presents information about railway infrastructure pricing methods used in the countries under discussion. It can be seen that the Nordic countries use exclusively the marginal cost pricing method and the Baltic countries use the fully distributed costs (FDC) method. Finland can be considered a special case, as the Finnish

infrastructure pricing method is based on the long-term marginal costs of the infrastructure.

Table 2. Use of pricing methods in selected countries

Country	Pricing principle	Two- or multi-part tariff	Charges per		
			gross tonne-km	train-km	path-km
Denmark	SRS MC+			<i>V</i>	
Finland	LRS MC+		<i>V</i>		
Sweden	SRS MC+		<i>V</i>		
Norway	SRS MC+		<i>V (freight)</i>		
Estonia	FDC	<i>V</i>	<i>V</i>	<i>V</i>	
Latvia	FDC			<i>V</i>	
Lithuania	FDC	<i>V</i>	<i>V</i>	<i>V</i>	<i>V</i>
Poland	FDC			<i>V</i>	<i>V</i>

Note: SRS MC – short-run marginal social cost pricing, LRS MC – long-run marginal social cost pricing, FDC – fully distributed cost pricing.

Source: ECMT, 2005

Estonia has chosen to use two-part tariff method where the fixed component is theoretically meant for covering the costs related to train control. The external marginal cost of transport system is partially included in the railway infrastructure pricing model of all the Nordic countries, including costs such as those related to congestion, railway accidents or negative environmental impact (noise, vibration, air pollution) (see Table 3).

Table 3. Cost items included in variable infrastructure charges in selected countries

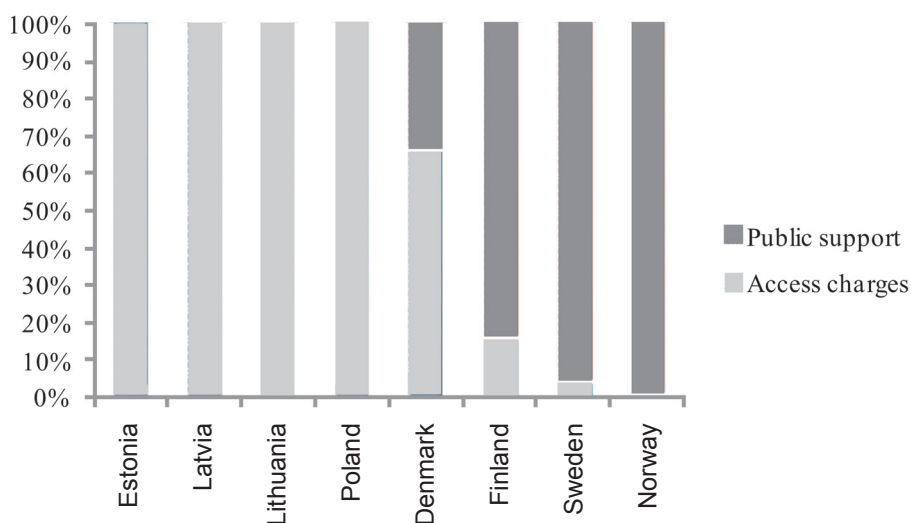
Country	Cost items					
	Maintenance	Renewals	Traffic management	Congestion	Accidents	Environment impacts
Denmark	<i>V</i>			<i>V</i>		
Norway	<i>V</i>				<i>V</i>	<i>V</i>
Sweden	<i>V</i>				<i>V</i>	<i>V</i>
Finland	<i>V</i>	<i>V</i>				<i>V</i>
Estonia	<i>V</i>	<i>V</i>	<i>V</i>			
Latvia	<i>V</i>	<i>V</i>	<i>V</i>			
Lithuania	<i>V</i>	<i>V</i>	<i>V</i>			
Poland	<i>V</i>	<i>V</i>	<i>V</i>			

Source: ECMT, 2005

In the relevant literature (Baumstark & Bonnafous, 1998) two main principles of railway infrastructure pricing have been mentioned. One of them involves relating pricing to the difficult question of covering the fixed costs which within

the rail system, as many other networks, represent a large proportion of the total costs. The European Commission's proposal (*Communication from...*, 2010) sets the maximum of 35 per cent for direct costs to be included in infrastructure charge. It implies that the remaining part of the costs should be covered by the state budget. While this practice is prevailing in certain Member States (where railway freight share is around 10%, this share focuses on containerised cargo, and subsidies to rail operations and infrastructure are significant), it is not the case in other Member States. For example, in the Baltic States (Lithuania, Latvia, and Estonia) infrastructure managers are not significantly subsidised by governments (see Fig. 8). They earn revenues from infra-structure charges to cover the needed investments in rail infrastructure, maintenance and development.

Figure 8. Target per cent of the total cost covered by infrastructure charges



Source: Thompson, 2008

The railway undertakings of the Baltic countries can be characterised by a vast need for investment that would be necessary for implementing the projects and targets mentioned in the Transport White Paper and the Baltic Sea Strategy of the EU. It is also not certain whether the state budgets of these countries would have sufficient funds for financing railway infrastructure in the suggested volume.

The aforementioned is substantiated by the fact that the rail infrastructure investment and maintenance costs per one kilometre (see Tables 4 and 5) are substantially higher in the Nordic countries than in the selected CEE countries (apart from Lithuania).

Table 4. *Investments per km of track in selected countries (current prices and exchange rates, million euros)*

Country	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
<i>Nordic countries</i>											
Norway	86.8	47.7	46.5	49.1	54.4	47.3	63.1	68.9	69.9	87.2	n.a.
Finland	39.8	34.8	38.4	47.0	57.2	49.1	39.6	35.8	55.2	57.1	61.3
Sweden	53.6	52.7	73.9	67.4	71.9	77.5	82.8	102.2	119.6	118.4	128.7
Denmark	204.5	166.0	172.7	121.5	122.5	91.0	67.3	87.7	141.0	134.8	149.8
<i>CEE countries</i>											
Estonia	20.7	15.3	18.6	16.7	22.8	21.5	22.9	33.6	23.2	32.1	37.3
Latvia	16.1	13.2	15.9	17.9	14.6	17.7	14.6	16.5	27.0	33.8	41.2
Lithuania	9.3	14.5	32.4	48.2	39.5	38.4	28.5	42.6	48.4	38.0	60.6
Poland	8.6	5.6	5.3	9.4	10.8	12.1	18.2	33.3	46.1	32.9	34.9

Source: ITF, 2012

Table 5. *Maintenance expenditure per km of track in selected countries (current prices and exchange rates), million euros)*

Country	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
<i>Nordic countries</i>										
Norway	80.4	91.5	102.7	95.3	86.6	88.1	98.8	101.3	108.8	130.1
Finland	19.6	21.3	23.0	23.4	27.1	27.3	26.4	28.3	30.4	33.1
Sweden	32.0	31.1	40.2	48.2	70.2	51.4	53.4	55.7	54.2	53.0
Denmark	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
<i>CEE countries</i>										
Estonia	22.6	18.9	15.1	12.6	11.9	13.6	18.5	20.8	n.a.	n.a.
Latvia	20.7	21.7	23.5	18.6	24.5	26.6	31.0	39.3	55.9	73.2
Lithuania	25.0	29.1	42.2	52.2	53.6	59.5	59.5	64.9	65.0	93.8
Poland	2.6	2.2	1.9	3.3	3.8	4.2	3.4	5.2	1.8	7.9

Source: ITF, 2012

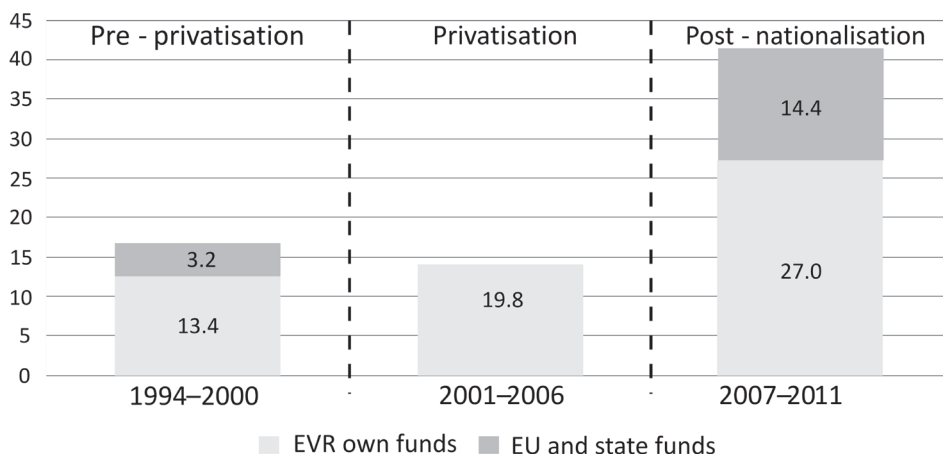
In order to achieve the targets set in the EU transport policy (high-quality transport connections), the total investments into infrastructure and maintenance costs in the CEE countries should increase 5–20 times. It is highly probable that such situation cannot be achieved without subsidies from the state budget (as is the case in Norway, Sweden and Poland) or the EU structural funds (the Baltic countries) (ECMT, 2005).

Therefore, the second principle of railway infrastructure pricing is based on the acknowledgement that rail infrastructure pricing cannot be separated from investment choices. The example of Estonian Railways (former EVR Infra, Ltd) shows that in order to satisfy the investment need of a company through access fee's capital cost component based on the full infrastructure costs (considering that the weighted average useful life of railway infrastructure components is

ca 30 years), a cumulative sum of more than half a million euros should be covered annually. As Estonian Railways is a business undertaking, the so-called reasonable business profit should be added. The Estonian legislation stipulates that such profit is the product of weighted average capital cost and the residual value of non-current assets. It has also been considered that according to the accounting rules applicable in Estonia, the investments made with the assistance of the EU structural funds are not depreciated.

Rail freight traffic in the Baltic States is essentially devoted to shipping exports of Russian commodities to seaports for further exports (i.e. these are re-exports) or to shipping commodities from Russia into the Russian enclave of Kaliningrad (i.e. these are re-imports of the Russian Federation). This unique case requires special treatment. It does not make sense to use public funds from the EU Member States to effectively lower track access charges in this particular case, since this would be a transfer of public funds to undertakings from a third country.

Figure 9. Average annual investments of Estonian Railways in railway infrastructure and sources of funding

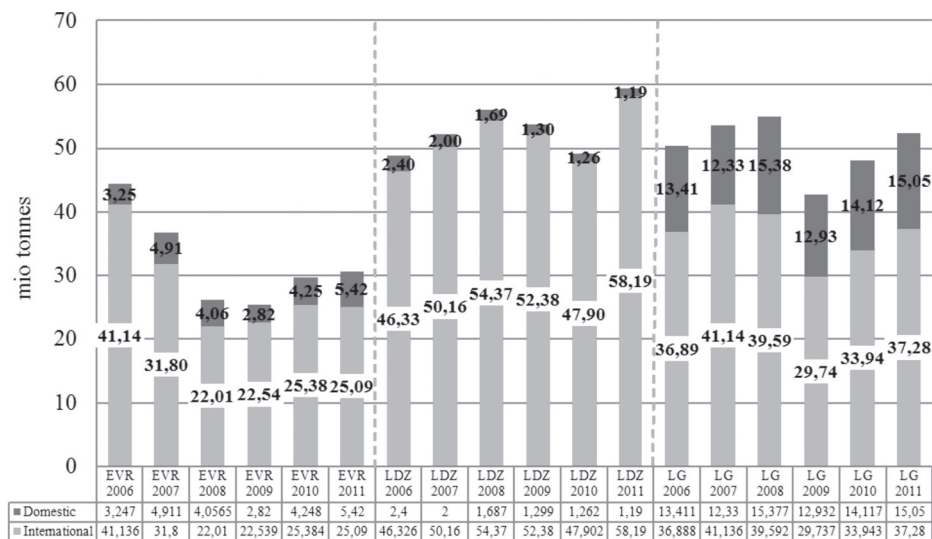


Source: Koppel & Archer, 2006; Communication with Estonian Railways, 2012

The aforementioned shows that the market in case of railway infrastructure management is seen as an oligopoly rather than a monopoly, that is a market where a limited number of sellers sell their products practically to an unlimited number of buyers (Koppel, 2006). To illustrate the above-said, let us view the Baltic rail transport market as one integral whole where infrastructure managers Estonian Railways (Estonia), LDz Infrastruktūra (Latvia) and LG Railway Infrastructure Directorate (Lithuania) compete with each other. As

is shown in Figure 10, the volume of internationally moving freight hauled by the Baltic railways in 2006–2010 has varied by approximately 15 per cent and a significant role in the distribution of freight between the countries is played by the economic policy considerations of Russia, whereas in short-term perspective the volume of freight going through the Baltic countries has been stable.

Figure 10. Volume of freight hauled by Baltic railways in 2006–2011



Source: Authors' illustration based on the information of Baltic railway undertakings

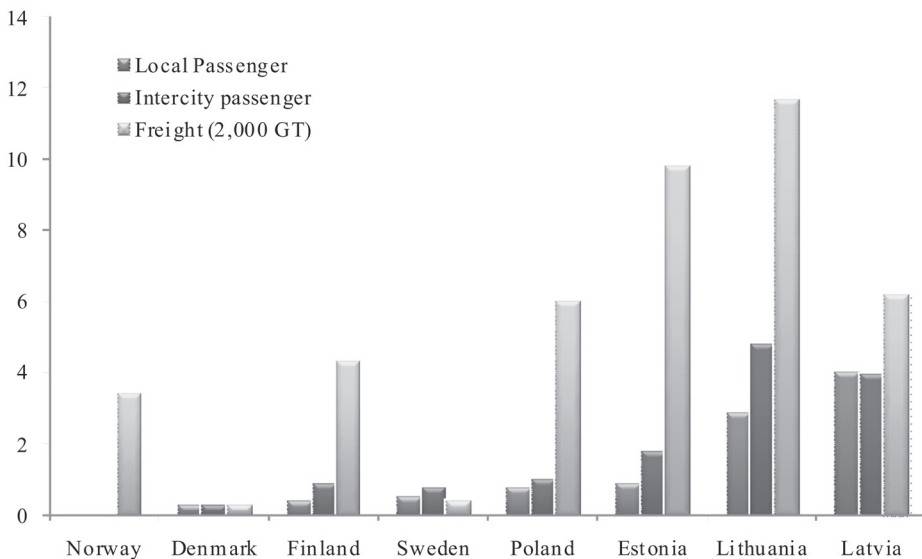
There are also opinions that the new railway directive aims at establishing more precise infrastructure charging rules in order to end the forced subsidising of passenger transport by freight transport in the CEE countries. For example, the railway infrastructure access fee calculation method employed in Estonia is known from the theory of economics as fully distributed costs (FDC) pricing method (see above).

Access fee is calculated as two-part tariff, using, in the authors' opinion, unjustifiably the assumption that 30 per cent of railway infrastructure management costs are fixed and 70 per cent are variable. Fixed costs are distributed between freight operators in accordance with the share of capacity allocated to a company (measured in train kilometres) and variable costs based on the mutual proportion of companies' rolling stock works (measured in gross tonne kilometres). The distinctive character of the Estonian system is that the companies providing public passenger transport services are exempt from

paying the fixed cost component of railway infrastructure access fee that causes legitimate doubts about the existence of cross-subsidies (Koppel, 2006).

The element of cross-subsidising is present also in the infrastructure pricing mechanisms of other countries (see Figs. 11 and 12), whereas in Norway the passenger trains using railway infrastructure pay no fee whatsoever. There exists a rational explanation for that, as the pricing of road transport competing with railway infrastructure does not include full infrastructure and environmental costs. Meanwhile, there also exist cases where freight transport is cross-subsidised by passenger transport. This is mostly happening in some Nordic countries where the governments want to shift freight from road to rail. It is peculiar that freight transport subsidising by rail passenger transport funded from state budget is also happening in Estonia—on the railway infrastructure belonging to Edelaraudtee Infrastruktuuri AS (South-West Railway Infrastructure, Ltd).

Figure 11. Infrastructure access charges for freight and passenger trains in selected countries

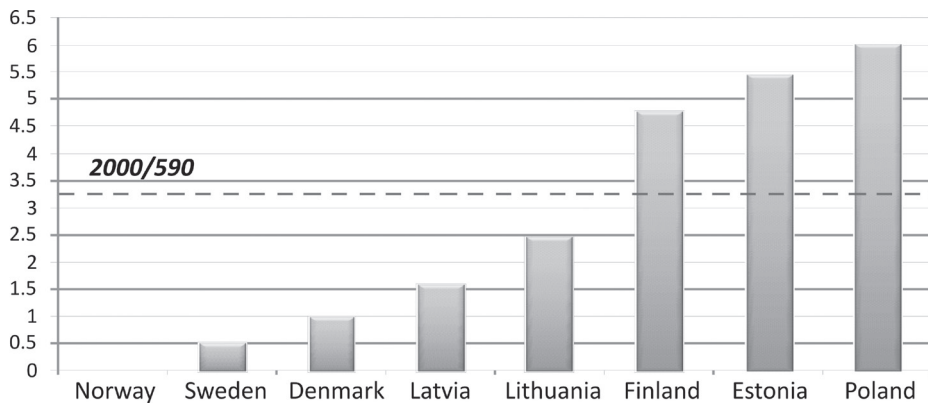


Source: Thompson, 2008

Based on the foregoing statements, the following conclusions can be drawn. The increasing volumes of rail freight transportation in the Baltic CEECs signify that “the market can bear the applied charges”, as it is mentioned in the proposed new directive (*Communication from...*, 2010). Moreover, a specific feature of railway market in the Baltic States is that more than 70 per cent of freight traffic

comes/goes from/to third countries (Russia, Belarus, etc.) and raw materials are the dominant type of freight. If the possibilities for the mentioned countries to recover total costs are to be limited then it would signify: a) unbearable burden for national budgets to invest in railways, and b) unjustified outcome of subsidising third countries. On the other hand, the market failures in unfair pricing of passenger and freight transport have to be eliminated.

Figure 12. Ratio of the access charge per a typical 2,000 gross tonne freight train to charge per a 590 gross tonne intercity passenger train



Source: Authors' calculation

5. Conclusions

The results of the research indicate that the organisation of rail transport in any CEE country located in the Baltic Sea region is not compliant with the respective legislation of the European Union and the compliance with those legislative acts would require certain reorganisation at the government agencies' level. The authors still doubt whether the establishment of an independent body only for the purpose of supervising competition on railways would be reasonable considering the small size of the Baltic States. Among other things it might appear necessary to transfer the shares of rail transport undertakings from holding companies to the governments or privatisation of companies. In other aspects, good reorganisation examples can be seen in the Nordic countries, particularly Denmark, where the legal (but not ownership) separation has already been completed.

Meanwhile, the Baltic States and Poland acceded to the EU in 2004. As such, neither Estonia, nor any other acceding Member State, had an opportunity to

influence the First Railway Package, issued in 2001. Nevertheless, necessary exemptions were applied for and received by Finland. Now, during the recast of new railway directive there is an opportunity to make necessary amendments taking into account the particularities of the Baltic States. Possible solutions to the problem could comprise one or several of the following steps:

- 1) Apply for an exemption for the Baltic countries for using the fully distributed cost method for railway infrastructure pricing until the companies working on the rail transport market are able to pay it;
- 2) Stipulate that the requirements of the new EU railway directive will not apply to international rail transport from third countries;
- 3) Stipulate that the requirements of the new EU railway directive will not apply to international rail transport to the seaports of the Baltic countries.
- 4) Considering what has been said above, the authors are of the opinion that the recommendations given would ensure the sustainable development of railway business in the CEE countries located in the Baltic Sea region. These recommendations would actually facilitate and not hinder the achievement of the goals laid down in the EU documents dealing with development. This statement is also supported by the fact that at the time of writing the present article such ideas are being discussed also in the European Parliament (Serracchiani, 2011).

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New Forms of Democracy in Latvia¹

Rasma Kārkliņa

Faculty of Humanities,
University of Latvia
Visvalža 4a
Rīga LV-1050, Latvia
E-mail: rasma.karklina@lu.lv

Abstract: *Based on in-depth research, this paper focuses on new forms of self-governance and democratic participation in contemporary Latvia. It finds that the theoretical notions of deliberative democracy can be tested by examining the practices of how social groups participate in policy decisions on various levels of government. Under the sponsorship of the European Union and other external supporters, Latvia has developed formal mechanisms of popular participation in governance decisions. This paper analyzes how this works in theory and in practice. On the municipal level nongovernmental groups participate in deliberations about development strategies and discussions about how specific developmental projects might affect their environment. Local NGOs form one of three partners in formalized “partnerships” with local businesses and municipal councils. This participatory involvement suggests that one can speak of a nascent “partnership democracy” in Latvia, and possibly other EU-influenced post-communist states. In Latvia’s case, the recent tendency towards the involvement of “social partners” and the forming of partnerships and consultative councils in ministries, municipal councils, and other institutions, fits this category rather well.*

Keywords: *deliberative democracy, open governance, partnerships, social dialogue*

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1. Introduction

In many parts of the world scholars have noted a certain fatigue and disenchantment with traditional representative democracy and there have been various initiatives designed to “democratize” democracy (Norris, 1999). Some of these initiatives focus on improving representative democracy by opening government meetings to media and society and asking for more accountability by creating new institutions, for example ombudsman or anti-corruption bureaus. Other attempts focus on formalized citizen initiatives and various types of referenda. In essence, these institutional initiatives emphasize the development of new forms of political participation whereby individuals, groups of citizens, and civic organizations take part in deliberations side by side with governmental decision-makers (Yaojun & Marsh, 2008, p. 247). Some of these new forms of participation emphasize opening government to active individuals; others emphasize organized groups, especially nongovernmental organizations. This article will focus on the latter, that is the involvement of organized community groups in policy-making. Here the main recent emphasis has been on developing influence through horizontal interaction between different societal groupings, specifically between NGOs and official political players such as political parties and governmental institutions (Petrova & Tarrow, 2007, p. 79).

There are several theoretical assumptions that this article—as well as the new forms of participation outlined here—are based upon. The first is that the characteristics of institutions and procedures matter, since they provide the structural framework for decision-making. Specifically, the argument is that horizontal deliberations, such as, for example, discussions between partners who are on a basically equal level, are crucial. The quality of deliberation is important as well, and advocates of this approach outline specific procedural and qualitative characteristics that any social dialogue should have.

The second basic assumption underlying this approach is that intense deliberations with citizen organizations are the way to arrive at the best solutions about what policies to pursue in a specific environment, and that this approach helps achieve policy outcomes that satisfy more constituents. This means that all stages of policy-making, including implementation, will be more successful if they are based on citizen involvement. As the repertoire of citizen participation is broadening, the quality of governance should improve.

2. Overall levels of political participation in Latvia

Although our focus is on forms of societal group participation in decision-making, one should note that overall civic participation in Latvia has differed greatly during several distinct phases. During the first phase (1987–1991) of transition from the Soviet system, grassroots social movements and unprecedented mass mobilization were instrumental in triggering the collapse of the Soviet regime and restoring Latvia as an independent state. Societal civic activism during the “Singing Revolution” of 1988–1991 was extremely high, involving huge numbers of participants in demonstrations, petition-signing, a referendum, and elections. Next to mass mobilization there was unprecedented self-organization at the small group and grassroots level, involving too many types of activities than can be mentioned here (Karklins, 1994; Beissinger, 2002).

Once the new democratic system was established, popular participation normalized in 1992 and slowly turned into a more complex phase in the late 1990s that has been marked by partly contradictory types of participation occurring parallel to each other. Next to continuing “normal” participation, such as voting and associational membership, subgroups of disenchanted citizens have increasingly begun to engage in referenda, protests, and illicit ways to influence politics (Karklins & Zepa, 2001, p. 334). The latter involve corrupt practices, non-payment of taxes, and small-scale resistance to bureaucratic requirements. Other people develop a lifestyle of deliberate non-interaction with the state and its institutions, creating their own “islands” of social autonomy (Sedlenieks, 2012, pp. 88–117; Greenberg, 2010, pp. 41–64). While interesting, it is beyond the limits of the present analysis to discuss these aspects of citizen activity. The focus here is on communal group involvement in policy-making, which is the opposite of deliberate attempts to avoid contacts and keep one’s distance from the state and its administration. Popular involvement in politics is based on the assumption that it leads to better policies for all concerned.

3. Rationales for citizen participation in decision-making

Several recent analyses sponsored by the European Union have concluded that the concept of participatory citizenship is understood differently across various European countries, and that there is little coherence in policies and practices. The conceptual understanding of the value of participation often is fluid within a country, and it tends to change across time and between different actors (Hoskins

et al., 2012, p. 18). Nevertheless, the reports emphasize that cooperative arrangements on a group level are very promising, and that collaboration is a key feature of many of the good practice examples of policy-making that have emerged across Europe. These practices highlight the crucial role of forming horizontal and vertical partnership between different institutions: local government, national government, schools, universities, youth councils, non-governmental organizations, local and international companies, trade unions, arts and cultural organizations and the media. Collaboration enables innovation, the pooling of resources and the sharing of expertise (Krek *et al.*, 2012, p. 31).

Next to cooperation, open government and collaborative decision-making have emerged as key concepts in contemporary policy-making, since “modern government is no longer seen to be effective in formulating and implementing public policies on its own” (Mžavanadze, 2009, p. 397). This dictum has been accepted by Latvia’s government, which in 2008 approved a document outlining the basic principles of how state officials should organize their work to improve administrative practices during the period 2008–2013. The document emphasizes the duty of administrators to carefully listen to what society has to say about its problems, to consult it about possible solutions and to inform it about all planned and envisioned action, especially in regard to those persons who may be affected by these policies and activities (Rieksta, 2010, p. 24).

In Latvia and elsewhere, the cooptation of societal institutions in policy-making is seen to lead to better decisions and better governmental policy implementation, with its concrete rationale having been formulated in various ways. Since this paper highlights developments at the municipal level, it is helpful to summarize the pro-participation arguments outlined in a handbook distributed to all municipal councils in Latvia, and especially aimed at officials in the countryside. The handbook argues that the effectiveness of municipal work is dependent on how well officials succeed in continuously communicating with local people on an equal partner basis, thus gaining their trust.

Specifically, the handbook for municipal officials states that “**it is important that the local government talk with its inhabitants** during all cycles of its policy making” (bold emphasis in the original; LPS, 2009, p. 35). Five such phases are outlined:

- 1) Identifying what the problem is that needs to be addressed—who needs assistance, and in what way;
- 2) Designing an appropriate policy—if local people participate in deliberations, they will view the outcome as their own solution and will implement it willingly;

- 3) Deciding on a policy or project—if the decision is made with the involvement of local inhabitants this is more likely to be a policy that will work, it will not be a project that local people reject and therefore undermine;
- 4) Implementing the new policy is much more likely to succeed if it is made easy to comply with. It is effective to not only punish people for noncompliance (using “the stick”), but instead one should use various rewards (“the carrot”) by actively informing people that there will be specific enticements for compliance;
- 5) Sustaining the new policy as well as controlling how well it works: in this regard, too, it helps to consult with local inhabitants and ask for additional suggestions on how to improve the approach taken.

In all this, local governments should involve more active means of communicating with the local community to keep the dialogue going.

In more theoretical terms the arguments for the benefits of public participation in all sorts of decision-making, but especially in local developmental planning, have been made by a variety of social scientists who are proponents of neo-institutionalism and participatory democracy. Both theories argue that communal involvement and cooperation leads to better outcomes than if administrators decide by themselves. It is argued that due to the involvement of the citizenry, local plans and programs will be more attuned to local contexts, and local residents will be more supportive in implementing them, which is a precondition for any plan to succeed. Consultation and dialogue also allow for conflicting views and interests to be reconciled, or at least to be aired openly. This minimizes the likelihood of destructive protests.

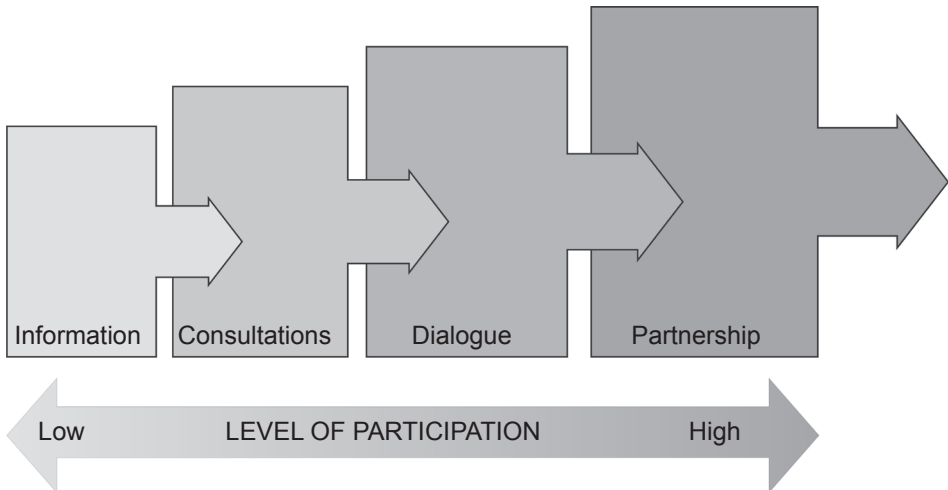
Next to arriving at better solutions, societal involvement in public deliberations has the added role of shaping the views and behaviors of participants. In this regard the theoretical assumption is that the process of deliberation trains participants in various democratic practices such as analyzing the host of factors affecting a policy, and arguing the advantages of a certain approach. Advocates of neo-institutionalism argue that institutions and the procedures they employ shape the views and behavior of the people involved in contact with them, and therefore, new approaches in institutional arrangements and involvement can form new political cultures (Immergut, 1998, p. 21).

In sum, the basic argument in support of societal involvement in governance is that “the benefits of public participation processes include better decisions, better implementation, enhanced legitimacy, transparency, accountability trust and fairness for the government, better opportunities for learning, self-fulfillment and services of public policy for the wider public” (Mžavanadze, 2009, p. 401).

4. Forms of participatory decision-making

In October 2009, an international NGO conference organized by the European Council outlined the basic principles of participatory democracy and confirmed a *Code of Good Practice for Civil Participation in the Decision-Making Process*. The code speaks of “shared spaces for dialogue and cooperation” (INGOs, 2009, p. 6) and at its core are several graphs that depict four levels of participation in the decision-making process according to intensity and quality. The suggestion is that these four modes of societal involvement should be implemented on all administrative levels of both executive and legislative bodies: information, consultation, dialogue and partnership (see Fig. 1). The lowest level of interaction is deemed to be ‘Information’, with the highest level defined as ‘Partnership’.

Figure 1. The different levels of participation



Source: INGOs, 2009

In this schema *information* is classified as the least significant level of participation because it tends to involve a one-directional flow of information from society to governing units, usually without a response. Yet, it is a form of participation, because administrators on their part have the duty to provide basic information to all sides concerned, including about possibilities of deeper involvement.

Consultations are seen to constitute an intermediary level of participation characterized by an official institution taking the initiative and giving a concerned non-governmental organization an opportunity to present its point of view and recommendations. In this situation there is a two-way flow of information and

communication, but typically it is the administration side that picks the topics about which to consult with concerned groups. The organizations on their part provide their assessments and experience about a policy document or legislative proposal.

Dialogue constitutes an intermediary to high level of participation. In practice this means that there are formal public hearings by municipal, parliamentary, or governmental committees and the topic of discussion is substantial. The administrative partner organizes the place and time for the dialogue to take place, and the communal group on its part instigates or chairs the discussions, seminars, or conferences. Both sides take responsibility for summarizing suggestions and conclusions and following up on them.

Partnership constitutes an intense level of participation that is characterized by shared responsibility and duties between governing bodies and organized societal groups on all levels of decision-making. Partnership means more than intensive interaction in bodies that guarantee joint decision-making, since it also involves cooperation in the form of, for example, the delegations of certain functions to NGOs. Thus a non-governmental charity group may take on the task to provide care services for a socially weak group, such as handicapped persons. It could also mean implementing a part of the planned activities, for example by rural action groups implementing small projects. In all these cases, participation is seen as leading to empowerment of groups of citizens.

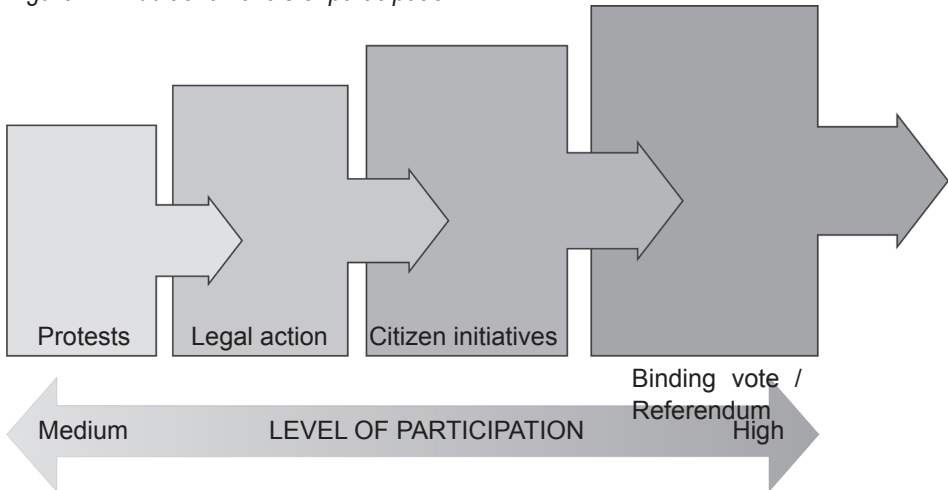
While the four categories of participation in decision-making outlined by the *Code of Good Practice* and illustrated in Figure 1 are helpful in clarifying forms and levels of influence by societal groups, in-depth research in Latvia, as well as analytical reflection, leads to several additional forms of how citizen groups can impact administrative and governmental decision-making. The additional four categories can similarly be depicted by level of influence on decision-making, as illustrated in Figure 2.

Protests can have a significant effect on the final administrative or governmental decision, if societal groups feel that their interests or points of view have been ignored, or are being violated, and they mobilize to express their non-concurrence actively.

A similar, but analytically different form of participation is the *initiation of legal action* by a NGO or informal group of concerned citizens who challenge an administrative decision in court. In Latvia, this practice has been used increasingly often in recent years, but in order for it to have any chance of success, legal provisions that the claimants can base themselves on have to be in place. The legal suit can succeed only if it can refer to specific laws and regulations,

or even to basic civic rights as outlined in the Constitution. Precedents of such legal challenges in Latvia show that suits also have a better chance of success if specific laws are in place about the right of citizens to participate in decision-making, for example about environmental concerns. Some examples will be cited below.

Figure 2. Additional levels of participation



Citizen initiatives are institutionalized collective proposals to a decision-making body that have recently emerged as a new form of democratic participation in Latvia and the European Union. They are likely to become more significant in future years. In the case of Latvia, the legal framework for citizen initiatives on the national and EU level were put in place during the years 2011 to 2012, and it is likely that they will duplicated on the municipal level in the not too distant future.

Referenda are the most influential form of citizen participation in decision-making, as they in fact represent law-making itself. Latvia has one of the most extensive systems of popular referenda in the world; referenda can be triggered in seven distinct ways and citizens vote on a specific law, constitutional amendment, or the dissolution of parliament (Auers, Ruus & Krupavicius, 2009, pp. 81–106). In recent years initiating a nation wide referendum has become an increasingly frequent and controversial practice in Latvia (see details below).

5. Popular participation in practice

Overview. While significant forms of communal involvement in policy-making have been put in place in terms of procedural arrangements, one has to ask how well they work in practice. At this time the answer can be only be provisional, as most of the new arrangements have been put in place relatively recently. Yet, experience to date is rather promising.

A recent systematic survey of the non-governmental sector in Latvia found that forty-four per cent of NGO representatives are convinced that their organizations can influence decision-making, with those groups focusing on the common good showing a slightly higher rate. Organizations representing professionals or business people show the highest rate of positive assessments (89%), followed by organizations that specifically focus on interest representation and legislative work (65%), as well as environmental groups (62%) (BISS, 2011, p. 40). Focus groups and personal interviews with NGO leaders show that cooperation takes place mostly with representatives of ministries by participating in working groups and consultative councils where departmental planning documents or drafts of laws are being prepared. NGO representatives are invited because they are seen to be better informed about the needs of the groups they represent, and can anticipate how one or the other approach might influence their field. Usually NGOs cooperate with the specific ministries that work on issues of interest to them, and close relations tend to develop over time (BISS, 2011, pp. 13–14).

Research on experiences with participation in decision-making at the municipal level shows that while citizens formally are able to take part in the general meetings of local councils, in practice the most productive way is to participate in meetings of committees and commissions. During deliberations in these smaller bodies societal groupings have the best chance to be heard in regard to issues that are of core interest to local residents, for example housing, various social services, and plans that would provide additional leisure activities. Constituents also take action to be heard when it appears important to stop a decision that has already been made, which most often happens in regard to a construction project (Šaka, 2009, pp. 6–10). In comparison to these generally optimistic findings of this study covering all of Latvia, another study, conducted in 2009 and focusing on municipalities in the Riga region, draws more modest conclusions about NGOs' impact on local council decision-making (Grigorjevs, Pīpiķe & Šimanska, 2009).

6. Illustrative examples of civic participation

Information. Access to information in Latvia is wide in scope on all levels of government. Ministries and numerous subordinated institutions have Internet homepages that provide extensive information about the specific institution, its functions and the services it provides. Interested persons can follow the process of drafting new legislative acts, starting with their being proposed at the State Secretaries' meeting until their adoption in the Cabinet of Ministers. Representatives of NGOs have the opportunity to participate in the meetings of state secretaries, and most cabinet meetings are open as well (Golubeva & Reinholde, 2009, pp. 59–60).

Access to information is similarly broad in most municipalities. A survey of the web sites of all the municipal councils in the Kurzeme region showed that even the smaller counties have very informative web sites, where detailed announcements about meetings, events, and new policies are posted.² As a rule, municipal leaders emphasize the importance of information and communication: one rural town in its 2011 annual report specifically defined comprehensive information as its main principle of civic participation:

The municipal council of Olaine makes certain that local residents are informed about its decisions, that they can express their views in due course, and receive extensive replies. In order to safeguard this, the council publishes an informative bulletin once a month and distributes five thousand copies free of charge (Hanovs, 2012, p. 177).

Consultations between governing institutions and residents take place in many different ways, which are partly informal, partly formal. When municipal councils take the initiative they typically give a concerned non-governmental organization the opportunity to present its point of view and suggestions for some activity. Thus a study comparing societal participation in five rural towns with a significant ethnic minority population concluded that in the case of the most “participatory” town, Balvi, minority group involvement in policy-making consisted primarily of public forums and planning meetings about how to promote locally significant projects. As noted by a representative of the Russian cultural society: “each year in January we have a work seminar where all of us cultural activists deliberate on a activity plan for the year” (Hanovs, 2012, p. 123).

² See, e.g., <http://www.aizputesnovads.lv> or http://www.dundaga.lv/avize/d111_20110330.pdf [accessed 14 Oct 2012].

In addition to more formal modes of consultation with citizens there are indirect ways to explore their views, for example through sociological surveys. In the course of formulating local developmental plans, many rural councils have distributed questionnaires or conducted small surveys asking for ideas. The Latvian government on its part has sponsored numerous studies and surveys to determine how best to implement some policy, for example, it sponsored a study in the Latgale region that asked respondents about patterns of interaction with governmental and municipal service providers (SKDS, 2011).

Dialogue during mandatory public hearings. In Latvia and elsewhere in the European Union public hearings increasingly have become mandatory in regard to major governmental decisions, especially so about strategic development planning and territorial zoning. By law, consultations with society are required even at the highest level, such as during decision-making about Latvia's National Development Plan 2014–2020. During deliberations about this national plan in summer 2012 the governmental planners, working directly under the auspices of the Prime Minister, organized hearings in various regions of Latvia. They also provided opportunities for individuals and NGOs to voice their views at smaller meetings and in written form on a web site. This resulted in more than one thousand proposals (BNS, 2012). While not all proposals can be included in the official plan, they are carefully analyzed and taken account of where possible.

In Latvia's countryside, the involvement of the citizenry in decision-making on general development plans began on a mostly voluntary basis on the part of the official institutions involved, yet it has increasingly become mandatory as new national and EU regulations have been passed. As of 2011/2012 all municipalities have engaged local residents in the planning of mandatory development programs that have to be completed by 2013. Deliberations have taken different forms: there have been resident surveys, various types of public forums, and formal hearings organized by municipal councils. Experience with these events has varied. After analyzing these hearings in another part of the research project I have concluded that the outcome is much more favorable if the process is organized from the bottom up, by civic activists being in charge of agenda-setting and generating truly broad societal participation. To generate real proposals and discussion, and to avoid some more vocal people just letting off steam, trained moderators have to structure discussions in a purposeful way. People involve themselves more constructively if the discussions succeed in focusing on issues close to their hearts, such as cultural and social provisions (Kärkliņa, 2012, pp. 67–87).

Participatory success is less likely if meetings are organized by local officials and chaired in a formalistic manner, without a real generation of open discussion. A scholar who attended an official town meeting on territorial planning notes the “dogged formality of the event” (Ozoliņa, 2010, p. 581). Other studies have drawn similar conclusions, for example, if deliberations are too formal residents fail to get seriously involved. This is especially true in those cases where complicated and more technical issues are discussed, such as in regard to official territorial plans and formal impact on environment assessments. By national and EU law, municipalities are required to organize public hearings and to conduct an Environmental Impact Assessment in regard to the substance of territorial development plans as well as specific larger economic projects. This procedure has been applied in Latvia since 2004, and it requires public deliberations. To date, it appears that the purpose of these meetings is poorly understood in smaller rural communities, and is often conducted in a mostly formal manner (Pavasars, 2012).

The fact that Latvia allows a certain level of participation on the part of community representatives in strategic planning and policymaking has been positively remarked on in a comparative study with Lithuania. While the process in Lithuania has been comparatively closed, Latvia is more open towards the involvement of experts and societal groups in this regard (Mžavanadze, 2009, p. 403).

Partnership. The emergence of partnership organizations and local action groups—partly supported by the EU and external foundations—has been a particularly significant new development in fostering democratic participation in policy-making. While the central representative bodies of trade unions, business organizations, and municipalities have become recognized “social partners” in policy-making at the national level, including during budget deliberations, a similar concept has been implemented in the countryside. Here the partnership model has been introduced as a means of dealing with the complex problems of contemporary rural life and has been funded by a special 2.5 per cent earmark of the EU agricultural fund for the planning period 2007–2013. In Latvia’s case this funding amounts to approximately twenty-five million euros and is popularly known as “the leader program,” since its acronym is LEADER.

During the last decade, partnership organizations have been created in all regions of Latvia. These bodies join municipal institutions, business organizations, NGOs, and other interested parties in a single cooperative network. Its main purpose is to promote social dialogue among the various partners and to have them work jointly in formulating local development strategies as well as implementing concrete developmental projects. To promote the latter, smaller

“action groups” are formed within the larger body. These groups compete among each other for project funding, which is granted on a competitive basis, thus promoting the skills of grant-writing. Partnerships have flourished all over Latvia and have implemented many projects that improve the quality of life in a particular community. In rural areas the sponsored projects tend to be youth centers, activities for young parents or pensioners, and similar things.³

The partnership groups in Latvia’s rural areas are coordinated by a national umbrella organization, the Rural Forum of Latvia. Its goals are defined as:

Aims & Objectives: Promoting the sustainable development of Latvian rural territories; Strengthening civil society in rural territories, promoting local initiatives and cooperation; Representing interests of rural population on the national and international level; Cooperation with government, municipalities, NGOs, business persons and other institutions (Latvian Rural Forum, 2012).

Since the initial forming of partnerships and local action groups in the early 2000s in the Latgale region, several scholars have studied these new forms of participation in the Latvian countryside. The social, economic, educational and environmental projects organized by local initiative groups are found to have been important for the improvement of rural livelihoods, as well as for the creation of new social capital and skills of communal cooperation (Tisenkopfs & Sumane, 2004; Zobena & Paula, 2007). Partnerships not only promote hands-on local community projects, they also serve the purpose of bringing people together and generating social capital that can lead to new cooperation.

Protests. In recent years rural people in Latvia have been quite active in protesting against governmental and EU agricultural policies, as well as against specific policies applied at the local level. The protests tend to be spontaneous and reactive. Typically, people belatedly learn about a planned development that they object to and view as endangering their environment and quality of life. Interestingly, many of the recent protests and local outrage in rural areas have focused not just on a planned developmental project, but also on the process of how decisions were made. As mentioned above, during the last decade local communities have been encouraged to participate in decision-making about small and large development plans, and local people feel cheated when they discover that their input has been ignored or joint decisions have been circumvented.

³ Author’s interview with leaders of the Latvian Rural Forum on 31 May 2010, and numerous media reports.

The protests follow a certain pattern in how they develop: everything starts with some local activists discovering the “misconduct” of a local or national state institution. They then publish protest letters to officials in local newspapers and concurrently start collecting signatures on petitions demanding open meetings and discussions that would reverse the decision. The language of the protest statements tends to be highly emotional, accusatory, and aggressive. Pickets may ensue, or legal action, and in some cases a compromise is reached. Thus a partial compromise was reached in a case in regard to a large state owned forest in the Jaunpiebalga County where the state agency in charge had secretly started planning to cut down huge swaths of the forest without consulting the local community. When this was discovered, public protests followed, reaching a peak at a turbulent meeting of the local council. In this instance the outcome was a compromise as it was agreed that the tree-felling would be more conservative and that the state company would help repair local roads that were affected by the project. At other times no compromise follows and local residents may decide on legal action.⁴

Legal action. In a case in Rucava County, local residents reacted with protests after they discovered that the municipal council had surreptitiously granted a construction permit for erecting forty-one wind energy generators on their territory. The local farmers only learned about this when representatives of the investor approached them about using their particular parcels of land for the construction. At first 182 local inhabitants signed a protest writ addressed to the local municipality. When this was unsuccessful, twenty people turned to Latvia’s Constitutional Court, and when that was unsuccessful, they filed a suit in the European Human Rights’ court in Strasbourg (Grišāne, 2011). The final outcome is uncertain at the time of writing. Interestingly, this is not the only case when taking legal action has become a form of protest and civic involvement in Latvia and thus illustrates another dimension of contemporary civil activism.

As mentioned, **citizen initiatives** are formal collective proposals that serve as a new form of citizen involvement in policy-making. Procedurally, they require that a specific proposal about a new law or policy be signed by a specific number of supporters and after that the proposal is reviewed by a decision-making body, which decides whether to proceed with an activity of its own. In fall 2011, Latvia’s Saeima made a provision in its Rules of Order that the parliament will review, according to specific procedures, proposals that have been signed by a group of at least ten thousand citizens. Similarly, since April 2012 the Commission of the European Union has introduced a new procedure according

⁴ Author’s interviews and local media reports from 2010 to 2012.

to which it will review EU citizen initiatives that have been signed by a total of one million citizens in at least seven different EU countries. The number of required signatures is determined according to the size of population in specific countries, in Latvia's case six thousand signatures are required (Council of the EU, 2012). In contrast to referenda, "citizen initiatives" only trigger the review of a proposed policy or law; they do not represent direct democracy in the sense of law-making itself.

Referenda. In recent years the initiation of a nationwide referendum has become an increasingly frequent, and increasingly controversial, practice in Latvia. The controversy is due to referenda being expensive, but also due to a variety of other issues. One issue concerns the percentage of citizens who have to sign when a group of citizens starts gathering signatures in support of an amendment to a law or the constitution. To date the initiative group is required to secure only ten thousand signatures, which constitutes less than one percent of the voting public. Nevertheless, once the Election Board of Latvia verifies the original ten thousand signatures, it is obligated to organize and pay for the institutional framework for gathering additional signatures in support of the proposal. If one-tenth of citizens sign during this second stage of signature gathering, a formal referendum follows. Experience shows that many such referenda are unsuccessful and mostly serve to raise the electoral visibility of a particular political party (Auers, 2012).

Another controversy surrounds the issue that while an affirmative referendum outcome constitutes the passing of a concrete law or constitutional change, there currently is no way to review the substance and technical quality of proposals. Since more and more referenda measures are being proposed, the need for procedures about a review of their textual and legal quality has become urgent. As a result, Latvia's parliament, legal experts, and the Constitutional Court have started deliberating on the issues since early 2012 and the discussion is continuing. One especially crucial question is whether the "constitutional core" of Latvia's democracy can be the object of a referendum, and what institution should have the authority to review proposed initiatives.

The question about an inviolable constitutional core arose in February 2012 when a referendum was held on a proposal to change Latvia's constitution and adopt Russian as a second official state language, on equal footing with Latvian, the current official state language. Once the referendum was held voter participation was exceptionally high (*ca.* 70%) and this radical constitutional change was rejected. Votes clearly broke on ethnic and linguistic lines, with the tally closely mirroring the breakdown of Latvian and Russian speakers: nearly

75 per cent, or 821,722 people, opposed the referendum, while 25 per cent of voters were in favor (Herszenhorn, 2012). Parallel to ongoing deliberations about the content and procedures for nation-wide referenda, discussions have been underway about the possibility of instituting referenda on the municipal level. The proposed law about referenda at the municipal level could allow those about the ouster of local councils, about major infrastructure projects, long term development strategies and procedural issues linked to these.

7. Conclusion

Latvia has followed the recent trend in most contemporary societies of citizens becoming increasingly distrustful of representative democracy and traditional political activities such as voting and involvement in political parties, trade unions, and classic civic associations. However, it is misleading to see citizen participation as declining, instead, one should take account of new forms of participation that focus on developing influence through horizontal interaction between different societal groupings, including between non-governmental organizations and official political players such as political parties, and elective and governmental institutions. In Latvia's case there is a strong trend towards the involvement of "social partners" and the forming of partnerships and consultative councils to ministries, municipal councils, and other institutions. The basic goal is to enhance social dialogue and communal self governance, with the assumption being that this improves official decisions and policy formation.

The rationale for societal group involvement in governance decisions has been formulated in various ways. The core assumption is that participation leads to better decisions and better governmental implementation. This article has presented the main modes of this participation: information, various forms of deliberation, dialogue and consultation, partnerships and protests, citizen initiatives and referenda. Among the various public participation processes instituted in Latvia's countryside, consultative hearings about the goals of local development programs and territorial zoning have been especially comprehensive.

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School Choice and Educational Returns in the EU: With a Focus on Finland and Estonia¹

Kaire Põder
Kaie Kerem

Department of Finance and Economics,
Tallinn University of Technology,
Akadeemia tee 3,
Tallinn 12618, Estonia
E-mail: kaire.poder@tseba.ttu.ee
E-mail: kaie.kerem@tseba.ttu.ee

Abstract: *The article discusses latent school choice developments in the two neighboring countries, Finland and Estonia, investigating the impact of school choice regime on educational returns. To support the discussion we conducted a comparative study of 21 education systems in Europe and explored whether there might be an association between educational returns and the extent of school choice and equal educational opportunities. Educational returns are operationalized by the PISA 2009 country level score, school choice and unequal educational opportunities indices are constructed by applying the first principal component over multiple variables.*

Keywords: *education reform, Estonia, Finland, PISA 2009, school choice*

1. Introduction

School choice and academic achievement are widely discussed in academic literature starting from Friedman (1962; 1955). However, the distribution of students amongst schools aiming at the equality of educational opportunity is more recent (Hanushek & Woessmann, 2010; Woessmann *et al.*, 2009; Woessmann, 2006). Here and elsewhere school choice is defined as the parents' possibility to choose school for their children. Scandinavian countries (especially Finland), which rely on catchment area based admission policies rather than on choice, are positioned relatively high in an EU comparison of the PISA test results. Contrarily, post-Soviet countries, including Estonia, are more school

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choice inclined, and their PISA results are also more diverse. Thus, we study the association of choice and educational returns. We test whether choice has any effect on the PISA results in the data of 21 EU countries. Our main emphasis is on two cases: Finland and Estonia. In both countries, school choice is applied to a different degree, but it is gradually evolving to the system where ‘schools are selecting students and families’. How can this phenomenon be explained and what role do school choice, equal educational opportunity and resources devoted to education play?

Comparative literature on the subject is comprehensive. There is an increasing number of papers using the international comparative perspective on education policy: including school choice (Hanushek & Woessman, 2010; Cobb & Glass, 2009; Schuetz *et al.*, 2008; Fuchs & Woessmann, 2007; Woessmann, 2005; 2004; Hanushek & Woessmann, 2005), numerous comparative small-n case studies (e.g., Klitgaard, 2007; Willmore, 2008; West & Ylönen, 2009; Teelken, 1999) and single cases (Böhlmark & Lindahl, 2007; Bukowska & Siwinska-Gorzalak, 2011; West, 2006, Riedel *et al.*, 2009; West *et al.*, 2009). However, as to the effect of choice on the quality of schooling, some evidence is found to support the argument (Woessmann *et al.*, 2009; Cobb & Glass, 2009; Levin, 1998) or the effects are mixed (Lubienski & Lubienski, 2006; Hill, 2005) and not very supportive (Böhlmark & Lindahl, 2007). At the same time, the negative segregation effects of school choice are shown in many cases, for instance in Argentina (Narodowski, 2002), Germany (Riedel *et al.*, 2009), various US cities (Lankford & Wyckoff, 2001; Bifulco *et al.*, 2009), England (West, 2006; Burgess *et al.*, 2006), and Finland (Seppänen, 2006; 2003). These authors indicate that choice increases ethnic and social segregation that can generate even more social costs than residential segregation.

School choice has not been a prominent topic in educational research in Estonia, resulting in a limited number of studies (e.g., Pöder & Kerem, 2012; Pöder, 2012; Strenze, 2008; Tambet, 2008). In Finland, however, there are several studies (Poikolainen, 2012; West & Ylönen, 2009; Seppänen, 2006; 2003; Kivinrauma *et al.*, 2003; Hirvenoja, 1999) which analyze changes in education policies since the 1990s, simultaneously touching upon school choice. Most of this literature rather indicates the negative aspect of choice to average educational returns and their distribution. However, there is no comparative literature on the topic available.

Having centralized path-dependent legacies of the education system is common to both case countries, which are similar also language-wise. In addition to the PISA accolade that Finland and Estonia share, there are some other

similarities in education policy. First, the private or independent providers have an insignificant role in the basic education system. Second, a huge part of the decentralized education policy, for example school choice, is put in the hands of local authorities. The latter justifies our emphasis on Finland's and Estonia's capitals Helsinki and Tallinn. However, there are dissimilarities. In addition to the different scopes of financing and the competitive nature of professional teacher education, it is important to stress that there is less educational streaming and no nation-wide standardized testing in Finland.

We are proposing a comparative cross-country research design with a focus on two cases. For qualitative and regression analysis we use the PISA 2009 database, from which data on 21 European countries is obtained. By using twelve different measures we compose the school choice index as a first principal component. Similarly, seven variables are used to compose an unequal educational opportunities index and three variables for the school resources index. Ordinary least squares (OLS) method is executed for statistical analysis, measuring the conditional marginal effects of composed indices to the PISA 2009 results.

The paper is organized as follows. Section 2 gives an overview of the literature about how choice agenda comes into play in our two cases—Estonia and Finland. A historical overview of school choice practices and changes after the amendment of policy paradigms after the 1990s are given in this section. The results of empirical research are presented and analyzed in Section 3. In this section we combine indices of school choice, equal educational opportunities and resources to schools to control the effect of school choice to educational returns. Finally, in Section 4 we conclude by giving an outlook for future policy and research agenda.

2. How choice affects educational returns: literature about the two cases

Most cross-country studies about school choice (Hanushek & Woessmann, 2007; Woessmann *et al.*, 2009; Fuchs & Woessmann, 2007; Woessmann, 2004) indicate that primary objectives of a 'good' educational policy should focus on choice, accountability and incentives. At the same time, in Finland policy objectives stress equal opportunities, broad knowledge and professionalism instead. Association between more choice and better performance is open to dispute. However, the results of educational production function approach,

enriched by disaggregated data (e.g., Woessmann *et al.*, 2009; Sprietsma, 2006), indicate that school choice and accountability seem to play a small but significant role in improving student performance. Can these results be questioned in light of the idea of “skimming the cream”? Do choice schools perform better at the expense of others by taking only the top students or are they just better schools? Aggregating results on a national level might give an answer to this question. In cross-country analyses, this selection bias can be avoided with aggregating results, because all types of sorting and selection issues at the individual level are eliminated at the system level. However, case specific analysis can enrich empirical findings. Thus we describe the recent developments in our two cases, highlighting institutional and path-dependent features of school choice regimes.

2.1. Comprehensive school and gradual legal change toward more choice: Helsinki, Finland

In Finland, the comprehensive school system creating equal opportunities was established in the 1970s. According to this, children were assigned to schools for nine years² on the basis of their place of residence and/or ethnicity. The allocation procedure was centralized. Education was strictly uniform and highly inclusive. However, an extensive decentralization program began from the 1980s onwards. The changes toward school choice have developed gradually during the 1990s along with education policy amendments. This clear move in a neo-liberal direction included parental choice and diversity of schools (West & Ylönen, 2009). Most larger cities in Finland have introduced school choice since 1994. School choice is used only in addition to the traditional allocation of pupils to schools according to the catchment area. Choice introduced a new phenomenon—specialized classes—which means that schools started offering different curricula for building their reputation. According to the 2005 Finland’s Ministry of Education Report, 20 per cent of classroom hours are reserved for freely chosen elective subjects.

The new legislation of education that came into force at the beginning of 1999 has legalized the prevailing education policy (Hirvenoja, 1999). The Basic Education Law of 1998 laid down two principles: ‘the principle of the neighboring school’ (emphasizing the right to go to a local school over the right to a free choice of school) and ‘the principle of undivided comprehensive tuition’ (which meant to break the traditional administrative division between the six-

² Children go to school at the age of seven. Officially there is a single structure education; however, after four years of primary school there may be some tracking to the lower secondary education.

year primary school and the three-year lower secondary school). The idea was to develop the Finnish comprehensive school system as an administrative and pedagogical whole. However, because of decentralization, these principles have been implemented in very different and even conflicting ways on the municipal level. Thus it may be said that this amendment ratified school choice in Finland, offering families an opportunity to express a preference for a school. The term 'school choice' is absent in education law, but it is mentioned in the argument section (*Education legislation*, 1999, pp. 223–224). After legal amendments, municipalities and schools became more autonomous than ever during the last 40 years in the history of comprehensive schooling. Also the deep economic recession gave certain impetus to decentralization (Hirvenoja, 1999, p. 8). Cutbacks in education were easier to accomplish at the local level. However, by the end of the 1990s, the strict norm steering that was implicated during building up a comprehensive system was replaced by goal steering. Centralized evaluation has emerged as a new steering mechanism. Thus it may be said that the Finnish school system changed from being one of the most centralized to becoming one of the most decentralized.

Helsinki introduced school choice among the first year of primary school in 1994. The main choice has to be made at the beginning of primary education, later also at the age of twelve, when transferring to lower secondary education. In Helsinki the use of ability tests to specialized classes is wide and justified by the 1998 Basic Education Act. However, the municipality can decide that priority is given to local children. With the introduction of school-based curricula, schools were encouraged to develop diversity through specialization in certain subject areas. These specialized or "emphasized" classes allowed school choice within a few classes in the school. Specialization means having more classes in music, sports, science, languages, or arts than is required by the national curriculum. In Helsinki, eleven schools could be considered 'elite schools'.³ These schools (27% of the total) can be regarded as highly in demand, with more than three students competing per seat (Seppänen, 2003). These schools are located in the city center, they are former grammar schools and the oldest in the city (founded at the turn of the 18th century). All of them offer many specialized classes.

In cities (also outside Helsinki), local authorities have assisted the emergence of school competition. In city centers where most popular specialist profile schools are situated the catchment areas are small enough for allowing the selection of students. In Helsinki in 2002, out of all the children entering the secondary stage at the age of 12/13, about half had requested other than their local allocated

³ In addition to these there are ten private schools with no catchment area, which accept approximately 10% of the students (Seppänen, 2003).

school as their preferred school (Seppänen, 2003) and this trend was growing annually. Seppänen (2003) also showed that these were largely middle-class children exercising their ability to choose, and popular schools were able to select from among the advantaged students. Seppänen (2006) indicated that this ability to choose has increased socio-economic segregation in the schools of Helsinki.

According to Hirvenoja (1999), 12 per cent of first-grade applicants choose the school with a success rate of 80 per cent. Active choosers were mainly from among middle-class families (Hirvenoja, 1999, p.10). This is explained by the endurance of middle-class concerns about education as a positional good.

Differently from most European cases, there is no central or national testing program, nor are there any national 'league tables'⁴ for schools (West & Ylönen, 2009). During the last decade the schools' evaluation system has changed from norm steering to steering by outcome, emphasizing that evaluation is an essential means to guarantee quality and national comparability (Kivirauma *et al.*, 2003). However, a recent High Court ruling made school performance results—average grades and destinations of pupils graduating from compulsory education—public (Kivirauma *et al.*, 2003, p. 5). The media has also carried out nationwide comparisons between the average grades of school leaving certificates, and thus identified the 'best' and the 'weakest' schools in Finland. Also, most of the cities have promoted school choice by publishing information brochures about the schools. The schools organize information evenings for parents before choices have to be made (Seppänen, 2003).

Consequently, a number of small legal changes constitute a completely new education policy (Kivirauma *et al.*, 2003). The emerged regional educational inequality has been even called 'a triumph for urban Finland' (Kivirauma *et al.*, 2003, p. 18). Thus, we are interested in whether these choice-oriented changes reflect improvements of educational returns, or vice versa.

2.2. Post-Communist legacies and 'hidden' school choice: Tallinn, Estonia

During the Soviet period, children were traditionally assigned to public schools according to where they lived. Even under this strict system, which continued to exist until the early 1990s, there was some choice. There were schools or specialized classes that carried out aptitude tests at admission. Even then over-demanded or elite schools existed. These schools did not fit under the typological

⁴ By league table we mean publicly available ranking of schools according to some performance criteria, e.g. state exam scores, PISA test results or similar.

or historical definition of elite school (Gaztambide-Fernández, 2009), but were public schools with a high status, highly selective admissions, and usually a favorable location and premises. After the early 1990s, the ‘inherited’ system became more diverse. Legal amendments coming along with liberalization, gave parents the right to choose a school. However, the schools were obliged to ensure a study place for each student inside the catchment area, although parents had an opportunity to choose a school if there were vacancies in the school they wished their child to attend (*Basic Schools and Upper Secondary Schools Act*, 1993). In addition, Tallinn, the capital of Estonia, has been using simultaneously both *inter-district* and *intra-district* school choice practices since 1993. This distinction basically followed the patterns of over- and under-demanded schools. So, even though the main principle of the school system was to fill the schools with students from a specific catchment area, there were and are municipal policies that allow some comprehensive schools to select the students. Similarly to the Finland’s case, the selection is still usually justified by special studies (‘specialized classes’).

The Soviet legacies continued to persist. The primary school⁵ admission mechanism to the over-demanded elite schools (eight schools in the city center, constituting 14% of the Tallinn schools) has no explicit procedures. All these schools run entrance tests. Admission requirements are unknown or school-specific, meaning that there is no governance over the admission rules. Inter-district schools have an additional admission criterion—the family must show a registered address inside the catchment area, which creates manipulation with addresses. Parents’ complaints about the asymmetric division of information about test requirements have created a new demand-driven phenomenon—preparatory preschools (hereafter, prep schools). These prep schools are courses offered for money and lasting for almost a school year, at which student candidates are being “drilled” for the school’s entrance tests. A study by Kukk and Talts (2009) showed that the ideology that could be called ‘the cult of success’ is shared among parents in general and thus parents are more than willing to let their children attend prep schools in addition to the public preparatory courses offered in kindergartens. In some cases it goes to such extremes as some parents enrolling their child(ren) in more than one prep school or employing private tutors from elite schools. Children are thus pre-trained in ‘measurable skills’ like mathematics, reading and writing, with less or no attention paid to social skills (Koop, 2006).

⁵ Children go to school at the age of seven; primary school lasts for four years, but because of the single structure there is no selection between primary and lower secondary education.

Our survey of parents⁶ shows that the probability to be admitted in an elite school is 50 per cent higher for a child who attended prep school compared to a child who was not pre-trained. However, admission is still a lottery as only 30–50 per cent of prep school attendees are accepted to the elite school, and due to the increasing competition, these numbers decrease on annual bases. Approximately five to eight children compete for one seat in an elite school. Our pilot study indicates that 76.7 per cent of the students who were accepted to elite schools had additionally trained themselves in prep schools for the entrance tests. On average, each child takes entrance tests in two schools, but in some extreme cases, children took entrance tests to six schools. We found evidence that 85 per cent of the active participants in the so-called school choice preferred the top five schools in Tallinn.

This type of ‘hidden’ school choice is enforced by public provision of information. The ‘league table’ scores achieved at central state-organized exams are published on an annual basis. In these score tables, all oversubscribed schools position themselves in the highest ranks.

The school choice system in Tallinn seems to lead to the system of ‘schools selecting students’ or even ‘schools selecting parents’. Similar trends were already described a decade ago (Helemäe *et al.*, 2000). Our pilot study indicates that 84.5 per cent of mothers and 68.3 per cent of fathers of the students in elite schools have higher education. Their socio-economic status is also high—more than 70 per cent of the parents belong to the highest social class. In addition, physical access to these schools might be a restrictive factor—as our study shows, 66 per cent of primary school students from elite schools have no access to public transportation which would guarantee them getting to school within a reasonable time, and thus parents or guardians drive them to school. In many cases, personal transport is connected with white-collar jobs in the central area of the city.

In general, the current mechanism in the urban community can be described as a market-like mechanism (but not entirely quasi-market mechanism), because there is no transparent admission policy (there are school-specific entrance tests without clearly stated prior requirements) and “cream skimming” of students. Consequently, a liberal and decentralized school choice system puts a certain cost on parents, is segregating society, and can in the long run affect educational returns revealed in the lower PISA results.

⁶ Data available by request from the authors.

3. School choice and educational returns: empirics

Our data originate from PISA 2009 dataset. The PISA 2009 test is a large-scale cross-country comparative test of students' achievement, conducted by OECD. There are 65 countries participating in the testing. In Estonia 4,727 and in Finland 6,415 fifteen-year-old students participated in the tests, creating nationally representative samples. In PISA, the primary sampling unit are schools, thus individual students are nested to peer groups, these to schools, and schools to communities. The PISA database combines individual student-level performance data in mathematics, science and language with extensive information from background and school questionnaires. Due to limited degrees of freedom in system level analysis we are combining data into three categories (Table 1). Sample characteristics provide information about the combined PISA score (average of reading, mathematics and science scores) highlighting our cases of Finland and Estonia.

Finland's PISA scores outperform all of our 21 (or 22, if we include also France) cases. However, Estonia is also doing relatively well, being above the OECD average. Looking at school choice indicators we can see that major differences between our cases are determined by the scope of choice. In Finland, more than 40 per cent of students indicate that they have no choice of school, and there is almost no admittance by academic records, while in Estonia similar indicators are less than 20 per cent and less than 30 per cent, respectively. So, Estonia with its above the average choice indicators are describing some kind of a choice model, whereas Finland's 'choice policy' is still based on catchment area. Huge differences concern also standardized testing and league tables (public achievement data). As mentioned, the Finnish model somewhat opposes choice and accountability advice given by most of choice policy oriented academic literature.

At the same time there are no tremendous differences between the average and our two cases in equal educational opportunities indicators. Finland has relatively less immigrants, smaller income inequality, and less students with lower than OECD ESCS index.⁷ As far as resources devoted to educational procedure are concerned, Finland outperforms the mean results in all categories

⁷ The PISA index of economic, social and cultural status (ESCS) was created on the basis of the following variables: the International Socio-Economic Index of Occupational Status; the highest level of education of the student's parents, converted into years of schooling; the PISA index of family wealth; the PISA index of home educational resources; and the PISA index of possessions related to "classical" culture in the family home. Index value 1 determines the OECD average.

and is far above the respective Estonian figures. However, as Appendix 1 (see p. 85) indicates, this resource gap is not that imminent in all cases; for example, France has higher expenditures per student but relatively poor PISA results.

Table 1. Sample characteristics

Variable	Mean	S.D.	Estonia	Finland
PISA (22 EU countries*)	493	24	514	544
Pisa OECD average	500	100		
<u>School choice indicators (% of students):</u>				
with 3 or more choices	58.4	16	57.5	43.9
with 2 options	17.0	5	23.7	13.6
no choice	24.6	15	18.8	42.5
admitted by catchment area	52.5	21	57.6	74.5
admitted by academic record	13.3	18	26.8	0.8
grouped by ability	52.5	19	44.2	56.2
not grouped by ability	38.2	20	43.8	42.5
in public schools	87.7	18	97.1	96.1
in government-dependent schools	10.8	17	2.3	3.9
in independent private schools	1.8	1	0.6	0.0
assessed by standardised tests	22.1	21	17.2	1.5
in schools with public achievement data	34.9	22	32.3	2.5
<u>Equal educational opportunities indicators:</u>				
Gini index	29.9	4	36.0	27.0
Pisa ESCS index	1.1	0.27	1.2	1.4
immigrant background (% of students)	7.2	5	8.0	2.6
ESCS index below 1 (% of students)	12.1	9	6.7	3.9
no pre-primary school attendance (% of students)	8.2	8	10.3	5.0
with disadvantaged SES (% of students)	24.7	6	20.2	15.9
with advantaged SES (% of students)	24.5	4	24.9	21.6
<u>School resources indicators:</u>				
teachers (15 years of experience) salaries to GDP per capita	1.01	0.61	0.29	1.07
expenditure per student (6-15 years)	68788	20910	43037	71385
GDP per capita (2007, PPP, USD)	31713	9316	20620	35322

Note: All data from the PISA 2009 database, only GDP and the Gini index data from Eurostat.

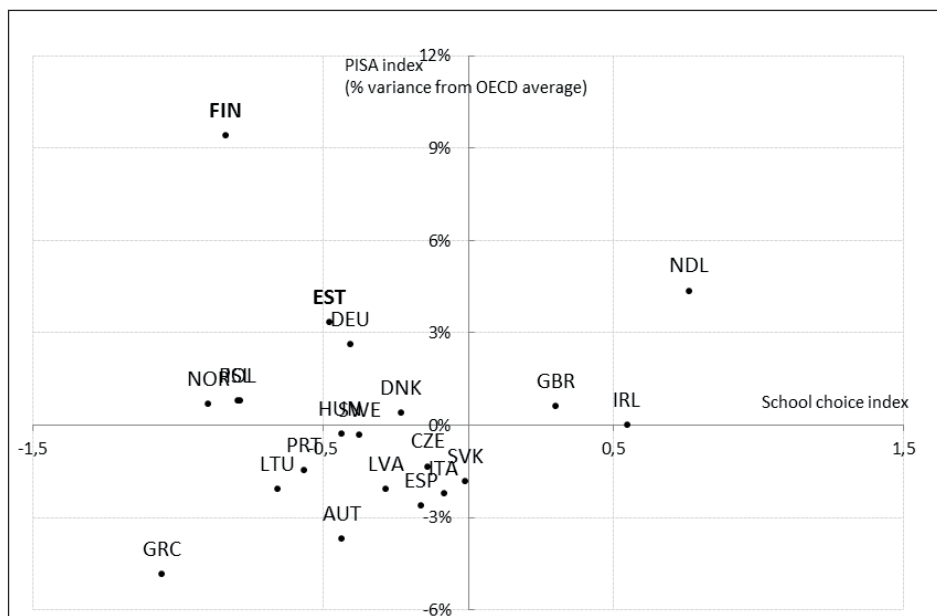
* The total sample size was 22 countries (see Appendix 1), missing data on school choice indicators in France, thus France is excluded from the PCA analysis.

As an empirical strategy we apply simple OLS regressions to control the impact of school choice to educational returns measured by the average PISA score by country. We are aware that cross-country analyses with 21 observations have many technical shortcomings. Problems accompanying the limited degrees of freedom and inaccessibility of panel data will not allow our cross-country comparative study to control the effect of the omitted variables, such as institutional path-

dependency and cultural factors, such as religious path or different types of public service discussed by political scientists (Le Grand, 2003; Robenstine, 2001). However, for multilevel analysis we constructed indices (see Appendix 2 on p. 86) to incorporate more variables into the analysis.

For analytical purposes we constructed a school choice index (Fig. 1) by using our twelve measures of school choice from Table 1. The first principal component was used to aggregate data to the index, which explains 35 per cent of the variability in the data. Expected signs in the indexes are also depicted in Appendix 2 to indicate only one controversy—students who have only two options of schools are not considered significant in the index. It can be explained by laying more emphasis on other positive choice-related criteria. At the same time, the percentage of students having three or more choices and those admitted by the catchment area are mutually exclusive. Measures of ‘no school choice’ and ‘percentage of students in public school’ have the greatest impact on the index.

Figure 1. School choice index and PISA scores

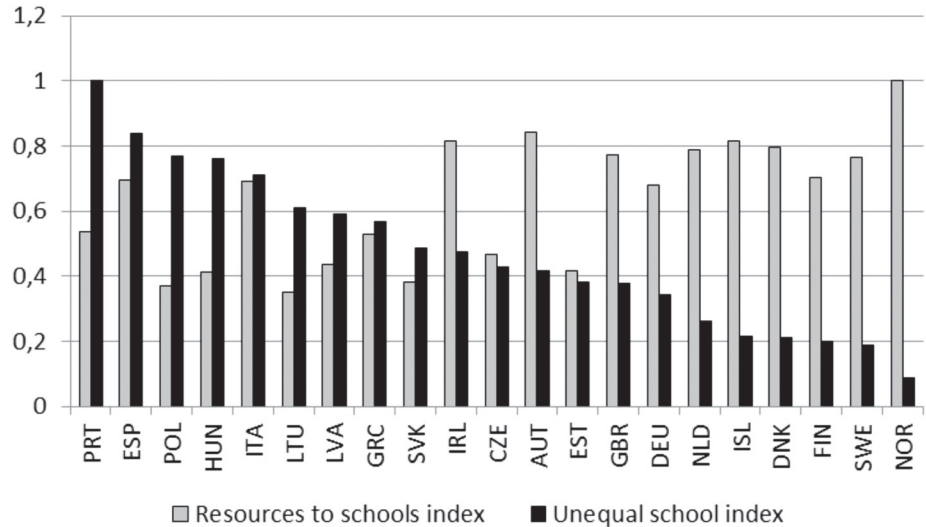


Notes: Normalized index obtained by PCA, data from Appendix 1, and the authors' calculations. NLD – Netherlands, GBR – UK, IRL – Ireland, NOR – Norway, ISL – Island, FIN – Finland, POL – Poland, LTU – Lithuania, HUN – Hungary, EST – Estonia, LVA – Latvia, ITA – Italy, DNK – Denmark, SWE – Sweden, SVK – Slovakia, CZE – Czech Republic, PRT – Portugal, GRC – Greece, ESP – Spain, DEU – Germany, AUT – Austria, France is excluded due to missing values.

Figure 1 illustrates the bivariate relationship where the above average results are obtained both by countries with the least choice (e.g., Finland, Norway and Iceland) and with the highest choice scores (e.g., the Netherlands and the UK). As mentioned, Finland outperforms others by far. Estonia, among other post-Communist countries, remains in the middle range of choice countries, being the most successful in PISA among them. Other countries in-between, such as Portugal, Spain, Lithuania, Italy, and Greece, perform relatively poorly.

Figure 2 illustrates the other two indices, which show that countries with a more equal distribution of students by achievement levels somehow also have more substantial financial resources allocated to schools. At one extreme there are South-European countries followed by the new EU members, at the other extreme there are all Nordic countries.

Figure 2. Resources to schools and unequal school index



Notes: Both normalized indices obtained by PCA, based on authors' calculations. Data series available in Appendix 1. France is excluded due to missing values.

However, all the new Member States, including Estonia, have dedicated somewhat lower financial resources to the education procedure. At the same time Finland is outperformed by Sweden and Norway in equality and by many countries (i.e. Ireland, Austria, Netherlands, Island, Denmark, Sweden, and Norway) in resources.

Empirical quadratic form of the data (Fig. 1) will lead to the specification of the model:

$$Y_i^{PISA} = aX_i^\alpha + bQ_i^\beta + cZ_i^\gamma + e_i^u,$$

where Y_i^{PISA} is the average PISA results for country i , X_i for school choice index, Q_i is index measuring unequal distribution of educational opportunities of and Z_i is the index measuring monetary resources available to schools. Expected signs of coefficient are the following: $\alpha = 2$, $\beta = 2$ and $\gamma = 2$. Linear specification of the model will not allow measuring causal effect of the school choice over educational results, but rather conditional marginal effects:

$$\frac{dY}{dX} = 2aX; \quad \frac{dY}{dQ} = 2bQ; \quad \frac{dY}{dZ} = 2cZ.$$

The total derivative will allow making linearization of the equation:

$$dY = f_X dX + f_Q dQ + f_Z dz.$$

Variables and their scores indicated by the first principal component that are used for composing indices of unequal distribution of the educational opportunities and monetary resources available to schools are indicated in Appendix 2. Table 2 presents the naïve OLS regression results, in which unequal distribution of educational opportunities is indicated by the ‘unequal school index’ and monetary resources available to schools by the ‘school resources index’. Marginal effects indicating partial correlation are calculated as regression coefficients. Our major interest is the interaction variable (Models 3 and 4) indicating the effect of school choice and unequal schools simultaneously.

Table 2. OLS Regressions of PISA score on school choice

	(1)	(2)	(3)	(4)
Independent variable:	Dependent variable: PISA average index			
Constant	-1.080 (1.407)	1.111 (1.447)	2.818** (1.140)	-0.262 (0.243)
School choice index	1.738 (1.533)	-0.420 (1.532)	-2.769** (1.265)	-0.078 (0.254)
Unequal school index	0.179 (0.339)	-0.192 (0.291)	0.563* (0.272)	0.451*** (0.049)
School resources index		-0.010** (0.148)		0.672*** (0.029)
Interaction variable: School choice index × Unequal school index			-0.457** (0.188)	0.050 (0.040)
Number of observations	21	21	21	21
Adjusted R-squared	0.08	0.36	0.50	0.98

*** 99%, ** 95%, * significance level 90%, standard errors in parentheses. Cross-country analyses based on first principal components of factors related to school choice (12 variables), resources available to schools (3 variables) and equal educational opportunities (7 variables). Due to missing values France is left out from the analysis.

Model 1 indicates that in the simplest form neither ‘school choice’ nor ‘unequal schools’ are statistically significant in explaining educational returns. However, in Model 2, school resources index shows a marginal statistically significant effect but with an unexpected sign. Our main interest (Models 3 and 4) are much more clearly specified. Model 3 indicates that choice variable has a negative and significant effect to educational results. At the same time unequal school (the reverse is equal school) has a surprisingly positive but small significant effect, almost similar in size with the effect of interaction variable. Adding resources to the specification, Model 4, stresses its unexpected positive impact, and makes choice variable insignificant. Thus, the results show that school choice, independently, has an ambiguous effect on educational returns, or this effect is statistically insignificant. Therefore, we have weak evidence that choice can have a negative impact on educational returns. However, we have to bear in mind the limitations of our study related to the degrees of freedom and sample size in general.

4. Discussion and conclusions

School choice is present in more or less all European countries despite the different government models of public service delivery, for example quasi-market, unregulated or controlled type of models. The context of how the phenomenon of school choice has emerged varies as well. In some countries the policy of choice and competition, including school choice, has been the clearly managed policy direction and conscious policy tool to improve the quality of schools. In others, school choice has been a rather latent by-product in development, since families were given an opportunity to apply for a school other than the one allocated on the basis of their place of residence, and schools are able to take pupils from outside the catchment area. The principles of equal distribution of students according to their achievement levels, financial resources devoted to the education procedure or institutional context differ as well. It is noted that choice in quasi-markets is necessarily local, specific and complex. Specific contextual path-dependent legal and political legacies are apparent in our cases of Estonia and Finland.

Also, relying on the British experience, West (2006) and West *et al.* (2010) are convinced that admission should be at least the responsibility of the local authority; they should make decisions about who should be allocated to which schools on the basis of the expressed preferences of parents, and the admission criteria (priorities) of the school. The admission criteria need to be objective,

clear and fair. In addition, these criteria must diminish or abolish manipulation and strategic choice in addition to addressing social justice. West (2006) lists the priorities, such as distance, zone, siblings, but argues that this is not enough to guarantee the fairness of the system. Thus we advocate these kinds of choice systems that offer a moderated system of parental choice, in which choice is 'tempered' by social justice and equity considerations (e.g., socio-economic status, ability).

By the very nature of the limited degrees of freedom in cross-country identification, our analyses can at best reveal broad patterns. And at the very least, a great deal of details of specific implementation issues related to school choice policy application must therefore be left for national approaches. Finland runs a rather limited choice policy, with almost no admission by academic records, no standardized testing or league tables, outperforming all other educational systems in the EU by far. Estonia, being relatively successful among the post-Communist countries, is much more choice-oriented, though mostly in urban settings. Our comparative quantitative analysis indicates that choice can be harmful in combination with unequal educational opportunities or insignificant in the case of high financing of education and equal opportunities to students.

Our study has only limited policy implications due to the limitations discussed in the following paragraph. We show that school choice without equalizing political measures (e.g., a matching mechanism or quotas based on certain priorities for disadvantaged students) can be harmful. However, this negative effect is not originating from choice *per se*, but rather from policy design. It can also be hypothesized whether there are some sort of intrinsic cultural values for less choice and individual optimization, but for more equality which are shared mostly by the Finnish and are not inherent to Estonians. So the question about the mix of influences originating from formal (education policy) or informal (culture and values) institutions remains open for future research. However, formal institutions are more likely to change and thus reasonable choice policy that allows more equal access to the disadvantaged students is just the matter of political will. In addition, we can learn the lessons from the relatively well-performing 'choice countries' like Sweden, Germany and Hungary.

There are several counter-arguments and open questions related to our findings. First, if choice requires equal access for students to grant them equal educational opportunities then centralized assignment instead of school autonomy must be applied. The latter leads to the question whether central assignment and control makes all schools alike? Or even, if we managed to make all schools equally good, is there any meaningful choice? It is clear that elite *versus* non-elite is not

the variety we seek in a society; rather the question is: do we need to encourage the specialized character of the schools? Our Estonian and Finnish cases show that there is something inherent within the systems that under liberal policy rules and specialized classes can create a gradual change in the system causing segregation. Second, if all schools are not the same then alternative problems emerge. Spatially concentrated demand or the so-called residential choice can push up house prices⁸ and generate a correlation between poverty and distance from a good school. As Burgess and Briggs (2006) show, the most relevant part of the explicit assignment rules is the role of location. Thus, disadvantaged children may have a lower chance to go to good schools depending on their place of residence, because middle-class parents often work in city centers where the best schools are, and the cost of exercising choice (transport, information, and daycare) may be prohibitive. In a typical municipality in England a child from a poor family is half as likely to attend a good secondary school as a non-poor child (Burgess & Briggs, 2006, p. 23). Third, the centrally designed mechanism principles or assignment remain open—for example, the length of time on the waiting list, lottery (random assignment), siblings, distance, etc. Fourth, what kind of information about the quality of school must be provided for parental choice? In Finland's case, league tables are prohibited. Koning and van der Wiel (2010), Hastings and Weinstein (2008) show that the publication of school quality scores (league tables) significantly affect the school's demand. However, the effects are related to 'the willingness to travel' and, surprisingly, there are no differences in quality response depending on the socio-economic background (Koning & van der Wiel, 2010). The latter suggests that in some contexts publicly available quality information may not be that harmful.

In sum, to be more optimistic about the possibilities to answer at least some of the problems highlighted in the above section, we hope that more data will generate better research. More than 60 countries are planning to participate in the next round of PISA. This gives us hope that economic analyses of school choice yield enough observation or panel data to identify causal effects and get rid of the omitted variable bias.

⁸ Households are willing to pay approximately 1% more in house prices when the average performance of the local school increases by 5% (Bayer *et al.*, 2007).

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Appendix 1. Characteristics of school choice systems in 22 European countries

SCHOOL CHOICE INDICATORS (PISA 2009)													INEQUALITY OF EDUCATION INDICATORS					SCHOOL RESOURCES INDICATORS				
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	GINI index	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(1)	(2)	(3)
who have 3 or more choices of schools	who have 2 options of schools	who have no choice of schools	admitted by catchment area	admitted by academic record	not grouped by ability	public schools	in government-dependent private schools	in independent private schools	assessed by standards and tests	in schools with public achievement data	in schools with public achievement data	ESCS index (OECD average)	PISA ESCS index (OECD average)	with immigrant background	with ESCS index below 1	with no primary school attendance	with disadvantage	socio-economic intake	% of schools with socio-economic intake	Teachers' salaries after 15 years of experience to GDP per capita	GDP per capita in USD PPP*	Cumulative expenditure per student as a % of GDP (2007)*
Austria	43.1	14.0	42.9	62.7	15.4	40.4	53.6	87.4	10.8	1.8	67.6	6.3	27	1.1	15.2	8.4	2.3	29.7	27.7	1.02	36839	2.65
Czech Republic	70.8	12.7	16.5	23.3	15.4	61.5	31.2	97.1	2.7	0.0	11.1	30.6	27	0.9	2.3	9.2	3.9	22.0	21.7	0.89	23995	1.87
Denmark	66.7	11.1	22.2	49.7	2.0	43.8	50.4	79.6	17.8	2.6	3.4	45.3	23	1.3	8.6	7.2	2.2	18.6	21.4	1.16	36326	2.41
Estonia	57.5	23.7	18.8	57.6	26.8	44.2	43.8	97.1	2.3	0.6	17.2	32.3	36	1.2	8.0	6.7	10.3	20.2	24.9	0.61	20620	2.09
Finland	43.9	13.6	42.5	74.5	0.8	56.2	42.5	96.1	3.9	0.0	1.5	2.5	27	1.4	2.6	3.9	5.0	15.9	21.6	0.61	35322	2.02
France	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	27	0.9	13.1	13.9	1.7	29.7	26.2	1.07	32495	2.30
Germany	64.1	17.2	18.7	60.9	43.5	39.6	49.4	96.0	4.0	0.0	60.0	10.6	30	1.2	17.6	8.2	4.9	24.9	27.1	1.55	34683	1.82
Greece	40.1	19.7	40.2	88.0	0.0	14.4	85.2	96.6	0.0	3.4	34.9	31.3	32	1.0	9.0	17.7	5.4	24.6	26.5	1.13	27793	1.74
Hungary	57.9	22.1	20.0	68.0	3.0	64.8	32.3	88.4	11.5	0.1	23.9	33.2	29	0.8	2.1	19.1	1.4	33.0	34.3	0.78	18763	2.36
Iceland	35.8	15.0	49.2	64.4	0.0	63.4	25.2	99.1	0.9	0.0	13.7	22.5	28	1.7	2.4	3.5	3.0	20.4	32.4	0.74	36325	2.61
Ireland	70.3	11.5	18.2	32.9	11.6	87.3	3.6	43.4	49.5	7.1	35.0	18.7	33	1.1	8.3	10.4	17.4	24.6	20.1	1.26	44381	1.71
Italy	78.2	9.9	11.9	33.4	19.6	41.7	44.4	94.7	1.9	3.4	29.2	30.3	25	0.9	5.6	21.4	5.2	32.2	30.4	1.01	31016	2.49
Netherlands	76.2	21.0	2.8	18.9	76.0	36.2	19.8	35.3	64.7	0.0	13.4	64.5	27	1.3	12.1	6.5	3.5	21.5	23.7	1.14	39594	2.03
Norway	22.3	17.8	59.9	71.1	1.6	68.8	26.6	98.6	1.4	0.0	4.7	58.1	28	1.5	6.8	2.4	9.3	12.4	16.1	0.66	53672	1.89
Poland	43.4	24.2	32.4	81.3	14.1	42.2	54.2	97.9	0.6	1.5	3.2	53.4	37	0.7	0.0	20.7	2.3	30.0	19.3	0.84	16312	2.45
Portugal	57.4	22.0	20.6	66.7	1.9	23.8	68.5	86.1	8.8	5.1	12.1	30.2	38	0.7	5.5	33.5	19.1	32.2	23.5	1.55	22638	2.51
Slovak Republic	79.0	14.4	6.6	41.3	7.3	66.2	26.6	91.0	9.0	0.0	6.4	62.8	26	0.9	0.5	10.4	5.0	24.3	23.5	1.18	20270	1.59
Spain	65.0	14.6	20.4	65.8	1.1	53.6	39.6	69.1	25.7	5.2	71.1	7.8	32	0.7	9.5	29.0	4.6	31.9	24.4	1.36	31469	2.36
Sweden	52.1	17.2	30.7	49.6	0.6	65.5	25.8	90.0	10.0	0.0	3.4	61.4	23	1.3	11.7	5.1	9.8	19.8	19.6	0.9	36785	2.25
United Kingdom	78.0	10.9	11.1	26.8	3.0	91.5	0.9	93.7	0.0	6.3	32.5	80.1	34	1.2	10.6	5.6	5.8	26.5	23.4	1.26	34957	2.43
Latvia	69.3	19.8	10.9	20.0	23.5	34.6	55.4	99.2	0.5	0.3	3.9	25.1	36	0.9	4.5 n.a.	21.5	24.7	25.8	0.6	n.a.	n.a.	n.a.
Lithuania	55.1	25.4	19.5	45.6	11.1	62.0	23.0	99.6	0.4	0.0	14.9	25.0	33	1.0	1.7 n.a.	37.6	24.3	26.3	0.6	n.a.	n.a.	n.a.

Appendix 2. Results of the principal component analyses

School choice index		Expected sign	First component
1.	who have 3 or more choices of schools	+	0.41
2.	who have 2 options of schools	+	-0.16
3.	who have no choice	-	-0.38
4.	admitted by catchment area	-	-0.41
5.	admitted by academic record	+	0.25
6.	grouped by ability	+	0.18
7.	not grouped by ability	-	-0.31
8.	in public schools	-	-0.36
9.	in government-dependent private schools	+	0.25
10.	in independent private schools	+	0.15
11.	assessed by standardised tests	+	0.04
12.	in schools with public achievement data	+	0.15
Unequal school index		Expected sign	First component
1.	Gini index	+	0.3553
2.	PISA ESCS index	-	-0.5209
3.	with immigrant background	-	-0.1491
4.	whose ESCS index is below 1	+	0.5132
5.	with no pre-primary school attendance	+	0.1441
6.	with disadvantaged socio-economic intake	+	0.5086
7.	with advantaged socio-economic intake	+	0.1936
School resources index			
1.	Teachers salaries after 15 years of experience to GDP per capita	+	0.0848
2.	Cumulative expenditure per student aged 6-15 per school	+	0.7013
3.	GDP per capita 2007 (USD, PPP)	+	0.7078

Implementation of Per Capita Education Funding in the Baltic States

Mīkēlis Grīviņš

Advanced Social and Political Research Institute,
Faculty of Social Sciences,
University of Latvia
Lomonosova 1A,
Rīga LV-1019, Latvia
E-mail: mikelis.grivins@lu.lv

Abstract: *Questions concerning education decentralization have been in the center of discussions for several decades now. The article supplements this discussion by analyzing how the decentralization of education policy is shaped at the national level and how its goals are elaborated at the local municipal level. To do this, the article analyzes per capita education funding policy in the Baltic states. I will proceed by analyzing interviews with persons responsible for education organization at the municipal level in Latvia. Estonia, Lithuania and Latvia have all introduced per capita funding in their education policy. Estonia introduced reforms in 1998, Lithuania in 2002, while Latvia in 2009. The three countries share many similarities in the policy implementation process and in problems they have to solve. Furthermore, all three countries with this policy have given greater voice in education planning to the local municipality and, as research attests, in all three states municipalities face similar problems in reform implementation. Latvian legislators, when implementing reforms, aimed to achieve two contradicting goals simultaneously: to improve pupils' achievement and to reduce education costs. Prior to the reform, the Ministry of Education and Science suggested that its success would depend on education planning—appointed local education experts assigned the task of guiding their county through the school network reorganization. This article illustrates similarities in the problems that the Baltic states have to face after the implementation of per capita funding. Additionally, it draws attention to the Latvian case—it analyzes the reasons why counties of Latvia have achieved differing results.*

Keywords: *decentralization, education funding, education planning, school network*

1. Introduction

The questions of education management and funding have always captured the interest of researchers. However, in the last decades it seems that these questions have drawn even greater attention. This is especially true of the states of the former Soviet Union—most of the countries which regained independence first sought ways to decentralize the highly centralized Soviet Union's education system (Heidmets *et al.*, 2011). Yet, afterwards many of these countries had to figure out how to solve the problems created by the inherited school network—political decisions, depopulation and the need to limit education expenditures.

This article contributes to the discussion concerning education decentralization and marketization and shows how education funding policy, intended to overcome the typical threats of decentralization, becomes one of the main generators of problems. Furthermore, in this article I underline how the main problems associated with decentralization emerge not only from policy itself, but from its unclear implementation guidelines. In order to illustrate the abovementioned factors I am analyzing education policy reforms in Latvia and compare them to similar reforms in the neighboring states, Estonia and Lithuania.

In 2009, Latvia introduced the reform called 'money follows the student' in the general education system.¹ The official vision of the Ministry of Education and Science (hereafter referred to as MoES) was that the changes introduced by the reform in the funding structure of general education would lead to an increase in the education system's economic efficiency and to higher student achievements (MoES 2009, Ch. 5 and 6, pp. 13–15). Latvia was the last of the three Baltic states to introduce funding decentralization reforms. Estonia made its first efforts in 1994, but per capita funding was introduced only in the year 1998. Lithuania introduced its system called the "student's basket" in 2002. The three states and their policies have a lot in common both in terms of policy regulation and issues concerning the implementation.

Three years after the education funding reforms in Latvia were introduced, it is evident that results between counties differ significantly. There are differences in the number of schools that have been either closed or reorganized in various counties, there are significant differences between teacher salaries and

¹ The changes in education funding were introduced by Regulation No. 837 of Latvia's Cabinet of Ministers (Ministry Regulations, 2009a). However the original Regulation was in force just for a few months and soon (in the same year, 2009) was changed to Regulation No. 1616 (Ministry Regulations, 2009b) which is more favourable to schools and planning districts.

differences in resources that counties are allocated by the state, etc. (see Hazans, 2010). The education systems of some counties struggle to survive while in others they are thriving. Some counties seem to be introducing new ways of attracting students while others are struggling with legal issues. Meanwhile, the two other Baltic states have managed to identify the main problems, discuss them and have implemented new modifications to original policies. Although it is impossible to estimate whether improved policies have managed to solve all the problems, it is clear that the ground reasons for these problems are similar to the case of Latvia. The experience gained and conclusions arrived at in these states can be taken as a abundant source to formulate a better understanding of processes taking place in Latvia.

This article analyzes the reasons why the results of the reform are divergent in Latvia's counties. The article is based on interviews conducted from 2010 to 2012 with local education planners from several counties. Additionally, in order to gain a better understanding both the policy and its implementation process is compared to the other two Baltic states—Estonia and Lithuania. When starting to carry out interviews with the planners I was interested in finding out how they actually plan the education system. However, after the preliminary observations, further interviews concerned about finding out how planners interpret their position within the broader education system and how they interpret their actions within a county.

2. Education policy in the Baltic states

After regaining independence, all three Baltic states started with same decision to decentralize the education system—the role of the state in providing education was reduced, yet municipalities were given more rights in education organization. As a result, the ownership of the majority of public schools in Estonia, Latvia and Lithuania was transferred to municipalities. After these reforms the general situation has not changed and only a small proportion of all schools are owned by the state and by private school keepers. Both then and now teacher salaries have been and are being funded by the state in all the three countries. However, before the decentralization reform the amount of sums granted for teacher salaries was calculated according to the programs that schools offer to their pupils.

Future development of such funding structure reveals problems that national education systems will have to solve in the next decades. First of all—

municipalities have been given the right to found schools in order to start expanding their school network, and by doing so, they quickly raise national education expenditures. Meanwhile low birth rates and emigration have reduced the number of pupils. This has led to an increasingly expensive education system and to a need to rethink the education funding system. So these factors have naturally led to a search for new funding structures. The three countries have found their solution in per capita funding. However, because of uncontrolled school closure none of the states have applied the so-called 'voucher system'—all chose a more safe path and directed per capita grant to the local municipalities. The need to take into account teacher salary limitations forced the local municipalities to think more rationally.

Yet before analyzing teacher salary distribution I should note that in three Baltic states statutory teacher salary, compared to the OECD average, is low. Hazans reports that in the school year 2009/10 the average statutory salary for Latvia's teachers was 60 per cent of GDP per capita (Hazans, 2010). Eurydice data shows that in the school year 2011/12 both the minimum and the maximum statutory salary were lower than GDP per capita in all the three states. In Lithuania and Latvia, teacher statutory salary is lower than in Estonia. However while in Estonia the average actual teacher salary is in the limits of the statutory salary (closer to its upper limit), in Latvia and Lithuania the average actual salary is well above the statutory (Eurydice, 2012). This can be explained mainly with fact that in both countries there are additional allowances that are used to index original salaries and a teacher can engage in additional activities that increases his salary.

The following chapters compare per capita education funding policies in the Baltic states and illustrate the main problems that are associated with the implementation of these policies. To analyze education policy in the Baltic states I am addressing three questions: how the general education is funded; what were the per capita funding policy goals; what is the role of municipality.

2.1. Funding sources

Schools in the three countries are mainly owned by the state and the local municipalities. Up to the year 2002, the schools of general education in Lithuania were financed from municipal budgets and the size of funding varied from municipality to municipality. School employees' salary levels, however, were established by the central government (Kaminskas, 2010). The number of salaries was calculated according to the amount of programs a school offered. It means that the total amount per school was based on calculations about how

many teachers a school needs to employ to successfully provide its school programs. However, in the year 2002, Lithuania introduced education funding policy referred to as “student’s basket”, which basically meant that all state-assigned funding grants will be calculated per capita and with this funding the state compels the local municipality to fulfill obligations to further distribute this fund. The amount of granting per capita is indexed and thereby differs from pupil to pupil. In Lithuania, the policy takes into consideration school and class sizes, education level, special needs of students and the type of school. The use of the “student’s basket” funds are regulated by the official policy and it can be used just in a way as it was adopted by Lithuania’s MoES. This means that it can be used for “teaching and non-teaching staff remuneration, acquiring textbooks and other teaching aids, teacher in-service training, school administration, school library maintenance, and social and psychological assistance.” (MoEs, Ch. 11). However, the municipality is responsible for education environment, which means that it covers all the expenses that are connected to a school’s building maintenance, communal expenses, non-educational expenses, etc.

In Estonia, general education schools are mainly municipality-owned. As in the other Baltic states, a school receives funding from the state and from the owner. The share of expenses that each of the abovementioned stakeholders should fund has changed during last two decades and these changes illustrate the education system’s ability to exist under per capita funding. As already mentioned, the first efforts to introduce per capita funding were made in 1994. However, the operational formula that reached its objectives was introduced as late as in 1998. This formula originally included several indices according to the territories’ level of urbanization and population (special indices were tailored for the Estonian islands).

Furthermore, the amount of funding was indexed by several additional factors. In 2008, new formulae were introduced. The main amendment was that more attention was paid to the class size in lower grades. These changes were intended to support small rural schools and, as such, demonstrate the important discussion concerning the optimal class size and the need to offer alternatives for smaller schools. However, a secondary result of these changes is that the grant system is moving away from its genuine idea—per capita funding.

Originally, a grant allocated money for teachers’ salaries and textbooks. Yet over the course of time several new tasks were assigned to granting—additional funds were added to the original amount of funding in order to cover some extracurricular activities, workbooks, capital expenditure, etc. In addition, municipalities received funds to provide free lunch for the first- to ninth-grade

pupils. At the same time the owner of the school covers operating expenses—management costs, non-teaching staff salaries, additional teaching materials.

Latvia was the last of the Baltic countries to introduce per capita funding. Also, as in the other two Baltic countries, in Latvia the education expenses have been divided between the state and the municipality. The state uses per capita calculated targeted grants to cover teacher salaries and textbooks. Additionally, the state funds free meals for first-grade pupils. The state does not offer direct funds for the non-teaching staff. However, in order to promote a more efficient education planning, the non-teaching staff's salaries are included as a percentage in teacher salary grant. Therefore, every school can use up to 15 per cent of the total amount for hiring non-teaching staff. All other expenses, mainly associated with school maintenance, are covered by the school's owner.

Teacher salary grant has additional indices that are meant to promote equity when addressing different needs. Latvia's policy draws attention to education level, the special needs of the pupils, and pupil density in the local municipality. In addition, a special index is used for pupils in state gymnasia.

We can observe that the three states have chosen the same model of teacher salary funding. However, every country has used different components that will be taken into account when calculating the total amount of funding and how this funding can be used. Additionally, differences can be observed in what a given state has decided to fund. Although there are differences in reform goals that will be discussed below in further detail, I would like to suggest that the main goals are somewhat similar. Furthermore, the main issues after implementing per capita funding are the same. So the differences in funding should be articulated in order to explain the differences of interpretation in different countries as to what is considered free education.

2.2. Reform goals

As already mentioned there are some differences between the Baltic states as to how per capita funding is interpreted and how the reform goals are stated. However, when thinking about the reasons to introduce per capita funding, it is important to remember that in all post-Soviet states the inherited education system became too expensive. So it is more valid to state that in most cases the post-Soviet states did not have a real choice.

Estonia was the first of the three states to implement per capita education funding. The main reasons were to rationalize education network and to promote school competition. It means that it was expected that smaller funding for

teacher salaries would force the closing of some schools. However, the need to close some schools would make all schools to operate more efficiently. The reforms of 2008 and modifications of the original per capita funding show that new goals are set for the policy (Alonso & Sanchez, 2011, p. 281). Original per capita funding formula turned out incapable of solving what could be called the small school issue (a problem faced by all the three states).

Reforms in Latvia's education system were backed with similar arguments as in Estonia. Representatives from Latvia's MoES argued that there is a need to rationalize a school network that has become expensive and inefficient (MoES, 2009). As in Estonia, it was argued that per capita funding will promote competition. Additionally it was suggested that more direct allocation of funds would improve the quality of teaching.

Only some years after the original policy was introduced, Latvia's Minister of Education suggested that the country's education funding policy has to create more possibilities for smaller schools in rural areas (similar claims forced Estonia's policymakers to introduce funding reforms in 2008). Although policy modifications have not yet been introduced, discussions suggest that the considered solution is not associated with implementing new indices in per capita funding formula (as it is in Estonia), but is searched for in a possibility to assign new functions to small schools. Namely, it is considered how to allow smaller schools attract more funding.

A different situation can be observed in Lithuania where the same per capita funding policy is associated with a greater number of objectives. Lithuania's policy has the same targets as the other two Baltic states: to optimize the school network and to improve education competition. However, Lithuania's policymakers have included some additional factors too: reforms should promote equity, school autonomy, accountability, transparency and quality, etc. (Alonso & Sanchez, 2011, p. 281; Shukauskaitė, 2007)

Although the states propose a wide range of factors to back up per capita funding, it is clear that this policy was mainly implemented because of the need to rationalize the system that threatened or already had started to consume too many resources. Fighting with the municipalities which are unwilling to execute network optimization as intended is the next factor that influences the policy. The third factor to take into consideration is the need to search for ways to give additional opportunities for small schools. Additional policy modifications to save small schools and parent protests (see Levačić, 2011; Herczyński, 2011) show that none of the states are ready to face uncontrolled per capita funding and the situation needs some additional regulations.

2.3. The role of municipality

As was mentioned, the situation in the Baltic states' education network needed some additional regulation. However none of the states were ready to introduce channel per capita funding directly to school and by doing so promote totally uncontrolled competition (the so-called 'voucher system'). Although one can speculate why the state did not choose such a way for the education policy, it is evident that with this decision new tasks for and new meanings of municipalities had emerged. As a consequence of this legislation, all three states simulated the importance of local municipalities in education planning. First of all, as was mentioned, a part of education expenses in all the states is funded by owner. In the Baltic states only a small fraction of schools belong to the state or are privately owned, while the vast majority is owned by local municipalities. After reforms, the municipalities were obliged to distribute targeted grant for teachers' salaries. It means that with these reforms, a municipality has been given a chance to operate with funding from two sources—from its own and the state's. In these countries, the local municipality is an institution that is built between state funding and the school. Its main purpose is to remove bias that could emerge from uncontrolled competition. This means that per capita fund is first transferred to a municipality which later on negotiates in regard of funding available for every school. However, this situation has created some new problems in education planning.

In Lithuania, municipalities have had the right to re-allocate a certain amount of funding among their schools. In 2002, this was 15 per cent of the total funding. In 2003 and 2004 the amount fell to ten per cent. From the year 2005 up to now a municipality can re-allocate five per cent of the total "student's basket" funds. With every school closure, the municipality faces protests of the local inhabitants and this is the reason why the local municipalities are not eager to close down schools. Fund allocation can be used to prolong the existence of unproductive schools. In 2004, Lithuania's MoES noticed that the municipalities are too slow to act with school closures and introduced obligations for them to adopt MoES' recommended consolidation strategies. Municipalities in this case acted against the aims of official policy. Furthermore, Jan Herczyński, after evaluating Lithuania's success in implementing per capita funding, has stated that the result of the policy could be described not as a competition between the schools, but as a competition between the municipalities (Herczyński, 2011).

In Estonia, local municipalities negotiate with schools about their budget. Municipalities are also free to decide how to allocate funds that are calculated for its territory and can, furthermore, make several decisions that influence their

need for teaching resources (for example, a municipality can apply for additional state funding) or direct a larger share of its own resources toward education (this option is used by municipalities in all three countries).

The last of the three Baltic states—Latvia—has given an important role to municipality, too. In Latvia, a municipality can decide how to allocate funds that are targeted for teachers' salaries. Furthermore, a municipality has a wide selection of different tools that allow shaping school network within the municipality. This means that the municipality can either decide to close an ineffective school or not. Also in Latvia, as in other municipalities in the Baltic area, decisions about a school closure face parent complaints. Because of these complaints education network planning is complicated and constantly has to struggle with parents' attempts to protect their interpretation of their children's interests.

The above-described situation shows that in none of the Baltic states the changing of the funding system has worked as it was intended. Although it has succeeded in reducing state funding, it still struggles to improve education efficiency. This is mainly because a municipality's inhabitants support to their own local schools. Yet in some way it is a result that indicates a necessity for a newer funding policy. From the beginning all the three states have contributed a lot into the reforms to make them successful under the governance of local municipalities. Even more so, the states have given municipalities tools for acting against state's funding policy. Municipalities act against the states' original intentions, yet they are acting in a way that could have been predicted.

3. Reforms in Latvia

In further chapters I will draw more attention to Latvia's case trying to cover all the main aspects to describe per capita funding policy. However, this chapter, together with previous comparison of the three Baltic states, is given in order to supplement case studies into the same issues carried out by Rosalind Levačić in Estonia (2011) and Jan Herczyński in Lithuania (2011).

Because of this prior legislation and political history, Latvia's education system, similarly to other post-Soviet states, is characterized by a high number of small schools and therefore a high amount of resources needed to sustain such a system. The fact that the funding structure needs reforming has been discussed for more than two decades (for example, Bokans, 1996) and had been at the center of fierce public and political debates for several parliamentary terms.

Only ten years before reforms, in the school year 1998/1999, there were 1,111 public schools and 361,722 pupils in Latvia. The MoES report for the school year 2008/2009 (a year before the reform) shows that the number of schools has dropped to 982 (drop by 12%). However the number of pupils has decreased much faster—there were only 249,446 pupils (drop by 31%). Although statistics has shown the need to take some political measures, no one seemed to be willing to implement changes that are likely to generate public distrust. Therefore reforms have been initiated by external pressure—namely, the economic crisis and consequently the need to borrow internationally. During the loan discussions, the national leader party pushed for a reform in the education funding structure. The changes agreed upon stated that after the reform teacher salaries would be related to the amount of time spent on teaching, yet teacher salary funding would be calculated on the basis of the number of pupils (i.e. per capita funding). Such a decision allowed a significant decrease in the state's education funding. In addition, instead of calculating funding for individual schools it was to be calculated on the level of a county, to be distributed between schools according to the local education development plan. It means that although the state and MoES are involved in assigning funds to counties, these institutions are not directly involved in fund distribution. To achieve better results, municipalities were encouraged to close, unite or specialize schools that were not able to attract the number of pupils that would be needed to pay for teachers' salaries.

Reforms were intended as a fast way to restructure the education system. Competition between counties should have forced to eliminate quickly small ineffective schools in every planning district. With this action the schools of municipality would become economically more effective in a short time, and further competition would improve the overall education quality.

Latvia's geographical and municipal structure consists of 119 administrative divisions². For every county there should be a responsible institution or official (a type of education board, frequently consisting of just one person, hereafter referred to as education planners or, simply, planners) which regulates the local education system and is responsible for fulfilling MoES requests. At least officially this is the person who should introduce the plan of how to improve the education system of the particular county. This does not preclude counties from

² This calls for an additional comment: in parallel to introducing the education funding reform, another reform—the Administrative-Territorial Reform (ATR)—was approaching its completion. The ATR defined the new geographical and municipal structure for Latvia, consisting of 119 administrative divisions of which 110 are counties and 9 major cities instead of the old structure of 26 districts and 7 major cities.

collaborating in education organizations. Most counties have indeed chosen to stay independent and organize their education system by themselves. However, some counties decided to join together in their planning activities. No matter which strategy a county chooses, the education funding is first allocated to the county and then a designated body can decide on its redistribution among schools. Therefore, it is the level at which one should search for causes for a municipality's success or failure.

Several arguments for the need for a reform were stated at the time of the inception of the reform, the bottom line being that small schools are ineffective (the argument drawn from PISA results (see Geske *et al.*, 2010)); furthermore, they are expensive and often have problems with transparent resource distribution (MoES, 2009). As was shown before, the question of small schools in Latvia had to be revisited later on. Only this time it was asked how some of these small schools can be saved? As was mentioned, Lithuania and Estonia too struggle with the question of how to keep the balance and give more opportunities to some small schools.

Yet prior to the reforms, MoES speculated that by promoting larger schools, pupils in rural areas would receive better education opportunities, having access to higher quality education, as education institutions would be more competitive and would tend to specialize. Other arguments supporting the reform stated that funding would be distributed closer to the education institution so it would be more transparent and actually would be allocated according to the problems that need solving (MoEs, Ch. 5–6).

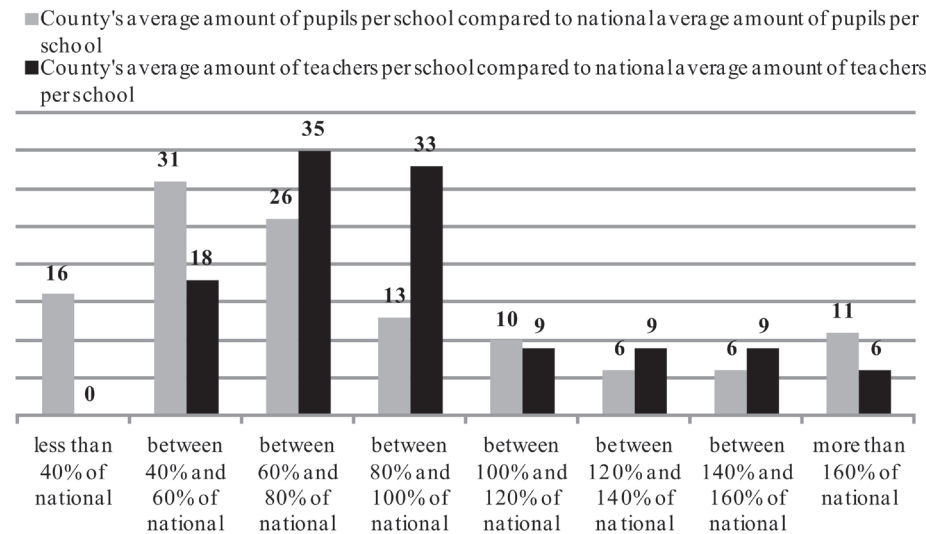
Although there had not been any real discussion about how to react to these reforms and what consequences should be expected, some counter arguments were heard. Among the most active commentators were teachers and school principals, representatives of the non-governmental sector and education experts. The main line of argumentation suggested that the reforms were indeed necessary, yet reformers should consider schools not only as institutions of teaching but as a functioning agent of small rural communities as well. The local school is commonly an important employer, it provides cultural and learning activities for both pupils and the local community, the school has properly equipped facilities, it unites the local intelligentsia (teachers) and is an important source of information distribution (BISS, 2011).

Three years after the reforms took place we can see that the situation cannot be described by arguments suggested neither by supporters nor critics. The idea of allowing a local municipality to redistribute state funding was meant to save from

the uncontrolled closing of local schools and from such a perspective it seems only logical that the researchers supporting competition tend to criticize this policy (for example, Hazans, 2010). Yet the ability to solve problems of competition with controlled resource distribution can be questioned by other researchers, too.

In the school year 2011/12 (the third year after reforms were introduced) the number of schools have dropped to 839 (drop from the school year 1998/99 by 24%). The number of pupils in the same school year have dropped to 218,442 (drop from the school year 1998/99 by 40%). In the school year 2012/13 every pupil was followed by 740.52 lats (around 1,050 euros) (in the last years this sum has increased). In 2011 Latvia's government spent around 155 million lats (approximately 220 million euros) in total to cover the funding for teacher salaries (total expenditures for teacher salaries have been steadily decreasing in the last years). Although more than a hundred schools have been closed in the last years, the situation is still inconsistent in various counties (see Fig. 1). There are counties with huge schools, but for most counties, the average school size is significantly lower than that of the average national school.

Figure 1. The counties' average number of pupils and teachers per school compared to national average in Latvia in the school year 2011/12

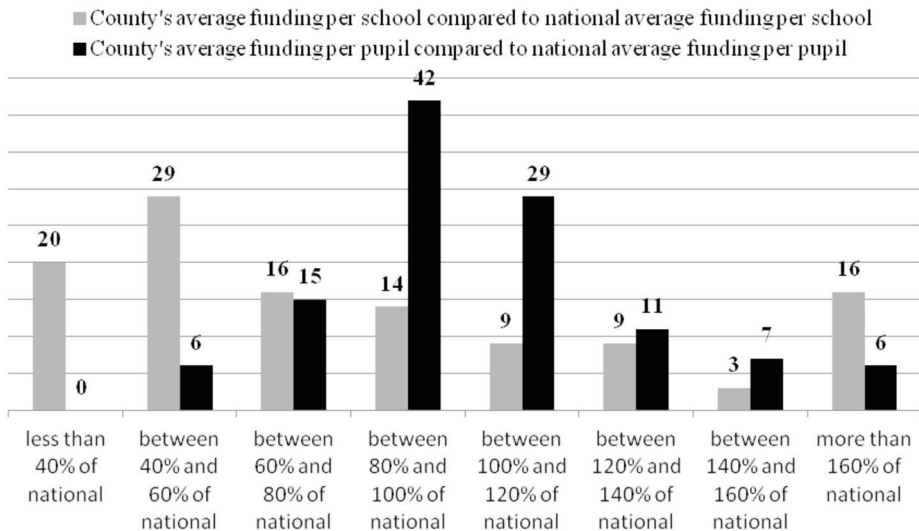


Source: My calculations based on the data of the Central Statistical Bureau, Ministry of Education of Latvia. The data is represented in total numbers and includes statistics on all 119 Latvia's counties.

Additionally one can observe that the counties' average number of pupils per school compared to the national average is lower than the counties' average number of teachers per school compared to the national average. This means that in several counties, the actions have not resulted in improved education efficiency but most probably have just reduced the amount of teacher's work load and therefore salary.

The picture becomes even clearer when counties' funding per school is compared (see Fig. 2). If funding is compared to analyzing education funding per pupil, differences seems to be quite low. Since state funding is distributed according to the number of pupils, such similarity is not really a surprise and small differences can be explained merely by additional school funding from the municipalities. This just shows that some municipalities have been more generous to the local school system.

Figure 2. The counties' average funding per school and pupil compared to the national average



Source: My calculations based on the data gathered by the Ministry of Environmental Protection and Regional Development of Latvia, the counties' official budgets, as personal request from municipalities. The calculations are based on the total education budget in 2011. The data is shown in total numbers and represents 116 counties, with the exception of three counties because of the lack of official information.

However, larger differences can be noticed in analyzing the school system when comparing the average funding per schools. There are counties which

have managed to improve the school system and have created an economically efficient school system, and there is the opposite extreme of counties with poor and very poor schools. Of course, data shown here should be approached with caution. To some extent it can be used to illustrate the differences that characterize various counties. Huge variations in factors that could be used to describe the local education system can be observed and although some variations can be explained in terms of geographical and demographic factors, most of it should be interpreted in a context of optimal education planning. Similar observations are reported both from Lithuania and Estonia.

4. Methodological approach

All three Baltic states showed that the original policy intentions were met only partly. Answering the question of how does a shift from the official policy take place can help to better understand the construction of the policy so that it would reach its goals. Latvia, as the last of the Baltic states to accept per capita funding, can be a valuable source for searching answers, because there are still original processes undergoing which can be observed. Additionally, as was shown before, there are broad similarities both in the problems the states are facing and in the solutions they are implementing.

To answer the question of how the implementation processes have influenced outcomes that do not match the original intentions, I addressed persons closest to the funding distribution in this case study—in Latvia's case, the persons in local municipalities who are responsible for education planning. During the research I conducted several interviews with the planners. These interviews covered such topics as optimal planning, the planners' interpretation of their work, and the unique characteristics describing the planners' county. Similarly, my questions did not just concern the respective counties' success or failure but the position of the education planner's job within the county, the planner's main duties and everyday tasks, challenges and problems, etc. So the interviews were not just dealing with the official policy, but with issues about how this policy had been accepted and acted upon in the context of the county. These interviews were meant to explain why a policy that has been implemented in a wide range of post-Soviet states had almost everywhere encountered the same problems.

During the fieldwork I conducted ten semi-structured in-depth interviews with education planners from various education planning districts. The interviews were carried out from autumn 2010 to January 2012. Here, the long time span

should be regarded as an advantage rather than a disadvantage. After introducing the reforms there have been several further changes: some new counties have been established, some counties have decided to merge their planning or leave a joint education planning district, in some places the planner has been changed. As I will show in my analysis, the planner's experience and the logical, chronological development of the planning effort can influence the planning result greatly.

5. Factors promoting the decreased system coupling

Interviews with education planners analyzed from the perspective of their individual interpretation of dealing with a county's education planning reveal several factors that give valuable insight into how the differing outcomes in a county's education system are shaped. Overall we can observe that there are several ways how to distance from the official policy aims. Sources of these influences cover a wide range of agents and institutions and can be related to the various elements of planners' work. I will structure the explanation of these factors around three main elements: experience, relations and practice.

5.1. Planning experience

Local education planners give highly diverse descriptions about how they found themselves to be in the job position they were holding. Firstly, none of them had actively applied for this position—all had been recruited by their municipality. Furthermore they had been recruited from various positions and had various experiences.

There are four main places where the planners had been searched for. The first was addressing individuals who had been involved in education planning and organizing in former districts (i.e. former administrative territorial divisions of Latvia, generally much larger than counties). Every district had its education planning institution that consisted of both methodological committees and education planners. After the ATR (the Administrative-Territorial Reform) some newly formed counties turned to former experts with an offer to join their municipality. These experts had an experience in regional education planning, had contacts with other planners and in MoES. So by addressing this group the local authority hired both an expert and his already established contacts. While these employees were prepared to face the problems of a district education

system, similarly to all other possible candidates they had not had experience in dealing with implementing the reform.

The second common place to search for planners were the local schools: the local authorities recruited for the job a more “active” teacher from a local school. The principles for teacher selection may have differed significantly and sometimes a teacher seemed to be promoted actively so that his school would receive certain benefits. Teachers are aware of the education situation and have well established relations within the local education system. However they lack experience in planning on a higher level. Furthermore, most of the teachers do not have contacts either in other municipalities or in MoES. So, in the beginning they are left alone with insufficient guidance and advice.

The third source of planners is the local authority itself. This seems to be done to maintain a potential position of power and to avoid difficulties that may emerge when searching and afterwards negotiating with a professional planner. Such a person does have local authority and is well aware of how a local municipality works both spatially and from the perspective of management. Additionally, he knows how decisions are made locally and is acquainted with hidden power structures. Still, he has little or no experience in education planning nor does he have outside contacts and may experience difficulties in finding a common ground to discuss problems with other involved agents. Even more—it seems that such a person is commonly used as a symbolic figure, while in reality there has been no real action to improve the local education system.

The fourth source for recruitment is “everyone else”. Representatives of this group are usually without any real experience either in education, planning, or in the county’s decision-making structures. It does not seem clear why these persons were addressed or what they have brought to this position. The most obvious guess would be that by bringing in such individuals the counties have preserved their internal power structures. This, however, does not mean that such planners are not actively working. They have problems with almost everything there is in education planning and their main everyday goal is to find help, to respond to official requirements, and to understand what is expected from them.

This shows that education planners are not a homogeneous group. To attribute this conclusion to a wider context one can suggest that various municipalities have various competencies. Although MoES and the state give guidelines to the municipalities, their ability to follow these guidelines varies. This is the conclusion that explains comments that Rosalind Levačić (2011) and Jan Herczyński (2011) make about Estonia and Lithuania—local municipalities deal with the issues they face and the implemented solutions are not always

the most effective ones. I would supplement this comment by saying that the solutions correspond to the municipalities' experience. Yet one should remember that these differences discussed here as well as all other factors that will be described should be approached both as a source and as the explanation of other factors. So, it is clear that the experience that a municipality can access to or, as in Latvia's case planners who embody this experience, have been placed in this position not because of a single consideration, but because of a group of factors which have become important rather suddenly after the visible authority of education planning has been brought closer to the implementation level. Differences in experiences and in access to various resources generate differences in interpretation of what the planner should achieve and how he should achieve it. In the end such variations will put the reform into practice in a way that does not correspond to the original intentions.

5.2. Sources of influence

What has been already said brings us to the next perspective on valuating the planners' possible range of action. Here I would like to draw the readers' attention to the different sources that influence both the planner's decisions and his possibility to act. There are several influencing factors of which the most obvious is the one that lies on the basis of the reform—there is a limited number of pupils. Yet we can observe several less obvious sources which exert additional influence.

The first agent to mention, without whose approval nothing happens, is MoES. Although MoES is officially involved in introducing reforms and is highly interested in successful reform results, it is at the same time concerned with a whole range of other issues. For MoES, the local planner is like a space satellite which can report from a great distance and which can be used to convey messages to these distant places. So the planner is used to gather information, clarify rules, and, only among other duties, to plan the local education network. Additionally, MoES has not given the planners any real tools that could be used to achieve these goals. Some planners complain that MoES cannot even explain how to execute MoES's own official suggestions. At the same time, it still largely influences all the planners' decisions and holds them responsible for the outcomes. Although officially the planner is given authority to introduce an education system that would fit the county's needs, he still is kept on a short leash by MoES.

It is easy to observe the MoES influence in each Baltic country. All of them report several changes to the original reforms, so whenever the changes do not

go as planned, MoES tries to create new control tools. This situation can be clearly observed in Lithuania's Act of 2004 which put a stronger pressure on the local municipalities to close down schools. Although the state renders its power in these matters to local municipalities, MoES holds strings to implement their education vision.

While MoES wields huge influence over what the planner can and must do, he officially remains employed by the local municipality. As an employee of municipality the planner does not have any real power and is subordinated to the local authority which, even though it has hired this person, may choose not to support the planner's vision for the education development. MoES cannot force the county to close its schools yet—it is as unpopular a decision on a county level as it is on the state level. The only difference is that on the county level the person who would allow a school to be closed is closer by and not as anonymous. As said above, in all three Baltic states school closure has been an unpopular decision and it has been opposed by parents expressing their dissatisfaction. So, from the political perspective there are also reasons why a municipality can decide not to act.

This brings us to the next source of influence—rural districts. In such a district, the school is very often one of the last actually functioning institutions, so the local community and district representatives are willing to keep it. Although the number of pupils in such a school is low, the local municipality has quite often made huge investments in the school infrastructure prior to the reforms. Closing the school at this point would mean losing all previous investments. Additionally, school is an institution that keeps youth from emigrating and guarantees the local community's future. Although this factor cannot be summarized under one influencing factor and is more associated with the overall spatial structure, because of real agents who can emerge to act in the interests of rural districts, it should be taken into account. This factor can be seen throughout the recent discussions in all three countries searching for solutions to how to save small rural schools from being closed. Before the matter was discussed in the official policy it has been already taken into account in the local municipalities' work.

Yet the greatest influence comes from the school itself. Although the planner is an agent who should be able to inspect and propose the closing of all educational institutions in a county and by doing so could be interpreted as being higher in the hierarchy than the school (as mentioned above), he nevertheless does not have any real instruments to go with his power position and fight off the school's influence.

This shows the variety of agents who are trying to gain power over the planner and by doing so push through favorable decisions. The planner is floating

between all the sources and is required to collaborate with every one of them. So it seems that planning results can be often associated with the local support to reforms. A community's willingness to change can play a greater role than the planner's willingness to reform.

5.3. Everyday practice

The last factor I intend to describe here is what could be called everyday practice. This factor refers to the specific act in which the planner is forced to choose between several opportunities, accept the factors he cannot change, and get along with the community's interpretation of his position.

Here the planner's task to support all the information that MoES requires should be first mentioned. The planner is under constant pressure to gather and forward information that is needed for MoES's work. Although it is not the only task that planners have to carry out, it is enough of a workload, and if the planner is not involved or motivated to get involved in improving the local education system, then he is given an excuse not to do so. This means that the results will be largely depending on his willingness to achieve results.

Another factor is that education planning requires constant involvement and chronological long-term development. This seems obvious, yet it poses constant problems to some planners who either are working in a district where something has not been done before their employment or where they have decided not to do something. A planner's work should be a constant search for and use of these opportunities. So the long-term workers are at an advantage, since they have access to information and recognize the importance of applying for all sorts of benefits and grants. They have the experience to successfully apply for and stock teaching materials, equipment and other resources. It follows that the search for opportunities has to be one of the priorities for the planner.

Another important perspective in observing the planner's everyday practice is drawing attention to his relations with other involved agents. First of all, he is engaged in a constant battle over which schools will be closed and which will not. However, planners are complaining that they are dealing with problems that are far from the general education system planning, as they are forced to deal with angry teachers, parents, misbehaving pupils, etc. So whenever anyone disagrees with their direct authority they come to the planner. Therefore, especially in many smaller districts, the planner spends his time organizing communication and mediating conflicts. A huge amount of his time is spent on factors that are not associated with his direct responsibilities. These tasks could be interpreted as a result of closely situated learning.

The variety of tasks that are associated with the planner's everyday work can be a reason to reconsider what the duties of a local education planner actually are. The planners have to communicate with MoES and complete all the officially outlined tasks. Yet other tasks also demand attention and it all can become a cause of conflict between the planner and the community. The planner's decision to direct his attention to one factor or another may significantly influence the kind of education planning he is carrying out. So the planners' interpretation of their duties is a factor that should be considered as decreasing the system's coupling.

This just proves that it can be wrong to analyze such reforms without a real context of actions around it. The local education system with all agents involved in it constructs its own needs and acceptable practices. To be able to implement a reform, either the planner has to be powerful enough to change such system habits or he should be able to participate in this system in a way that supports his own goals.

6. Discussion

Per capita education funding has introduced some problems in all three Baltic states. It can be speculated why it is so and I have tried to answer this question through a detailed analysis of one of these states.

The post-reform results achieved by various local municipalities should be perceived as a sum of several factors. I have shown here how various elements and influences tend to merge. Some of these differences have emerged because of state legislation, some stem from the planners' personal and professional traits, yet others can be associated with a specific county's situation. Furthermore, the influence of various agents will continue and deepen. So from this perspective it may seem that the only possibility is to return to centralization. This, however, is just one of the possible answers. A closer view of the factors I have described above would show that there are many possibilities to combine the intended decentralization and a given county's ability to decide about its schools and its path to attain the goals of the centralized education system. This means that probably the best possible solution would be further searching for ways of how to improve the policy. This then could be used to explain further policy changes in Lithuania and Estonia and to predict that there will be new changes in Latvia.

However, the question of how to make policy implementation fit the policy's targets does not seem as interesting as the possibility to look at this policy as

if it was detached from the local municipalities' needs. This argument sounds as follows: most of the factors that I identified in my interviews with education planners could have been predicted before the actual legislation was elaborated. So, the question that emerges is—can we draw parallels between the goals of the legislators, MoES, and the education planners? During interviews, none of the planners seemed to acknowledge that they are not managing the centrally assigned tasks that are expected of them. They clearly illustrated how their actions are driven towards some system goals. So, this once more forces us to question whether the different levels of the education system are really linked together or even whether the planners of various counties act in accordance with the same goals. If such isolation and what I have described here as some of the functions of the education planner are a valid approach to the local education planning, it would be naïve to compare reform outcomes with MoES's intentions. This would uncover an interesting angle to use when analyzing the activities of local education planners: they are something of an integrating factor for the local agents' involvement in education. Their connection to fund allocation is the foundation of their importance, yet they have too little real authority so they mainly serve as a basis for information storage and local communication stimulator. This is the basis the planner deals with when taking action in his position. Yet such a perspective forces us to rethink the goals we are associating with the whole of education system all together.

All in all, I can conclude that there are significant similarities in the education funding policy of the Baltic states and the countries share the same problems. A closer analysis of the issues that the local municipalities face when implementing school network optimization could help to solve these.

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Migration of 'Knowledge Workers' in the Baltic Sea Macro-Region Countries

Aksel Kirch

Department of International Relations,
Tallinn University of Technology
Akadeemia tee 3,
Tallinn 12618, Estonia
E-mail: aksel.kirch@tseba.ttu.ee

Vladimir Mezentsev

The Institute for European Studies
Akadeemia tee 3,
Tallinn 12618, Estonia
E-mail: mezentseff@gmail.com

Abstract: *The article studies the priorities of the strategic framework for Europe 2020, the trends and problems of human resources due to increased mobility, the emergence of new conditions of migration processes, and increasing the total requirements for competence in the Baltic Sea region. Specifically, a comparative analysis of the demographical and labour migration processes taking place in Latvia, Lithuania and Estonia was carried out. The huge migration of highly skilled labour force has had a negative impact on the innovative and socio-cultural potential of the Baltic States—in Lithuania and Latvia, and to some degree in Estonia. It has also negatively affected the efficiency of the countries' economy. This could be considered as the consequence of a loss of investments that could have otherwise been used to maintain and further develop the education system. It is shown that the traditional structure of higher education does not correspond to the requirements laid down in the Europe 2020 strategy.*

Keywords: *Baltic Sea macro-region, EU policies and strategies, human resource and Strategy Europe 2020*

1. Introduction

In this work *the conceptual model of macro-region* is applied to study the processes of transforming the social and political space in the Baltic Sea region (BSR) into a unified whole. The first part of this article outlines the conceptual principles of our model and the main geo-economic aspects of the Baltic Sea macro-region with aspects of the ‘knowledge triangle’—science, technology, and innovation. The second part examines the different social and economic spheres within the limits of the model through European territorial migration process. The third part examines Estonia’s university reform as an illustrative experiment to solve the emerged problems through political decisions. The conclusion indicates further research into migration and labour processes in the Baltic Sea macro-region.

The aim of the article is to highlight the trends and problems of human resources due to increased mobility, the emergence of new conditions for migration processes, and studies the increasing of the total requirements for competence in the Baltic Sea macro-region.

In the rapidly changing economic situation, the common problems and challenges that the Baltic region is faced with are best tackled on the regional level—within the European Union according to the ‘EU Strategy for the Baltic Sea Region’. The strategy of the Baltic Sea region is part of the overall strategy of the European Commission ‘Europe 2020: A strategy for smart, sustainable and inclusive growth’ (EC, 2010). As a young field in EU policy-making, macro-regional cooperation is a precondition for further development and this macro-region strategy can be viewed as one of the priorities of the strategic framework for Europe 2020.

Maria João Rodrigues (2010, p. 16) has pointed out the minimum of three strategic factors of the sustainable development model of the European Union. These three factors are: the pattern of consumption and production resulting from ecological balance; ageing trends that undermine the social protection systems in the EU countries; and the financial system undermining the conditions for the long-term investment which is necessary to ensure sustainable transition to a knowledge-intensive low-carbon economy (green workplaces).

Knowledge and innovation for growth became one of the three main areas for action in the Lisbon Strategy: a partnership for growth and employment, which places science, technology and innovation at the heart of EU policies. This concept was announced at the Lund conference in July 2009 during the EU

Swedish Presidency as priority responses to the grand challenges of the present financial-economic crisis (*Lund Declaration*, 2009, p. 1).

This study of the integration of the Baltic States macro-region into the European socio-economic and technological space makes use of a model that is based on the representation of the Baltic region as an environment in which open innovative systems direct their 'knowledge triangle' and socio-economic structures towards sustainable development. The trajectory of this system development has been affected by two groups of forces: one involves forces which deflect the development from the sustainable trajectory, while the other represents forces that push the development towards the sustainable trajectory. Extreme resource depletion is a factor that limits the development. Among the resources we can see also the people of the Baltic rim states. Usually, when depletion increases, the rate of consumption of resources is reduced and the society begins to increase investments to renew the resources as can be seen in the example of knowledge-intensive economy and development of green growth with workplaces policies of the European Commission (EC, 2010). However, when resource depletion concerns also people, the situation is largely different, especially when human capital, which should become a subject for intensive economical growth or introduce structural changes in economy (young people with higher education), flows out of the region.

The first volume of the annual *Political State of the Region Report*, published in 2011, is an attempt to provide a comprehensive overview of the political and economic developments in the Baltic Sea region. In order to achieve this goal, the report identifies and analyses important trends within the countries of the region and within several specific thematic areas (*Political State of the Region Report*, 2011). In the conclusion to this first report, one of the authors said about the reporting period of 2010–2011 that “the only way to develop the region and to establish a framework for binding and sustainable regional co-operation is to convince all Baltic Sea riparian states of its benefits and to feed it with concrete policies and stronger political, economical and environmental commitment” (Etzold, 2011, p. 90).

Today the fiscal strength of the states in the Baltic Sea region is sufficient to upgrade competitiveness and reanimate the long-term Europe 2020 Strategy as a process of smart, sustainable and inclusive growth.

2. Labour migration processes in the Baltic countries of the EU

Europe needs sustainable economic growth and in the course of this process investment and higher competitiveness are in order to exit the present economic crisis, summarises Hans Brask, director of the Baltic Development Forum in foreword to the ninth *State of the Region Report of Baltic Sea* (2012). As the report says, the key question is not as simple—the main question is the predominance of structural changes in the global economy and especially how these changes will affect the relationship between the underlying patterns of competitiveness and the economic outcomes that they lead to.

Country-specific challenges exist in the economies of the Baltic countries (Estonia, Latvia and Lithuania), which are emerging from the enormous financial crisis. Tobias Etzold (2012) in his conclusions of the second *Political State of the Region Report: Dilemmas and Coherence in the Baltic Sea Region* argues that “[f]rom a broader European perspective, the EU countries in the BSR have in fact a lot to offer and a change to position themselves at the *top of Europe*” (*Political State of the Region Report*, 2012, p. 71).

This socio-economic process has given good results in the Baltic Sea Region at large and all the southern Baltic States (Estonia, Latvia and Lithuania) are making a positive and meaningful impact today through the development of the common market, but migration from these three countries has had negative impacts on the countries involved in pan-European processes. The causes of these migration processes lie in the increasing globalisation of the economy. Economic and socio-cultural globalisation and European integration increases the mobility of the population and favours citizens’ choice. The international migration of highly educated people can be regarded as a mechanism for diffusing knowledge and rotation of scientific personnel which promotes research and development of educational systems in recipient countries.

For the country of origin, the migration of highly qualified personnel to a country with a more efficiently coordinated social system means losses in productivity and financial resources of the educational system. The migration of teachers, qualified researchers and students results in the loss of potential profits from educating the highly qualified personnel who migrate out of the country. Consequently, the educational system also loses its effectiveness in providing the country with professionals that stay within their home country. The negative consequences of the migration process could be both exhaustion of human resources that lead to lower productivity and underdevelopment as well

as reducing the tax base and reducing investments in education (Čekanavičius & Kasnauskienė, 2009).

The migration processes of highly skilled personnel and the side effects of this process on the development of an innovative economy must be examined also within the macro-regions. Within the boundaries of our model, the migration process is often a flow which originates in the emergence of differences in the socio-economic potential between the countries—the state of origin and the state of choice.

Statistical analyses show that Latvian and Lithuanian migration (as seen in Tables 1 and 2) are beginning to change from a short-term economic migration to a long-term one, because of family reunion processes and rapidly developing social networks. In both countries the approximately 20 per cent unemployment rate has proved a major economic problem in recent years (2009 and 2010). Recently published final census figures (January–March 2011) estimate that there are 2.074 million people in Latvia (*Population Census*, 2011). The Central Statistical Bureau of Latvia has calculated population gender and age structure on 1 January 2011, and the obtained information shows that at the beginning of 2011, the population of Latvia was 2,074,605.

In comparison with the number of population published prior to this date (based on the Population Register data), the population of Latvia has reduced by 155,000 people. In Latvia, emigration was about 16,000 people on average during the years of economic growth and 40,000 people in the years of economic crisis (2008–2010). Data presented in Table 1 indicates that the most significant factor in Latvia's population decline is migration, amounting to the loss of 175,000 people in the period of years 2004–2010. The total loss of Latvian population was 245,000, constituting approximately 10.5 per cent of the population.

Table 1. *Population change in the Baltic States between January 1989 and January 2011*

Country	Total population on January 1 st (in thousands)			Average annual change in 1989–2003 (in thousands)			Average annual change in 2004–2010 (in thousands)		
	1989	2004	2011	Total	Natural increase	Net migration	Total	Natural increase	Net migration
Estonia	1.566	1.351	1.295	-14.3	-4.1	-10.2	-8.0	-5.5	-2.5
Latvia	2.667	2.319	2.074	-23.1	-9.9	-13.3	-35.0	-10.0	-25.0
Lithuania	3.675	3.446	3.054	-15.3	-5.0	-10.3	-56.0	-10.2	-45.8

Source: Authors' estimation based on national statistics data: Estonia – Ränne, 2009; Latvia – Population Census, 2011; Lithuania – Provisional Results..., 2011

In Lithuania, as in Latvia, the most significant factor in population decline is migration, amounting to the loss of 392,000 people between the years 2004 and 2011. In Lithuania, emigration was about 15,000–17,000 people on average during the years of economic growth and more than 20,000 people in the first year of the economic crisis (in 2009). The emigration flow increased in 2010 about four times compared to 2009 (Table 2) and the stable high flow continued in 2011, when 54,000 emigrants left Lithuania (Latvia left in 2011 25,000 emigrants).

The main destination routes of Lithuanian emigration are Ireland, the UK, Spain, Norway and the USA. Lithuania remains in the forefront according to the migration rates in the European Union. According to certain estimations, approximately 12 to 15 per cent of adult Lithuanian citizens have departed to work abroad (Gaidys, 2010, p. 29).

A comparative analysis of the labour migration processes taking place in Latvia and Lithuania indicate that the traditional highly skilled groups in the national social structure are effective in conditions of high labour mobility in the European Union. Data of the most recent Latvian census indicates the loss of highly skilled labour force through large-scale migration.

Table 2. *Population change in Lithuania between January 2004 and January 2011*

Republic of Lithuania	2004	2005	2006	2007	2008	2009	2010
Emigrants	15,165	15,571	12,602	13,853	17,015	21,970	83,157
Immigrants	5,553	6,789	7,745	8,609	9,297	6,487	5,213
Net migration	-9,612	-8,782	-4,857	-5,244	-7,718	-15,483	-77,944

Source: *Database of Indicators, 2011*

Almost a half of all the emigrants from Latvia and Lithuania are part of the qualified labour force, which indicates an inefficient investment in human capital (Daugėlienė, 2008; Sedziuviene & Vveinhardt, 2009). The most notable reduction in the population number in Latvia and Lithuania was recorded in the age group 23–35 (more than 40%). The decrease may be explained with difficulties in finding employment in Latvia (Lithuania) after school (university), forcing young people to leave the country and seek employment abroad (*Population Census, 2011*).

In Estonia, these issues are not as salient as in Latvia and Lithuania. In Estonia the most significant factors in population decline were natural increase and labour migration, amounting to the loss of more than 56,000 people between the years

2004 and 2010 (Tiit, 2012). However, the labour migration process between Estonia and Finland has increased in the past two years and Estonian migration to Finland today is part of an intensifying economic migration. According to the recently established register, there are about 60,000 migrants from Estonia working in Finland (as indicated in the Finnish press).

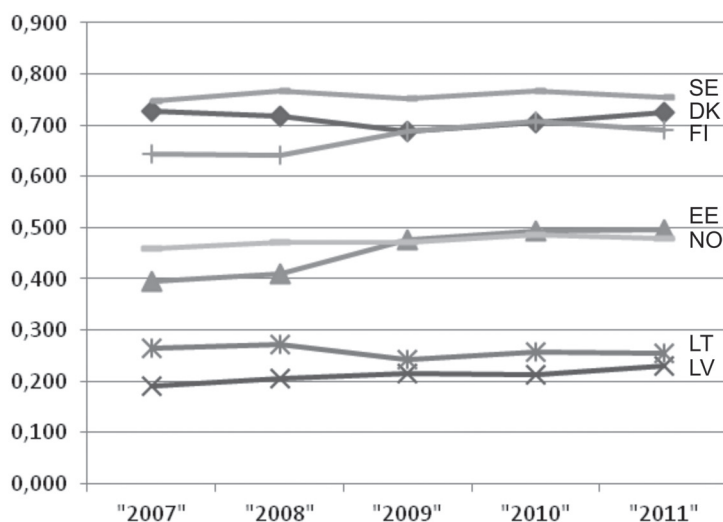
It is estimated that in the period from 2004 to 2012, some 75,000 Estonians emigrated to live and work in the Scandinavian countries—primarily Finland, Sweden, and Norway, but also Ireland and Spain. During the same period, nearly 175,000 Latvians and 435,000 Lithuanians emigrated to Ireland, the UK, the USA, Spain and the Scandinavian countries.

3. University reforms as a tool for knowledge-based economy

The development of innovative economy has been named one of the main objectives of the joint efforts of the Baltic States (*State of the Region Report*, 2011, pp. 22–30). It is not a simple task to measure a country's level of innovation. In order to work out, apply, and assess political criteria for this purpose, it is imperative to produce certain measurement tools proper to the object under consideration. For the past ten years the European Commission has been measuring the innovation performance of countries with the help of the European Innovation Scoreboard (Veugelers, 2007, p. 33). The European Innovation Scoreboard (EIS) has been published annually since 2001 to track and benchmark the relative innovation performance of the EU Member States. The EIS uses the most recent statistics from Eurostat and other internationally recognised sources available at the time of analysis. International sources have been used wherever possible in order to improve comparability between countries. From 2008–2010 onwards, the EIS has revised the methodology and the number of dimensions has been increased to seven, grouped into three main blocks covering enablers, firm activities and outputs (Hollanders & van Cruysen, 2008).

Figure 1 presents a comparison of innovation opportunities in Estonia, Latvia and Lithuania with the Summary Innovation Index by ProInno Europe, calculated for the EU-27 over a five-year period (2007–2011).

Figure 1. *Estonia, Latvia and Lithuania: Normalised Summary Innovation Index calculated over a five-year period (2007–2011) of the European Innovation Scoreboard*



Source: ProInno Europe, 2011

In compliance with this index the states of EU-27 are divided into the following categories:

- 1) Innovation leaders: Denmark, Finland and Sweden all show a performance well above that of the EU-27;
- 2) Innovation followers: Estonia and Norway show a performance close to that of the EU-27;
- 3) Modest innovators: Latvia and Lithuania are well below that of the EU-27.

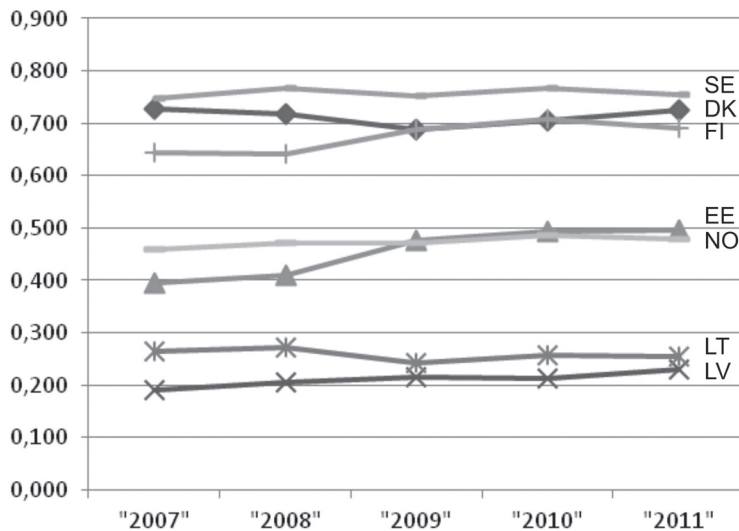
The 2007–2008 European Innovation Scoreboard showed a parallel increase of indices calculated by indicators of innovation in Estonia, Latvia and Lithuania. However, in 2009, the economic crisis slowed down the innovation performance and the convergence between the countries. According to the 2010 and 2011 Scoreboard, this negative impact is more clearly seen in 2009 in Lithuania and Latvia.

The findings of the most recent ProInno Europe report (2011, see Fig. 1) suggest that the rapid advance in innovation performance made by many lower performing countries (Lithuania and Latvia) may be maintained due to the severity of the economic crisis (e.g., the loss of highly skilled labour force from Latvia and Lithuania through large-scale migration). Such losses in human

capital (the diminishing number of researchers and postdoctoral students) will result in difficulties of the social innovation process in the future.

Currently, there are 69,113 students in Estonian universities (*Eesti Statistika aastaraamat*, 2011, p. 78). The Estonian state contributes a relatively small share of its budget to the sphere of higher education and the present situation in training highly qualified specialists is not satisfactory: the annual total expenditure per full-time equivalent student in Estonia in 2008 was only 4,500 PPS euros, whereas in Finland it was 12,000 PPS, and in Sweden and Denmark more than 13,000 PPS euros (*The European Higher Education Area...*, 2012, p. 25). In the years of recent financial crisis introducing budget cuts in higher education in the EU Member States was not a uniform response to the crisis, but in all the Baltic states these budgets cuts work. Public expenditure on tertiary education decreased considerably in Estonia, Latvia and Lithuania in 2008–2009, making up 20.6, 18.5 and 6.6 per cent, respectively (*The European Higher Education Area...*, 2012, p. 27).

Figure 2. *European Innovation Scoreboard Index of human resources for the Baltic Sea countries calculated over a five-year period (2007–2011)*



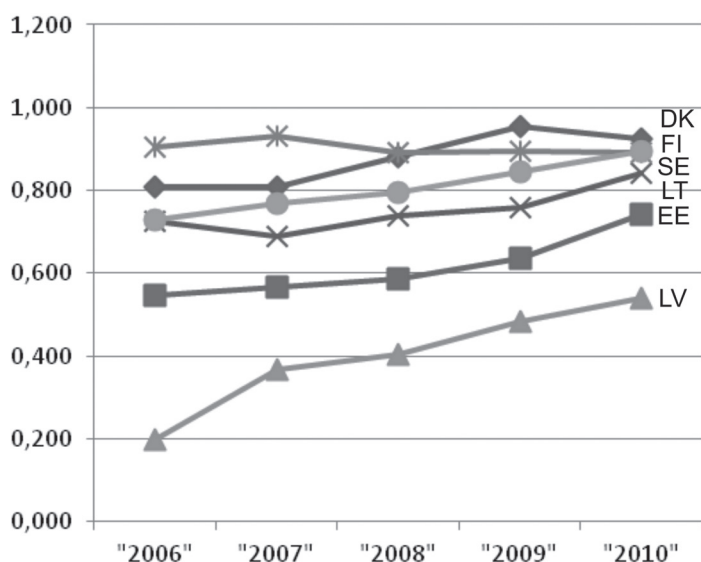
Source: *European Innovation Scoreboard, 2011*

Nevertheless, having cuts in budget allocations to higher education does not mean fewer resources in higher education. In all universities of the Baltic Sea states public expenditure is replaced by private contributions (e.g., alumni donations). As findings of the recent human resource index of ProInno Europe,

in Latvia, Estonia and Lithuania the lack of investment in the education system has not had a negative effect on universities achieving a high level (see Figs. 2 & 3). A growth in student contingents with university degrees is the result of private contributions for higher education process.

There are some possibilities available for the practical implementation of the new educational structure in Estonia to satisfy the priorities of the Europe 2020 Strategy. According to the data in Figure 3, this structure of labour resources can be created on the basis of existing educational resources in the region.

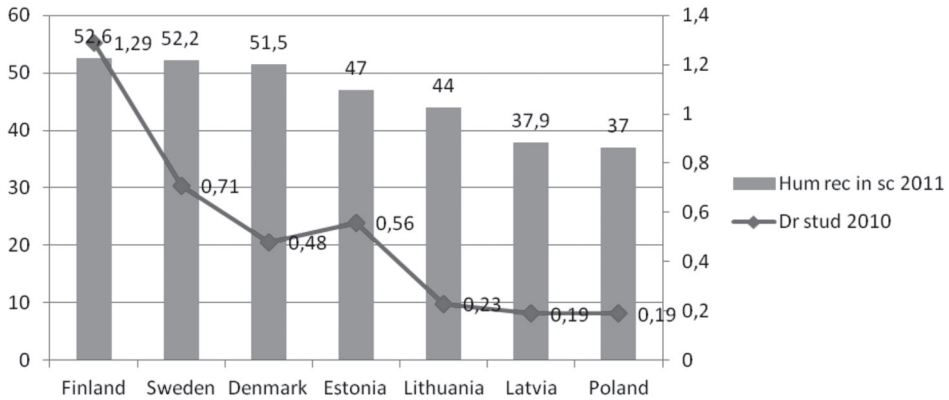
Figure 3. Percentage of population aged 30–34 who have completed tertiary education normalised scores



Source: Index calculated over a five-year period (2006–2010) of the European Innovation Score-board

Data presented in Figure 4 show the negative effects of labour migration process on the development of an innovative economy in Latvia, Estonia and Lithuania. As migration processes have been usually active in the last five to seven years, in countries of the southern Baltic area there is an increasing deficit in academic labour resources—there the number of doctorate graduates per 1,000 population aged 20–29 is very low. The consequences of the low level of training of ‘knowledge workers’ with high qualification (academic degrees) in the form of accumulation of human capital is an alarming issue for Latvia and Lithuania.

Figure 4. Human resources in science and technology (HRST) as a share of labour force (%) and doctorate graduates per 1,000 population aged 20–29



Source: Eurostat, *The European Higher Education Area...*, 2012

Recent academic research (Lauristin, 2011 and others), has concluded that the traditional structures of higher education in Estonia are ineffective in the situation of high competitiveness. There is a need to strengthen links between the different parts of the education system, but it is also necessary to strengthen each part in itself. Today the modernisation of the education system and the functions of academic science in universities are the two key elements of enhancing competitiveness in the whole society. One of the most crucial problems is the lack of continuity in the provision of educational services at the same level with the best European universities. To resolve these contradictions in Estonia, some authors (at universities and the Ministry of Education and Science) have proposed a new financial concept of the educational structure for Estonian universities on the basis of a state-commissioned study.

A higher education reform is currently taking place in Estonia. To make learning at the universities more effective, the government of Estonia has planned to expand the concept to a fully state-commissioned study and Estonian universities will be prepared for a major reforming process in the next three years (2013–2015). The additional contribution for budget for the period of 2013–2015 is about 60 million euros. (The basic state-commissioned student places could be beneficial for students learning in Estonian language study groups, including doctoral students.)

Relying on the process to strengthen the sector of the knowledge-based economy modernisation of Estonian universities is a key element in enhancing the competitiveness of its own human resources. The catching-up strategy offers

various instruments and solutions (further on this process see Tiits, 2011). One of the instruments in this process in Estonia has been the Competence Centre Programme, which is focused on creating specific business solutions between universities and high-technological centres (OECD, 2011, p. 215). There are currently more than ten centres of competence at Estonian universities and most of them have partners in universities of Sweden, Finland, Denmark, Germany, Norway and the USA.

Another major instrument is creating a new structure of institutions to carry out a new comprehensive and dynamic social innovation model. Marek Tiits (2011) argues in his recent publication that in a post-crisis situation there are specific industry segments of some major cross-border industrial clusters (ICT), which offer development possibilities for socio-economically challenging areas in Estonia as the first industrially prioritised areas in the period up until 2020. As has been argued recently—and it is in some ways favourable—, Estonia can establish ca 50,000 new workplaces for ICT people up until 2020, and ICT could become the first industrial area for Estonia (Kotka, 2012).

In the Baltic Sea macro-region, Estonia continues to seek as much support as possible to attract ‘knowledge workers’ in the form of accumulation of human capital through processes of transforming its education systems. This might prepare a coherent framework and support initiatives for a larger-scale cross-border cooperation with knowledge-building institutions in the Baltic Sea macro-region.

4. Conclusions

Following their accession to the EU in 2004, Estonia, Latvia, and Lithuania have experienced expansive and dramatic shifts in the economic sphere which have resulted in reduced job security for inhabitants in the region. EU accession has also contributed to extensive migration movements.

Even though the hundreds of thousands of Estonian, Latvian, and Lithuanian residents who seek employment opportunities in other countries comprise a small share of the broader migration flow from Eastern Europe each year, the relative size of emigration from the Baltic States has destabilised labour markets and the social system in the region.

Today the migration of highly skilled labour force from the three Baltic Sea countries (Estonia, Latvia and Lithuania) can be identified as a process with

negative impact on the economic potential of the region. As shown above, the traditional structures of higher education are inefficient in the situation of high mobility in a global society, and they do not correspond to the requirements established in Strategy Europe 2020 as a strategy for smart and sustainable growth.

In the region, an important role must be attributed to the 'knowledge triangle' which is concerned with creating new economic mechanisms (e.g., on the basic state-commissioned student places in the universities in Estonia) and creating a structure of institutions to carry out the new comprehensive and dynamic innovation model.

The labour migration process of 'knowledge workers' may be seen as a flow which originates in the emergence of differences in the socio-economic potential between two regions—the state of origin and the state of choice—from the southern to northern Baltic countries.

Although exact data about the migration flows of young and educated people is currently lacking, the trend is predominantly northward (to the Scandinavian countries). This means that, broadly speaking, half of the emigrated people (340,000 out of 700,000) stay in the Baltic Sea macro-region. According to the positive scenario the development of the concept of macro-region is of benefit to the entire region—to the destination countries as well as the donor countries. The destination countries acquire new educated labour force, while the benefit for the donor countries is the opportunity to be integrated into the research and innovation networks of countries that have already performed good results in the innovation field. Therefore it is inevitable to implement policies that would encourage networking and cooperation within the Baltic Sea macro-region.

Another scenario is not as positive. The coming two to three years will be a very difficult time for collaboration and competitiveness across the Baltic Sea macro-region. The overall economic decline in the EU in 2008–2010 may expand the "competitiveness shock", as described in connection with France's economy (see *The Economist*, 2012). This shock could be reduced to some extent with successful repatriation of youth, which requires the creation of hundreds of new highly qualified jobs over the next years. Future research on this topic should focus on the problem of remigration to the southern Baltic region.

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The Ethno-National Identity of Estonian and Russian Youth in Respect of their Primordialist or Situationalist Orientations

Tarmo Tuisk

Department of International Relations,
Tallinn University of Technology
Akadeemia tee 3,
Tallinn 12618, Estonia
E-mail: tarmo.tuisk@tseba.ttu.ee

Abstract: *Estonia has been often regarded as a country of contrasts. This contrast-based societal constellation appears to be surprisingly well accepted by the majority of the population—both Estonians and Russians living in Estonia. A sudden freedom of expression and behaviours provided new opportunities for differentiation within and between the ethnic groups led to new cleavages between winners and losers, the successful and the unfortunate.*

Identity Structure Analysis (ISA) as a theoretical framework was applied to investigate identity construal processes within these two largest ethnic groups in Estonia. ISA is a complex theoretical framework, building on several psychological theories, taking into consideration developmental factors, social psychological and cognitive processes. Ethnic identity is understood as an expression of continuity between one's construal of past ancestry and one's future aspirations in relation to ethnicity.

A distinction is made between a 'primordialist' and a 'situationalist' understanding of ethnic identity: Primordialists define ethnicity in terms of ancestry, whereas situationists perceive ethnicity as being socially constructed, taking into consideration fluidity and change.

ISA permits an empirical investigation of these construal processes of ethnic identity across the primordialist–situationalist spectrum. These often unconsciously held convictions are thought to contribute to the cleavages within the contemporary Estonian society. In addition, issues such as the command of the Estonian language, citizenship, the influence of the Second World War on European history, out-group acceptance, tolerance, globalisation, social responsibility, the role of government and the current economic crisis are also considered to be some of the essential features in constructing identities.

An ISA study was carried out among Estonian and Russian university students, the resultant data was analysed using Ipseus software.

Keywords: *Estonia, ethnic and national identity, identity construction, identity structure analysis, primordialism, Russians in Estonia, situationalism*

1. Introduction

The restoration of Estonian nation-state has been “the most visionary future-directed project of the Estonian people” (Ruutsoo, 2002, p. 52). Throughout the last two decades the search for a common national identity that has been considered as a basis uniting all ethno-demographic groups in Estonia, has proved an extremely challenging task for the entire society. Despite several elaborated and implemented integration programmes and policies, the integration of the society has not been completed, and efforts to achieve this will be continued.

The current study aims to make a contribution to this topic. The identities of Estonians and Russians living in Estonia are analysed using a developmental and socio-psychological approach for investigating the fundamental features of Estonian and Russian identity structures through in-depth assessment of underlying identity processes. Identity Structure Analysis (Weinreich, 1986[1980]; Weinreich & Saunderson, 2003), facilitated by Ipseus software (Weinreich & Ewart, 2007), provides the conceptual and methodological tools for assessing cleavages in identity orientations of the two largest ethnic groups in Estonia. These orientations are underpinned by primordialist sentiments on the one hand and situationalist perspectives on the other. Furthermore, the extent to which there exist features that contribute to a common Estonian national identity across cleavages both between and within Estonian conceptions and Estonian-Russian conceptions will also be established.

Although Identity Structure Analysis (ISA) has been used several times in Estonia since 1993 (Kirch & Laitin, 1994; Rimm & Tuisk, 1997; Kirch, Rull & Tuisk, 2001; Kirch & Tuisk, 2005; 2008; Kirch, Tuisk & Reinkort, 2011), the concepts and theory related to primordialism and situationalism have never been considered by researchers within these studies in Estonia. ISA has been successfully used to assess and investigate ethnic identity in several countries (e.g., Horenczyk & Munayer, 2003; Weinreich, Luk & Bond, 1996; Kelly, 1989). ISA studies in relation to primordialist and situationalist paradigm have been carried out in Northern Ireland and Slovakia (Weinreich, Bacova & Rougier,

2003). The approach allows an in-depth assessment of the contribution of psychological processes to issues of ethno-national identity, thereby augmenting sociological and political science analyses.

2. Theoretical basis

2.1. Aims of the current study

ISA is an open-ended framework of theoretical concepts and postulates about the processes of identity development and redefinition (Weinreich, 2003, p. 1). Within the current article, the ISA metatheoretical framework has been applied to study ethnicity and ethnic identity. Due to continued existence of ethnic conflicts all over the world, the concept of ethnic identity has been elaborated by many researchers. There exist two stances of ethnic identity—some researchers have demonstrated that the origins of a person's ethnic identity are ascribed at birth and remain unchanged for the entire life while others claim that ethnic identity has to be constructed and reconstructed during one's lifespan.

The distinction between these two types of ethnicities and ethnic identities has been clearly delineated (Glazer & Moynihan, 1975, as cited in Weinreich, Bacova & Rougier, 2003, p. 115). "The one that emphasizes the issue of ethnic persistence—a seemingly unchanging aspect of ethnicity, which persists down the generations, is called *primordialism* (Shils, 1957; Geertz, 1963; Greeley, 1974; Isaacs, 1975; Connor, 1978; Smith, 1981; Weinreich, Bacova & Rougier, 2003, p. 115) and the other that highlights the situational features of ethnic revivalism is called *situationalism*" (Hechter, 1974; Mitchell, 1974; Nagata, 1974; Epstein, 1978; Halsey, 1978; Okamura, 1981; Weinreich, Bacova & Rougier, 2003, p. 115). Application of ISA has enabled researchers to show the developmental primacy of primordialism, that is despite people's basic propensity for primordialism, there exist also persons who develop the situationalist perspective during their lifespan while questioning their *status quo* in the changing world (Weinreich, Bacova & Rougier, 2003).

The aim of the current study is to investigate whether the Estonians and Russians living in Estonia differ in terms of these orientations. A better understanding of identity construal processes and belief systems, which may not be conscious to the individuals concerned, is required in order to contribute to a better societal integration of Estonia. For this purpose I have carried out an ISA study among Estonian and Russian students, and the resultant data have been analysed using Ipeus software.

2.2. Definitions: primordialism and situationalism

When studying ethno-national identity, it is essential to show the context of how primordialism and situationalism as the main concepts of the study in relation to ethnic and national identity have been revised and defined within the new theoretical approach by Weinreich and his colleagues. According to them, simply acknowledging the two discernible perspectives on nationality and ethnicity is not sufficient. Primordialism has been taken within this analysis as ‘the basic and initial lay perspective’ on nationality or ethnicity as representing the cohesiveness of ‘peoplehood’. It is an emotive ‘gut feeling’ sense of affinity with the people in question (Weinreich, Bacova & Rougier, 2003, p. 118).

Primordialism is defined as a sentiment, or affect laden set of beliefs and discourses, about a perceived essential continuity from group ancestry to progeny (perceived kith and kin), located symbolically in a specific territory or place (which may or may not be the current place of the people concerned) (Weinreich, Bacova & Rougier, 1997; 2003, p. 119; Weinreich, 1998)

The set of beliefs and discourses forming primordialist sentiments is not predetermined. It may vary from person to person and from culture to culture, but certainly these beliefs and discourses will express the perceived essential ancestral continuity—in terms of language, tradition and custom; the inevitability of the ethnicity or nationality; the necessary relationship to the land, etc. Upon reflection about what has been initially taken as a natural order of things, some people will develop more of a situationalist perspective (Weinreich, Bacova & Rougier, 2003, p. 118). To them, nations have not been considered as eternally stable entities—on the contrary—they are rather being constructed and reconstructed throughout history.

Situationalism is defined as a set of beliefs or discourses about the instrumental and socially constructed nature of the group, in which interpretations and reinterpretations of history provide rationales justifying the legitimacy of a peoplehood. (Weinreich, Bacova & Rougier, 1997; Weinreich, 1998)

The definitions presented above are not exclusive. A person can simultaneously hold beliefs and values that refer to aspects of both primordialism and situationalism, thereby people who hold wholly one or another type of these beliefs consistently are considered to be rare.

3. Background of the study

Since Estonia regained its independence in 1991 a need to resolve practical issues about how to make the ‘restored nation-state’ (in a form of liberal democracy) and its ethno-demographic realities of the post-colonial environment correspond. A discursive conflict between human rights and imperatives of the nation-state was already implanted into the nation-building project. The ethnic consolidation perspective of a nation-state was reshaped to the discourse of modernisation, which launched the project of building liberal community, incorporating collective rights for minorities. At the same time language requirements for obtaining national citizenship were not regarded as a tool for communitarian nation building, but as a precondition for active republican citizenship (Ruutsoo, 2002, pp. 52–53). At the end of the 1990s when the threat to the Estonian language and culture was no longer perceived to be as direct as before, the government adopted the ‘Estonian Integration Programme 2000–2007’. While the main idea of the programme was to promote a multicultural society where all cultures are treated as equal, this overall principle appeared to be in contradiction with the aim of the Estonian statehood (Vetik, 2002, p. 60). Despite the fact that the state had to create conditions for the cultural development of ethnic minorities, it has been preordained at the constitutional level that Estonia should stay and will remain Estonia-centred as the aim of Estonian statehood itself is the preservation of the totality of the Estonian language and cultural space (*State Programme*, 2000, p. 23).

The Estonian social scientist Marju Lauristin (2011, p. 194) gives a broader view when analysing reasons of societal developments in regard to inclusion and exclusion during the last 20 years after the country regained its independence. According to her, it is paradoxical in Estonia that despite social troubles, people continuously support liberal economic policies and are ready to express support for a rightwing government that makes drastic cuts. Her analysis is commensurate with Henri Vogt who has adopted the concept of ‘nation-liberalism’ which values statehood as an institution that supports economic success, which is used to legitimise the readiness to make social sacrifices (for example, to unquestioningly support crisis cutbacks, which painfully affect families with children, the social security of workers, as well as schools and cultural institutions) as “national virtues”. Commenting on the results of Estonia’s last elections which kept the coalition that made the drastic cuts in power, Vogt writes:

What these results seem to tell, above all, is that the political and economic course that Estonia has followed over the past two decades

is now widely accepted by the citizenry.[...] the Estonian political system, its polity, continuously obtains its basic energy from a strong sense of being a national Gemeinschaft, a community of ethnic Estonians. (Vogt, 2011, p. 40)

This is an appeal to a 'primordialist' sentiment of a national community of ethnic Estonians, which must pose some difficulty for Russian primordialists, whose identity is Russian (living in Estonia), compared with Russian situationists, whose identity is Russian-Estonian. Here it becomes evident that the 'culture' of Estonia, despite the political rhetoric about cultural pluralism, is thereby predominantly primordialist.

Vogt continues:

This also means that a large part, or perhaps the majority, of the country's citizens have deemed the sacrifices of the past 20 years necessary and above all justified. Many ordinary Estonians, far more than was expected as the new era of independence dawned, have suffered severely during the post-Soviet transformation processes. The cleavages between winners and losers, between the successful and the unfortunate, have often been deep and clear-cut; [...] The deepest cleavage of all is, of course, that between the Russian-speaking population and the native Estonians. (Vogt, 2011, p. 40)

According to Vogt's construction of Estonian society, Estonians and Russians are expected to show the sharpest distinction according to delineation along ethnic lines. It is expected to be true in most of the cases. At the same time researchers have found the Russian-speaking community very heterogeneous (Laitin, 1998; Vihalemm & Kalmus, 2009) in their attitudes, depending on how native they are to Estonia, their citizenship status, age, education, social position and Estonian language skills, to point out some factors. In response to Estonians' overall primordialism, exposed through 'nation-liberalism', a guess is that these tough societal changes have established grounds for Russians' primordialism as well. Still, the heterogeneity of Russians at large is reflected in non-Estonians' increasing overall polarisation within integration processes. *Estonian Integration Monitoring 2011* (2012, p. 7) shows that during 2008–2011 the degree of integrated residents of other ethnicities has not changed (remaining at 61%), while the share of strongly integrated residents and of those who have not integrated at all, has increased. The latter category can be related first of all to primordialists, and those who have been able to integrate more successfully will have a stronger propensity towards situationism.

4. Earlier studies in Estonia

Ethnic and national identity of Estonians and Russians has been studied by Martin Ehala, who approaches Estonia's Russians and their identity changes by dividing the Russians' identity development in independent Estonia into developmental periods (Ehala, 2008). During the second half of the 1990s, the attitudes of Estonians and Russian speakers towards integration were more positive than at any other time since the restoration of independence. Estonians' and Russians' ideals coincided during the 2000–2004 period which can be labelled as a period of integration and consumer individualism, based largely on economic growth. Despite all positive effects of joining the EU in 2004, it was accompanied by new threats like invasion of the English language, possible arrivals of new immigrants, a weakening of the sense of national pride, and emigration. In the years 2004–2007, the weakening of ethnic identities emerged as a salient issue in radical nationalist circles and ways were actively sought to mobilise the nationalist sentiment. This feeling of threat is a major reason for the creation of conflicts between two subgroups of the same category. According to Ehala, in such situations ethnic conflict is the most effective way to sharpen the definition of boundaries between groups. The development of events was greatly influenced by Russia's new identity policy. Russia's celebration of the 60th anniversary of the end of the Second World War clearly showed that victory in the "Great Patriotic War" is one of the most important sources of national pride for Russian identity (Ehala, 2008). This finding is also consistent with the Bronze Soldier crisis of 2007. The removal of the Bronze Soldier, a Second World War memorial which was erected by the Soviet power in 1947, from the centre of Tallinn to a military cemetery, was followed by riots. Most of the Russian protesters partaking in the riots were youth who could speak the Estonian language. These riots signalled that for ethnic Russians, language learning is not sufficient for creating a common national identity or feelings of belonging to Estonia. Thereby within the current study language policies and their influence to Estonians' and Russians' identity construction will be one of the main foci.

5. Formulation of the research question and the hypotheses

Earlier studies have shown that since the beginning of the collapse of the Soviet Union, first the ethnic identity of Estonia's Russians became privatised and threatened, thereafter influences of globalisation and consumerism weakened both Estonian and Russian ethnic identities, although a starting point for the construction of a shared national identity was almost within reach. Instead, these gaps on either side became fulfilled with nationalism. As far as both Russians and Estonians were concerned, the stronger linkage to the Soviet past became visible and started to dominate again (Ehala, 2008). Parallel societies of Estonians and Russians, which have existed since the Soviet times and were mostly supported by two parallel educational systems, were separated through two different languages of instruction (Lindemann & Saar, 2011, pp. 61–63). Determined efforts to change the educational system towards being monolingual through governmental policies became an issue of high salience among Russians as these policies were perceived as a measure for forced assimilation accompanied with limited possibilities for education in their mother tongue. Negative outcomes of integration could possibly be a source of retrenchment towards basic primordialism among both ethnic groups in Estonia, as both Estonians' and Russians' ethnic identities could be perceived as being threatened.

The current study aims to elucidate the underlying socio-psychological processes that result in primordialist sentiments among both ethnic groups in their ethnic identity structure construction. It also aims to specify areas that are the most distinctive and others that are the most shared among the Estonian and Russian ethnic identities in order to sort out possible common starting points for the formation of a shared national identity in the future.

In the following, I will review three postulates (Weinreich, Bacova & Rougier, 2003), and taking into account Estonia's local interethnic environment (i.e. the distinction between ethnic Estonians and Russians), I will formulate four hypotheses to facilitate the analysis of locally gathered data.

The first postulate concerns the influence of variations in the development of nationhood.

Postulate 1: *Diversified socio-cultural ethos, individual cosmopolitanism and situationalism*

Those historical cultural and personal circumstances that stimulate people to think of the complexities of nationhood—acknowledging

fluidity and diversity—will generate a greater propensity towards situationalism. (Weinreich, Bacova & Rougier, 2003, p. 122)

Weinreich *et al.* have explained and justified this postulate through the example of Protestant British in Ulster who should by way of their historical experience of the British national debate about diverse cultural heritages express situationalism, while Catholics in Ireland should be more prone through unquestioning Irish Catholicism to primordialist perspectives (Weinreich, Bacova & Rougier, 2003, p. 123). Within the framework of my study concerning Estonians and Russians in Estonia, both ethnic groups have experienced (and suffered) a lot during the changes occurring over the last 20 years. Still, the guess is that for Estonians, who have enjoyed independence and own statehood, joined the European Union and NATO, introduced their own currency in 1992 and the euro in 2011, the post-Soviet change has been more stable and positive compared to Russians, whose status from a prestigious majority of the Soviet Union to a minority in a small independent state, separated by the state border from their historical homeland, forced them to follow integration policies adopted in Estonia to protect Estonians and “their” nation-state. The worst blows for Russians (in all ex-Soviet republics) were the adoption of the language law(s) in 1989 and the collapse of the USSR itself, called ‘the double cataclysm’ by David Laitin (1998, p. 85). The expectation here would be that:

Hypothesis 1a: *Given the historical change from the former Soviet domination to their current status within Estonia, those Russians who hold contemporary allegiance to Estonia are more likely to be situationalists than Estonians who experience the longstanding continuity over generations of Estonian heritage (that is, Estonians will remain more primordial).*

Hypothesis 1b: *Other Russians in Estonia who do not hold contemporary allegiance to Estonia are more likely to be primordialists (identifying more closely with Russians of Russia).*

Postulate 2: *Situationalists’ enhanced developmental change in identity*

Given their developing questioning stance on ‘nationality’, situationalists compared with primordialists will show a greater perceived change in the ethnic or national aspect of their identities over time and greater modulation in their empathetic identifications with others who represent primordialist or situationalist perspectives on ‘nationality’ (Weinreich, Bacova & Rougier, 2003, p. 125).

As already formulated in Hypotheses 1a and 1b, whereby the flexibility and developments of identity concerning time perspective should be more evident among Russians, the expectation here will be given in the following hypothesis.

Hypothesis 2: *Due to their experience of more profound societal change for them, a heightened developmental change will be the most distinctive among Russian situationists' identity accompanied also by their greater modulation with 'political groupings' and ethno-national winners/losers groups. Thereafter, Estonian situationists should demonstrate the second highest developmental modulation.*

Postulate 3: Consonant discourses as core evaluative dimensions of identity

For the more strident primordialists, ISA postulates that they will endorse and express primordialist discourses as core evaluative dimensions of identity with high structural pressures when appraising national or ethnic agencies in their social world. Likewise, for the more ideologically committed situationists, ISA postulates that they will use situationist discourses with high structural pressures (Weinreich, Bacova & Rougier, 2003, p. 150).

Postulate 3 will be used to define the following in order to underline the role of consonant discourses in regard to primordialism and situationism among Estonians and Russians, the following hypothesis was formulated.

Hypothesis 3: *Primordialists will endorse and express primordialist discourses as core evaluative dimensions of identity with high structural pressures when appraising national or ethnic agencies in their social world. Likewise, situationists will use situationist discourses with high structural pressures.*

6. Research method

6.1. Defining identity parameters

The following identity parameters of ISA will be used in the analysis.

Empathetic identification with another:

The extent of one's current empathetic identification with another is defined as the degree of similarity between the qualities one attributes

to the other, whether 'good' or 'bad', and those of one's current self-image (Weinreich, [1980]1986; Weinreich, 2003).

Emotional significance:

The emotional significance of a construct used by one during appraisal of one's social world is defined as the strength of affect associated with the expression of the construct (Ewart & Weinreich, 2006).

Structural pressure on a construct:

The phrase 'structural pressure on a construct' is introduced to refer to the pressures that arise from the structures of cognitive–affective consonances and dissonances associated with the use of the construct:

The structural pressure on a person's construct is defined as the overall strength of the excess of compatibilities over incompatibilities between the evaluative connotations of attributions one makes to each entity by way of the one construct and one's overall evaluation of each entity (Weinreich, [1980]1986; 2003).

6.2. Study design and respondent selection

The ISA identity instrument used in this study was custom-designed for this research and was based on my best understanding of ethnic and cultural features central to Estonians and Russians living in Estonia and to the major research questions addressed in the introduction to this article. The entities and constructs were selected on the basis of previous studies carried out in Estonia among Estonians and Russians and also on a comparative in-depth study of primordialism and ethnic identity in Northern Ireland and Slovakia (Weinreich, Bacova & Rougier, 2003).

6.2.1. Formulation of constructs

Although in 2011 the world was slowly recovering from the economic crisis that started already in 2008, there is still a need to include a construct which would assess a population's ability and prospects to relate this expected recovery from the crisis with the 'right-wing government that makes drastic cuts' (Lauristin, 2011, p. 194). The construct was phrased as follows:

1L *...believe/s that despite policies of large cuts implemented thus far, only the current government is capable of steering Estonia out of the economic crisis*

1R *...believe/s that success in recovering from the crisis does not depend on the particular government that Estonia has today*

The people of the Baltic States have viewed their countries' economic peril as a personal challenge and have expressed a collective desire to protect their countries from the devastating impact of the global crisis. References have also been made to the earlier experiences of the Baltic countries, especially Estonia, as they coped with the post-Communist economic collapse in the early 1990s by implementing radical economic reforms (Lauristin, 2011, p. 193). Possible collectively committed devotion here should be tested with the following bipolar construct:

2L *...feel/s that the difficulties that Estonia's society has gone through and the experience of the transition shock have helped the society to manage the current crisis*

2R *...feel/s that managing the current crisis does not depend on the experience of having survived the post-Soviet transition period and difficulties*

While linguistic-communicative integration, which means the reproduction of a common information space, has been considered one of the key aspects for successful societal integration, there has to be a certain common understanding among the population groups indicating that Estonian language and culture have a future. Also, will the command of Estonian language easily guarantee out-group acceptance for Russians? Two following constructs were included:

3L *...know/s that the Estonian language and culture are based on history and traditions, and have a future*

3R *...believe/s that Estonian culture and language are destined to vanish in the globalising world*

4L *...believe/s that it is easy for Russians to merge into the Estonian society by knowing the Estonian language*

4R *...believe/s that it is difficult for Russians to merge into the Estonian society even with a full command of the Estonian language*

The idea of the following construct is to use respondents' assessment of the presence of ethnic cleavage in the society.

5L *...think/s that there are no grounds to claim that there are ethnic cleavages in the Estonian society*

5R *...think/s that there exists a deep cleavage in the Estonian society*

The following constructs were included to help respondents to evaluate self and others from the aspect of civic values.

6L *are/is tolerant towards other people and views*

6R *do/es not accept other people and different views*

9L *...have/has a good sense of ethics and social responsibility*

9R *...are/is prone to corruption and self-aggrandisement*

Scientific evidence is still lacking on whether increasing the severity of penalties for those who do not comply with language laws is the best way to regulate language use. On the contrary, there are indications that the opposite is true—thick and control-orientated policies aimed at unifying complex language practices that are not in conformity with the official language ideology tend to work very slowly (Vihalemm & Siiner, 2011, p. 123). Although stronger control has not been considered an effective measure in Estonia, the following construct was included to let the respondents evaluate the effectiveness of language policies in general while the attitudes of respondents and their significant others concerning the overall repulsion to control was tested.

7L *...believe/s that by strengthening control and penalties when implementing language policy accelerates linguistic integration and use of the official language*

7R *...believe/s that strong control and penalties do not result in faster integration and greater use of the official language*

Despite the fact that ethnic affiliation has been considered less important than language proficiency in differentiating opportunities for participation in the labour market or public life, the claim that wealthier non-Estonians have easier access to language and citizenship because of their socio-economic position (Lauristin, 2011, p. 196) is included as a bipolar construct in order to view the role of such inequality in the construction of both Russian and Estonian respondents' identity.

8L *...think/s that the wealthier and more successful non-Estonians have gained, along with a better socio-economical position, both language skills and citizenship*

8R *...think/s that non-Estonians' command of the Estonian language and citizenship does not relate to their socio-economical position*

The ideologisation of cultural space, especially when it has been done through thesis and antithesis, delineated by the interpretation of the history of the Second World War, stifles open discussion in the society. In order to evaluate the seriousness of this claim within one's identity structure, the following construct was included:

10L *...is/are of the opinion that the Soviet Union was first of all the liberator of Eastern Europe in the Second World War*

10R *...is/are of the opinion that the Soviet Union was first of all the occupier of Eastern Europe in the Second World War*

In order to let a Russian respondent construe his or her affiliation with Estonia and to measure Estonian respondents' acceptance of Estonia's Russians, the following construct was included:

11L *...believe/s that Russians living in Estonia have more in common with Estonia being their country of residence*

11R *...believe/s that Estonian Russians feel more in common with Russia being the country of their origin*

The following three constructs were used to determine the respondents' belongingness either to the primordialist or situationalist category. Constructs 12, 13 and 14 were elaborated by Peter Weinreich and his colleagues for the comparative study of primordialism and were effectively used in Northern Ireland and Slovakia (Weinreich, Bacova & Rougier, 2003, p. 133). (P) and (S) indicate primordialist or situationalist polarity in the case of each construct, respectively.

12L *...believe/s that national ties override divisions of wealth and social position (P)*

12R *...believe/s that economic interests rather than national ones unite a people (S)*

13L *...consider/s nationality is given forever (P)*

13R *...a person is able to adapt to being of any nationality (S)*

14L *...believe/s that a common ancestral language is the essential hallmark of national and ethnic heritage (P)*

14R *...believe/s that a common ancestral language is not necessary for national belonging (S)*

6.2.2. Selection of entities

The entities which were used for the research were divided into five domains. According to the ISA methodology there are four mandatory entities within the *domain of self* (*current self, ideal self, contra-ideal self and past self*). The domain of personal heritage involves respondent's parents, while his/her friends belong to the domain of significant persons. The domain of national/ethnic groups includes both ethnic groups divided into 'winners' and 'losers' to enable the respondent to evaluate the categories which include successful or unsuccessful role model related to each ethnic group during his or her assessment. Here the dimension of 'winners' and 'losers' will be a cognitive category for the respondents to identify with, although in earlier studies in Estonia these categories have been operationalised (e.g., Narusk & Hansson, 1999). 'Russians in Russia' is included as an optional external other to identify or contra-identify with. In order to measure respondents' affiliation with political groupings, entities like 'government today' and the 'opposition in Riigikogu' (the Parliament of Estonia) were also included.

6.2.3. Study instrument and respondent selection

The ISA instrument was administered to two groups of students. The idea was to investigate the identity of Estonians and Russians by using the postulates to be verified instead of testing the hypotheses described above. The instrument was prepared consisting of 14 entities and 14 constructs. The instrument employed in the study was printed in Estonian and in Russian and was identical in both languages. The bipolar construct appeared at the top of each page, below which were listed 14 entities, each followed by a nine-point scale. The bi-directional centre-zero rating scales (4-3-2-1-0-1-2-3-4) made no *a priori* assumptions of favourable or unfavourable connotations associated with either end of the scale. The idea was to have as homogeneous sample as possible in order to eliminate variations caused by age, social position and highest educational level gained. I had to use student sample, as the resources to carry out a more extensive fieldwork were limited.

All students were majoring in international relations at the Tallinn University of Technology. The question about ethnicity was included as background

information. Only students who reported their ethnicity being ‘Estonian’ or ‘Russian’ were selected for the analysis. The year of birth of all of the students ranged from 1989 to 1992.

7. Results

In order to be able to distinguish between primordialists and situationalists among Estonians and Russians, both ethnic groups were divided before analysis according to their ideal self-positioning in regard to the following construct:

13L *...consider/s nationality is given forever (P)*

13R *...a person is able to adapt to being of any nationality (S)*

The final distribution of respondents by ethnicity, gender and primordialist/situationalist division is presented in Table 1.

Table 1. Division of respondents into primordialists and situationalists

	Estonians n=23		Russians n=22		
	Primordialists	Situationalists	Primordialists	Situationalists	Total
Male	4	6	4	8	22
Female	7	6	6	4	23
Total	11	12	10	12	45

The analysis by Ipseus software was carried out for four groups of respondents:

- Estonian primordialists (n=11); overall these 11 cases are distinctly primordialist (Table 4, see p. 148).
- Estonian situationalists (n=12); overall these 12 cases are very weakly situationalist with obtruding primordialist sentiment (Table 5, see p. 149).
- Russian primordialists (n=10); overall these 10 cases are strongly primordialist (Table 6, see p. 150).
- Russian situationalists (n=12); overall these 12 cases are weakly or conflicted situationalist (Table 7, see p. 151).

The division of the research participants into primordialists and situationalists was compromised by the lack of individuals expressing strong situationalist perspectives on ethnicity and nationality—the ‘situationalists’ of the investigation

are only weakly so (as these cases are far from holding a clear-cut situationalist perspective, they will be referenced hereafter in quotation marks to indicate this). If these findings were representative of the Estonian population, they would indicate generally primordialist Estonian and Russian cultures in Estonia, somewhat more so among the Estonians than the Russians. Further research with representative samples would be required to establish the generality of the respective ethno-national cultural propensities. The fieldwork data, after being entered and transferred into electronic format for analysis, were processed using Ipseus software. Four hypotheses (reformulated from the postulates) were tested using identity parameters generated from computer analysis. Interpretation of these results is as follows.

Hypothesis 1a: *Given the historical change from former Soviet domination to their current status within Estonia, those Russians who hold contemporary allegiance to Estonia are more likely to be situationalists than Estonians who experience the longstanding continuity over generations of Estonian heritage (that is, Estonians will remain more primordial).*

Hypothesis 2b: *Other Russians in Estonia who do not hold contemporary allegiance to Estonia are more likely to be primordialists (identifying more closely with Russians of Russia).*

Table 2. *Empathetic identification of respondents with ethno-national groups*

	Estonians			Russians		
	PRIM	SIT	F-ratio	PRIM	SIT	F-ratio
Estonia's Russians – winners	0.58	0.63	0.276	0.66	0.63	0.169
Estonia's Russians – losers	0.32	0.35	0.387	0.68	0.51	5.401**
Estonians – winners	0.85	0.73	4.175*	0.44	0.52	1.311
Estonians – losers	0.65	0.61	0.225	0.53	0.46	0.969
Russians in Russia	0.34	0.28	0.765	0.59	0.46	3.211*

* $p \leq 0.1$; ** $p \leq 0.05$; *Scale range: Identification 0.00 to 1.00.*

PRIM: Primordialists; SIT: Situationalists

This evidence suggests that the ethos of Estonians is predominantly primordialist as indicated by the 'Estonians – winners', with whom PRIM Estonians identify more closely and empathetically (0.85) than SIT Estonians (0.73). Compared to 'situationalists', primordialist Russians identify more closely and empathetically

with those Russians who do not 'fit in' Estonia ('Estonia's Russians – losers') (0.68 cf. 0.51) and 'Russians in Russia' (0.59 cf. 0.46). The closest empathetic identification that any of these groupings has is 0.85 for primordialist Estonians with 'Estonians – winners', followed by 0.73 for 'situationalist' Estonians with Estonian winners, then by 0.68 for primordialist Russians with 'Estonia's Russians – losers', and then by only a moderate 0.63 for 'situationalist' Russians with 'Estonia's Russian – winners' (Table 2).

These results show that hypothesis 1a was valid since 'flexible' and Estonian-minded Russian 'situationists' identified with 'Estonia's Russians – winners' that shows their allegiance towards Estonia while both Estonian primordialists and 'situationists' through their high identifications (with Estonians – winners) demonstrated overall primordialism among Estonians. Hypothesis 1b was also valid as 'Russians in Russia' was most highly supported by Russian primordialists, which demonstrates their identification with roots and the importance of historical legacy within their identity construction.

Hypothesis 2: *Due to their experience of more profound societal change for them, a heightened developmental change will be the most distinctive among Russian situationists' identity accompanied also by their greater modulation with 'political groupings' and ethno-national winners-losers groups. Thereafter, Estonian situationists should demonstrate the second highest developmental modulation.*

The evidence about ongoing processes stated in Hypothesis 2 is presented in Table 3. Estonian 'situationists' demonstrate a four per cent greater average change when compared to primordialists (9.4% cf. 13.4%). This means that in regard to Estonians the hypothesis is valid. In addition, when examining carefully, 'situationists' show the biggest changes in increasing identification with 'Estonia's Russians – winners' (+19%) and two most decreasing identifications are with 'Estonia's Russians – losers' (-23%) and 'Russians in Russia' (-36%). Here Estonian 'situationists' report their "addiction to success" while ethnicity as identification category seems to be of secondary importance. 'Estonia's Russians - winners' have been taken as possible 'business partners' becoming like 'in-group members' to identify with. At the same time tremendous distancing from 'Russians in Russia' marks a deepening distancing from Russians as the "others". Even Estonian primordialists do not distance in identification to such an extent from 'Russians in Russia' (-18%), instead their identification with their own ethno-national group ('Estonians – winners') has increased almost by 15% during the last four years. The overall estimation about Estonian 'situationists' is their numerically greater modulation in identifications when focusing on three key

identification patterns concerning Russians. Estonian primordialists have moved closer to their Estonian core, namely ‘Estonians – winners’, and changing less in their attitudes about Russians in general (as when compared to ‘situationalists’).

When comparing the mean differences of Russian primordialists and ‘situationalists’ (8.5% cf. 26.4%) the summarised averaged changes in modulation of empathetic identity are substantially more visible, and changes in the identification of ‘situationalists’ are more evident compared to that of primordialists as expected by the hypothesis. The primordialists’ identification with both the government and the opposition has decreased while the identification of ‘situationalists’ has increased with both, especially with the government (39%). In regard to their own group, ‘situationalists’ again show noticeable identification change with their ‘winners’ (18%) while there is no change among primordialists at all. Instead, primordialists have started to identify more strongly with ‘losers’ (+5%) while the ‘situationalists’ degree of similarity with them has decreased by 16 per cent. The positive change in the identification of ‘situationalists’ with both Estonian ‘winners’ and ‘losers’ (39–41%) corresponds to the decrease in identification with both Estonians’ groups among Russian primordialists. The inflexibility of primordialists in any direction is also exemplified with unchanged identification with ‘Russians in Russia’ while the identification of ‘situationalists’ with the latter category has dropped by 24 per cent.

As the analysis of the data in Table 3 shows, Russian primordialists express in their identification changes ‘frozen’ attitudes even in regard to identifying with their own winners’ group.

They are also the only of the four analysed groups here whose almost all identification developments are neutral or negative with only one exception among the seven agents or agencies—a slight “positive” change (5%) towards ‘Russians – losers’. At the same time, the most “positive” group are Russian ‘situationalists’ whose two decreasing identifications are only with ‘Estonia’s Russians – losers’ and ‘Russians in Russia’. At first glance it is possible to conclude that their “pro-Estonia speed rate” has been much higher than among Estonians themselves. Another and even more wide-reaching conclusion is that the cleavage among Russian primordialists and Russian ‘situationalists’ is noticeably larger than the cleavage between Estonians and Russians in general. Also, the cleavage between Estonian primordialists and ‘situationalists’ remains less significant, although ‘situationalists’ are closer to Russians in their identifications. These results clearly demonstrate that, while there are clear-cut Russian primordialists and ‘situationalists’, the Estonian ‘situationalists’ are not clear-cut, but retain elements of primordialist sentiment.

*Table 3. Empathetic identification based on the past and current self-images with
'political groupings' and national winners–losers groups*

	Estonians						Russians					
	Primordialists			'Situationalists'			Primordialists			'Situationalists'		
	Past	Current	%diff	Past	Current	%diff	Past	Current	% diff	Past	Current	% diff
Government of Estonia today	0.72	0.71	-1.4	0.62	0.64	+3.2	0.46	0.40	-15.0	0.36	0.50	+38.9
Opposition in Riigikogu	0.60	0.60	0.0	0.54	0.57	+5.6	0.56	0.50	-12.0	0.50	0.58	+9.4
Estonia's Russians – winners	0.55	0.58	+5.4	0.53	0.63	+18.9	0.66	0.66	0.0	0.54	0.63	+16.7
Estonia's Russians – losers	0.38	0.32	-18.7	0.43	0.35	-22.9	0.65	0.68	+4.6	0.59	0.51	-15.7
Estonians –winners	0.74	0.85	+14.9	0.69	0.73	+5.8	0.52	0.44	-18.2	0.37	0.52	+40.5
Estonians -losers	0.70	0.65	-7.7	0.62	0.61	-1.6	0.58	0.53	-9.4	0.33	0.46	+39.4
Russians in Russia	0.40	0.34	-17.6	0.38	0.28	-35.7	0.59	0.59	0.0	0.57	0.46	-23.9
Mean % diff			9.4			13.4			8.5			26.4

Scale range: Identification 0.00 to 1.00.

Hypothesis 3: *Primordialists will endorse and express primordialist discourses as core evaluative dimensions of identity with high structural pressures when assessing national or ethnic agencies in their social world. Likewise, situationalists will use situationalist discourses with high structural pressures.*

In order to test this hypothesis, the following comparison of the values and beliefs of eleven Estonian primordialists (moderately strongly so) and twelve weak 'situationalists' (retaining primordialist sentiments) will be reviewed (see Tables 4 & 5). Identity parameters (emotional significance and structural pressure) reported by the Ipseus analysis have been provided in the Tables where the first three constructs as indicative in regard to propensities towards classification as 'primordialists' or 'situationalists' have been grouped at the top, thereafter all other constructs have been analysed in order to distinguish between these two orientations.

The twelve Estonian ‘situationalists’ have an overall weak situationalist perspective on ethno-nationality and retain distinctly primordialist sentiments, which suggests that in practice there is only a marginal differentiation between their ethno-national orientation and that of the eleven Estonian primordialists. Marginal differences are revealed in a slight tendency for the ‘situationalists’ towards individual autonomy, contrasted with the primordialists’ tendency towards the *status quo* of the current government and socio-economic status, so that ‘situationalists’ tend to endorse the belief (conflicted) that recovering from the current crisis does not depend on the part of the Estonian government, whereas primordialists tend to believe (conflicted) that only the government can lead Estonia out of the economic crisis; and non-Estonians’ command of the Estonian language and citizenship does not relate to their socio-economical position, while primordialists tend to endorse the belief (conflicted) that wealthier and more successful non-Estonians have gained, along with a better socio-economical position, both language skills and citizenship. These findings suggest that Estonian culture at large (as represented by these Estonian participants) is predominantly primordialist, with only a very weak element of situationalist perspective restricted to only a few Estonians (cf. Weinreich, Bacova & Rougier, 2003).

Further differences between the ‘situationalists’ and the primordialists are revealed in the structural pressures on endorsements of the beliefs that Estonian society is not ethnically cleavaged (this is substantially greater for ‘situationalists’ at 52.19 compared with 33.32 for primordialists) and the expression of tolerance towards other people and views (substantially greater for ‘situationalists’ at 69.85 compared with 59.04 for primordialists).

In other respects, as assessed by the discourses included in the instrument, there are minimal differences to be found. The core concerns as common prominent dimensions of the Estonian participants’ identity are that the Estonian language and culture have a future, it should be easy for Russians to merge into the Estonian society if they know the language, and it should be acknowledged that the Soviet Union was the occupier of Eastern Europe in the Second World War. These results demonstrate that there exists a propensity towards *assimilation* supported by overwhelmingly primordialist Estonian ethno-national culture backed with the Soviet Union as a negative agency from the history, while situationalist *integration* perspective is more considered like a challenge towards mutually respected diversity.

In order to test the hypothesis in regard to Estonia’s Russians, the following comparison of the values and beliefs of ten Estonia’s Russian primordialists

(strongly so) with twelve ‘situationalists’ (weakly so) will be presented in Tables 6 and 7. Identity parameters (emotional significance and structural pressure) reported in the Ipseus analysis have been provided in the tables where the first three constructs as indicative in regard to propensities towards classification as ‘primordialists’ or ‘situationalists’ have been grouped on the top, thereafter all other constructs are analysed in order to distinguish between these two orientations. Polarity differences in endorsement of beliefs (dimensions of identity) demonstrate that ‘situationalists’ by and large have greater faith in personal autonomy than primordialists.

Whereas Estonia’s Russian primordialists endorse the belief (conflicted) that the Estonian language and culture are destined to vanish in a globalising world, their ‘situationalist’ counterparts endorse their having a future (a secondary dimension); primordialists endorse the belief (secondary) that socio-economic position is not a factor in their command of the Estonian language, whereas ‘situationalists’ tend to relate language skills and citizenship with a better socio-economic status (conflicted); primordialists veer towards the belief that control and penalties are the factors that induce learning the Estonian language (conflicted), while ‘situationalists’ do not believe that they are so necessary (conflicted); while primordialists tend to believe that the current government is responsible for leading Estonia out of its economic crisis (conflicted), ‘situationalists’ tend towards a different viewpoint (conflicted); and primordialists tend to view that the experience of the post-Soviet transition assists in managing the current crisis (conflicted), while ‘situationalists’ subscribe more to the view that the transition experience has no relevance to managing the crisis (conflicted).

Russian primordialists endorse the belief that the Soviet Union at the time of the Second World War was the liberator of Eastern Europe (secondary dimension), whereas their ‘situationalist’ counterparts are conflicted over this belief. ‘Situationalists’ are more positively inclined towards Estonia in respect to their feeling more in common with Estonians, thinking that the Estonian society is not ethnically cleavaged and that they can merge into the Estonian society by using Estonian language (all secondary dimensions for ‘situationalists’, but conflicted for primordialists).

Finally, Russian ‘situationalists’ who have tolerance towards other people and views as a core dimension of their identity, compared with this being only a secondary dimension for primordialists.

8. Discussion and conclusions

8.1. Evidence of cleavage between primordialist and 'situationalist' Estonians

8.1.1. Differences in values and beliefs

The polarities and structural pressures—core and conflicted—, which relate to the issues of the Second World War, Estonian language, out-group acceptance, recovering the economic crisis and tolerance will be discussed below (see Tables 4 & 5).

The results indicate that Estonian primordialists and 'situationalists' have both shared and non-shared values and beliefs. The list of shared cores consists of 'Soviet Union as occupier in the Second World War' (PRIM: 73.55; SIT: 74.60), 'Estonian language and culture have a future' (69.46; 72.63), 'easy for Russians to merge into the Estonian society if they know the language' (76.91; 74.79) and 'tolerance towards other people and views'. These as the core discourses of the Estonians' identity structure which are not easy to be changed even if there is a push from outside or inside of the community. It is evident that the Estonian language has the most important role for Estonians, the interpretation of the Second World War outcomes as negative for Estonia is consistent with language-related cores. Tolerance as a civic value demonstrates the openness of all Estonians towards other people although in terms of structural pressure has substantially lower value among primordialists compared to 'situationalists' (59.04 cf. 69.85).

Other differences between Estonian primordialists and 'situationalists' are experienced by favouring opposite polarities of conflicted dimensions in bipolar discourses. While primordialists endorse the belief that 'only the current government can lead Estonia out of the economic crisis', 'situationalists' support the understanding that 'recovering from the crisis does not depend on the particular government.' Conflicted discourses are subject to change within one's identity structure. Primordialists' trust in the current government to resolve the crisis (although conflicted) could be expected as this is consistent with primordialists' overall adoration of salient political groupings (as was also evident in the highest identification with the government in Table 3). Also, primordialists endorse the statement that 'wealthier and more successful non-Estonians have gained, along with better socio-economical position, both language skills and citizenship' while 'situationalists' rather express that non-Estonians' command of the Estonian language and citizenship status do not relate to their socio-economic position'. This is related to 'situationalists' propensity towards increased individual autonomy, but at large both of these differences

regarding Estonian primordialists and 'situationalists' remain rather decent, as the dominant core dimensions refer to primordialism as the main orientation within Estonians' ethno-national identity. Situationalism among Estonians is weakly expressed. Therefore, cleavages in values and beliefs concerning Estonian ethno-national identity, when divided by their orientations in respect of primordialism and situationalism, almost do not exist.

8.1.2. Differences in identification patterns

Differences in identification patterns demonstrate how individuals relate to societal groupings of relevance in contemporary Estonia. The results show that compared to 'situationalists', Estonian primordialists empathetically identify more strongly with the government (see Table 3). This was also confirmed by the prevailing discourse polarity stating that 'this particular government is the one who is able to steer Estonia out of the economic crisis.' The opposition's role is less notable among primordialists and 'situationalists'. The justification here could be long-lasting governance of Reform Party and Pro-Patria coalition accompanied by 'nation-liberal ideology' accepted among primordialists and 'situationalists' as the latter category shares mostly the same values within ethno-national identity discourses. Concerning identifications with ethno-national winners-losers groups both groups empathetically identify with 'Estonians – winners', (PRIM: 0.85 SIT: 0.73) but 'situationalists' lag behind. There exist no more significant differences in regard of identifications with any other ethno-national group among Estonians. This finding also contributes to earlier studies which claim that Estonians are much more consolidated compared to the country's migrant minorities, which have remained remarkably fragmented, both socially and politically, throughout the post-independence period (Vetik & Helemäe, 2011, p. 16).

Table 4. *Structural pressure of Estonian primordialists*
**[data in this Table indicates that overall these 11 cases
 are distinctly primordialist]**

Favoured polarity	Unfavoured polarity	Emotional significance	Structural pressure
Considers nationality is given forever (P)	A person is able to adapt to any nationality (S)	7.37 high	30.28 secondary
Language is an essential hallmark of ethnic and national heritage (P)	Language is not necessary for national belonging (S)	8.34 high	57.58 core
National ties override divisions of wealth (P)	Economic interests rather than national unite people (S)	6.36 high	14.56 conflicted
Believes that only current govt. can lead Estonia out of the economic crisis	Recovering from the crisis does not depend on the particular govt. Estonia has today	7.33 high	22.47 conflicted
Wealthier and more successful non-Estonians have gained, along with better socio-econ. pos., both language skills and citizens.	non-Estonians' command of Estonian language and citizenship does not relate to their socio-economical position	6.57 high	1.92 conflicted
Estonian society is not ethnically cleaved	Estonian society is ethnically cleaved	7.15 high	33.32 secondary
Estonian Russians feel more common to Estonia	Estonian Russians feel more common to Russia	6.85 high	22.24 conflicted
Estonian language and culture have a future	Estonian language and culture are destined to vanish in the globalising world	8.30 high	69.46 core
Easy for Russians to merge into Estonian society when knowing the language	It is difficult even with a full command of Estonian language	8.57 high	76.91 core
Control and penalties necessary to improve Estonian language learning	Control and penalties do not result in faster integration and lang. learning	7.92 high	49.05 secondary
Difficulties Estonia passed after transition shock have helped to manage the current crisis	Managing the current crisis does not depend on the experience of having survived post-Soviet transition	7.34 high	29.96 conflicted
Soviet Union – occupier of Eastern Europe in WWII	Soviet Union – liberator of Eastern Europe in WWII	8.79 high	73.55 core
Tolerant towards other people and views	Do/es not accept other people and views	7.38 high	59.04 core
Has a good sense of ethics and social responsibility	Is prone to corruption and self-aggrandisement	7.46 high	43.35 secondary

Table 5. *Structural pressure of Estonian ‘situationlists’*
[data in this Table indicates that overall these 12 cases are very weakly
situationalist with obtruding primordialist sentiment]

Favoured polarity	Unfavoured polarity	Emotional significance	Structural pressure
A person is able to adapt to any nationality (S)	<i>Considers nationality is given forever (P)</i>	6.75 high	30.22 secondary
<i>Language is an essential hallmark of ethnic and national heritage (P)</i>	Language is not necessary for national belonging (S)	7.31 high	29.43 secondary
<i>National ties override divisions of wealth (P)</i>	Economic interests rather than national ones unite people (S)	7.09 high	15.18 conflicted
Recovering from the crisis does not depend on the particular govt. Estonia has today	Believes that only the current govt. can lead Estonia out of the economic crisis	6.67 high	-8.74 conflicted
non-Estonians' command of Estonian language and citizenship does not relate to their socio-economical position	Wealthier and more successful non-Estonians have gained, along with better socio-economical position, both language skills and citizenship	7.42 high	-1.93 conflicted
Estonian society is not ethnically cleavaged	Estonian society is ethnically cleavaged	6.30 high	52.19 secondary
Estonia's Russians feel more common to Estonia	Estonia's Russians feel more common to Russia	6.83 high	26.76 conflicted
Estonian language and culture have a future	Estonian language and culture are destined to vanish in the globalising world	8.02 high	72.63 core
Easy for Russians to merge into Estonian society when knowing the language	It is difficult even with a full command of Estonian language	8.31 high	74.79 core
Control and penalties necessary to improve Estonian language learning	Control and penalties do not result in faster integration and lang. learning	7.24 high	48.37 secondary
Difficulties Estonia passed after transition shock have helped to manage the current crisis	Managing the current crisis does not depend on the experience of having survived post-Soviet transition	6.74 high	28.24 conflicted
Soviet Union – occupier of Eastern Europe in WWII	Soviet Union – liberator of Eastern Europe in WWII	8.95 high	74.60 core
Tolerant towards other people and views	Do/es not accept other people and views	7.78 high	69.85 core
Has a good sense of ethics and social responsibility	Is prone to corruption and self-aggrandisement	7.14 high	50.37 secondary

Table 6. *Structural pressure of Russian primordialists*
 [data in this Table indicates that overall these 10 cases are strongly primordialist]

Favoured polarity	Unfavoured polarity	Emotional significance	Structural pressure
Considers nationality is given forever (P)	A person is able to adapt to any nationality (S)	8.91 high	52.00 core
Language is an essential hallmark of ethnic and national heritage (P)	Language is not necessary for national belonging (S)	9.05 high	60.52 core
National ties override divisions of wealth (P)	Economic interests rather than national ones unite people (S)	8.28 high	24.09 secondary
Estonia's Russians feel more common to Estonia	Estonia's Russians feel more common to Russia	7.70 high	10.74 conflicted
Soviet Union – liberator of Eastern Europe in WWII	Soviet Union – occupier of Eastern Europe in WWII	8.20 high	42.48 secondary
Estonian society is not ethnically cleaved	Estonian society is ethnically cleaved	7.31 high	-9.74 conflicted
Easy for Russians to merge into Estonian society when knowing the language	It is difficult even with a full command of Estonian language	7.87 high	3.75 conflicted
Estonian language and culture are destined to vanish in the globalising world	Estonian language and culture have a future	7.39 high	1.88 conflicted
non-Estonians' command of Estonian language and citizenship does not relate to their socio-economical position	Wealthier and more successful non-Estonians have gained, along with better socio-economical position, both language skills and citizenship	7.59 high	24.89 secondary
Control and penalties necessary to improve Estonian language learning	Control and penalties do not result faster integration and lang. learning	8.54 high	-22.42 contradictory
Believes that only current govt. can lead Estonia out of the economic crisis	Recovering from the crisis does not depend on the particular govt. Estonia has today	6.91 high	-5.35 conflicted
Difficulties Estonia passed after transition shock have helped to manage with the current crisis	Managing the current crisis does not depend on the experience of having survived post-Soviet transition	6.89 high	0.30 conflicted
Tolerant towards other people and views	Do/es not accept other people and views	6.61 high	37.93 secondary
Has a good sense of ethics and social responsibility	Is prone to corruption and self-aggrandisement	7.68 high	41.19 secondary

Table 7. Structural pressure of Russian 'situationlists'
[data in this Table indicates that overall these 12 cases are weakly or
conflicted situationalist]

Favoured polarity	Unfavoured polarity	Emotional significance	Structural pressure
A person is able to adapt to any nationality (S)	<i>Considers nationality is given forever (P)</i>	7.56 high	41.09 secondary
Language is not necessary for national belonging (S)	<i>Language is an essential hallmark of ethnic and national heritage (P)</i>	8.04 high	6.84 conflicted
Economic interests rather than national ones unite people (S)	<i>National ties override divisions of wealth (P)</i>	7.18 high	11.12 conflicted
Estonia's Russians feel more common to Estonia	Estonia's Russians feel more common to Russia	7.48 high	32.37 secondary
Soviet Union – liberator of Eastern Europe in WWII	Soviet Union – occupier of Eastern Europe in WWII	8.55 high	17.72 conflicted
Estonian society is not ethnically cleavaged	Estonian society is ethnically cleavaged	6.72 high	21.23 secondary
Easy for Russians to merge into Estonian society when knowing the language	It is difficult even with a full command of Estonian language	8.09 high	38.73 secondary
Estonian language and culture have a future	Estonian language and culture are destined to vanish in the globalising world	7.64 high	20.60 secondary
Wealthier and more successful non-Estonians have gained, along with better socio-economical position, both language skills and citizenship	non-Estonians' command of Estonian language and citizenship does not relate to their socio-economical position	6.85 high	7.41 conflicted
Control and penalties do not result faster integration and lang. learning	Control and penalties necessary to improve Estonian language learning	8.38 high	7.78 conflicted
Recovering from the crisis does not depend on the particular govt. Estonia has today	Believes that only current govt. can lead Estonia out of the economic crisis	7.85 high	12.36 conflicted
Managing the current crisis does not depend on the experience of having survived post-Soviet transition	Difficulties Estonia passed after transition shock have helped to manage with the current crisis	7.43 high	16.48 conflicted
Tolerant towards other people and views	Do/es not accept other people and views	7.35 high	52.85 core
Has a good sense of ethics and social responsibility	Is prone to corruption and self-aggrandisement	6.79 high	37.41 secondary

8.2. Evidence of cleavage between primordialist and 'situationalist' Russians in Estonia

8.2.1. Differences in values and beliefs

For Russian primordialists there exist only two core dimensions in their ethno-national identity structure: 'considers nationality is given forever' (Structural Pressure (SP): 52.00) and 'language is an essential hallmark of ethnic and national heritage' (SP: 60.52) while for Russian 'situationalists' there exists only one core 'tolerance towards other people and views' (SP: 52.85). All the rest of the bipolar discourses have either secondary or conflicted structural pressure. Tables 6 and 7 present the lists of the constructs. It is important to notice that that 'control and penalties are necessary to improve Estonian language learning' (SP: -22.42) is extremely conflicted dimension for Russian primordialists that has even been labelled as contradictory. This is the dimension where primordialists feel the pressure from Estonian side while in their evaluations it is very stressful for them to support it when they don't have their internal acceptance to such policies. 'Situationalist' Russians endorse the opposite polarity of the same construct 'control and penalties do not result faster integration and language learning' (SP: 7.78). This difference is also affirmed by another polarisation between primordialists and 'situationalists' where primordialists endorse 'Estonian language and culture are destined to vanish in globalising world' (SP: 1.88) while 'situationalists' say 'Estonian language and culture have a future' (SP: 20.60). In regard of the economic crisis primordialists express conflicted attitude 'only the current government can steer Estonia out of the crisis', while 'situationalists' acknowledge that this does not depend on this particular government. At large, most of the bipolar identity dimensions (constructs) used for evaluation by primordialists and 'situationalists' were from different polarities. The same polarities were used only in 6 constructs out of the 14 in the case of Russians. This indicates a major distinction among Russian respondents here. Primordialists strongly express themselves by using identity dimensions which show their depression and resentment in regard to the Estonian language and culture. The Soviet Union as liberator in the Second World War continues to exist as a secondary dimension of their identity (SP: 42.48) while for 'situationalists' the same polarity of construct forms a conflicted dimension of their identity.

8.2.2. Differences in identification patterns

Polarisation among Russians is strongly visible also in their identification patterns with ethno-national groups. Primordialist Russians identify more closely and empathetically with 'Estonia's Russians – losers' and thereafter their next identification pattern 'Russians in Russia'. 'Situationalist' Russians identify with 'Estonia's Russians – winners' (see Table 2). Russian 'situationalists' empathetic identification with the government and opposition are higher compared to primordialists. This can be explained also by the primordialists' deprivation and resentment reporting minimal political interest and activity.

8.3. Conclusions

When using primordialism and situationalism as independent variables in this quasi-experimental research design in order to establish the socio-psychological underpinnings of the ethno-national identities of Estonians and Russians, some very interesting findings were revealed.

Although the sample size is small (and data from a representative sample are required for confirmation), evidence of this research shows that the Estonian society is predominantly primordialist. This is in part revealed by the paucity of Estonian subjects who held to a situationalist perspective on ethno-national identity in this study, so that Estonian 'situationalists' actually retained elements of primordialist sentiment. The distinction between the Estonian primordialist and 'situationalist' groups is rather small. Also, the analysis shows that Estonians-winners are those with whom both primordialists and 'situationalists' have primary empathetic identification, while Estonian winners are perceived as having primordialist attributes.

Nevertheless, even given the small development towards a situationalist perspective on the part of the Estonian 'situationalists', there emerged differences so that the latter's trust in the government slightly decreases, and their identification with the government is lower. Both Estonian primordialists and 'situationalists' share the same core identity dimensions concerned with the Estonian language and culture having a future, the Soviet Union's role in the Second World War as the occupier, it being easy for Russians to merge into the Estonian society if they know the language, and having tolerance about other people and views. This set of core dimensions of identity is in essence one of *assimilation* towards the generally primordialist Estonian ethno-national culture with the Soviet Union cast as the evil agency of the past, rather than a situationalist *integration* perspective of continuing cultural heritages that

are mutually respected for their diversity. On the other hand—the presence of ‘tolerance’ among these core dimensions will give some grounds to hope for acceptance for everybody, this being more true of the ‘situationalists’ rather than the primordialist Estonians.

In terms of Russians there is a substantial difference between Russian primordialists and ‘situationalists’. This is the area where distinctions between winners and losers apply. Because of their resentment about Estonian national policies, Russian primordialists tend to identify themselves first with ‘Estonia’s Russians – losers’ and thereafter with Russians in Russia. At the same time they hold on to the view that the Estonian language and culture are destined to vanish in globalising world, and the belief that the Soviet Union was a liberator in the Second World War.

Russian ‘situationalists’ tend to identify themselves first and foremost with ‘Estonia’s Russians – winners’. Their only core dimension of identity is related to ‘tolerance about other people and views’. Features of their identity development from the past to current self reveal the most positive changes of all the Estonian and Russian groupings. Identifications with the Estonian government, Estonians–winners and even Estonians–losers have increased during the past four years according to the respondents’ assessments. The question in regard to these Russian ‘situationalists’ and their increasing proximity to Estonian norms is whether they are going to accept the existing societal primordialism (thereby becoming assimilated) or will they be able to show the way towards the mutual acceptance of diverse ethnic heritages.

While the dimension of ‘tolerance’ features in all the four groupings, it is more characteristic of the ‘situationalists’ than the primordialists, and is only a secondary dimension for the Russian primordialists. Implacable (Estonian) language issues predominate both in the Estonian primordialist and ‘situationalist’ identities, as does the view of the Soviet Union being the occupier of Eastern Europe in the Second World War. For Russian primordialists the only core dimensions are the ones of nationality and ethnic language (Russian). For Russian ‘situationalists’, apart from the feature of ‘tolerance’, all of the assessed dimensions of identity are conflicted, indicating identities under considerable stress. These findings illustrate the socio-psychological nature of the dilemmas confronting the Estonian society from both Estonian and Estonia’s Russian viewpoints in which the developmental psychological tenacity of primordialist sentiment predominates over situationalist perspectives. ‘Tolerance’ under these circumstances provides a route towards dealing with these dilemmas, even though the identity propensities revealed in the study warn about the nature of conflicts over identity cleavages within the Estonia’s Russians (primordialists

and ‘situationalists’) and between the Estonians (holding more to primordialism) and Russians of contrasting propensities (primordialist towards Russia; ‘situationalists’ towards Estonia).

Besides ethno-national identity development and mutual group acceptance, tolerance at large has been considered a substantial feature for indirectly routing the society towards economic prosperity while “seamlessly” attracting the creative class (Florida, 2003; 2009) and facilitating expression of creativity in general. The presence of the three T’s (tolerance, technology, talent) will lead to the concentration of the creative class thereby creating favourable conditions for research and development. It would be most worthwhile to undertake a new ISA study focusing on these aspects related to tolerance and carried out among different segments of population (e.g., entrepreneurs, students, designers) while using the current knowledge about ethno-national identity in order to map propensities in, say, entrepreneurial identity developments related to creativity and innovation.

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