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POLITICAL AND ECONOMIC ISSUES**



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## Foreword

The book you are holding in your hands is the 6<sup>th</sup> issue of the peer-reviewed periodical “Proceedings of the Institute for European Studies” and it can be said we have withstood the test of quality and time. This collection of Proceedings named “European Union: Current Political and Economic Issues” covers some of the key issues of the post-accession period of Estonia and first of all, actual problems of socio-economic and political development in recent financial and economic crisis.

Contributions to the volume have been classified into five sections. The first section contains three papers of key relevance both for the future of the European Union and for Estonia as well as the Baltic region. One of them deals with the lessons from the crisis, the other one with the challenges of knowledge-based economy and society, while the third one addresses transit cooperation of the Baltic States. Two papers grouped in Section II highlight political and theoretical issues of international relations. Section III deals with minority integration based on the example of the “Russian Community” in Latvia. Section IV covers historical issues in two papers; one of them is EU-related and the other one about Estonian history. Finally, Section V offers two interesting book reviews.

In 2009 the majority of Europe’s post communist countries may consider themselves to be modern capitalist societies. After 20 years of political and socio-economic transformation and almost six years of accession to the EU it seems to be reasonable to take stock of the socio-cultural and political process of Estonian transformation.

When the Estonian society faced the EU-referendum in September 2003, the share of those who voted in favour of the EU was 66.8 per cent, while the percentage of those who voted against membership was 33.2. During the debates that took place for one year after Estonia joined the EU, the majority of citizens realised that EU membership provided new possibilities for defining the country’s position on Europe’s political and cultural map. Although being indisputably a part of Europe geographically, Estonia’s geo-political position there has not always been conclusively defined. It is obvious that in everyday life people identify themselves with Europe but how important they deem Europe to be as a part of their identity, or whether

there are greater variations in the expression of “Estonian identity” as a shared sameness of people belonging to the same group, with a common narrative and broadly matching attitudes, beliefs, values and dispositions.

There are many varieties of what people may think as being European. Can we say today that due to Estonia’s EU membership the European dimension now constitutes larger part of Estonians’ self-perception than six or seven years ago? According to a survey conducted by Estonian media researchers (Lauristin and Vihalemm, 2009) we can conclude that Estonian society has reached the stage where increasing international communication, economic and cultural ties have initiated a small but relevant shift towards the creation of a new “borderless” identity. European enlargement has influenced the self-definition of Estonian people and has provided the opportunity to redefine “Europeanness” from the viewpoint of new European identity components incorporated into Estonian identity.

However, some studies indicate that transition models are quite distinct. In 2009 Frane Adam, together with some Slovenian colleagues phrased Estonian and Slovenian paths of economic transition as follows: *“Both transition models have proved to be relatively successful so far. Estonia is considered to be the fastest-developing and catching-up country that is rapidly approaching the EU average. Slovenia, on the other hand, has succeeded in maintaining the highest GDP in the region and economic stability, which enabled its acceptance of the common European currency, the euro. It is necessary to stress the significance of both key factors that influenced the shaping of a specific type of socio-economic regulation. Further, the type of capitalism that has been restored in the two countries can be understood in the context of the co-influence of structural and partially historical-geopolitical circumstances on one side (path-dependence) and ‘subjective’ decisions, as a result of the composition of elite groups and their prevailing ideological profile on the other”* (Adam and others, 2009).

Sooner or later, Estonia will adopt a new currency – the euro. For the political leaders switching to the euro is about the trustworthiness of the Estonian Government. It is almost five years since the first version of the national changeover plan for adopting the euro was approved. This time Estonia did not meet the inflation criterion. Now, despite the country’s serious economic woes, a new version of the changeover plan was agreed in

mid-2009, and although no target date had been set, both the Estonian Government and the Central Bank share the view that the key objective is to join the eurozone as soon as possible. Estonia expects to meet all Maastricht criteria this spring. In fact, Estonia's economic crisis has been very much real. An excessively high social price has now been paid for the country's stabilisation achievements. The rate of registered unemployment has been growing rapidly, with joblessness reaching 15% last autumn.

In contrast to some of the newer EU member states, in Central Europe especially, popular support in Estonia for EU membership is still significantly high. The last *Eurobarometer* survey (in November 2009) shows that about 62% of Estonians believe EU membership is "a good thing". Estonia's political leadership seems to have no doubt that this situation should be used in the most efficient way.

Estonian people are still generally positive concerning the EU's economic future and believe that the advantageous economic change will be quicker through joining the eurozone. In any case, Estonia needs a determined restructuring of its economy to ensure the growth and competitiveness of private enterprise. This means attracting new investment capital and also developing the country's human capital. Last year, the Ministry of Economic Affairs and Communication initiated a "Made in Estonia" action plan. The first priority of the plan consists in promoting the country for foreign investment. We try to see the economic crisis as an opportunity to strengthen its knowledge-based economy, and also to push for greater cross-border cooperation, especially in the Baltic Sea region.

Let us hope that the readers will find the current collection both knowledgeable and full of fresh ideas with positive impact on their way of thinking.

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## SECTION I: ECONOMIC AND EUROPEAN UNION ISSUES

### **Estonian hyper-crisis lessons confirm importance of more effective high quality coordination/regulation and harmonisation: Mechanism design theoretic approach**

Ülo Ennuste

#### **Preface: Meta-remark**

From the viewpoint of Modern Political Economics the most powerful economic policy statement by the European Union was made in Lisbon Agenda 2000: the economy should be knowledge based. That means – in modern understandings – that socio-economic institutions (mechanisms, coordination, regulation and rules, etc.) of the EU and member countries should be knowledge based. Meaning that these should be based on modern, high level mechanisms design theory, decision theory, evolutionary economics, and information theory, information technology etc.

In other words, regulations should not be based on ruling incumbent political camps beliefs, pre-election myths and utopias. And mechanisms should not be adapted and changed with the change of ruling political camps, but these should be adapted, enhanced, complemented and their quality enhanced according to the real socio-economic, technological and ecological developments. Political changes may only take place in the sphere the socio-economic desiderata, especially the income redistribution and inequality structure. And most importantly, we have by that to keep in mind Rothstein's (2009) anti-devolutionary third argument: *“The third argument is that it is unlikely that such mechanisms will be efficiently designed/evolved/adapted endogenously by communicating actors. Moreover, if such institutions have been created, we should expect market agents to try to destroy them.”*

Coordination theme is the basic socio-economic problem, as Friedman (1962, 12) has postulated: *“The basic problem of social organization is how to co-ordinate the economic activities of large numbers of people.”*

(By the way in macro-economics the dominant general term is “coordination” – “regulation” means a kind of coordination.)

Coordination theme in the Modern Macro-Economics generally belongs to the domains of Evolutionary Economics and Mechanism Design Theories – the first is happily enough more or less a narrative one. But the last one is nowadays rigorously formalized, based on heavyweight mathematics: see e.g. Note (N1) on 2007 Nobel Prize in economics:

**“Mechanism design theory is a branch of game theory** (NB: generally dynamic Bayesian mathematical game theory. ÜE) ... **and extends** (sic! e.g. on the field of social behaviour, animal spirit etc. ÜE) **the application of game theory to ask about the consequence of applying different types of rules to a given problem.”** and see also e.g. (N2) on an example of theoretic optimization model of building of national socio-economic institutional structure.

As the politicians and lawmakers (the implementers of institutions) as a rule don't know mathematics and hate it and high level tedious scholarship in general, they try, especially in this very crisis period to claim that mathematical macro-economics is to blame as the significant destabilizing factor (lately especially Lord Roland Skidelsky: **“They were preoccupied with sophisticated mathematical models – a serious weakness,...”**(Lunch with FT August 28 2009 and (N3)), and mathematical dismal science is also not able to forecast important socio-economic events and is no good altogether and whatsoever.

But, this is absolutely not true ((N12) Bezemer 2009a), actually slander: first of all, the high level, e.g. Nobel domain, mathematical macroeconomic theories, are in the mainstream credible, these contain all the uncertainties and moral hazards of *animal spirit* in all varieties (limited rationality, strategic manipulative distortion of communication, incompetence, greed etc), and these theories should be implemented especially in the times of crisis (Bezemer 2009b).

For example the extant definition of Maastricht inflation (complex) criterion is methodologically defective: semi-formalized mathematically and therefore non-transparent (restrictive information level is mathematically defined

by +1.5%, but prices stability/sustainability restriction is only vaguely verbally defined and so open for all kinds of interpretations).

And, just in 2008 the Estonian Parliament enacted abortive “advance-payment income tax law”. The law was dynamical (several years interactively involved) and so to be transparent should have been mathematically formalized, it was not, and so in the end on the basis of public protests the law was abolished before enforcement – tens of millions kroons wasted.

But interpretations of excellent mathematical macro-theories by dominating politicians, policymakers, jurists, journalists, spin doctors etc, are generally incorrect caricatures, e.g. (N4). And secondly, there are certainly some distorting biases and divisions in dismal science community globally and locally, on the basis of regrettable biases of independence and divisions towards different political power-camps:

***“Consensus economics does exist. The Obama administration and the Federal Reserve are trying to apply it. The economics professoriate has an obligation to criticize and improve those policies. But if politics is allowed to split the discipline, and communication across that divide continues to break down, the science of economics will forfeit what little respect it still commands.” – C. Crook “Politics is damaging the credibility of economics” (FT February 8 09).***

### **1. Introductory remarks: The central dilemma**

Wide discussions have already started about the immediate necessity for time consistent adaptations of European economic mechanisms and member countries versions versus mechanisms and multilateral harmonisation on the fresh knowledge base of the crisis lessons: as for greater coordination/regulation and harmonisation, and as for relaxation and liberalization.

Remarkable among first versions-in the Estonian context-has been the paper of FT June 17, 2009 by PM of Finland Matti Vanhanen „***Europe will need to raise taxes in harmony***” (N5):

***“EU policy with respect to tax competition is currently based on member states refraining from implementing new tax competition measures and on dismantling old measures perceived to be harmful. These codes of conduct are not legally binding. I do not think this could or should be changed. But member countries could agree, for example, to change the levels of certain taxes in parallel. Parallel measures would help all of Europe: tax competition risk would be reduced and the public finances of individual countries would improve. Such co-ordinated tax changes could set also an important global example.”***

From the mechanism’s theories point this is an extremely important paper for Estonia, but alas, has already here received publicly but in the form of sarcastic side-remarks.

And in the same vein the Letter to the FT from the President of the Party of European Socialists Poul Nyrup Rasmussen ***“Sustainable growth requires greater regulation”***: ***“Our future must be based on real jobs in a green economy. We need transparent, highly competitive and low-cost financial markets to serve that purpose. No amount of short-sighted industry lobbying will stop policymakers from pursuing this goal.”*** (etc (N3)).

In the vein of deregulations the most outstanding publication in the Estonian context seems thus far to be ***“OECD urges rich countries to strive for flexibility”*** By Chris Giles, The Economist March 3 2009. There we may read: ***“The countries should redouble efforts to increase flexibility in labour markets and boost competition even though they are suffering the worst recession since the second world war, ... .”***

***Arguing that liberalisation was the surest route to a speedy recovery, the Paris-based international organisation locked horns with a vocal group of European economists, who have been extolling the virtues of labour market rigidities as a way of preventing deflation and depression.***

Thus, our main dilemma will be: to regulate more, or to deregulate, and where so. To figure out some Estonian solutions, first of all let us look for the Estonian crisis idiosyncrasies.

## 2. Main Estonian hyper-crisis idiosyncrasies

### *Estonia started to solve the crisis in the own way*

First of all we have to notice that all the Eastern-European countries have their differences and had already applied different varieties of crisis management strategies: *“That highlights an important problem. Outsiders tend to lump “the ex-communist world” or “Eastern Europe” together, as though a shared history of totalitarian captivity was the main determinant of economic fortune, two decades after the evil empire collapsed. Though many problems are shared, the differences between the ex-communist countries are often greater than those that distinguish them from the countries of “old Europe” (The Economist “The whiff of contagion”. Feb 26<sup>th</sup> 2009. (N8).*

### *Estonian crisis started relatively earlier and was foreseeable*

In the second half of 2007 Estonian exports actually began to decline in real terms (according to the Eurostat). In particular, the decrease of competitiveness began because of relatively much higher inflation than in partner countries (without increase in the quality the products of services). The export crises worsened due to the start of the global financial crisis in 2008, and unemployment started to increase rapidly. As the Government started to alleviate the crisis by severe cuts of the budget, the local demand also started to decline and GDP started to fall rapidly “and so on” in repeating cycles.

The Economist regular Table “Output, prices and jobs” implicitly classified/s Estonia in 2009 and at the moment into the group of most high magnitude crisis countries, as in the EU and more broadly as well. Although the indexes may be roughly approximate, we may still with great certainty claim that the combined magnitude of the Estonian complex crisis is at the moment 2-3 times higher than in the EU member countries in general (for Estonian QIII 09 statistics in more details see (N9): it is important to add that according to the Bank of Estonia Statistics, Estonian national gross external debt has been in the last years and is presently excessively high - about 120-140% of GDP, and the Current account deficiency has been chronically relatively high, international investment position retreating etc;

according to Eurostat economic Inequality index by quintiles barbarically high etc.

***Truth value of Estonian public socio-economic knowledge structure is at the moment low.***

***Examples: Estonian research paper on euro-area accession from TUTWPE 2005 (133): M. Sõrg 2005. Estonia's Accession to the EMU.***

***Abstract. E countries have passed the process of transition to market economy and eight of them, including Estonia, joined the European Union in 2004. Estonia has been very successful in the transition process, mainly owing to the currency board-based monetary system, which serves as a signal of commitment to prudent monetary policy and as a guarantee of sound money during the transition period. The current paper discusses the thirteen years of experience in operating the currency board – based monetary system in Estonia. Estonia's accession to the European Union will soon be accompanied by membership of the Economic and Monetary Union (EMU). The article also explains why Estonia wants to join the EMU as fast as possible and what the prospects are to do it on time – at the beginning of 2007.***

Notice that in this very late 2005 paper the Abstract contains no word that Estonia started to spoil Maastricht inflation criterion already in 2004 and continued so in 2005, and high inflation risk is not discussed in the text and the plan to join euro at the beginning of 2007 was roughly abortive because of this criterion, although immense resources were spent for preparations. Notice also that Prof Sõrg was – at the time the paper was written – the Head of the Board of the Bank of Estonia. See also (N12).

***Much boast about “Baltic Shining Star” and slander on the addresses of other member states***

E.g.: “Openeurope” 2006 (p.7) “Beyond the European Social Model”: ***“Meelis Kitsing notes that success in the information economy has made the Nordic model “as hot as stones in a sauna” among EU policymakers. But studies which try to show a link between Nordic welfare systems and the information economy suggest that this is less of a “model” and more***

*of a coincidence. He argues that success stories like Nokia can be explained by getting a few big things like telecoms regulation right, and also by the “gales of creative destruction” unleashed on Scandinavia in the early 1990s by the collapse of the Soviet Union. He argues that if poorer member states want to break into the new economy they should learn from low-tax Estonia instead. He notes the story of the revolutionary telecoms company Skype: technology developed entirely in Estonia - by entrepreneurs who had left Denmark and Sweden.”*

By the way, low are only Estonian 0-profit taxes, and just this “low-tax” thing forced the Estonian Government to implement high inflationary and money illusionary policies, and may be blamed for relatively excessive crisis phenomenon at the moment, and more importantly – the probabilities of successes certainly depend on development of information technology.

And there is no credible proof whatsoever known till now that low-tax system helped Estonia “to break into the new economy” in other ways.

All kinds of “high-octane power-brain” geniuses from all political camps are regularly flooding the entire mass-media just before elections with cascades of irresponsible, incompetent, populist, socio-economic gibberish.

*In the Estonian mass-media the strange caricatures of socio-economic realities are customarily circulating:*

E.g.: *(the EU) = (the SU)*

– perhaps one explanation for that kind of slander can be found in: *“Stalin still looms large over eastern Europe” By Stefan Wagstyl FT August 30 2009: “Lies are allowed to multiply with, for example, an official historian recently denying the 1940 occupation of the Baltic states took place and saying they joined the Soviet Union voluntarily.”*

The problem is that the Estonian Press has considerable commercial interest connected with the large Russian speaking Diaspora, many with very strange irredentist beliefs of anxieties about market economy and the EU expansion to Estonia (Ott and Ennuste 1996).

***No research centres for macroeconomic studies in Estonia, R&D expenses pc are magnitude lower than in Nordic countries***

Unfortunately, the current system of financing universities is such that universities are not at all interested in (independent) macro-economic research activities. There is an extreme shortage of second-degree macro-economists in Estonia.

**On the basis of these idiosyncrasies, I am trying schematically to tackle enhancements and complementation problems of the three most urgent regulation and harmonisations areas: Maastricht criteria, tax system, and communication mechanisms; mainly on the basis of the following concepts of mechanism design theory:**

- \* Combined vertical (included hierarchical e.g.: Brussels > Baltic Rim > Estonia) and horizontal (e.g.: Estonia-Finland-Sweden-Russia) coordination;
- \* Complex and parallel coordination networks (e.g. governmental and nongovernmental, optimally detailed, updated);
- \* Complex coordinating instruments (e.g. material and moral); \*Complex coordinating principles (e.g. incentives and constraints, bargaining, consultations, updated);
- \* Complex incentive and restriction mechanisms and consultations.

**3. Most urgent Estonian regulation and harmonization strategies and conceptions**

***A. The Maastricht inflation criterion amendments***

*Criterion\** consists of economic quantitative component: anchoring of the three best national averages of annual inflation + 1.5 percentage points. Secondly, it includes a qualitative not numerically calibrated component: requirement for the sustainability of prices where the “sustainability” and “prices” are not rigorously defined and specified and so offers ways for diverse political interpretations and manipulations. This methodological error has to be corrected by the Commission immediately.

In addition to that the Commission has to rigorously formalize the definition of the price stability for the case of deflation (crisis period).

But one thing is certain: theoretically in 2009-2010 prices instability is high in Estonia and according to extant criterion it is not transparent; is it unfulfilled or fulfilled, or what will be the respective probability?

\* **Note:** The inflation criterion is formally set out in Article 1 of the Protocol is the Convergence Criteria of the Maastricht Treaty (European Union, 1992b: 29-30): [A] *Member State has a price performance that is sustainable and an average rate of inflation (observed over a period of one year before the examination) that does not exceed-by more than 1 1/2 percentage points - that of, at most, the three best performing Member States in terms of price stability.*

***B. New member countries tax-systems harmonization should be more rigorous***

Matti Vanhanen is absolutely right (FT June 17 “Europe will need to raise taxes in harmony”) claiming:

***“We should avoid tax competition and the damage this would cause to Europe’s economic growth.” Understandably this kind of damage comes first of all from incompetent competition instead of rationally coordinated cooperation between the partner countries, as e.g. Prof Krugman has proved.”***

It is easy to see that in given case the incompetence that he had in mind comes from Baltic-States, first of all from Estonia (0-profit tax). And it seems evident that these countries are not yet mature enough to design a civilized tax systems. In other words the Baltic-Rim falls short of the more advanced Nordic-Counties model (rational cooperation between countries in the region and avoiding political instability in the country via excessive income inequality etc). Thus it is first of all in the interest New-Member sustainability to introduce, without any delay, a more rigorous taxing harmonization, to save some countries from deepening their socio-economic degeneration.

### ***C. Conceptual suggestions for designing optimal public socio-economic communication mechanism***

*See (N10) and following Abstract about this theme (Keywords: Public socio-economic knowledge structure, Complex implementation, Side-payments, Moral and material incentives, Voluntary webs, Optimal coordination structure, Coordination magnitude, Over-coordination, Under-coordination, Substitute- and complementary coordination instruments):*

*This note discusses implementing mechanism design Conceptions compiled for Optimizing public socio-economic information structures. Also proposed for discussion is the meta-synthesis concept that emphasizes compiling methods with the imitation variety of implementations of theoretical models and empirical evolutionary principles of real world mechanisms.*

*The main idea of the proposed design is to sequentially and adaptively coordinate reasonable learning and private information disclosure of the actors with the help of stimulating their reporting credibility (non-Distorting with sufficient disclosure and transparency) and respectfulness for incoming reports (reasonable learning from credible actors). Incentives and constraint may be heterogeneous: relevant material and moral side-payments etc and consultations and informational constraints.*

*The main Suggestion is to complement extant respective public reporting coordination mechanisms with more complex instruments, especially moral ones with voluntary and non-governmental monitoring Webs” (Ennuste 2009).*

### **4. Summary: under-coordination and low quality harmonization stunt Estonian socio-economic sustainability probabilities**

**First**, For recovery of hyper-crisis perhaps Estonia shouldn't all together rush to exit from the variety of significant, direct regulation mechanisms and instruments like fiscal stimulus and monetary relaxation, intervention policies etc, categorically. Perhaps it is not yet too late to ensure a proper sequencing of these instruments complementary to budget cuts, with the goal of preventing a hyper- unemployment (20%), massive euro loan-

bankruptcies of households and double-dip recession. This, first of all based on domestic recourses (e.g. from Bank of Estonia, State-bonds etc).

**Second**, Estonia should instantly rush to establish “harmonization” with the EU Commission regarding the amendment of the extant Maastricht inflation criterion: in present form it is methodologically defective, non-transparent, and with that may be cause irretrievable socio-economic and credibility losses for Estonia; and perhaps in the crisis situation, it may be rational for Brussels to move beyond a rigorous adherence to the whole stability and growth pact altogether (see also: *Sapir, A. (Editor) 2009 Sept. Bruegel memos to the new Commission: Europe’s economic priorities 2010-2015*).

**Third**, reform of the Estonian tax system is probably necessary instantly: in the sense of harmonization of investment competition with member countries, for enhancement of Estonian socio-economic sustainability, lowering the risks of domestic capital flight without domestic taxing and avoiding worsening of the Estonian International investment position. And most importantly, presently there is a lack of coordination between income tax law and national pension law, etc.

**Fourth**, the crisis has shown that macroeconomic policy in the Baltic Rim region needs to be better coordinated regionally, especially when it comes to protection of the Baltic Sea from Russian “sub-military” seabed actions; and for post-crisis management, e.g. about „free” movement of “all kinds” of labour, credit, investments, financial obligations etc, considering seemingly growing economic differences between the Baltic- and Nordic-Countries in after-crisis etc (by the way: to alleviate euphemistically these inequalities the Eurostat is using imaginary PPS “parity-prices” – actually local deflators).

**Fifth**, the extant low quality coordination mechanism of the Estonian public knowledge space building and communication should be basically adapted to IT and liberal non-censorship conditions and made more efficient. Unfortunately, e.g. at present such significant indicators as Estonian high national gross external debt, current account being chronically relatively in high deficiency, international investment position retreating, Estonian economic inequality quintile index barbarically high compared to nearby Nordic countries, The Estonian tax system and inflationary budget policy,

the hidden strategy (ironically) “survival in the crisis only for richest” etc are theoretically non-sustainable etc. These indexes and facts are, alas, in an overshadowed/postponed position making them unavailable to the Estonian public knowledge space by administrative and incumbent political camp rhetoric, by the Estonian mass media and by administrative statistics. Thus helping to play down cognition of the real severity of the present socio-economic hyper-crisis situation, and not enabling making high quality forecasts – and in turn significantly magnifying the national socio-economic sustainability risks.

Unfortunately, most of the suggested points stand no chance of easy implementation. Adopting these policies would require high competence and quality of political leadership, Estonian leaders, according by existing policies, lack these qualities, and the current Commission staff in Brussels seemingly prefers (by existing policies) not to notice these local objective idiosyncratic, shortcomings of economically insignificant countries in the bilateral consultation and harmonization processes.

*Caveat:* All arguments are based purely on theoretical and public knowledge, no administrative and political inside information has been involved.

## **Notes and Extracts**

### **(N1) Nobel Museum 2007: Press Release**

“The Royal Swedish Academy of Sciences has decided to award The Sveriges Riksbank Prize in Economic Sciences in Memory of Alfred Nobel 2007 jointly to **Leonid Hurwicz**, University of Minnesota, MN, USA, **Eric S. Maskin**, Institute for Advanced Study, Princeton, NJ, USA and **Roger B. Myerson**, University of Chicago, IL, USA *“for having laid the foundations of mechanism design theory.”*

### **The design of economic institutions**

Adam Smith's classical Metaphor of the invisible hand refers to how the market, under ideal conditions, ensures an efficient allocation of scarce resources. But in practice conditions are usually not ideal, for example, competition is not completely free, consumers are not perfectly informed

plus privately desirable production and consumption may generate social costs and benefits. Furthermore, many transactions do not take place in open markets but within firms, in bargaining between individuals or interest groups and under a host of other institutional arrangements. How well do such different institutions, or allocation mechanisms, perform? What is the optimal mechanism to reach a certain goal, such as social welfare or private profit? Is government regulation called for, and if so, how is it best designed?

These questions are difficult, particularly since information about individual preferences and available production technologies is usually dispersed among many actors who may use their private information to further their own interests. Mechanism design theory, initiated by **Leonid Hurwicz** and further developed by **Eric Maskin** and **Roger Myerson**, has greatly enhanced our understanding of the properties of optimal allocation mechanisms in such situations, accounting for individuals' incentives and private information. The theory allows us to distinguish situations in which markets work well from those in which they do not. It has helped Economists identify efficient trading mechanisms, regulation schemes and voting procedures. Today, mechanism design theory plays a central role in many areas of economics and parts of political science."

**(N2) Ennuste 2003: A Linear Planning Analysis of Institutional Structure in the Economy: Abstract**

The paper uses the paradigms of the New Institutional Economics to quantify a linear optimal choice model as a way of designing perspective institutional clusters for a national economy. This model uses binary integer institutional choice variables and structural parameter values based on subjective probabilities collected from experts by calibration questionnaires. The optimisation goal may be e.g. a high expected probability of stable national economic performance under socio-economic development-credibility constraints, dependent on the realization of prospective significant events. The model may be useful as a complementary tool for the social design of the effective institutional structure, and especially for evaluation of the socially optimal values of co-ordinating shadow prices and implementing side-payments in the political institutional design game. We use the Estonian case as an example. The model variables and data calibration table illustrations are provided mainly to demonstrate the broad spectre of issues that may be involved in this analysis.

*Journal of Economic Literature* Classification numbers: B4, D71, E5, K0, P3, F15.

*Keywords:* The New Institutional Economics, market design, comparative institutional analysis, economic sector institutional design, institutional structures, credibility effects, linear programming, implementing side-payments, co-ordinating shadow prices, computational economics, data calibration.

**(N3) Skidelsky 2009:** “For 30 years or so Keynesianism ruled the roost of economics – and economic policy. Harvard was queen, Chicago was nowhere. But Chicago was merely licking its wounds. In the 1960s it counter-attacked. The new assault was led by Milton Friedman and followed up by a galaxy of clever young disciples. What they did was to reinstate classical theory. Their “proofs” that markets are instantaneously, or nearly instantaneously, self-adjusting to full employment were all the more impressive because now expressed in terms of mathematics. Adaptive Expectations, Rational Expectations, Real Business Cycle Theory, Efficient Financial Market Theory – they all poured off the Chicago assembly line, their inventors awarded Nobel Prizes. No policymaker understood the math, but they got the message: markets were good, governments bad. The Keynesians were in retreat. Following Ronald Reagan and Margaret Thatcher, Keynesian full employment policies were abandoned and markets deregulated. Then along came the almost Great Depression of today and the battle lines are once more drawn.”

**(N4) Wickens 2009:** “The problem is not with the theory but with its interpretation. Nobody believes that people are rational or that they are identical. These are just simplifying assumptions to make the analysis of complicated economies more tractable.

From time to time economies are hit by large shocks. What we have learnt from the current crisis is that it is crucial to have financial systems that correctly price the risks that these shocks generate, to have appropriate regulatory structures in order to avoid bank failures and to use the theory to stabilise the macro-economy in the short term.”

**(N5) Vanhanen 2009: Europe will need to raise taxes in harmony:** “The global recession is forcing Europe to re-evaluate the co-ordination of

economic policies. Surviving the present crisis, ensuring the sustainability of European countries' public finances and maintaining the continent's competitiveness will compel us to co-operate more deeply than ever before.

We have to initiate discussions at the European Union level about how to prepare for the post-crisis period. Getting public finances in order is a must if we are to grow, create employment and provide the welfare services that we in Europe value so much.

After the recession, we will have to reduce elevated public debt-to-GDP ratios if we are to cope with the expenditure pressures that will come with the aging of EU's population. This will require tight control and, in many countries, painful cuts. However, it would be unrealistic to assume that all the balancing could be done on the spending side alone.

The overall tax rate will have to rise as well over the longer term. In some areas that can be done without much consultation between the countries.

.....

I am not advocating overall tax harmonisation. But I believe that in the taxation examples we should follow what we did in the banking policy and fiscal stimulus last autumn. In both areas, EU member states decided to co-ordinate their policies in important ways. Decisions to provide banks with guarantees and capital injections, and to create national stimulus packages of a certain minimum scale, have proved important in stabilising Europe's financial system and arresting a free-fall in economic activity.

These measures were not based on the authority of the Union but on the fact that member states considered parallel measures and recommendations to be sensible policy. The same co-ordination will be needed to balance public finances after the recession. It is important that different countries do not find themselves with very different tax solutions. We should avoid tax competition and the damage this would cause to Europe's economic growth.

EU policy with respect to tax competition is currently based on member states refraining from implementing new tax competition measures and on dismantling old measures perceived to be harmful. These codes of conduct are not legally binding. I do not think this could or should be changed. But

member countries could agree, for example, to change the levels of certain taxes in parallel. ...”

**(N6) Rasmussen 2009:** “Sir, Jonathan Russell, chairman of the European Private Equity and Venture Capital Association, misunderstands the European Union treaties when he attacks proposed the EU regulation of private equity funds for allegedly undermining their free movement of capital principle ("Private equity attacks EU plan", June 27).

The EU's free movement principles are meant to apply to the European single market, not the world. The forthcoming European directive will indeed introduce a uniform regime to enable the marketing of alternative funds to professionals across the entire European single market.

Business as usual is not an option. We cannot afford financial crises of this kind in the future, causing the worst recession since the 1930s. I believe moves towards regulation in the EU and US will lead to a welcome regulatory convergence at the global level, which will benefit us all. Private equity executives - who (by their own admission) pay less tax than their cleaners - have generated moral outrage at their use of offshore tax havens to avoid paying their fair share. If the UK's Financial Services Authority has not been able to review the exposure of funds until now, it is because they are located offshore. ...”

**(N7) Giles 2000: OECD urges rich countries to strive for flexibility.** The Organisation for Economic Co-operation and Development said on Tuesday that “Rich countries should redouble efforts to increase flexibility in labour markets and boost competition even though they are suffering the worst recession since the Second World War.”

Arguing that liberalisation was the surest route to a speedy recovery, the Paris-based international organisation locked horns with a vocal group of European economists, who have been extolling the virtues of labour market rigidities as a way of preventing deflation and depression.

Klaus Schmidt-Hebbel, OECD chief economist argued: “More flexible product and labour markets are likely to strengthen country resilience to weather future downturns with less disruption to output and employment.”

But the OECD did not limit itself to its perennial calls for greater economic flexibility in its latest “going for growth” report.

It also identified higher spending on infrastructure, increased spending on training and reduction of personal income taxes for low earners as policies that gave a “double-dividend” of limiting the depth of the recession and boosting longer-term growth prospects.

The list will please the new US administration of Barack Obama since it reflects much of the thinking behind Washington’s stimulus plan.

The OECD also says that recessions have previously proved a good time to introduce reforms because the complacency and inertia of good times is swept away, “although it is easier to cope with adjustment costs of reform when the economy is strong”.

The main message of the report is that the drive for economic flexibility must continue. Flexible markets for goods and services “will induce producers to cut profit margins”, lower prices will help to support demand”, the OECD argues, that flexible labour markets allow workers to agree to lower wages, which will protect jobs.

The US (the report concludes) has tended to rebound from recessions faster because it has been more flexible even if its original downturn was deeper.

Mr Schmidt-Hebbel insists that “the debacle in financial markets does not call into question the beneficial effects of recommended reforms of product and labour markets in this report”. It urges countries to avoid policies that allow people to lose contact with the world of work.

In the early 1970s, many European countries responded to the recession with early retirement programmes, something the OECD said, “proved to be a failure”.

“Attempts to cut unemployment by reducing labour supply would prove as damaging as in the past and leave our societies poorer; keeping markets

open and avoiding new protectionism is key to strengthening prosperity throughout the world,” Mr Schmidt-Hebbel insisted.

The difference between the OECD’s view and those who have praised rigidities – such as professor Paul De Grauwe of the University of Leuven – is that the latter worry that debt remains fixed in a downturn and so flexibility in other prices and wages potentially increases its burden.

The OECD argues that rigidities take their toll on company profits and will end up-raising unemployment even higher, in any case exacerbating the problem of debt. Its solution is to urge compulsory training for those out of work, big spending on infrastructure if it can be introduced quickly and improves the efficiency of the economy, and tax cuts to boost the spending power of low earners when borrowing is constrained.

Separately, the OECD says the gap between underlying US and European economic performance, which opened up in 1995, might have closed, ending an unusual decade where the US appeared miles ahead of Europe in boosting productivity and household incomes.

**(N8) “*The whiff of contagion*” 2009:** “... At one extreme is Russia, which enjoyed huge external surpluses thanks to its wealth of raw materials. But its big companies borrowed lavishly on the strength of that, creating a potential short-term debt problem. Russian corporate borrowers have to pay back around \$100 billion this year. At the other extreme lie countries such as Slovakia. They attracted billions from foreign car manufacturers, drawn by a skilled workforce, low taxes and decent roads in the heart of high-cost Europe.

**(N9) Bank of Estonia:**

		01/15/10				
				% change comparing to		
		Period /as of		previous period	same period of previous year	Source
<b>1.</b>	<b>GDP <sup>1</sup></b>					<b>SA</b>
1.1.	current prices (EEK mln)	III/2009	53,224.5			
1.2.	constant prices (EEK mln)	III/2009	33,720.8	-4.5	-15.6	
<b>2.</b>	<b>Industry</b>					<b>SA</b>
2.1.	Volume index of industrial production (at constant prices (2005=100); %)	III/2009		2.9	-27.4	
<b>3.</b>	<b>Investments in fixed assets (at current prices; EEK mln)</b>	<b>III/2009</b>	<b>6340.4</b>	<b>6.6</b>	<b>-26.1</b>	<b>SA</b>
<b>4.</b>	<b>Construction</b>					
4.1.	Construction activities of construction enterprises (at current prices; EEK mln)	III/2009	10096	-.4	-35	SA
4.2.	Usable floor area of completed dwellings (thousand m <sup>2</sup> )	III/2009	76.9	-8.8	-10.1	
4.3.	Usable floor area of non-residential buildings (thousand m <sup>2</sup> )	III/2009	156.3	-42.0	-40.3	
<b>5.</b>	<b>Consumption</b>					
5.1.	Retail sales volume index (at constant prices, 2005=100; %)	III/2009		-5	-17	SA
5.2.	New registration of passenger cars (pieces)	IV/2009	5,178.0	-4.5	-34.6	ARK
<b>6.</b>	<b>Prices</b>					
6.1.	Consumer price index (%)	IV/2009		-0.4	-2.0	SA
6.2.	Producer price index (%)	III/2009		0.4	-1.6	SA
6.3.	Export price index (%)	III/2009		0.0	-5.2	SA
6.4.	Import price index (%)	III/2009		2.6	-7.1	SA
6.5.	Construction price index (%)	III/2009		-1.4	-10.5	SA
6.6.	Estonian kroon real effective exchange rate index (REER; %)	IV/2009		-0.7	0.3	EP
<b>7.</b>	<b>Labour market and wages</b>					
7.1.	Employment rate (employed persons/working-age population, %; based on the Labour Force Survey) <sup>2</sup>	III/2009	57.6	57.0	63.3	SA
7.2.	Unemployment rate (unemployed/labour force, %; based on the Labour Force Survey) <sup>2</sup>	III/2009	14.6	13.5	6.2	SA
7.3.	Registered unemployed	IV/2009	83868	14.5	217.7	TK
7.4.	% of workforce <sup>2</sup>	IV/2009	12.8	11.1	4.0	TK
7.5.	Average monthly gross wages and salaries (EEK)	III/2009	11770	-7.4	-5.9	SA
<b>8.</b>	<b>General government budget <sup>3</sup></b>					<b>RM</b>
8.1.	revenue (EEK mln)	IV/2007	25,768.0	1.3	21.6	

8.2.	expenditure (EEK mln)	IV/2007	26,887.0	30.0	17.0	
8.3.	balance (+/-; EEK mln) <sup>2</sup>	IV/2007	-1,119.0	4,759.2	-1,804.7	
8.4.	Period's revenue to the planned annual revenue (%) <sup>2</sup>	IV/2007	29.1	28.8	29.5	
<b>9.</b>	<b>Transport</b>					<b>SA</b>
9.1.	Carriage of passengers (thousands)	III/2009	48,572.0	8.8	-1.2	
9.2.	Carriage of goods (thousand tons)	III/2009	18790	1.6	-15.7	
<b>10.</b>	<b>Tourism, accommodation</b>					<b>SA</b>
10.1.	Visitors from foreign countries received by Estonian travel agencies (thousands)	III/2009	305.5	16.7	-9.5	
10.2.	Visitors sent to foreign tours by Estonian travel agencies (thousands)	III/2009	103.5	-14.0	-32.7	
10.3.	Accommodated visitors (thousands)	III/2009	755.7	33.1	-9.2	
10.4.	o/w foreign visitors (thousands)	III/2009	511.7	33.2	-1.8	
<b>11.</b>	<b>Foreign trade (special trade system)</b>					<b>SA, EP</b>
11.1.	exports (EEK mln)	III/2009	25,815.5	1.3	-25.0	
11.2.	imports (EEK mln)	III/2009	28,873.6	4.6	-33.9	
11.3.	balance (EEK mln) <sup>2</sup>	III/2009	-3,058.1	-2,132.7	-9,250.6	
11.4.	Foreign trade balance/exports (%) <sup>2</sup>	III/2009	-11.8	-8.4	-26.9	
<b>12.</b>	<b>Balance of payments <sup>2</sup></b>					<b>EP</b>
12.1.	Current account balance (EEK mln)	III/2009	3,519.3	3,443.8	-4,402.6	
12.2.	Current account balance to GDP (%)	III/2009	6.6	6.4	-6.9	
12.3.	Foreign direct investment inflow (EEK mln)	III/2009	1,175.3	392.0	4,775.6	
12.4.	Foreign direct investment outflow (EEK mln)	III/2009	-3,718.2	-3,706.7	-2,996.6	
<b>13.</b>	<b>International investment position (at end-period)</b>					<b>EP</b>
13.1.	Net international investment position (EEK mln)	III/2009	-176,818.9	-3.4	-8.3	
13.2.	Direct investment in Estonia (EEK mln)	III/2009	166,580.2	-1.4	-9.3	
13.3.	Gross external debt (EEK mln)	III/2009	273,537.6	-2.7	-7.2	
13.4.	o/w government (EEK mln)	III/2009	10,132.1	-3.8	23.5	
<b>14.</b>	<b>EEK/USD average quarterly exchange rate</b>	<b>IV/2009</b>	<b>10.6</b>	<b>-3.3</b>	<b>-11.1</b>	

<sup>1</sup> Preliminary estimation of the GDP growth has been calculated according to the new methodology. Whereas, Statistics Estonia previously calculated the GDP growth at the constant prices of fixed year 2000, since 2008 the growth is calculated by chain-linking method in which the year preceding the accounting period is applied as a base year.

<sup>2</sup> Instead of changes comparing to previous periods, absolute figures for the periods are shown by this indicator.

<sup>3</sup> Net borrowing is not included here.

Source: SA – Statistical Office of Estonia; ARK – Motor Vehicle Registration Centre; EP – Eesti Pank /Bank of Estonia; TK – Estonian Unemployment Insurance Fund; RM – Ministry of Finance  
EKI – Estonian Institute of Economic Research

**(N10) Pope Benedict XVI's "Caritas in Veritate": The Problem with Globalization is Man's Selfish Use of Markets**

The Pope on "Love in Truth" by Father Robert Sirico from the Wall Street Journal is a penetrating analysis of Pope Benedict XVI's latest encyclical on the economic crisis, "Caritas in Veritate".

Sirico points out that Pope Benedict doesn't condemn markets, globalization - but rather man's selfish uses of these instruments.

Caritas in Veritate by Pope Benedict XVI

Democrats Link Pope's 'Economic Justice' Plea With Obama Agenda

Caritas in Veritate is an eloquent restatement of old truths casually dismissed in modern times. The pope is pointing to a path neglected in all the talk of economic stimulus, namely a global embrace of truth-filled charity.

Benedict rightly attributes the crisis itself to "badly managed and largely speculative financial dealing." But he resists the current fashion of blaming all existing world problems on the market economy. "The Church," he writes, "has always held that economic action is not to be regarded as something opposed to society." Further: "Society does not have to protect itself from the market, as if the development of the latter were ipso facto to entail the death of authentically human relations."

The market is rather shaped by culture. "Economy and finance . . . can be used badly when those at the helm are motivated by purely selfish ends."

**(N11) Samuel Bowles and Sung-Ha Hwang 2008:** „Social preferences such as altruism, reciprocity, intrinsic motivation and a desire to uphold ethical norms are essential to good government, often facilitating socially desirable allocations that would be unattainable by incentives that appeal solely to self-interest. But experimental and other evidence indicates that conventional economic incentives and social preferences may be either complements or substitutes, explicit incentives crowding in or crowding out social preferences. We investigate the design of optimal incentives to contribute to

a public good under these effects would make either more or less use of explicit incentives, by comparison to a naive planner who assumes they are absent.“

**(N12) Bezemer 2009: *Understanding Financial Crisis Through: Accounting Models***

**Table 1: *Anticipations of the Housing Crisis and Recession Analyst Capacity Forecast***

**Dean Baker**, US co-director, Center for Economic and Policy Research: “... plunging housing investment will likely push the economy into recession.” (2006).

**Wynne Godley**, Distinguished US Scholar, Levy Economics Institute of Bard College: “The small slowdown in the rate at which US household debt levels are rising resulting from the house price decline, will immediately lead to a ...sustained growth recession ... before 2010”. (2006). “Unemployment [will] start to rise significantly and does not come down again.” (2007).

**Fred Harrison**, UK Economic commentator: “The next property market tipping point is due at the end of 2007 or early 2008 ... The only way prices can be brought back to affordable levels is a slump or recession.” (2005).

**Michael Hudson**, US professor, University of Missouri: “Debt deflation will shrink the “real” economy, drive down real wages, and push our debt-ridden economy into Japan-style stagnation or worse.” (2006).

**Eric Janszen**, US investor and *iTulip* commentator: “The US will enter a recession within years” (2006). “US stock markets are likely to begin in 2008 to experience a “Debt Deflation Bear Market.” (2007).

**Stephen Keen**, Australian associate professor, University of Western Sydney: “Long before we manage to reverse the current rise in debt, the economy will be in a recession. On the basis of current data, we may already be in one.” (2006).

**Jakob Brøchner Madsen & Jens Kjaer Sorensen**, Denmark professor & graduate student, Copenhagen University: “We are seeing large bubbles and

if they burst, there is no backup. The outlook is very bad.” (2005). The bursting of this housing bubble will have a severe impact on the world economy and may even result in a recession.” (2006).

**Kurt Richebächer**, US private consultant and investment newsletter, writer: “The new housing bubble – together with the bond and stock bubbles – will invariably implode in the foreseeable future, plunging the U.S. economy into a protracted, deep recession” (2001). “A recession and bear market in asset prices are inevitable for the U.S. economy... All remaining questions pertain solely to speed, depth and duration of the economy’s downturn.” (2006).

**Nouriel Roubini**, US professor, New York University: “Real home prices are likely to fall at least 30% over the next 3 years“(2005). “By itself this house price slump is enough to trigger a US recession.” (2006).

**Peter Schiff**, US stock broker, investment adviser and commentator: “[t]he United States’ economy is like the Titanic ...I see a real financial crisis coming for the United States.” (2006). “There will be an economic collapse.” (2007).

**Robert Shiller**, US professor, Yale University: “There is significant risk of a very bad period, with rising default and foreclosures, serious trouble in financial markets, and a possible recession sooner than most of us expected.” (2006).

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# **Estonia must focus on the grand challenges of our time: The process of the implementation of the *Knowledge Triangle***

**Aksel Kirch**

## **Abstract**

Knowledge and innovation for growth became one of the three main areas for action in the Lisbon partnership for growth and jobs strategy, which places science, technology and innovation at the heart of European Union policies. Each of these three parts of the triangle is important. We need to strengthen the links between the different parts, but we also need to strengthen each part in itself. This article analysis recent development related to effectiveness of actors of knowledge triangle (education, research and innovation) concerning Estonian situation.

In Knowledge Triangle conception two main tendencies of the development are related: innovative rearrangements done in economy and in higher educational sphere to fulfil tasks from Lisbon strategy and, second, increase Estonian economical competitiveness. In Estonia modernisation of universities is a key element for enhancing the competitiveness. At the same time there is some backwardness in higher educational sphere compared with EU neighbour countries. Other aspects of the knowledge triangle concern creating new economic mechanisms (concrete business solutions) and creating new structure of institutions to carry out new comprehensive and dynamic innovation model. The Estonian growth vision 2018 as this kind Estonian Road Map puts together the Estonian Development Fund's leadership in co-operation with decision makers now and in the future.

## *Keywords:*

Research and development (R&D) and innovation policy, Lisbon and Post-Lisbon Strategy on Growth and Jobs.

## **1. Introduction**

The strategic goals set by the European Council in Lisbon in 2000 – the ‘Lisbon strategy’ – and Barcelona in 2002 aim to turn the European Union, by 2010, into a most competitive and dynamic knowledge-based economy,

providing sustainable economic growth with more and better jobs in the European countries, achieving greater social cohesion in these societies. The 2005 initiative on 'Working together for growth and jobs' has relaunched the Lisbon strategy (COM 2005, 24). In this process the importance of the RD&I role is difficult to overestimate.

As was declared at the Lund Conference last July during the EU Swedish Presidency, responses to grand challenges of the present financial-economic crises should take the form of broad areas of issue-oriented research in relevant fields (Lund Declaration, 2009, p. 1). The Minister for Higher Education and Research of Sweden Tobias Krantz said recently at the conference "Working together to strengthen the research in Europe" (Brussels, 21 Oct. 2009): "Strengthening research is not sufficient to give the knowledge economy the boost it needs. The Swedish presidency has therefore also chosen to give priority to issues concerning the knowledge triangle - that is, the interaction between education, research and innovation. Each of these three parts of the triangle is important. We need to strengthen the links between the different parts, but we also need to strengthen each part in itself" (Krantz, 2009). This last statement is very important for Estonian research and innovation policies.

*This article analyses* a recent development related to the knowledge triangle concept and the effectiveness of actors (in education, research, and innovation) concerning the Estonian situation of financial and economic crisis, in the context of very high unemployment rate. *Research methods* – the analysis of the scientific literature and research policy issues.

In order to estimate Estonia's prospects, the analysis is made on the basis of the European Innovation Scoreboard (EIS-2008) and of the Estonian Government and Academy of Sciences policy paper *Knowledge-based Estonia: Estonian Research and Development and Innovation Strategy 2007-2013*. The objectives set in the strategy (*see Knowledge-based Estonia*) will be achieved through the national research and development programmes and four measures:

- development of human capital and modernisation of universities;
- organising the public sector RD&I more efficiently;
- increasing the innovation capacity of enterprises;
- policy-making aimed at the long-term development of Estonia.

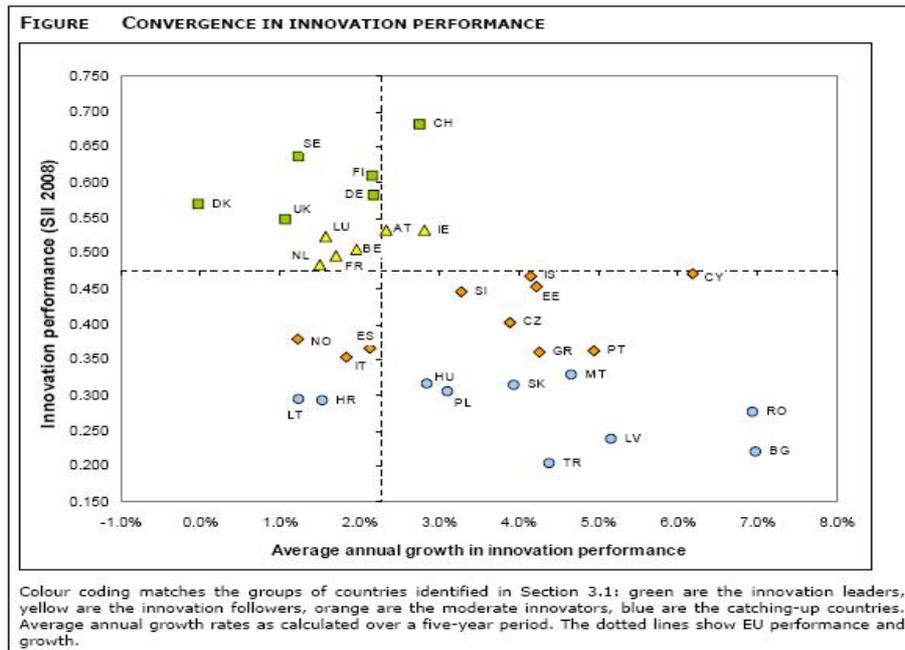
## **2. Estonia's position on the European Innovation Scoreboard of 2008**

It is not a simple task to measure the innovativeness of a state. To work out, apply, and assess political measures for this, it is imperative to produce certain measurement tools proper to the object under consideration. For the last ten years the European Commission has been measuring the innovation performance of countries with the help of the European Innovation Scoreboard (EIS) (Veugelers, 2007, 33).

Since introduction of the EIS in 2000, its structure has undergone several substantial changes. Indicators were not only added but replaced as well, depending on their availability and quality. At the same time, the manner of grouping the indicators was changed. At first they were divided into four groups, then into five, and finally in the scoreboard for 2008 the two-level structure was introduced: 3 groups (enablers, firm activities, and outputs) with 7 subgroups (Hollanders and van Cruysen, 2008).

The need for changes was induced, among others, by the critics of the scoreboard whose voices have been nearly as loud as those of the supporters and active users of the EIS. The critics have basically emphasized that the EIS does not capture all relevant dimensions of the innovation process, does not take into account structural economic differences between countries, and uses the methodology of summarizing countries' innovation performance by a single figure - the value of the composite indicator summary innovation index (Heinlo, 2009, 33). The newest structure of the innovation scoreboard is presented in "Innovation Scoreboard: Estonia's Advantages and Shortcomings" (Heinlo, op.cit). The favourite of analysts is a more comprehensive diagram where not only a simple row of columns presenting countries is set out, but in addition to the innovation index, the average annual growth rate of the indicators is displayed (Heinlo, 2009, 51). A diagram of that type – a *two-dimensional scoreboard*, presented in Figure EIS – allows assessment of the trends in innovativeness and the speed of changes.

**Figure 1. Convergence of innovation performance in 2008 (EIS-2008)**



**European Innovation Scoreboard 2008 – Country abbreviations**

AT	Austria	IT	Italy
BE	Belgium	JP	Japan
BG	Bulgaria	LT	Lithuania
CH	Switzerland	LU	Luxembourg
CY	Cyprus	LV	Latvia
CZ	Czech Republic	MT	Malta
DE	Germany	NL	Netherlands
DK	Denmark	NO	Norway
EE	Estonia	PL	Poland
ES	Spain	PT	Portugal
EU27	EU27	RO	Romania
FI	Finland	SE	Sweden
FR	France	SI	Slovenia
GR	Greece	SK	Slovakia
HR	Croatia	TR	Turkey
HU	Hungary	UK	United Kingdom
IE	Ireland	US	United States
IS	Iceland		

According to EIS 2008, Estonia’s place among the 27 EU states is 13 (Kubo, 2009). It is clearly evident that Estonia is reaching the EU mean level for summary innovation index and has a relatively high growth rate for its level. At the same time, countries are grouped logically making it

possible to follow similarities. The closest neighbours to Estonia are Slovenia, the Czech Republic, and Cyprus. This closeness of the mentioned most successful new member states can be observed when comparing the indicators of various other fields as well.

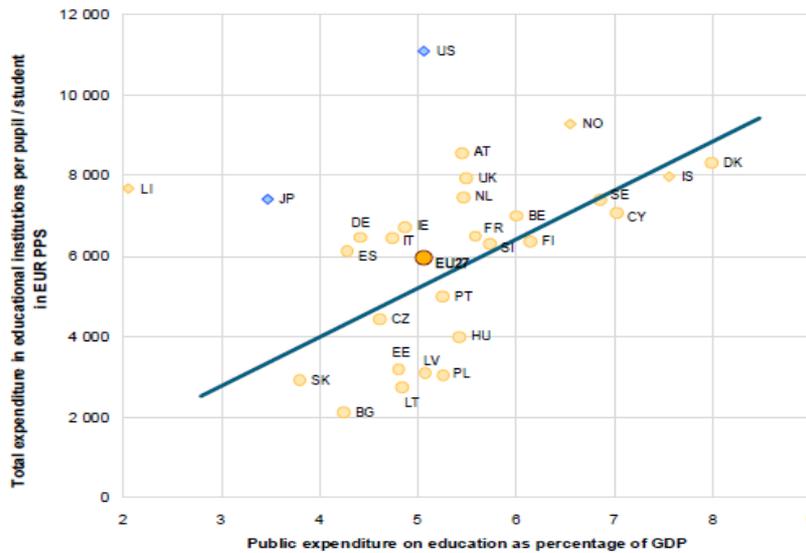
A look at the position of the countries along the vertical axis leaves no doubt that the innovativeness depends on the economic structure and standard of living of the countries. At the top of the vertical axis one can find the industrial countries with a high standard of living like Sweden, Finland, Denmark, Germany, and the United Kingdom. The indicated countries are leaders. At the same time the high level of the summary innovation index limits the speed of changes; only Cyprus stands apart from others in this respect. Concerning our theme, only some human resources indicators (share of tertiary educated persons, financing) will be treated separately in the following overview.

### **3. Two main tendencies of the development of the *knowledge triangle***

Estonia's innovation performance has been increasing over the past five years in relation to the EU average, taking the lead in the moderate innovators' group in 2007. Two advantages of Estonia are a high proportion of people with tertiary education in the population aged 20-29 – 35.4% in 2005 (Eurostat: Science, technology and innovation, 2009, p. 68) and a relatively large share of collaborating innovative enterprises (in Estonia – 48.2 % and in EU 27 – 38.9%, Eurostat news release, No 127/2009).

The Estonian opportunity is to increase human resources in the knowledge triangle through rising knowledge-based competitiveness. Two main tendencies are related to developing this side of the *knowledge Triangle*: innovative rearrangements in the social sphere and an increase of Estonian competitiveness in the higher education sphere. We can distinguish theoretical as well as practical aspects in the knowledge triangle. Academic studies in the higher professional education sphere belong to practical aspects (institutional framework of higher education sphere). In a situation where the Estonian state contributes a relatively small share to the higher education sphere (as we can see on Figure 1), it is difficult to expect sustainable rearrangements supporting innovation.

**Figure 2. Public education expenditure as a percentage of GDP and total expenditure in Euro PPS per pupil / student – 2006**



Notes: Regression line based on EU countries only.  
The particularly low value of public expenditure on education as percentage of GDP for Liechtenstein is the result of the combination of a relatively small student population and a relatively high GDP.

According to employment study and prognosis for the year 2015 done by the Tartu University faculty of economics researchers, employment in the high and medium-high technology sector and in high technological service will grow up to 11% in Estonian general employment. This makes about 69,100 highly qualified employees, which is large share compared to Estonian higher education system capacity. The present situation in training of highly qualified specialists is not satisfying: on the one hand, students drop out from tertiary education institutions very often without graduation; on the other hand, the share of postgraduate students compared to the share of students with bachelor degrees is very small.

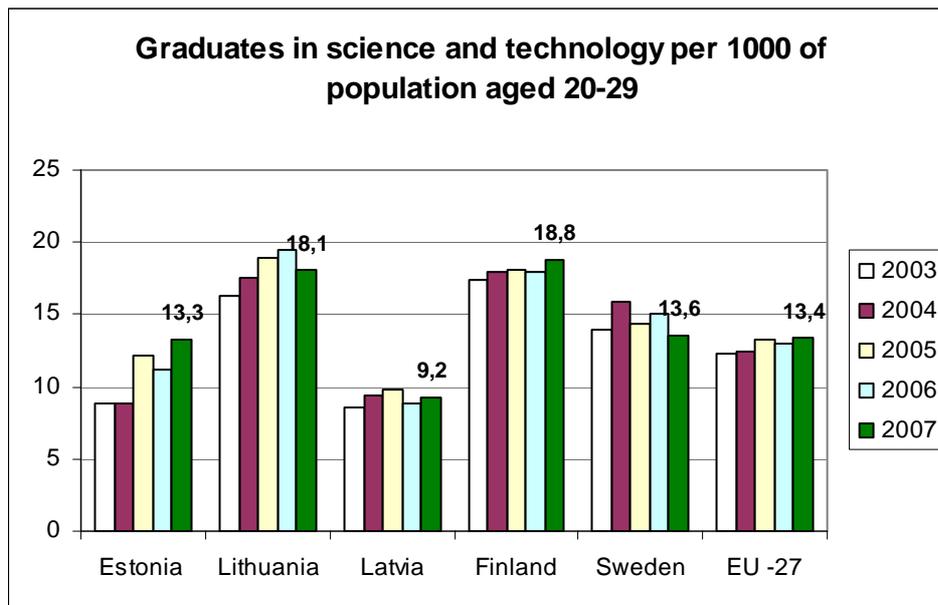
According to the prognosis made in the strategy of *Knowledge Based Estonia*, employment in 2007-2013 in the high technology sector will grow about 19,800 employees, diminishing at the same time employment by the same amount in other sectors (Teadmispõhise majanduse suunas, 2009, 27-28). This means that actually there is an acute need for highly qualified specialists (with doctorate degrees) for the Estonian high technology sector.

First of all this indicates a need for additional investments in higher educational institutions.

Today Estonia has lost its place compared with other EU states. In 2006 Estonian expenditure (index of expenditure per full time equivalent student compared to GDP per capita) was only 60% of the average level of the EU. Compared to Estonian neighbours Latvia (86%) and Lithuania (84%), this is the lowest share, not to mention Finland (108%) or Sweden (135%) (see data from Eurostat: Indicators on education expenditure, 2009).

National priority in fields of study is given to engineering; manufacture and processing (different industrial technologies and products); IT sciences; environmental protection (environmental and geo-technologies); life sciences (biotechnology, biomedicine). It is important to note that in Estonia the greater part of growth of graduates in the science and technology sector comes from growth in ITC specialities (see on Figure 3).

**Figure 3. Estonian University Tertiary Graduates in 2003-07 (per 1000 of Population aged 20-29)**



In Sweden-Finland and Latvia-Lithuania high growth rates also include others – graduates in engineering, manufacturing, and construction (Eurostat: Science technology and innovation in Europe - 2009 Edition, 73).

There are 68 thousand students in Estonia today and more than half of them (54%) pay a fee for their studies. A rapid increase of students who study at one's own expense in universities came about in the years 1998-2003, when the state created state financed opportunities for only 1% of students while places for study for private money increased about 2.5 times (Kirch, 2009, 39).

Modernisation of universities is a key element for enhancing the competitiveness of European research. As the ERAWatch Country Report 2008 states, "Estonia has performed well in recent years in terms of meeting its commitment to improving investment in research and development. It has achieved one of the fastest growths in R&D expenditure in the EU27. However, it faces a range of challenges due to the small size of the research system, the fragmented structure and still largely outdated research infrastructure as even fresh investment since 2004 cover only a small part of actual needs. In addition, one major concern is the insufficient rate of PhD graduates in science and engineering. Estonia clearly stands at the crossroads. On the one hand there is widespread understanding of and concordant political commitment to a general overhaul of the entire R&D system, but on the other hand shortage of both financial and human resources put the process at risk. In brief, the willingness to change may exceed the financial and human capacities" (Estonia: ERAWatch Country Report 2008, pp. 3-4).

#### **4. Organising the public sector RD&I more efficiently**

As has recently been mentioned by prominent authors of the European Joint Research Centre, in terms of R&D and innovation policies in Europe, the European Commission has two broad objectives to achieve the goals set in the 3% Action Plan: (1) to increase the total amount of creative work undertaken in the EU, and (2) to raise the productivity of (new/existing) knowledge. The 3% target set in Barcelona should not be seen in isolation, but as one key component in achieving the overarching objective set in Lisbon of Europe's becoming the most competitive and dynamic knowl-

edge-based economic region in the world by 2010 (Ortega-Argilés, Potters and Voigt, 2009, 3).

In Estonia, as for general indicators of implementation of the strategy of *Knowledge based Estonia*, the total expenditure on research and development was planned to be increase to 1.5% of GDP by 2008 and to 3% of GDP by 2014, of which the business sector research and development investments cover more than half (1.6% of GDP). Today (2008) total expenditure for R&D is 3.255 billion kroons, which is 1.29% of GDP (Statistics Estonia, 2009: <http://pub.stat.ee/px-eb.2001/Dialog/Saveshow.as>). However, despite the fact that Estonia's investments to the R&D sector have been among those most quickly increasing, the speed of growth is not sufficient to fulfil the Lisbon Strategy criteria by 2014. Estonia's speed of growing investments to the R&D sector is remarkable only compared to other EU member states. This has been mentioned also by other authors: Austria, Estonia, and the Czech Republic are the member states that have achieved the most substantial progress towards their targets (Veltri, Grablovitz and Mulatero, 2009, 14). The progress has been substantial, but not sufficient.

## **5. Increasing the innovation capacity of enterprises**

The results of second analysis of the Community Innovation Survey 2002-2004 (*CIS4 – Innovation*) showed clearly that there exists a certain challenge for the national science to take into consideration the enterprises' needs to internationalization (Ukrainski, Masso, Varblane, 2009, 270). The key question is to develop all actors of the knowledge triangle and to involve the government's responsibility in this process. As we see, in Estonia important aspect of the *knowledge triangle* concerns creating new economic mechanisms (concrete business solutions) and creating a new structure of institutions (rearrangement) to carry out a new comprehensive and dynamic innovation model. Institutions who are responsible for supporting Estonian innovation development are: the Ministry of Economy and Communications and the Ministry of Education and Research together with the bigger universities. These institutions have to make serious efforts to create a proficiently functioning environment for innovative developments. An objective of leading institutions was to create the Estonian Development Fund (EDF), which idea was taken from the development strategy of the Finnish innovation foundation SITRA. This very complicated

task was carried out in 2007. The creation of the EDF initiated important changes: research projects of the EDF give meaning to Estonian economic development. Joint brainwork and interpretation of the trends and signals coming from the external environment into the Estonian context give input for broad-based foresight work (Edasi, Raport Riigikogule, 2008).

The Estonian growth vision for 2018 as this kind of Estonian Road Map puts together the Estonian Development Fund's leadership in co-operation with decision makers now and in the future. The innovation drives economic growth and job creation and is important not only for high-tech sectors but for all economic sectors and are very important for the Estonian economic situation, where there is very high unemployment - 15% in September/October 2009. To find a job is more and more difficult for young people. In the 3rd quarter of the current year, the unemployment rate of persons aged 15–24 rose to 29.2%. A year ago it was 14.7% (Statistics of Estonia, Homepage, 13.11.2009).

In Estonia it is necessary to support quick restructuring of the economy and the associated long-term growth of enterprises' competitiveness. In 2009 the Ministry of Economy and Communications is the institution responsible for supporting the Estonian foreign investment and export action plan for 2009-2011 “Made in Estonia” (Made in Estonia; 2009). As the first priority in this plan is the promotion of the state as the target country of foreign investments, the international recognition of the name of the state and its relation to the easily recognizable factors for the foreign investor are important. The aim of the national image creating concept is to have an impact on the prior attitudes of international investors, as a negative (or also unnoticeable) image of the state hinders entry even to the list of these countries where investing is considered (Allikivi, 2009, 22-24).

## **6. Constructing the EU for the next decade**

As was declared at the Lund Conference last July during the Swedish EU Presidency, responses to the grand challenges of the present financial-economic crises should take the form of broad areas of issue-oriented research in relevant fields (Lund Declaration, 2009, 1).

As Attila Agh from Hungary writes, “the French–Czech–Swedish team presidency has been focusing on global crisis management but its task has

continuously shifted from this short-term crisis management to long-term strategy building. This is due partly to the relative success of the crisis management after the first year and partly to the EU Road Map, which has indicated the end of the Lisbon Strategy by 2010 and has necessitated its renewal for the next decade“(Agh, 2009, 50). Attila Agh’s paper is frustrating because he identifies the chief problem of post-Lisbon strategy – “There is a need for this kind of Road Map, with new community policies and new budgeting on one side and with renewed efforts for fully integrating the new Member States, including the EU 2020 agenda, on the other. The future strategy has to be elaborated with a few *clear strategic priorities* such as: (1) a green or low-carbon economy, (2) an innovation-centred, productivist society, (3) policy-driven financial perspectives and (4) a modernized public sector with high-quality public services.

The EU 2020 Strategy has to be based on a well-coordinated set of concrete programmes, with the main objectives specified and with a detailed set of indicators that will facilitate a radical programming turn towards super-planning” (Agh, 2009, 59).

The change taking place in the European economy and society presupposes a greater commitment to economic competitiveness in order to preserve the European welfare model. In his “Political Guidelines for the next Commission”, President J. M. Barroso (2009) writes: “This is not the time for business as usual or for routine – what we need is a transformational agenda (...). What I propose is to channel these different strategies and instruments, adapting them where necessary, to deliver the kind of inclusive and sustainable social market economy we all want to live in. We need to revise the current Lisbon strategy to fit the post 2010 period, turning it into a strategy for convergence and co-ordination to deliver on this integrated vision of EU 2020.”

## **7. Conclusions**

As we see, in the process of globalisation, where Europe will need a new understanding of financial and economic integration concerning all EU member states and their is own mission, Estonia must focus on the grand challenges of our time. Estonia’s opportunity is to increase competitiveness of its own human resources and strengthen the sector of the knowledge-based economy. Increase of professional knowledge and level of skills of

people together with firms' development and competitiveness in the larger context of the knowledge-based economy is one contingency by which to change the circumstances concerning one side of the knowledge triangle. On the one hand, this requires attracting new capital for investments into the economy and the development of human capital.

According to the strategy of *Knowledge Based Estonia*, employment in the high technology sector will grow by about 19,800 employees in 2007-2013, diminishing at the same time employment by the same amount in other sectors. This means that there is an acute need for high-qualified specialists (with doctoral degree) for the Estonian high technology sector. First of all, this means an increase of investments in higher educational institutions. Today Estonia has lost its place compared with other EU states. Estonian backwardness in training specialists with doctoral degrees has become one of the main problematic tasks in fulfilling the Lisbon strategy objectives. For example, in Estonia five times fewer students graduate university with doctoral degrees than in Portugal (doctoral students per 1000 population aged 20-29) (Eurostat: Science, technology and innovation in Europe, 72).

In the Baltic countries there is a need for co-operation and development of new instruments to stimulate and support initiatives for cross-border cooperation between knowledge-building institutions with Scandinavia, thus creating peak of excellence environments.

On the other hand, in parallel we must deal with easing the direct impacts of the crisis. It is important to develop enterprises' exporting capacity and to sustain employment. In Estonia it is necessary to support quick restructuring of the economy and the associated long-term growth of enterprises' competitiveness.

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# **How can the EU Baltic Sea Strategy contribute to the recovery of cooperation in the field of transit (as exemplified by the cooperation of the Baltic States in the years 2004-2008)?**

**Olga Nežerenko**

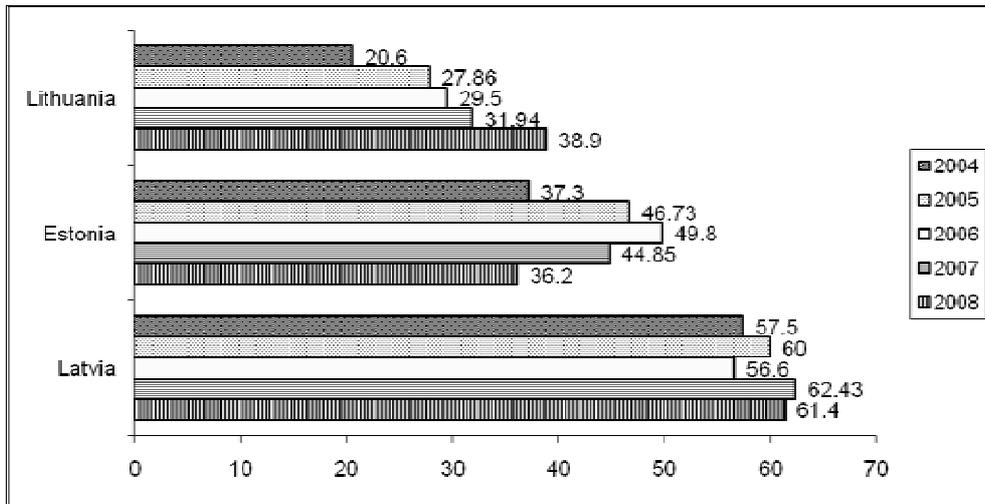
## **1. Introduction**

For 6 years already the 10 countries of Central and Eastern Europe have been members of the European Union. The advantages of EU membership are beyond question. Development of political and economic relations, attraction of foreign investments, and full-fledged access to the EU single market are only some of them. As the result of geopolitical changes that took place in the year 2004, the ports of the Baltic States already became the transportation nodes in the European Union. It is evident that the importance of the region has significantly increased since the Baltic States have joined the European Union, and the Baltic Region has now become an essential part of the Trans-European Transport Network. The significance of the Baltic Sea itself has also increased. It has to a great degree become an EU-internal sea, plagued, however, by critical environmental problems as well as severe differences in infrastructural accessibility and economic development (Bengtsson, 2009, 1).

## **2. Main features in the development of the Baltic ports in the last five years**

After the restoration of independence, Estonia, Latvia, and Lithuania entered into severe competition for cargo flows of a vital energy provider for the EU – Russia. The investments made by the USSR at the end of 1980s into the port infrastructure of the Baltic countries have paid back in full. The Soviet, and since 1991, the Russian suppliers of goods actively used the services of the Baltic operators until 2006, but after that there took place an essential setback in the amounts of transshipment of Russian goods through the Baltic ports, caused by Russia's ultra-protectionist policy and intensive building of its own port facilities (see Figure 1).

**Figure 1. The cargo transshipment amounts in the Baltic States ports in 2004-2008, in millions of tons**



Source: Eurostat. Sea transport of goods. – [http://epp.eurostat.ec.europa.eu/portal/page/portal/transport/data/main\\_tables](http://epp.eurostat.ec.europa.eu/portal/page/portal/transport/data/main_tables)

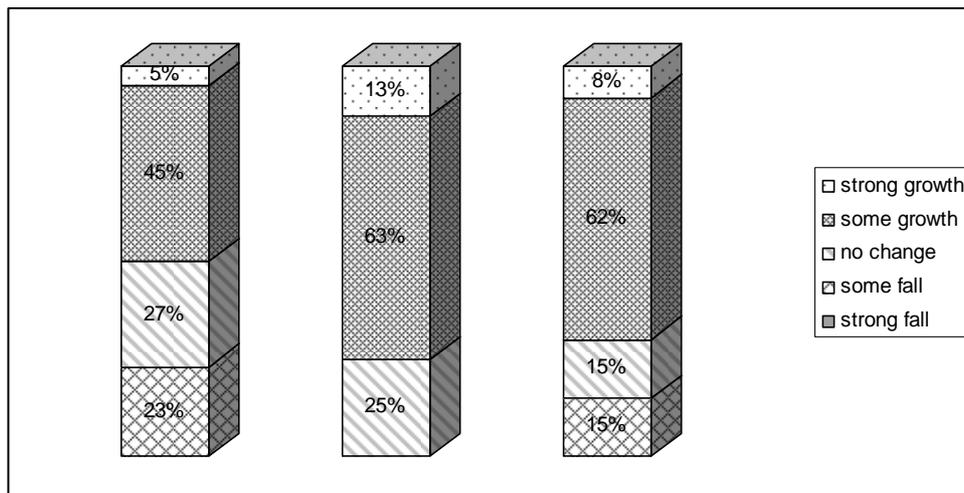
Russia is a raw materials producing country, and the export of natural reserves, in particular of hydrocarbons, is an important item of its budget income. It is well-known that the export potential of a country is based, primarily, upon the rate of production of the resources and the demand on the world market. About a third of oil imports and 40% of gas imports of the EU is provided by the Russian Federation.

The global financing crisis and ensuing recession have had a dramatic impact on the outlook for energy markets, particularly in the next few years. World energy demand in aggregate has already plunged with economic contraction; how quickly it rebounds depends largely on how quickly the global economy recovers (World Energy Outlook, 2009, 5). According to the WEO Reference Scenario, world primary energy demand is projected to increase by 1.5% per year between 2007 and 2030, from just over 12000 million tonnes of oil equivalent (Mtoe) to 16800 Mtoe – an overall increase of 40%. On average, demand will decline marginally in 2007-2010 as a result of a sharp drop in 2009 – preliminary data point to a fall in that year of up to 2%. Demand growth rebounds thereafter, averaging 2.5% per year in 2010-2015 (World Energy Outlook, 2009, 6).

Forecasting of power resources consumption is certainly a very laborious process, which is influenced by many factors; and, besides, nobody knows what may happen tomorrow and what kind of situation there will be on the power market. Nevertheless, we are interested in this aspect in terms of possibilities of involving the existing transport capacities into delivery of the given type of cargo.

The position of the Baltic countries, for which transit services were the most important source of tax revenues for government budgets, is seriously deteriorating. The unfavourable situation for the Baltic ports, associated with the progressive building of port infrastructure in Russia, may, in the worst case, lead to full refusal of Russia for the services of the Baltic operators. The ports, located on the shores of the Baltic Sea, estimate the prospects of their future activities variably. Thus, according to the annual Port Barometer report, conducted among the Baltic ports by the Centre for maritime studies of the University of Turku, the majority of the respondent ports (32 of 51) expect growth in their cargo handling volumes in 2010 whereas one fourth see no change (see Figure 2).

**Figure 2. Expected development of cargo volumes in respondents' ports in 2010, ports by size class**



Source: Baltic Port Barometer 2009. Centre for maritime studies, University of Turku.

As with views on overall economic development, big and middle-sized ports' (handling 2-10 million tonnes of cargo annually) expectations are somewhat more positive concerning cargo volume development in their ports. Some ports expect their volumes to decrease, but this is slightly more common among small ports (handling less than 2 million tonnes of cargo annually) than among the bigger ones (handling over 10 million tonnes of cargo annually). Big ports' answers are more polarised. This is reflected especially in the numerical growth estimations for 2010: they range from -25% to +20%. The average growth estimation for cargo volumes of all the responding ports is +3.1%. (Baltic Port Barometer, 2009, 7)

The Baltic countries try to provide cargo flows for themselves, for example, by activating the West-East transit corridor, but the level of international cooperation in the development of transport infrastructure is still low. Because of the competition, which, however, is considered to be a key element of a market economy, there appear today many problems, obstructing the better and rapid development of port capacities and their full use in Baltic region. Is it possible to achieve in the region the constructive competition for cargo flows, promoting closer cooperation in the formation of transport policy among the countries located on the shores of the Baltic Sea?

### **3. The four cornerstones of the EU Baltic Sea Strategy and its financing**

The countries of the region place great hope on the EU Baltic Sea Strategy, which today can be referred to as one of the most ambitious projects of the European Union. The strategy was adopted by the European Commission in June as a communication and by the Council in October 2009. **The four cornerstones of the strategy are to make this part of Europe environmentally sustainable, prosperous, accessible, and attractive and safe and secure.** The new and innovative integrated way of working across a wide number of sectors may offer significant opportunities for specialisation, cooperation, and greater efficiency (Macro-regional strategies..., 2009. p.2). The strategy takes the form of a communication and an action plan with a list of 76 flagship projects, some of which have already been launched.

There can be no doubt of the relevance and the need of implementation of the EU Strategy for the Baltic Sea Region. Moreover, the Baltic region has

long been in need of an effective impulse, which could revive it and bring the economic, transport, environmental, social, and cultural spheres of the member countries to a new level of macro-regional cooperation. The geography of the Baltic Sea Region makes transport particularly challenging. The improvement of internal and external transport links, increasing the efficiency and minimising the environmental impact of transport systems, should contribute to higher competitiveness of the Baltic Sea region, and increase its accessibility and attractiveness (Communication from the Commission, 2009, 49).

The maritime aspects will also be coordinated in the context of the fourth priority of the strategy – Safety and security (which will be coordinated by Finland). A natural route for oil transport, especially from Russia, the Baltic Sea is endangered by oil spills. The draft action plan lays down several measures to reduce these risks, such as a common maritime surveillance system, and joint training and exercises (Pop, 2009).

Thus the large projects planned in the EU strategy are aimed at improving the ecological condition of the Baltic Sea and at the same time at the development of maritime transport. The question actually concerns reaching a fundamentally new level – the projects should not be just environmentally friendly, but also economically efficient. Programmed expenditures for the 2007–2013 period under the European Regional Development Fund (ERDF) and Cohesion Fund for the Convergence and Competitiveness and employment programmes in the Baltic Sea Region in fields are linked to accessibility and attractiveness (see Table 1).

The sum is going to be allotted among the following priority areas:

1. To improve the access to and the efficiency and security of the energy markets (Coordinated by Latvia and Denmark);
2. To improve internal and external transport links (Coordinated by Lithuania and Sweden – *to be confirmed*);
3. To maintain and reinforce the attractiveness of the Baltic Sea Region, in particular through education, tourism, and health (Coordinated by Germany). (Communication from the Commission, 2009, 45).

**Table 1. Financing of the goal “Accessibility and attractiveness”**

Information Society	€ 1.4 billion
Transport:	€ 23.1 billion
Motorways (TEN-T)	€ 8.4 billion
Railways (TEN-T)	€ 4.7 billion
National roads	€ 2.8 billion
Motorways (non TEN-T)	€ 2.1 billion
Other (Incl. regional and local roads, airports, urban transport and ports)	€ 5.1 billion
Energy:	€ 2.6 billion
Total:	€ 27.1 billion

Source: European Commission. Communication from the Commission. Action Plan (21.10.2009).

The main obstacle does not seem to be a lack of financial resources. Although the Baltic Sea Strategy fails to receive additional funding from the EU budget, the existing funds have the advantage of being available even under the changed circumstances of the global financial and economic crisis. Rather, it is decisive to generate the political will to implement the Strategy (Schymik, 2009, 1-2).

#### **4. The Baltic States’ cooperation in the transport sector (2002-2008)**

For the successful implementation of the Strategy, cooperation between member countries is needed now more than ever. In this respect a question arises as to whether there is any cooperation in the transit industry. It should be mentioned that in the transport and transit industries the behaviour of all parties increasingly reminds one of the policy of trade networks, where each of the market participants has its own client policy. However, in respect to the competitors, the very minor nuances in price policy are being carefully tracked and the appropriate changes are being made. Thus the port of Klaipeda could manage to redirect the flow of Belarusian potassium salt from Ventspils. Similarly, the Latvian ports did not refuse cargo flows redirected from Estonia after the events of 2007. Also, Estonia in the early 2000s took advantage of a favorable situation and realised a possibility to redirect to itself an additional amount of Russian cargo from Latvia.

Over the past 10 years the initiatives and proposals on integrating the efforts of the ports of all three countries have been regularly laid open. No matter how attractive these projects on uniting the Baltic port capacities into a single transport network could be, it should be recognized that Latvia, Lithuania, and Estonia will for a long time act as competitors for cargo flows, going both from West to East (containers, spare parts, machines) and from East to West (mainly raw materials resources). Besides, one can distinguish the countries that are active in elaborating and implementing transit policy from those who play a clearly passive role. Thus, the first group could include Russia, Latvia, and Lithuania. Estonia at the ministerial level does not manifest itself as a developer of its own transit policy, but rather only adapts to the changes taking place in the transport market.

Despite the fact that the prospects of world economy development at the present time remain uncertain, the situation in the transit industry of the three Baltic countries would hardly undergo cardinal changes in the near future (Юрканс, 2009). Any cooperation or implementation of international projects in the Baltic Region implies the participation of third countries, which are the suppliers of cargos – in the given case this primarily concerns Russia and China.

Cooperation with the Russian party requires parties to exert maximal effort in order to bring international relations to a new level, which would be the opposite to mistrust and competition (however, the question of mistrust is key also within the European Union). An experience of Lithuania, which was invited to participate in the construction of a deep-water port in the Kaliningrad region, is quite demonstrative.

More extensive is the project South Baltic Arc, which was realized by Germany, Latvia, Lithuania, Poland, and Russia. In 2001, the spatial development ministers of the Baltic Sea states (excluding Estonia) proposed that the South Baltic Arc regions intensify their collaboration and put increased emphasis on the Via Hanseatica transport corridor as their common development axis in VASAB 2010+, their joint development strategy. The South Baltic Arc project involved the implementation of a number of measures to encourage regional development along the transnational transport corridor between Lübeck and St.Petersburg, the Via Hanseatica. The project, with a total value of €900,000 (€580 000 of which the EU has given under the Program INTERREG III B BSR and €145.000

came as part of program PHARE CBC PL), was implemented by 2005 (Impetus and prospects for..., 2005, 4).

The overall experience of the Baltic States in the implementation of international projects is not significant. 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.

### **5. International cooperation within the frame of the priority «To improve internal and external transport links»**

Will the countries participating in the Strategy manage to solve the accumulated problems of transport infrastructure? Will the participating countries soon manage to enter into a new level of cooperation in this area?

Problems can be found regarding both the quality of the existing infrastructure and the lack of appropriate infrastructure (accessibility). Two questions receive primary attention within this pillar: transport and energy. Regarding transport, the northern and especially the eastern parts of the Baltic Sea region are generally the least accessible areas of the Union, despite massive investment since the end of the Cold War. This means that transports are slow, environmentally unfriendly, and quite costly, if compared to other areas. Of related interest is also accessibility for tourists. Regarding energy, the main issue concerns the uneven distribution of indigenous supply and the quite heavy dependence on one single supplier – Russia – for some of the countries in the region. Also, energy markets are nationally oriented, which implies vulnerability as well as high costs to consumers (Bengtsson, 2009, 4).

Further the author presents the projects aimed at the development of transport links in the region (see Table 2). As was mentioned previously, the northern and especially the eastern parts of the Baltic Sea Region are generally the least accessible areas of the Union. Can the Strategy favour the **overall improvement of transport connection** in this part of the Baltic Sea Region?

**Table 2. The projects aimed at the development of transport links in the Baltic Sea region**

<b>The project</b>	<b>Country</b>	<b>Cost</b>
The track renewal on the East-West Railway Corridor	Latvia	€ 100 mln
The modernisation of the signalling systems of the Latvian East-West rail corridor	Latvia	€ 90 mln
The access roads to the Ventspils Port Terminal	Latvia	€ 28 mln
The first stage of the Rīga bypass – Koknese	Latvia	€ 291mln
Rail Baltica (the reconstruction and development of TEN-T railway segments)	Latvia	€ 80mln
The development of Via Baltica (the construction of Pärnu bypass in Estonia)	Estonia	€ 43mln
The improvement of the accessibility of Baltic Sea islands, improving harbour facilities and airports on these islands	Estonia	€ 46mln
The design and construction of the railway Rail Baltica	Lithuania	€ 135mln
The reconstruction and development of TEN-T railway segments	Lithuania	€ 167mln
The improvements to the Lübeck harbour in Schleswig Holstein	Germany	€ 13.1 mln
The promotion of sailing tourism in Schleswig Holstein	Germany	€ 5.5 mln
The railway Berlin – Rostock	Germany	€ 315 mln
Highway A 14	Germany	€ 1.4 bln
The road S 22 Elbląg-Grzechotki	Poland	€ 116 mln
The part of E-65 railway Warsaw-Gdansk	Poland	€ 1.261 bln
Rail Baltica (connection with Lithuanian border)	Poland	€ 182 mln
Continuation of E 65 railway (Warsaw-Gdańsk)	Poland	€ 801 mln
Continuation of roads S7 (Gdańsk - Elbląg)	Poland	€ 346 mln
Continuation of roads Via Baltica (Białystok-border with Lithuania)	Poland	€ 511 mln
Airport of Gdańsk	Poland	€ 149 mln
Airport Olsztyn	Poland	€ 74 mln
Airport Szczecin	Poland	€ 21 mln
Airport Koszalin	Poland	€ 13.82 mln

Source: Communication from the Commission. Action Plan. – (21.10.2009)

As one can see from the above-mentioned projects, the group of such vital and at the same time "international" projects includes only construction of the railroad Rail Baltica and the highway Via Baltica. Estonia, by-turn, participates in implementation of only two projects – “Rail Baltica” and “The improvement of the accessibility of Baltic Sea islands”.

The projects are intended, above all, for development of conveyance of passengers. But are these projects of primary importance from the social and economic points of view? Or do we still have more significant bottlenecks? Why do the listed projects lack the merest hints at development of bulk port infrastructure? For instance, we should not ignore the aspiration of Estonia, as well as the other Baltic States, to find its niche in containerized shipment through the involvement of China’s capital and participation of the European Union; or development of transit of chemicals, petrochemicals, liquid gas – all in the hazardous bulk category. Work experience and quality of the work of Estonian operators in bulk processing, which requires conformity to special conditions of shipping and storage, are at a sufficiently high level to provide the necessary safety of shipping. It is possible that the reason for inefficient use of opportunities and potential of the Strategy is hidden in Estonia’s initial vision of its main objectives.

In the year 2008 the countries participating in the strategy of the Baltic Sea Region declared their opinions and proposals concerning the activity to be carried out in order to reach the aforementioned objectives.

Estonia’s proposals in relation to this priority («To improve internal and external transport links») led to the following points:

1. Creation of better connection between the east and west coasts of the Baltic Sea.
2. Creation of transport connection which would conform to the standards of the EU.
3. Provision of ecological balance of the Baltic Sea through the creation of detailed standards.
4. Compulsory forwarding of tankers carrying petroleum products and chemical agents in territorial waters.
5. Development of a monitoring and information exchange system in the transportation and energy area. (Ideas for the Baltic Sea Region Strategy, 2008, 1-2)

Thus, at the stage of programming, Estonia did not define its role and importance in implementation of this priority clearly, and did not want to deem itself to be one of the links of the Baltic logistic chain.

After getting acquainted with the Plan of Actions of the European Commission, one may find that some countries in the region become more centrally involved in the strategy than others. It is in a sense paradoxical that especially those countries in most need of a well-functioning strategy – the Baltic States – are the ones least involved in its coordination (especially Estonia). This need not be a problem, especially if it is by their own choosing, but if – as can be expected – it also reflects the patterns of concrete projects, there is potentially a significant problem, both in terms of functional problem solving and the creation – or better, promotion – of a Baltic Sea identity. (Bengtsson, 2009, 7).

In its Plan of Actions, the European Commission has indicated that the Northern Dimension Partnership on transport and logistics, which is currently under preparation and should begin in 2010, will be a new regional cooperation forum, combining both the transport and logistics policies and coordinating infrastructure projects. The Partnership on Transport and Logistics will be a useful institutional instrument to implement the Strategy's aim of increasing accessibility and addressing the external aspects of the Strategy in the field of transport and logistics (Communication from the Commission, 2009, 49).

Of course, the success of the strategy depends on the ability of participating countries to maximize their contribution to its implementation. However, the significant drawback of the European Commission's Action Plan consists in superficial explanation of what the EU Baltic Sea cooperation with Russia will look like. The role of Russia in the context of the EU Strategy for the Baltic Sea is still unclear. The Commission briefly notes: "Close cooperation between the EU and Russia is also necessary in order to tackle jointly many of the regional challenges" (Communication from the Commission..., 2009, p 6). It refrains, however, from stating in any detail how this is to come about. Moreover, the position and relevance of Kaliningrad in the Baltic Sea is missing in most, if not all, statements and plans (Bengtsson, 2009, 8).

In contrast to Norway, Russia did not participate in the consultation process, and it has not given an opinion about the Baltic Sea Strategy. Russia's

involvement thus remains a matter of discussion and a challenge for the EU and its member states in the Baltic Sea Region. The Commission refers to the conclusions of the European Council that external aspects of the strategy (co-operating with Russia, Norway, and Iceland) will be based on the Northern Dimension partnership. (Bengtsson, op.cit.). Thus it turns out that the intentions of the EU and Russia concerning cooperation under the Baltic Strategy are not formally declared at the present time, and consequently Russia is not a part of the strategy.

Considering the status of Russia as one of the major trading partners of the EU, this situation threatens the success of the realization of the strategy, particularly in the component of the priority to improve internal and external transport links.

The next challenge is that a significant drawback of the strategy consists in the lack of links between the projects aimed at the development of the transport infrastructure of the Baltic Region and the real guarantees of providing them with cargo flows. This region, which is located on the periphery of the economic centre of Europe, depends strongly on foreign trade in goods and needs a well functioning transport infrastructure for its economic growth (Communication from the Commission, 2009. 49). This, in its turn, again returns us to the problem of reducing cargo flows through the countries of Eastern Europe - Estonia, Latvia, and Lithuania. The ports' infrastructure in these countries year after year loses its competitiveness on the international market; the dependency from Russian cargo flows eventually will lead to the definitive stop of coal and oil products transshipment. Taking into account the relatively narrow specialization of ports in the Baltic States, this fact severely hurts the transit activity of the countries, which probably may be to some extent revived by a new project on construction of the LNG terminal in the port of Muuga, which should cover the needs for gas of four countries – Estonia, Latvia, Lithuania, and Finland. The cost of the planned terminal, the annual production capacity of which will be 3 million tons of liquefied gas, is 500 million euro. The project implementation period is 5 years (Niitra, 2009).

But here a question arises as to whether the organizers of so important a project will manage to provide an uninterrupted supply of gas to the terminal. Have the corresponding contracts with the suppliers been concluded? Have all the consequences for the competitiveness of the

terminal after completion of the Nord Stream construction been taken into account, or still not?

Time after time there were heard the statements on the part of the Russian Federation about their purpose to completely stop the cargo flow through the Baltic countries. One of the cooperative actions, included into the Plan of Actions of the European Commission, is to “improve the connections with Russia and other neighbouring countries”, especially for major transport connections and **freight transport logistics** - through cooperation in the framework of the Northern Dimension policy (Northern Dimension Partnership on Transport and Logistics) and the EU – Russia Common Spaces. Special focus should be given to removing non infrastructure-related bottlenecks including those associated with border crossing. Member States should also explore options for new connections to the East and Far East (gateway to Asia) (Communication from the Commission, 2009, 50).

Mostly probable is achievement of only two of the mentioned intentions – improving of flow capacity of border crossing points between the EU countries and Russia, as well as access to the Asian market (in the latter case, the Baltic States for several years have been conducting negotiations with the Chinese side).

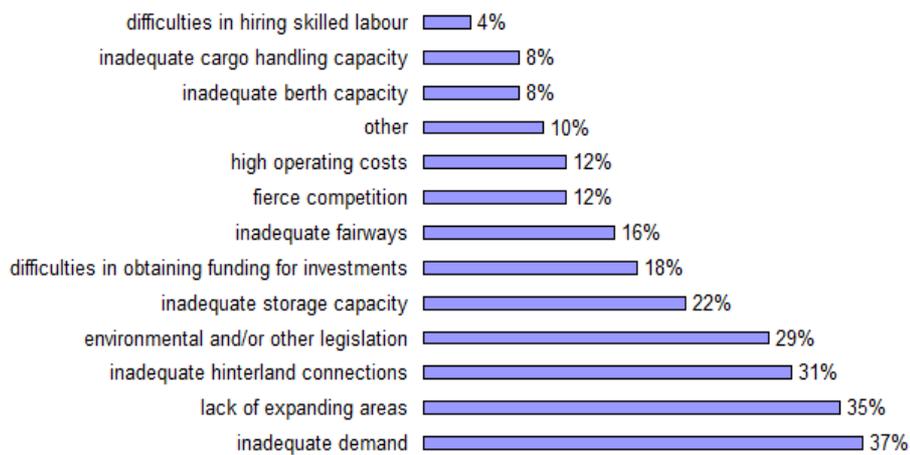
The successful implementation of projects aimed at developing the infrastructure of the Baltic region is very questionable. Until the interests of the Baltic countries in the revitalization of their transit market will be taken into consideration, even the completed projects will be unprofitable, since they will not be provided with cargo flow and therefore the implemented investments will remain unused. Next, it is suggested to get acquainted with the inquiry, conducted by the Centre for maritime studies of the University of Turku, concerning the factors, which, according to the opinion of Baltic ports, prevent their further development (see Figure 3)

The ports were asked to list 1-3 factors that they regarded as the most important bottlenecks impeding their development and growth. In the figure above, these factors are listed according to the percentage of ports that mentioned the bottleneck in question. Inadequate demand is mentioned most often as one of the most important bottlenecks. A bottleneck of a different kind is listed legislative matters as major hindrances to the development and growth of a port. Lack of expanding areas is the most often mentioned

capacity-related bottleneck. Compared to the previous Barometer, a larger share of ports identify it as a significant bottleneck. Inadequacy in hinterland connections is the second most often listed capacity-related bottleneck. Compared to the previous Barometer, a larger share of the respondents see it as a bottleneck. The category “other” includes, for example, political issues and higher labour costs (Baltic Port Barometer, 2009, 11).

**Figure 3. Major bottlenecks in the development and growth of ports**

Percentage of respondents who consider this factor to be among 1-3 of the most important bottlenecks



Source: Baltic Port Organization. Baltic Port Barometer 2009.

Lastly there should be answered a question as to whether the Strategy Project for the Baltic Region is a new EU project or not. Implementation of actions on the ground is to be conducted by “partners already active in the region” (Communication from the Commission, 2009, 10). Hence the strategy does not hold additional funding or concrete actions on its own, but seeks to better coordinate and make more efficient use of resources already allocated in various areas and projects. In spite of this, in the context of the global economic and financial crisis, the successful implementation of the given strategy will enable participating countries to use the economic potential of macro-regional innovations most comprehensively and effectively. The EU comprehensive strategy is intuitively attractive, but the idea of the strategy nonetheless gives rise to a set of critical questions. The

critical issues relate primarily to the economic expansion of the European Union (first of all cooperation in the transport industry), which is particularly difficult to implement in a situation in which the export volumes of most of the countries have significantly decreased over the last two years.

The strategy shall not only address the most imminent problems of the region concerning the environment, economy, infrastructure and security, but also gain relevance for the EU as a whole, as it is seen as a model test for a new level of governance – the macro-region. Thus the model test of the Baltic Sea macro-region is unlikely to provide an innovative impetus at the interface between the domestic and foreign spheres of EU politics (Schymik, 2009, 1-2).

## **6. Conclusions**

Sweden, holding the EU Presidency for the second half of 2009, made a tangible contribution to the prospects of the development of the Baltic Sea region. Nevertheless, the Strategy has not been a key priority of the presidential agenda of Sweden. The Swedish Presidency was quite saturated and included the following 6 priorities: economy and employment; the climate agreement; the Stockholm Programme; the Baltic Sea Strategy; the EU, the neighbourhood and the world; and the institutional and constitutional questions (Kaczyński, 2009, 23).

The world economic and financial breakdown has affected the measured activity of the world community. Though, upon its ending, an advantage will be gained by the regions which manage with the preparation and get significantly better outfit pursuant to new political opportunities, and which are able to use the economic innovation potential of the Baltic Sea Region as a macro region. Thus it is evident that thoroughly planned macro-regional cooperation shall create conditions for a quick way out of the present financial and economic breakdown. The Baltic Sea Strategy is an issue that the Swedish government has chosen to highlight in the Work Programme, as the French did with the Mediterranean region, the Czechs with the Eastern Partnership, and the Spaniards want to do regarding transatlantic cooperation, including both the northern and southern shores of the Atlantic Ocean in the Americas (Molina, 2009, 47).

The new composition of the European Commission and portfolios distributed between the Commissioners again give us hope that the problems of the Baltic Region will remain in the focus of the EU at least within the next 5 years. Noteworthy is the fact that for the first time the office of Euro-commissioner for transport belongs to a representative of a small EU country (namely Estonia), and despite the fact that the European Commission represents the EU and not the national States, there is, however, a hope that the macro-regional problems with transit encountered in the Baltic Region will be solved and the countries on the periphery of the EU will re-establish their transit capacity.

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## **SECTION II: POLITICAL AND THEORETICAL QUESTIONS OF INTERNATIONAL RELATIONS**

### **Connections between Foreign and Domestic Politics in Theories of International Relations**

**Ivar Hendla**

#### **INTRODUCTION**

To set the target this disquisition is intending to deal with, let us define a theory of international relations - International relations theory is a theory of international actors, let them be the state, international organisations, or informal groups or individuals, and their interaction, or the lack of it, with each other. This definition enables one to employ a wide range of theories, most notably realism and liberalism (along with their main sub-theories) in order to gain insight into how the most influential schools of thought have approached the question of domestic and foreign politics and the links between them. This focus was triggered by the inability of system level theories to explain international relations in practice.

There are three levels of analysis in the theories (at least that much is generally agreed upon) and from each it is possible to perceive its own politics. The connections between them are vague and up for contesting based on different paradigms. The target of this article is the line between the levels, which enables us to cast some light on the problem of foreign and domestic politics' nature, singularity/duality, interaction with each other, and different interpretation from colliding theoretical perspectives.

In order to avoid over-complicating the picture, the individual level is left out of this article, as the decision making of bureaucratic systems is a complex enough concept and the former would add little to the matter at hand. The psychology of politicians could be of interest to historians, but they contribute little to a general international relations theory, as the characteristics of individuals are too inconstant to be integrated to it.

The article turns to realism and its sub-theories as no discussion about international relations cannot be conducted without taking the traditional approach of international relations into account. It is possible to argue against the influence of realist or neorealist theories in the modern liberal world, but history and the rhetoric of non-liberal states today validate the realist school as inevitable for this disquisition. While the systemic approach has never allowed concentrated attention on the domestic influences, it is possible to draw connections even in these concepts.

In addition, the other traditional school of thought of liberals and neoliberals receives proper attention in order to provide an impartial overview of the realist-liberal spectrum. In fact, liberalism, as a non-system level theory, presents several associations between the two levels that cannot be left unattended.

A number of established connections and multi-level theories are also attended to. While these are usually overlooked by most analysts (perhaps because of their complexity), they offer great insight into the question at hand. However, even these are not comprehensive and have a number of flaws. These theories could offer a great deal to everyday decision makers and their advisers but are difficult to introduce into most international relations researches.

## **BACKGROUND**

International relations has a number of contending theories, and no single one has been dominant over all others. There are theories that deal with realistic targets and ideas, normative values and calculative reality, and the different range of possible actors on the international stage. In this situation, it is no wonder that the understanding of international relations theories is so fragmented.

As if that were not enough, the political world that is the target of the theories is not a stagnant object but an ever-changing entity, that is close to (if not altogether) impossible to objectify as the theories find their way to practical politics and thus start generating subjectivity.

Most explanations of international relations are usually categorized according to their “level of analysis”. The level of analysis establishes

where to look for the causes of state (or system) behaviour. The most common layout, which is also employed here, is Kenneth Waltz's distinction of three analysis levels:

1. Individual level – explores the personal or psychological concerns of individual statesmen;
2. Domestic level – concentrates on the society, culture, and political institutions of individual states;
3. International level – explains the states' position in the international system (aka. System level) (Waltz, 1959).

International relations theorists often recommend that analysts should keep to a single level of analysis. Some argue that different levels are mutually exclusive, asserting that one could not add two types of statements together. Others are convinced that even though domestic factors matter, they tend to be empirically intractable (Achen & Snidal, 1989, 166).

### **International level**

Realism as the most venerable theory of international relations stresses the role of power in international affairs. The neorealists, who are the modern heirs of this theory, concentrate on either threats or power, but maintain the same international level. Even though some of the neorealist authors linger on the border of domestic and international level, they have done little to cast light over the line.

The same applies to the neoliberals, who claim that the developments of the 20<sup>th</sup> century and complex interdependence have rendered war obsolete (at least among liberal-democratic nations). While the values, actors, presumptions, and answers are different, the targeted level remains the same. States are characterized with the same traits and attributes, decision-making procedures, and ability to manage societies' resources.

### **Domestic level**

Domestic level theories locate the determinants of international relations and foreign affairs from within the state. The international system is constituted by the states, not the other way around. Depending on the situation, states' responses may vary greatly. These principles can be seen in the idealistic school of Immanuel Kant, in John Stuart Mill and in the practice of

Woodrow Wilson, who stressed that in democratic polities, foreign policies, like internal policies, are subject to domestic debate and deliberation (Moravcsik, 2003).

The current domestic theories can be divided into three subcategories, according to the sources of domestic policy being targeted (Moravcsik, 1993) (Moravcsik's classification has been used as the basis of the categorization):

1. Society-centred theories stress pressure from domestic social groups through legislatures, interest groups, elections, and public opinion;
2. State-centred domestic theories locate the sources of foreign policy behaviour within the administrative and decision-making apparatus of the executive branch of the state;
3. State-Society relations theories emphasize the institutions of representation, education, and administration that link state and society. The liberal democratic peace theory is one of these theories.

Even some realist theorists, like Stephen Walt, Jack Snyder, and Stephan van Evera have employed the domestic variable priority in determining state interests and linked these with system level theories in order to explain aggressive behaviour in the international stage. Domestic theories have also enjoyed priority in a number of works by theorists dealing with international political economy and variants of interdependency.

## **REALISM AND FOREIGN-DOMESTIC CONNECTIONS**

### **Classical realism**

Realism provides a good starting point as its tautological structure and its pessimistic assumptions about individual and state behaviour serve as barriers against wishful thinking (Keohane, 1984, 245).

In the interest of comparability, the connection is not addressed from a viewpoint of any single and specific theory, but rather a generalisation of this school of thought and most established theories will be used in order to generate a wider understanding of the positions. It is a common approach to see realist theories as a site of a great many contested claims and meta-physical disputes instead of a coherent theoretical position (Walker, 1987, 67).

The classic realism theorist Hans Morgenthau sets the bar by defining politics in general to be a question of power and a struggle for it (Morgenthau, 1973, 27). However, he does draw a strong line between foreign and domestic politics and sets a normative goal of how these two should be treated – the essential foreign policy goals should be pursued with disregard for the domestic results, while merely desirable foreign policy aspirations can be sacrificed if need be (ibid, 147). Unfortunately, the distinction of essential and desirable foreign policy aspects is often blurred and depends on the interpretation of the decision maker. This subjectivity leads states to take irrational actions even when they should be rational actors.

It is clear that most classical realists regard foreign policy and domestic politics as separate in terms of practice. The two hold the same principal outline in terms of theory and how they are regarded by realists, but that is where most draw the line of the singularity.

What draws special attention in this case is the nature of the relations between the two politics. While realists usually claim that states hold normative values at little regard, then in this case the ideological goals are set for the agents of foreign politics. This represents the ideal of realist international relations, but practice is seldom as perfect as its theoretical objective.

The first notable realist historian Thucydides revealed how domestic public opinion was taken into consideration when dealing with foreign affairs in ancient Greece. “The Peloponnesian War” does not directly address the connection of internal and external politics, but the long foreign political debates among the city-states' leaders imply that the politicians of Athens did indeed pay attention to the impression made on other Athenian Empire (Lending) cities. In this Thucydides reflects the psychological struggles of the decision makers of ancient Greece and confirms that public opinion was also a factor for consideration (Thucydides, 49). By the understandings of Hans Morgenthau, this was little more than poor statesmanship that leads only to weakening of the state. Still, it would be too bold to claim that this was the sole factor in the historic Spartan supremacy in Greece and the downfall of the “Athenian Empire”.

Centuries later, in the modern era, the two great foreign policy practitioners Cardinal de Richelieu and Chancellor Otto von Bismarck established *raison d'état* and *realpolitik* as the norm in their states and throughout Europe. Both of them set foreign policy before domestic needs and thus, in Morgenthau's perception, employed exceptional statesmanship and realised the foreign policy power potential to the maximum.

What can be noted in *raison d'état* in this paper's context is that the state interest driven politics could also be employed domestically. In the interest of foreign politics, extra taxes could be levied and laws imposed. So this can be treated as a case of foreign politics influencing domestic politics. Yet it is still possible to distinguish one from the other.

Bismarck did use the French domestic politics and public opinion in his favour by deceiving Napoleon III into a war that was swiftly won by the prepared and overwhelming German coalition (Kissinger, 2000, 147). This event clearly elaborates one of the most obvious and cunning uses of domestic politics in international relations. So in this case, the domestic politics of France became the object of Prussian foreign politics, but also in a strange twist of events a domestic issue of Germany, as the successful war resulted in the establishing of the German state.

While both of them employed foreign policy arguments and motivations on domestic fronts, there is a difference in how this conduct can be perceived. Richelieu strictly distinguished one politics from the other; Bismarck often treated domestic politics in the manner of foreign policy, so the difference was not as clear for him (Feuchtwanger, 2002, 254). In both cases the international factors were clearly influencing domestic politics.

### **Neorealism**

In modern theories, classical realism has been forced to give way to modified versions, including (most notably) neorealism, which attempts to widen the classic understanding of power and also introduce other minor side-actors and factors to the state. This enables the creation of a more comprehensive theory at the expense of the simplistic appeal of realism.

One of the founders of neorealism, Kenneth Waltz, concentrates on the systematic differences of states and their domestic systems, but dedicates

little attention to the decision making process and thus disregards domestic political struggle as non-influential on foreign policy. Instead, he highlights the structural differences of states that lead to different decision-making processes of states. Waltz states: “A domestic political structure is defined, first, according to the principle by which it is ordered; second, by specification of the function of formally differentiated units; and third, by the distribution of capabilities across those units” (Waltz, 1979, 82). What he means is that domestic politics is made up by a hierarchic structure where institutions interact with each other and domestic politics differ based on the set-up of these. While this is no doubt true, it leaves analysts into the dark about how to evaluate real domestic influences on foreign politics. Even though he stops at systemic connections, it leaves some room to continue from that and explore into how domestic politics shapes foreign policy, just as his own “second image” (Waltz, 1959) determines.

Turning more attention to the systematic differences of states, it is important to keep in mind that Kenneth Waltz himself presents a crucial point. The systematic layout of institutions does play an important role in both domestic and foreign politics. Because of this, some states' foreign politics are much more open to domestic political influence than others'. Even in such similar systems as the UK's and the USA's, Waltz notes differences affected by the constraints that the system imposes on the representatives as he compares the British Prime Minister's seat and the US President's seat in their freedom to act as they please (Waltz, 1979, 83).

### **Bureaucratic realism**

The bureaucratic influence on foreign policy cannot be denied by the realists, and some have even highlighted it. The connection can be drawn from a bureaucratic approach of Max Weber, who establishes the state apparatus as key in all policy making regardless of the internal or external direction (Weber, 1978). While somewhat uncharacteristic to realism, Robert Jervis does attribute to leaders a predetermined proneness for flawed perspective of rational and irrational decisions and, together with possibly

flawed information, states are bound to take unreasonable actions rather sooner than later (Jervis, 1976)\*.

As if that were not enough, all policies are constrained by budgetary limitations, and in democratic societies it may be very difficult to justify foreign policy expenditures without jeopardising the objectives. As this irrationality is present (and the frequency of its occurrence is not limited) it is possible to argue that in international relations states cannot be presumed to be rational actors. However, the realist theory can be employed in order to explain this irrationality as merely a weakening condition of the state, which can result in governments' being more prone to foreign influence and thus becoming non-independent actors. In fact, the practice of international relations rather confirms this approach – the satellite and vassal states come to mind.

### **Deterrence theory**

As most realists theories, deterrence does not deal with domestic politics either (George & Smoke, 1974, 11), but can be employed and discussed in this context. It is possible to relate deterrence and domestic politics as states are never homogeneous, and thus this context allows room for debate of how the international effect may be used by the domestic political opposition.

Domestic factors on the international stage can be witnessed as the states' unitary appearance is only illusionary. Deterrence works mostly on the public of the targeted state and less directly on the political elite making the decisions (conveniently referred to as the state). How much this public influence reflects on states' behaviour may vary depending on a number of factors including systemic differences.

Should a foreign actor (let us call it state 1) prefer an action in another state (state 2) supported by a domestic faction in state 2 (suitably called faction 2 as it is not dominant in its state), then any rational actor (state 1) would

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\* Robert Jervis draws our attention to the fact that the tendency toward egocentric perception makes leaders interpret their own decisions as responses to objective conditions, while attributing the actions of foreign rivals to hostile disposition.

consider applying threats to ensure that the supportive faction (faction 2) prevails over the initial power faction (faction 1) in a domestic struggle.

This is a case of international relations modifying states' domestic politics, but the opposite direction of foreign-domestic influence is just as true if this policy is successful and the domestic faction (faction 2) gains decision making rights and starts or stops the state from using the policy that triggered deterrence in the first place.

### **Revolutionary systems**

Domestic revolutions are also a cause for international instability. Both Henry Kissinger and Stephen Walt agree that with stable states, the international arena is less prone to shifts as well.

Kissinger sets the domestic political structure of states as a key element of international relations. He separates stable and revolutionary system models in both international and domestic structures. Stable international systems are characterized by actors with domestic political structures based on compatible notions about the means and goals of foreign policies. As a rule of thumb, governments with stable domestic political structures do not resort to revolutionary or adventurous foreign policies to restore or preserve domestic unity. In contrast, revolutionary systems contain actors with domestic political structures that contrast sharply with each other (Kissinger, 1977, 12).

Stephen Walt takes this idea a bit further and attempts to determine what the aspects are that transfer domestic revolutions to an international level. He reaches the understanding that the revolutionary ideology and the desire to spread the ideology is the only factor that seems to be in place on most cases (Walt, 1992, 321).

Another interesting aspect in this is the result of a study conducted by Edward Mansfield and Jack Snyder (Mansfield & Snyder, 1995) stating that democratizing nations are much more likely to enter wars than either stable democracies or stable autocracies. This clearly reflects on the influence of domestic politics, where the active struggle for domestic power could cause heightened hostility towards neighbours.

## **Defensive realism**

There are a number of refinements to the realist theory; one of the most notable among them is the offence-defence theory, as laid out by Robert Jervis, George Quester, and Stephen Van Evera, constituting that war was more likely when states could conquer each other easily. When defence was easier than offence, security was more plentiful (Walt, 1998). While important enough to note in this context, these defensive realists concentrate on the international system level and pay little respect to domestic developments (other than technological).

However, with a little imagination, it is possible to develop this theory to take the public into account as well. Certainly any analyst of international relations has noticed differences in the defensive behaviour of populations throughout history. From that, it is possible to combine that knowledge with the defensive realists' theory and reach a conclusion that states also rely on their populations and on popular support.

The defensive realism framework also offers connections between internal stability and foreign policy, but that constitutes primarily as a question of government legitimacy and can be used on a long-term evaluation of defensibility. Different factions inside the state (like the 5<sup>th</sup> column of the Spanish Civil War) can be attracted to weaken the state's defence and thus reflect in international actions.

## **LIBERALS AND FOREIGN-DOMESTIC CONNECTIONS**

In international relations theories, liberal thoughts have often been branded as theoretical naiveté by the realists. However, along with the truly utopian works, there are more than enough “serious” and rational flows that have been unfairly disregarded because of their liberal principles. States' foreign policies are not driven by the desire for power, as the realists suggest, but rather by the aspirations of increased wealth and their citizens' well being.\*

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\* The modern homo economicus is bound to realize that war does not pay and the free trade policies can be most beneficial only in a predictable commercial environment of international peace. The basis for a majority of economic models is the assumption that all states, like human beings, are rational and will always attempt to maximize their utility - whether it be for monetary or non-monetary gains.

Liberalism often treats foreign and domestic politics as one, but among the numerous sub-theories there are several variations, and the connection are often unclear. In general, domestic politics is considered to be the foundation of foreign policy, and because of that, public opinion is held at much higher regard than realists usually give to it. This is apparent in the analysis level, which is evidently the domestic level in this case.

### **Liberal peace theory (perpetual peace - Kant)**

Based on liberal values, foreign policies should be used to spread democracy and thus ensure the growth of peaceful neighbours and the number of allies. These ideals rely on the liberal democratic peace theory - liberal democracies do not go to war with each other. The question of how much the liberal nations are forced into war with other, non-democratic states is still up for debate, but most modern theorist agree that there is no empirical or logical reason to suggest that democratic nations are less inclined to war than other forms of government (Doyle, 2006).

It is possible to argue that it would be difficult to elucidate wars to constituencies, and domestic politics will play an important role in this. Prolonged wars can play an internal role in democracies as public support can turn against any foreign policy and bring forth a change in government if that foreign policy cannot be altered. This is true not only for democracies alone though. Looking back into history, the downfall of three out of five European empires was caused by the Great War. However, one must admit that democracies are much more susceptible to such problems than autocracies.

As modern wars have suggested, it is impossible to alter foreign policy narratives quickly enough to relax public demand if the initial policy does not hold a long-term appeal, but is only briefly “sold” to the electorate. So democratic states have to be very careful as to what wars to enter, because every government is interested in maintaining its position and, even though economic and administrative issues outweigh foreign policy issues, it is impossible to control the course of military campaigns, and these endeavours can yield disastrous results in terms of public support to governments (The Vietnam War 1959-1975 and Iraq War 2003-present day are the most obvious examples). On the other hand, democracies can exit wars with less threat of personal consequences to the leaders (Goemans,

1995) (in comparison to fallen autocrats and dictators) and this could be the equalizing factor that levels the propensity to enter wars.

A more complex situation is in place when liberal-democratic states are interacting with non-liberal states. While liberal democratic states often employ neoliberal principles between themselves, the realist paradigm is used for authoritarian states. The reason is simple, and an explanation can be drawn from the prisoner's dilemma (Axelrod & Keohane, 1985, 229)\*. When dealing with non-liberal states, the democratic leaders do not enjoy the same level of trust and understanding that they have amongst themselves and often fear being exploited, thereby choosing not to emplace their confidence in their counterparts. As realism offers much safer positions in this case, a link can be drawn between employing realism in foreign affairs and defecting in the "prisoner's dilemma".

The whole liberal peace theory relies strongly on the constituency to make sure that the state prefers peaceful solutions over armed tests of strength, or, as that statement on a general level has been challenged by many theorists and analysts, at least not against each other.

Also the technological advances made in communications technologies over the past decades support the democratic peace. The increased prosperity and the spreading of liberal values such as human rights, tolerance and diversity contribute to the expansion of cosmopolitan perspective that abolish almost any reason to war amongst liberal states (Onuf & Johnson, 1995, 192-193). Even though the internet has been generally perceived as a democracy spreading medium, recent analyses tend to question that; Evgeny Morozov advocates that in the cases of China, Belarus, and Russia, the internet has been employed in the service of the regime and there is no reason to believe that it has developed democratic notions (Morozov, 2009).

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\* While not the creator of "Prisoner's dilemma" Axelrod was one of the first to employ it in international relations theories. The principle of the dilemma is that while two "prisoners" cooperate with each other, they have the highest relative gains. When one cooperates and the other defects, the defector gains more than either would have gained from cooperating, but the cooperator gains nothing. When both defect, both gain less than when they would have cooperated, but more than they would have gained when being the cooperator in the second strategy.

The economic development and spread of liberal values has even sparked some very optimistic ideas, such as Micheal Howard's, that while wars may still occur between less developed societies, between highly developed societies wars may not recur, and that a stable framework for international order will become firmly established (Howard, 1991, 176). Even though it is possible to brand these statements as post-cold war euphoria, they seem to hold some truth.

While Wilsonian idealism as a school of thought in international relations theory does not directly deal with the connections of foreign and domestic politics, in idealism the democratic state is expected to represent the voice of people. Idealism eventually renders foreign policy obsolete, and states would become purely administrative institutions while perpetual peace ensures that no hostile foreign policy is needed.

Idealists set a normative goal that states should strive for, but lacking the realistic insight of how things are in practice, it would seemingly take an absolute miracle to reach the set values. However, when we look at the principles proposed by Wilson close to a century ago, a great many of them have come true. Democratic states have taken the stance towards defending each other from non-democratic threats – the war in Afghanistan can be perceived as such. The nations based liberal democracies do indeed have little reason to attack one another if all they have to gain is more voters and tax payers, but also more responsibilities and probably more restlessness to re-establish self-governance.

### **Neoliberals**

Neoliberalism, similarly to liberalism, is again not a specific theory, but a wider understanding of worldly affairs. Two neoliberal authors, Joseph Nye Jr. and Robert Keohane, established the concept of complex interdependence as a key factor in international relations in 1977 largely in order to counter the popularity boost of neorealism (Nye & Keohane, 1977).

Even though a system level theory, neoliberals add multinational corporations, non-government organisations, and the global financial market entity as actors on the international relations stage. States still hold the most important role, but that is diminishing in the long run (Keohane & Nye jr, 1998, 81-82). In the complex interdependence that is a norm throughout the

democratic world, these non-state actors are starting to play an even bigger role than states.

As the non-state actors do not commonly have a foreign policy (or a domestic policy as such) they do not directly contribute to the solution of this article. However, the states are much more reliant on their domestic politics, as the decisions made on the internal frontier, more often than not, reflect on the international frontier through the same non-state actors (ibid, 83).

Warmongering holds little reason in the neoliberal perspective, because the interdependent international pressure discourages non-collective war efforts with third parties (non-democratic nations). Inside the complex interdependency, regime wars hold little to no point at all, as ruling more territories populated by voters with diverse ethnic and cultural background would add more problems than it would solve. However, parts of complex interdependence ends on the “edge of the democratic world”, so the whole international system is not really included.

The neoliberal concept of soft power (Nye Jr, 2004, 8)\* also supports domestic influence on the international stage. It allows a domestic to domestic level to be employed on a global scale, and thus the domestic actors can contribute to the foreign relations of a state. In a sense, soft power is the true product of “public diplomacy”.

It is impossible to distinguish foreign from domestic politics in the soft power concept, as the domestic policies carry out the foreign goals as well. Nevertheless, it is important to emphasise that most states are determined to maintain their hard power and have little regard to soft power, which they have little understanding of and limited control over.

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\* Joseph Nye jr. argues that soft power is the ability to get what you want through attraction rather than through coercion, so that they want what you want. If you can get others to be attracted to want what you want, (to help set their preferences), it costs you much less in carrots and sticks and the result would be more favourable public opinion and credibility abroad, which in turn regenerates soft power.

## **Neoliberal institutionalism**

Neoliberal institutionalism relies on international organisations to bring order to the anarchic world of international relations. The organisations are supposed to ensure that rules and norms, agreed upon by the states, are followed. As institutionalism moves up to the system level, it helps little in determining the role of domestic politics in it.

However a flow of institutionalism, the regime theory generates a new understanding of the international system and domestic politics connections. In order to enhance cooperation, states form international regimes – a set of mutual expectations, rules and regulations, plans, organisational energies, and financial commitment, which have been accepted by a group of states (Ruggie, 1975, 570). Regimes may concentrate on a single issue or several issues. Regimes consists of norms – standards of behaviour defined in terms of rights and obligations; rules – specific prescriptions; and decision making procedures – prevailing practices for making and implementing collective choice. Regimes can be either formal or informal and can be consensual or imposed by a dominant actor (Krasner, 1985, 1-3).

As two sets of regimes can be distinguished (Keohane, 1984, 50-62), it is important to see how either is treated in relation to domestic actors. Robert Keohane establishes regimes based on either harmony or cooperation. Harmonious regimes are characterised by all actors automatically achieving their goals by pursuing self-interest. International regimes that function on harmony, often lack formal structures. Cooperation regimes are created either in reaction to an existing conflicts or as an effort to avoid future conflicts and the actors adjust to each other.

In harmonic regimes it is impossible to separate foreign factors from domestic ones, and so all politics forms a solid set. One could argue that relations in these regimes are in no way political, and from a realist's point of view, that would probably be correct; but as these regimes do influence the lives of the public, liberals can see the political connections of regimes.

In cooperation based regimes, domestic actors have a role in maintaining the regime and thus interlink with states' foreign politics. Through this, domestic and foreign politics are connected as the non-state actors most commonly participate on both state and system level.

## **MULTI-LEVEL SOLUTIONS**

The single level analysis can really be used in only a limited set of empirical international relations problems. While attractive and simple, the pure international relations theories offer few solutions when submitted to criticism consisting of empirical problems and theoretical limitations of explanations that require the inclusion of domestic factors. So it seems like a crucial necessity to formulate a theory integrating the international and domestic levels.

### **Economic theories**

Peter Katzenstein has targeted the importance of domestic factors in foreign economic policy and cross-national variation. "The main purpose of all strategies of foreign economic policy is to make domestic policies compatible with the international political economy" (Katzenstein, 1978, 4). In this, the state must be concerned with domestic and foreign pressures simultaneously. Katzenstein has focused on a structural factor such as "state strength/state weakness". What he unfortunately fails to do is really provide a tangible determination of how that "state strength" can be measured.

In international economic relations a considerable number of works have dealt with domestic-political causes in foreign trade policy. Domestic protectionist notions are used to explain suboptimal policy decisions. One of the most noteworthy works in the field of foreign-domestic economic politics colliding is Stephan Krasner's argument that stagnated domestic institutions prevented Britain and the United States from choosing optimal trade and monetary policies accounting for the changes in their international positions before and after the Great War (Krasner, 1976, 338).

### **Two-level games**

The balancing between domestic and foreign economic politics is a concept similar to the two-level games of Robert Putnam, who concentrates on international negotiations in order to explain his singular approach to domestic and foreign politics. In this perception, statesmen are involved in decisions that affect both domestic and international levels simultaneously. Robert Putnam stresses the need to address the role of social classes, interest groups (both economic and non-economic), legislators, and even public

opinion and elections, not simply executive officials and institutional arrangements, into the domestic equation (Putnam, 1988, 433).

In order to do that, international negotiations are described as two card-tables, where the decision maker's chair is situated behind both at the same time. The foreign policy agents attempt to maximize the gains on the international field, while insuring their seat of office. Decisions not acceptable on either level can end the negotiations or cost the chiefs of governments (COG) their jobs.

Though the two-level games are most useful in case studies, they can also be widely conceptualized and generalised to international relations theory as a whole. The complexity of the interrelation and lack of attention drawn to non-state actors has provided some valid criticism, and the game concept needs a great deal of work in order to become a widely acknowledged theory, but the general idea is promising. There have been a few attempts to alter Putnam's concept in order to mend the rough edges, like Jeffrey Knopf's three-to-three game (Knopf, 1993, 599-600) but these have been too concentrated on broadening the idea in order to grasp all aspects of international negotiations instead of simplifying and applying the games to international relations in general, which would allow it to become a comprehensive theory.

It is difficult to relate the two-level games with any existing theory, as they seem to incorporate the liberal understanding of domesticity constrained COG negotiating in order to gain more power and influence while considering the other side's domestic options as well. However, it is clear that the process of decision making constitutes both foreign and domestic politics at the same time, and, thus, there is no difference between them.

## **CONCLUSIONS**

### **Connections between images**

Both realism and neoliberalism assume that states are rational actors with stable preferences and domestic resources. While the system level tries to marginalize the debate over the influence of domestic politics, it is still constrained with the reality that domestic politics does in reality have an indisputable role of a "black box". Even though it is not necessary to understand the internal complexity of the "black box", the coherence

between input and output should still be subjected to theoretic debate and empirical scrutiny.

Researchers of international relations often employ system level as the primary and introduce domestic factors as needed (when impossible to avoid). This encourages ad hoc interpretations, thus failing to provide any generalizations to the interactions of domestic and foreign policies. In this case the source of domestic policy is left undefined, and it is possible to include or exclude internal incentives from any of them at the whim of the researcher. As a result, the domestic conclusions drawn from the internal influences not only fail to contribute to the study, but may even damage the credibility of the results. This problem is also raised by Andrew Moravcsik, who points out how granting priority to systemic theories introduce an unwarranted bias into conducted research (Moravcsik, 1993, 14).

In the defence of system theories, Robert Keohane has claimed that we must first understand the context of action before we understand the action itself, and thus systemic theory provides a necessary analytical basis for analysing domestic influences (Keohane, 1986, 193). Understanding the international level can indeed provide crucial insight into why domestic decisions and actions take place. On the other hand, it is just as possible to argue the opposite – understanding the domestic politics and decision making process makes it possible to understand international factors.

So while most realists agree that domestic politics does play its share in development of foreign policy, most of them concentrate on the system level and do not give much significance to the domestic variables. As they have set an ideal of how foreign policy should be developed, they must also acknowledge that this ideal is seldom reached. So in such a situation, it seems that the domestic connections are left unattended in order to maintain the simplicity of realism (even neorealism can be considered simpler than most multilevel theories). The level of generalisation that is used on the few occasions that realists do turn their attention inside states maintains their international system level emphasis.

The “second image” of Kenneth Waltz (1959) does provide some ground for domestic research into international relations, but the author of the concept plays down the importance of this image (unless dealing with a specific case study, in which case paying attention to it may be warranted) and suggests

concentrating on the “third image” and systemic level in order to provide researchers with a generally usable theory. Domestic level is also usable as the level where anomalies, defects, and geographic or economic deprivations caused to the systemic theory by the domestic politics level can be explained, but these alone, without system level, have no significance in understanding international events.

Nearly 20 years after Kenneth Waltz's definition of second image, which determined that states can influence international affairs, Peter Gourevitch emphasized the opposite – Foreign relations can influence domestic structures and thus the international system can become a cause instead of a consequence.

Second Image Reversed (Gourevitch, 1978):

1. Military intervention and occupation are the two most obvious external influences (ibid, 883);
2. “Meddling” in other nations affairs through subsidies to opposition newspapers, fifth columns, spying, assassination and the like are less clear empirically, but examples are in abundance (ibid, 883);
3. Trade - Distribution of economic activity and wealth. Hitler's accession to power is one of the most vivid examples here as it is impossible to imagine how Germany's domestic factors could have resulted in Hitler’s coming to power without the “Great Depression” (ibid, 884);
4. International state system. States are induced to organize themselves internally so as to meet the external challenges of the anarchic international system (ibid, 896);
5. Ideas – though Gourevitch does not elaborate on the subject of external ideas and ideologies influencing politics, the connection is noted (ibid, 883).

So economic relations and military pressures constrain an entire range of domestic behaviours, from policy decisions to political forms. Gourevitch concludes that “international relations and domestic politics are therefore so interrelated that they should be analysed simultaneously, as wholes. However compelling external pressures may be, they are unlikely to be fully determining, save for the case of outright occupation” (ibid, 911). So there is always room for the domestic politics to formulate a response, which

needs to be explained and cannot be done so without integrating the two levels.

Just as there are contending international relations theories, there are contending understandings of the connections between domestic and foreign factors of international relations. Unfortunately, it is impossible to prefer one interpretation over another and to claim that this article has concluded that one is correct and the rest are faulty. Still, as noted in the text, a number of these theories have not given any regard to domestic politics. As in the modern world no democratically elected leader can disregard domestic influences, these theories seem oversimplified and unrealistic.

What this article has hopefully managed is proving that international relations can be understood better from the multi-level perspective, as there are too many variables to rely on only systemic level or domestic level. While the two-level game can be used as a concept of understanding, it is unfortunately not yet a consolidated theory that could be employed in explaining most global effects. In addition, it seems reasonable to take both directions of the “second image” and “second image reversed” into account when imagining the two-level concept.

The differences between the nature and target of domestic and foreign politics are far too large to be ignored. Foreign and domestic politics can be perceived separately, but should be considered as strongly interlinking. It is not possible to determine the importance of domestic factors, but it is clear that the importance is much larger than Kenneth Waltz suggests.

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## **“Milk war” and “Hot war”: different wars – same goals**

**Archil Chochia**

### **1. Introduction**

This paper tries to apply a political security concept to a recent development in the Russian – Belarus relationship, aiming to draw connections with the Russian – Georgian war and the surrounding political reality in general. Analyzing the whole situation in this way will provide a possibly different perspective on the development of the process and understanding of it as a part of something bigger than merely the development of certain events and issues.

Everyday we hear the word security, we hear about the problems of security, we hear about security of ourselves, about security of our societies, our countries, etc. But what does security really mean nowadays?

Security is not what it used to be, or what it is mostly associated with. As Barry Buzan defines in his book, security is not only about military threats, it is much wider than that; and he introduces his typology of security, dividing it into five sectors: military, economic, societal, political, and environmental (Buzan 1991). And in all five sectors, the referent object is different.

As Buzan describes it, security is a move that takes politics beyond the established rules of the game and frames the issue as a special kind of politics or as above politics, and at the same time securitization is a more extreme version of politicization (Buzan, Waever & De Wilde 1998, 23).

In order to securitize something, a securitizing actor, by stating that a particular referent object is threatened in its existence, claims the right to extraordinary measures to ensure the referent object's survival (Taureck 2006). Thus the issue moves from the sphere of “normal politics” into the realm of emergency politics, where the issue is no longer dealt with by the rules and regulations of normal politics, democratic rules, and regulations, but by the ones of emergency politics. Security thus no longer has a given meaning, but is anything a securitizing actor says it is.

But at the same time, in order to have “successful securitization”, three main steps need to be taken, which ensures that not everything can become a

security issue. Those steps are: 1) identification of existential threats, 2) emergency action, and 3) effects on inter-unit relations of breaking free of rules (Buzan, Waever & De Wilde 1998, 23-24).

The first step towards securitization is called a securitizing move, which is presenting an issue as an existential threat, by, for example, stating that: “If we do not tackle this problem, everything else will be irrelevant (because we will not be there or we will not be free to deal with it n our own way)” (Taureck 2006). In theory, a securitizing move is an option open to any issue, as once the securitizing actor has convinced the audience that something is an existential threat and there is a need to go beyond existing regulations and binding rules, the case could be defined as an example of securitization.

But in practice, securitization is far from being open to all units and their respective subjective threats, it is essentially based on power and capability and therewith the means to socially and politically construct a threat (Taureck 2006). Furthermore, it is important to mention that securitization usually has its origin and has its reason.

Political security is about the organizational stability of the social order; its heart is threats to state sovereignty, focusing on non-military threats to sovereignty, it is about threats to legitimacy (being an internal threat) or recognition (being an external threat) either of political units or of the essential patterns among them (Buzan, Waever & De Wilde 1998, 141-145).

In the political sector, existential threats can be defined in terms of ideology of the state and not only in terms of sovereignty of the state. The processes that challenge the norms, rules, and institutions that represent and set up that regime could existentially threaten a regime (Buzan, Waever & De Wilde 1998, 22).

Thus the political security of the state is, in a way, defending its political ideology. As political ideology and national identity are the ideas that hold the state together and, at the same time, these ideas in general make up, together with a physical base and institutions, the three components which state consists of. Therefore, threatening the political ideology of a state means threatening the stability of the political order, as also does questioning the ideology that legitimatizes the government (Buzan, Waever & De Wilde 1998, 150).

There were two specific cases of security and political security between Russia and its neighbors – Byelorussia and Georgia. The cases were different in forms, different in contents, and different in consequences.

## **2. “Hot war” between Russia and Georgia**

On August 7, 2008, war broke out between the Russian Federation and the Republic of Georgia over South Ossetia, a tiny separatist republic that had declared its independence from Georgia back in 1991. The Kremlin accused Tbilisi of starting a military attack on the South Ossetian capital Tskhinvali in order to regain control over its breakaway region, which was, according to the official Russian position, the reason for the military invasion by its troops into Georgia in order to defend Russian citizens, which make up most of the population of the region.

Russian forces poured across Georgia's borders in the country's two separatist regions, Abkhazia and South Ossetia, and crushed the Georgian army in a five-day war, moving deep into the post-soviet republic, nearing its capital Tbilisi, destroying the country's economic infrastructure and disrupting communications among different regions in it. Shortly after the war, Moscow recognized Abkhazia and South Ossetia as independent countries.

Officials in Tbilisi claimed that a Russian column of a large number of tanks and armored vehicles had advanced into South Ossetia before the Georgian attack on the South Ossetian capital Tskhinvali. Thus, the military action from the Georgian side was an attempt to defend its territory and its population from foreign aggression.

On the 25<sup>th</sup> of August 2008, both houses of the Russian parliament issued a resolution calling on President Dmitry Medvedev to recognize the independence of the two breakaway regions of Georgia: Abkhazia and South Ossetia. The next day, on the 26<sup>th</sup> of August, President Medvedev issued two decrees recognizing these two regions as independent countries (Russian Federation 2008).

With this war, an atmosphere of fear, dread, or even horror was created in the region; and such brutal victories will never receive approval by the nations of the Caucasus. But at the same time, with its quick victory over Georgia, even though very predictable if we compare the military potential

of great Russian and small Georgia, Moscow undeniably earned authority in the Caucasus region, where strength is seen as the highest virtue, and where, in fact, it has almost cult-like status. The Kremlin demonstrated that it remains the main power in the region and is capable of solving issues with its own rules and with its own methods. Simultaneously, Russia's rushed recognition of Abkhazia and South Ossetia, which it controlled anyway, has produced the prospect of a prolonged standoff with the West.

The Georgian government of Mikheil Saakashvili is well recognized as a pro-Western and pro-NATO government. Thus, many asked whether this war could be seen as a military operation to eliminate the Western-oriented government of Mr. Saakashvili, whom Mr. Putin once vowed to "hang by his balls". Russia, in open violation of the cease-fire agreement with French President Nicolas Sarkozy, has never withdrawn its troops to pre-war positions. Instead, it has strengthened its units in Georgia and has between 5,000 and 7,500 soldiers in the provinces of South Ossetia and Abkhazia, both of which Moscow now treats as independent states (The Washington Post 2009).

According to the cease-fire agreement with President Sarkozy, both sides agreed on the following points: 1) not resort to force; 2) definitively cease hostilities; 3) give free access to humanitarian aid; 4) Georgian military forces must withdraw to their usual barracks; 5) Russian military forces must withdraw to the lines occupied before the start of hostilities. Until an international mechanism is put in place, Russia peace keeping troops will implement the security measures; 6) open international discussions over security and stability modalities in Abkhazia and South Ossetia (Euractiv 2008).

Conflict, once more, focused the world's attention on the region, giving substance for reflection on the issues of how does this war change the political reality in the world, how does it change the relationship of Russian with the rest of the world, as well as what does this speedy victory give to Russia.

The war indeed changed the political reality surrounding the Russian Federation and it forces, or at least shows a possibility to look at various events involving Russia through a different prism, trying to find a link between the events. This kind of new and dissimilar analysis of an episode of political life allows explaining and seeing that episode differently than at the beginning.

The international community did not agree with Russia's actions and is opposing its intentions. The situation was compared with the Ribbentrop-Molotov pact of 1939 and the Munich agreement of 1938. Russia's steps were described as building a new Berlin wall, this time across the sovereign territory of Georgia (Havel, V., Adamkus, V., Laar, M., Landsbergis, V., De Habsbourg, O., Bendit, D., Ash, T., Glucksmann, A., Leonard, M., Levy, B., Michnik, A., Ramoneda, J. 2009).

The Kremlin, in order to justify its actions in thus raising tension, from the first day of the recognition of Abkhazia and South Ossetia till now, seeks support for its decision on the international level. Recognition of Kosovo, in comparison, is supported by more than sixty states from all over the world, which was not the case with Russia's decision. Moscow needs to and tries to prove the correctness of its actions and to add legitimacy to them by gaining support from other states.

### **3. "Milk war" between Russia and Belarus**

Russia obviously wanted its neighbour and ally Belarus to support its decision to recognize Abkhazia and South Ossetia and to do the same. When once again talking about the issue, Russian president, Dmitry Medvedev mentioned that "Russia has always had a simple position – we think that it is a country's sovereign right whether to recognize or not to recognize new subjects of international law. But of course, we are not indifferent to the fate of these two states. We are glad that worldwide support for them is growing" (Schwartz, M. 2009). Belarus did not follow the "Russian way" and did not recognize those two breakaway regions, and this started to cause problems to the country in its relationship with Russia.

Due to the financial crisis, Belarus was seeking financial aid, which included negotiations with the Russian Federation regarding a loan. In autumn 2008, Russia agreed to give Belarus a loan of 2 billion USD, but later on, as Belarus needed more finances, it asked for an additional 100 million Russian Rubles, which they were refused (Butrin, D. 2009). At the same time, some Russian TV channels were banned in Belarus (Charter 97 2009). Later on, the President of the Republic of Belarus, Aleksandr Lukashenko, blamed Russia for not helping its strategic neighbour (Interfax 2009).

Here, it needs to be highlighted that these two neighboring countries have very close cultural and political connections. Belarus is a close commercial partner for Russia, the gas-transit price through Belarus is substantially cheaper than the price paid by Russia for transit through Ukraine, 80% of all Russian road-transit goes through Belarus, and Belarus provides Russian factories with many and various products. At the same time Russia is the main importer of Belarusian products (Mamontov, V., Reut, A. 2009), 93% of all Belarusian milk and meat products export goes to Russia.

The problem for Belarus is that it does not want to lose the support of the west, as the country has many times been warned not to recognize the two separatist regions; such recognizing would mean for Belarus non-inclusion in the European Union's Eastern Partnership plans, which offers economic assistance, trade concessions, and consultations on security (Castle, S. 2009). Subsequently, Belarus has been included in the EU's Eastern Partnership (European Union 2009). At the same time, at the end of May 2009, the World Bank agreed to provide Belarus with a loan of 125 Million USD (World bank 2009).

From the other side, Russia banned 500 types of Belarusian milk products (Ria novosti 2009); in just two days, during which time Belarusian politicians called this decision political, Russia banned an additional 800 types of milk products (Ria novosti 2009). President Lukashenko, calling it a political decision and, in addition, raising an issue of banning Belarusian sugar and tractors, heavily criticized this decision. He connected all those problems between the two countries to the issue of recognizing Abkhazia and South Ossetia (Mamontov, V., Reut, A. 2009), admitting the link between these economic issues and the recognition of Georgia's two break-away regions.

Russia itself denied those accusations, insisting that banning milk products from Belarus was not a political decision and was connected only to economic regulations, claiming that Belarus' importing of milk products was breaking rules previously agreed upon, that non-market, low prices for the Belarusian products damaged the development of the same kind of production in Russia itself (Ria novosti 2009).

At the same time, the chief sanitary physician of Russia, Gennadiy Onishenko, declared, after conducting analyses, that Belarusian milk products had serious problems (Interfax 2009). But in just a few days, Russia's Prime Minister, Vladimir Putin, revealed that negotiations between

the two countries regarding the deliveries of Belarusian milk products were ongoing and there were already some agreements on the issue (Rambler media group 2009).

This might bring into question the truth of the statements regarding the non-political reasons for banning the milk products. Should we assume that all those errors of Belarusian trading and their damage to the Russian economy just suddenly became visible to the Russian authorities? Should we assume that all those problems mentioned before were solved in just few days or could be solved in such a short period of time?

The negotiations Mr. Putin was talking about probably did not go so well, as on June 14 the president of Belarus boycotted a planned summit meeting of the Collective Security Treaty Organization (CSTO), where The Collective Security Agreement was designed to be signed among all the members of CSTO (Solovjov, V., Gabuev, A. & Grib, N. 2009), which was giving Russia the possibility to consolidate ties with its neighbors and end their flirtation with Western allies (Berry, E. 2009). In the end, the agreement was signed anyway, but without Belarus and Uzbekistan; President Lukashenko, who argued that any agreement without participation of all the member states was illegitimate, criticized this signing (Rambler media group 2009).

Response from Russia regarding the decisions of Belarus came very quickly, as a new problematic issue was raised by the Public Joint Stock Company Gazprom, concerning the rise of gas prices for Belarus as well as the demands concerning the debt to the Russian company for natural gas already used (Solovjov, V., Gabuev, A. & Grib, N. 2009).

Belarus did not wait long with its reaction, as just on the following day Minsk announced the decision to toughen custom controls on its border with Russia, calling it “symmetrical response” (Interfax 2009). In just a few days, after negotiations between the two countries, Belarusian milk products were allowed to be imported to the Russian Federation (Lobas, T. 2009), and later that same day the Belarusian side announced withdrawal of their decision to toughen custom controls on its border with Russia (Ria Novosti 2009). As a reason for the so-called “milk war”, the amounts of imported milk products were mentioned by the Prime Minister of Russia, Vladimir Putin, but nothing was mentioned about the previously raised issue of the quality of the products (Ria Novosti 2009).

At the same time Mr. Putin mentioned that negotiations with Belarus were going on and that they are very important, especially during the world economic crisis, once more highlighting the importance of Russian aid to Belarus, meaning low prices for gas as well as financial aid to this country (Ria Novosti 2009). Later on, the list of Belarusian milk products again, allowed to be imported to Russia, was doubled (Ria Novosti 2009).

Here, one could again raise the question mentioned before, that have all the problems regarding the quality of the Belarusian milk products, as well as the risk of damaging Russian milk production and the economy in general, been solved in just a few days and disappeared as suddenly as they appeared? Or might there be some other explanations as well for such development of the events?

Belarus maintains a considerable interest in having Western support. President Lukashenko when meeting EU External Relations Commissioner Benito Ferrero-Waldner did not hide this. The Belarusian president openly declared that his country is honestly willing to have a good relationship with the EU, “even though some might not like it to happen” (Charter 97 2009), hinting at Belarus’s eastern neighbor. Mr. Lukashenko once more underlined the importance of financial credits and resources and of financial aid in general from the EU to Belarus (Charter 97 2009). Besides this, on June 22, 2009, the Belarusian national bank announced that it had approached the International Monetary Fund in order to ask for an additional one billion USD in addition to the 2.46 billions USD credit agreed upon before (National Bank of the Republic of Belarus 2009).

#### **4. Conclusion**

After everything mentioned above, those actions of Russia towards Belarus could be seen as an example of securitization, securitization of trade aspects of bilateral relations, which is symptomatic, especially during a financial crisis. Russia decided to securitize relations with Belarus to force it to recognize Abkhazia and South Ossetia. For Belarus it was a direct threat to its own political security, already highly unstable due to a high degree of intermingling between Russian and Belarusian political and security spheres.

Securitization usually has its origins in political affairs, and in this case it was the “Hot war” between Russia and Georgia. As for the reasons for the

securitization, which also usually can be drawn out, in this case it was to force Belarus to recognize the separatist republics. In other words, Russia moved the discourse into the military sphere using words like “Belarusian milk is a threat to Russia!” etc. What is the reason of this *speech act*? – clearly, to force Belarus to do something it opposes.

Here, we could indicate a parallel between those actions of Russia and the issue of the threats, in particular, to a certain category called “Security of and against supranational, regional integration”. As Buzan claims, this kind of formation, that is, supranational or regional integration, can begin having security discourses in which the political actors, being states or nations, themselves become threats when they react against integration, on the basis of their fear of this integration or the integrating organization (Buzan, Waever & De Wilde 1998, 157-158).

Russia clearly sees this kind of threat in Belarus, when the latter does not follow the deeper integration process with Russia and is flirting with the EU and trying to normalize and possibly improve its relationship with the west. The “Hot war” between Georgia and Russia did not stay out of President Lukashenko’s attention; it definitely showed the Belarusian leader the costs of possible disagreements with its Eastern neighbour. The actions of Russia towards Georgia influenced the Belarusian president to look for improved relations with the EU, especially when the circumstances for doing so were suitable, as the EU by that time had already decided to change its policy towards the regime of President Lukashenko.

Kremlin leaders well know that too much pressure on Belarus could leave Lukashenko with no choice but sustaining close cooperation with the EU and moving away from cooperation with Russia and its satellites from the Commonwealth of Independent States (CIS), which essentially would weaken Russia’s geopolitical positions. But at the same time Russian leaders know that Belarus very much depends on Russia, as described above, and it will be extremely difficult for the country to have its relations with Russia closed down.

Belarus’s improving relations with the West is a threat to Russia, as Belarus is in its zone of influence, its near abroad. Russia needs Belarus, its strategic partner, to be more involved in the integration agreement and process between the two countries, as well as in the recognition of Abkhazia and South Ossetia, which would mean supporting Russia’s external politics, thus

supporting the ideology of Russia's government. Belarus is threatening Russia by its refusal to cooperate.

As we discussed above, the recognition of these two separatist regions indeed is very important for Russia. When talking about relationship with the west concerning this recognition, Russia's foreign minister Mr. Lavrov mentioned the information war, which is still going on. The minister explained that the voices from west, suggesting Russia change its decision and recognize the territorial integrity of Georgia and pull its troops from Georgian territory, are just "echoes of the old thinking", which will pass one day (Russian Ministry of Foreign Affairs, 2009).

Belarus is not the only country that finds the recognition of Abkhazia and South Ossetia as a part of the political discussion and political trade when it comes to negotiations with the Russian Federation. In the beginning of September of this year, the president of Venezuela, Hugo Chavez, visited Moscow to discuss weapons and energy deals with president Medvedev and Prime Minister Putin.

After the meeting with the Russian president, at the press conference, Chavez announced that "Venezuela is joining in recognition of the independence of the republics of Abkhazia and South Ossetia" (Schwartz, M. 2009) and soon would establish diplomatic relations with them. In response, the Russian president announced to the press Russia's commitment to supply Venezuela with an array of new weapons, "We will supply Venezuela with all the weapons that they request; we will supply tanks among the deliveries. Why not? We have good tanks. If our friends order them, we will deliver" (Schwartz, M. 2009).

One may suggest that these actions are further attempts on the part of Russia to expand its authority in Latin America and at the same time weaken U.S. influence in the region. At that same meeting in Moscow, President Chavez admitted that the weapons are needed to stand up to Washington and avoid repetition of the past when his country "was in slavery thanks to the actions of the Yankee empire" (Schwartz, M. 2009). But in this cooperation development, the issue of Abkhazia and South Ossetia was not just a nice gesture; when commenting on the Venezuelan president's decision, Prime Minister Putin said that Venezuela's recognition of the provinces helped towards realizing Russia's goal of "making international politics more democratic" (Eckel, M. 2009). Whatever this "more democratic" could mean in the understanding of the Kremlin, it is a part of Russia's current

external politics, and the government of the country is trying its best to gain support for it all over the world.

Shortly after these developments, in the middle of September, a member of the Ukrainian parliament (Verkhovna Rada) from the opposition Party of Regions, Mr. Anatoliy Tolstoukhov, told journalists that if the leader of his political party, Mr. Viktor Yanukovich, wins the presidential elections, Ukraine would definitely support Russia's decision and recognize the two separatist regions. He said that Russia was in the right when defending its citizens in Georgia, and, regarding the recognition, he admitted that he was glad to hear of Venezuela's decision; but at the same time the politician suggested that it is even more important to support this process in the post-Soviet region (Rambler media group 2009). There is no secret made of the long-time pro-Russian position of this Ukrainian party and its close contact with the Kremlin, which once more supports the idea that recent developments between Russia and Belarus were less economic and more of a political tool for convincing a neighboring country to make a certain decision.

Russia has a huge impact on Belarus, and this is once more understood after everything written above; therefore, we could see political security issues in all those steps taken by Russia, which might seem to be economic at the first sight. But then sometimes those "economic" decisions look strange, especially when talking about the results, during a period when Russia itself has huge economic problems, which appear to be getting only worse, at least in near future (Bloomerg, T. 2009).

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## **SECTION III: MINORITY INTERGRATION**

### **The “Russian Community” as a Means of Self-identification of Russians in Latvia**

**Vladislav Volkov**

#### **1. Introduction**

After Latvians, Russians are the largest ethnic group in Latvia: thus, in 2008 Latvians comprised 59.2% of the country's population (1.345 million out of 2.276 million), and Russians comprised 28.0% (0.638 million). (Latvia, 2009, 1). Russians as ethnic minority differ from other ethnic minorities in Latvia – the Byelorussians, the Ukrainians, the Lithuanians, the Poles, the Jews, etc. – in numbers as well as in qualitative characteristics when organizing their own socio-cultural infrastructure. The population of the Latvian Russians outnumbers more than twice the corresponding number of all the other ethnic minorities in Latvia taken together.

The proportion of the Russian population within the structure of the population of Latvia is the most important factor that influences formation of this ethnic minority's identity. Besides the ethno-demographic factor, the identity of Russians in Latvia is formed under the influence of their socio-cultural and public-political life as well as some forms of social communication.

Unlike other ethnic minorities, the Latvian Russians during the years of the restored Latvian Republic since 1991 have managed to create a socio-cultural infrastructure on the basis of their mother tongue. This socio-cultural infrastructure involves wide spread of the Russian language in the sphere of Latvian entrepreneurship, in the system of private education (including higher education), in the sphere of entertainment and mass media. One part of the professional culture in Latvia also functions in the Russian language (the oldest outside Russia, Riga's M. Chekhov Russian Drama Theatre, publications of scientific works, etc.) The Russian language acts as a means of assimilation for a significant number of representatives of

other ethnic minorities, which creates such a phenomenon as the “Russian-speaking population”. Preserving social functions of the Russian language in the public life in Latvia and even granting it official status is becoming the aim of some political associations (“The Harmony Centre” and “For Human Rights in the United Latvia”).

Creation and spread of the self-identifier “the Russian community of Latvia” among a large number of representatives of the Russian non-governmental organizations is connected with interpretation of the country’s ethnic and cultural variety.

Main features which determine Russians’ belonging to the population of Latvia are: the ethnic origin as well as the linguistic identity. According to the sociological research, the Russian language is, nevertheless, the main factor of the ethnic identity of this minority. Moreover, it is possible to state that the Russian minority is represented as a linguistic minority in Latvia (Apine & Volkov 2007, 110-143).

In reality, at present the Russian language performs a dual function in Latvia. It is the main means of spiritual communication for Russian people, and also it is a very important means of communication for the people of non-Russian ethnic origin who consider the Russian language their mother tongue. In 1990s the Russian language in Latvia in terms of its spread was the second language after the state language. Linguistic identity of the Russian minority is strengthened by the ethno demographic processes within this minority. For example, the share of endogenous marriages among Russians is the largest in the state. Thus, this rate in the Latvian environment is about 80%, in the Russian environment – 60%, but among the Latvian Lithuanians, Byelorussians and Ukrainians – less than 10%, among Poles – 13%, among Jews – 15-30%. That is why the most significant factor for the existence of the Russian linguistic identity is a family environment of the Russian minority (Latvijas Demografijas.1993, 180; Demografija 2006, 56-57).

The term “the Russian community of Latvia” occupies a special place in the complex of possible self-categorizations for its own collective identity. In legal documents and in scientific publications the term “national minority” (variation- “ethnic minority”) is mainly used. The use of this term indicates that the society recognizes the ethnic variety in its environment and

considers it an important cultural and civil value of this society (Ethnic Group 2005, 197). At the same time, the ethnic group endowed with a status of national (ethnic) minority is excluded from the rights for political self-determination which is in conflict with the state's law. Therefore, the content of the collective ethnic identity cannot exceed in volume the content of the common civil identity. The collective identity of minorities can serve as an addition to the common civil identity formed as a result of the free individual choice.

Representatives of the Russian liberal intelligentsia tried to elaborate a model of the Russian ethnic identity. The writer Jury Abizov expressed this idea in the following way: "We exist in specific circumstances among Latvian people because only the Latvian nation lives here in its ancient land, in its history, with its language, with its prospects – our culture is beyond the borders of this state, our Yasnaya Polyana, Dostoyevsky's grave are far away... We cannot transfer all of it here. How can we behave, rank ourselves in this specific situation? Let's not be arrogant, but, at the same time, let's not put ourselves low, having a clear understanding of what is what, let's form our behavior for the benefit of the two sides" (Abizov 2002, 45, 95, 212).

However, as evolution of the political consciousness of the Russian population shows, it is not an easy task to harmoniously combine the common civil values of the Latvian society and peculiarities of the ethnic minorities' identity. That is why the self-categorization "the Russian community of Latvia", which is so popular among the Russian population in Latvia, requires a liberal interpretation by its bearers. Apparently, such liberal interpretation of the identifier "the Russian community of Latvia" has to comply with interpretation of the scientific concept and the identifier "ethnic minority" which is accepted by the liberal, scientific and legal tradition.

## **2. Russian non-governmental organizations and political parties as factors determining the formation of the self-identifier "the Russian community of Latvia"**

The Russian non-governmental organizations are the most important resources for formation of the self-identifier "the Russian community". The use of the self-identifier "the Russian community" can be motivated by

liberal as well as communitarian aims of the Russian non-governmental organizations, political parties, and associations. The specific character of the Russian non-governmental organizations is revealed most vividly by the combination of the four dominant aims of their activity.

Firstly, there are organizations which mainly pursue the cultural-educational aims. The Latvian Society of the Russian Culture, the Latvian Association of Teachers of the Russian Language and Literature, the Latvian Pushkin Society, the Alexander Men's Fund, and others belong to this type of non-governmental organization. As the aim of their activity these organizations suggest preservation, restoration, and popularization of the Latvian Russian cultural-historic inheritance.

Secondly, in Latvia the function of the Russian non-governmental organizations is to render the legal, informative help; for example, the Latvian Human Rights Committee, the Latvian Association of Independent Experts, the Union of Citizens and Non-citizens, and others. They try to develop and promote in the national minorities' environment the idea of the integration model which does not always coincide with the state concept of the social integration. A significant part of activities of organizations belonging to this group, first of all, the Latvian Human Rights Committee (the largest organization within this group) is connected with rendering legal help mainly concerning social security issues.

Thirdly, there is a Russian non-governmental organization functioning in Latvia which appeared as a result of the increased role of the Latvian language as the language of instruction at national minorities' schools, including those schools which, provided by the Law on Education, had had the Russian language as the language of instruction. This is the so called Latvian Association for Support of Schools with Russian Language of Instruction (LASSRLI).

Fourthly, a group of Russian non-governmental organizations united by a common aim – to support the social life of Russians, exists in Latvia. This group comprises the Russian Community of Latvia (RCL), the Russian Society of Latvia (RSL), the Liepaja Russian Community and others. Unlike the three groups mentioned above, this group includes the most Russian non-governmental organizations with branch structure (a system of departments and subsidiaries in different regions of Latvia, etc). The

activity of these organizations is of multifunctional character. They, much more than other Russian organizations, specify the social, demographic, professional, and regional structure of the Russian population. They are closely connected with political activities and collaborate with such political associations as “The Harmony Centre” and “For Human Rights in the United Latvia”.

Majority of Russian non-governmental organizations in Latvia have formed associations. The largest one is the Coordination Council of National Minorities’ Non-Governmental Organizations, which unites 34 societies and organizations. (There are also other East-Slavonic societies among its members – the Ukrainian Union of Latvia and the Byelorussian Society “Pramen”.) Another association of Russian non-governmental organizations is the Latvian Association of Russian Societies (LARO).

Such organizations as the Russian Community of Latvia and the Latvian Association of Russian Societies are characterized by co-operation with political parties and associations. The influence of the Russian parties of Latvia can be felt in the work of the Latvian Association of Russian Societies, but the party “For Human Rights in the United Latvia” greatly influences the work of the Russian Society of Latvia.

Notwithstanding the fact that these organizations have actively undertaken the tasks of preserving Russian ethnicity and the work on the development of Russian culture, in the issues of evaluating integration of Latvian society and interpretation of civil consciousness, they still depend on the positions of political parties.

Along with the work in the national cultural societies, Russians also take part in the state’s political life. In fact, political parties, which were previously focused on the Russian electorate, have placed the collective “community” interests of Russians in the centre of their political programs.

During the elections of the 5th Saeima in 1993 and the 6th Saeima in 1995, Russian people’s votes were divided among several political forces. One part of people supported Latvian parties (first of all “The Latvian Way”) as well as the non-national parties (People’s Harmony Party), the Socialist Party of Latvia, “Equal Rights”, etc. The People’s Harmony Party supported the idea of giving Latvian citizenship to all the non-Latvians who have lived

in Latvia for at least 10 years; they also fought for reducing the differences in the rights of Latvian citizens and the permanent residents. "Equal Rights" party was striving for the "zero variant" – granting Latvian citizenship to everybody and transforming Latvia into a bi-communal state. During the 6th Saeima elections the Socialist Party declared its intention to grant the Russian language the status of the second state language in the regions where at least one quarter of the population considered the Russian language to be their mother tongue. However, influence of the People's Harmony Party and the left-wing parties on the Russian electorate tended to decrease. In the 5th Saeima, after the People's Harmony Party had formed the association "Harmony for Latvia", it won 15 seats, "Equal Rights" – 7 seats, but in the 6th Saeima the People's Harmony Party and the Socialist Party of Latvia received only 6 seats each.

There were attempts to form a Russian party on the basis of national minorities. For example, before the 5th Saeima elections the Center of Democratic Initiatives and the Baltic Constitutional Party put forward the Russian National Democratic List. This political force claimed that they were acting on behalf of the "national group" of the Latvian Russians. However, the "Russian List" went beyond the frames of the national culture's autonomy promoting transformation of the existing Latvian national state into a multinational state. During the elections this list was supported only by 1.16% of voters. Before the 6th Saeima elections the "Russian Party" (leader – M. Gavrilov) appeared. It advanced the theory that only Russian politicians were to represent interests of the Russian population in governmental institutions (the "ethnic purity" principle). This party also won a small number of votes – 1.2%, and the "Russian List" did not receive any seats in the parliament.

Before the 7th Saeima elections (1998-2002) the People's Harmony Party, the Socialist Party of Latvia and the Movement for Social Justice and Equal Rights founded the block "For Human Rights in the United Latvia". The Russian Party also joined the block. "For Human Rights in the United Latvia" won 16 seats in the 7th Saeima. (the People's Harmony Party – 6, the Equal Rights – 5, the Socialist Party of Latvia – 4, the Russian Party – 1). In 2000 the Movement for Social Justice and Equal Rights was renamed "Equal Rights" (leaders – T. Zhdanok and V. Buzajev). The Russian Party left the association in 2001 before the municipal elections.

In the 8th Saeima (2002-2006) "For Human Rights in the United Latvia" had 25 mandates/seats (the People's Harmony Party – 12, the Socialist Party of Latvia – 5, the Equal Rights – 8). Notwithstanding the good results in the parliamentary elections, "For Human Rights in the United Latvia" remained in opposition, same as in the previous Saeima. In 2003 the People's Harmony Party and the Socialist Party of Latvia left the association. Some parliament members who had belonged to "For Human Rights in the United Latvia" joined the People's Harmony Party. As a result, there were only 6 members of "For Human Rights in the United Latvia" left as members of the parliament/deputies. During the 9th Saeima elections (2006-2010) Russian electors have voted mainly for the new political association – the Harmony Centre (the New Centre, leader – S. Dolgopolov; the People's Harmony Party, the Socialist Party of Latvia and the Daugavpils City Party, leader – A. Vidavsky). The Harmony Centre won 17 votes. Six members of the parliament/deputies were elected from "For Human Rights in the United Latvia". In the course of these parliamentary elections the revealed types of behavior of the Russian electorate showed their attitude towards self-identification of Russians as a specific ethnic community in Latvia:

1. There is an increasing tendency to decrease political claims of the Russian collective identity by integrating into national political parties: by electing a Russian member of parliament from the Green and Farmers' Union (Viktor Shcherbatih); by Russian parties joining the Latvian First Party and establishing the Russian Centre of the Latvian First Party in 2007; by co-operation of some Russian non-governmental organizations with national parties, etc. The People's Harmony Party in the elections of the 9th Saeima emphasized its orientation to liberal values – "freedom of all people and each individual". The political association "Harmony Center" negatively evaluated the idea of establishing a bi-communal state in Latvia, focusing on the state and society "model which reflects the historic approach, needs and possibilities of the state; and multicultural, which is the variety and mutual openness of culture, languages and traditions in the united community" (Politisko organizāciju, 2006).

This tendency will decrease the ethnic differences in the political life in Latvia and will positively influence functioning of an integrated civil society.

2. Within the Russian environment in Latvian the idea of maximal preservation of the expression of the Russian collective identity is still popular; first of all, is the wide functioning of the Russian language in the civil society (in the sphere of business, education, informal contacts, etc.),

and Russian voters/electors find it necessary to officially recognize by law the status of the Russian language as a minority language.

Both political associations - "For Human Rights in the United Latvia" and the "Harmony Centre" – are openly oriented to preserving the Russian minority's collective identity. This aim substantiates the idea expressed by "For Human Rights in the United Latvia" of Latvia as a multinational bi-community state and society. "For Human Rights in the United Latvia" think that "it is high time all recognized the fact that there are two communities in Latvia – the Latvian majority and the Russian-speaking minority. Existence of two communities in Latvia is neither a positive, nor a negative phenomenon, but just an objective reality". That is why "For Human Rights in the United Latvia" consider it necessary to grant "an official status to the Russian and Latgalian languages on the municipal level, as well as to other minorities' languages in the municipalities where at least 20% of population consider these languages their mother tongue; to ensure financing from the state budget for education in Russian at all levels, including higher education" (Программа ЗаПЧЕЛ 2006).

The party "Equal Rights" as the main body of "For Human Rights in the United Latvia" considers a political nation consisting of two communities and other minorities to be the aim of the social integration policy. This party in its program adopted in 2003, has openly stated being a party of the Russian community.

The political association "Harmony Center" also shares the idea of the need to preserve the Russian minority's collective identity. The Harmony Centre supports the idea of "representation of many languages and cultures in the Latvian society, recognized and expanded by the state. The Harmony Centre strives for establishing one state language and widespread use of national minorities' languages, strengthening the status of the Russian language by the law, official recognition of it as the language of the biggest minority". This political association demands to recognize multiculturalism as the basis for the Latvian education system. The Harmony Centre has stated their position for "consolidation and development of the national minorities' education system". This minorities' education system is connected with the increased role of students' parents in the process of choosing the language of instruction, and the "decision-making process in the sphere of children's education at all levels – school, municipality and national levels".

As one can see, there are numerous Russian minority non-governmental organizations and political parties in the Latvian society. They focus on reflecting interests of these minorities. To what extent can these societies and parties be considered an integral part of Latvia's civil society? Activities of many Russian minority non-governmental organizations and programs of political parties prove their support for liberal and democratic values. That is why it is impossible to exclude the Russian minority's social and political activities from the framework of Latvian civil society. However, the issue of ideological differences between Latvians and the liberal forces of the Russian minority is still sore. The Russian minority recognizes the multicultural democratic model which considers preservation of ethnic minorities' collective identity the best solution. Latvian liberals think that under the circumstances of the Latvian national state it is better to strengthen such liberal democracy that guarantees preserving ethnic minorities' identity as human individual rights.

But the Russian ethnic minority's fully-fledged entry into the life of the Latvian state and civil society depends not only on this minority's subjective readiness to adopt the values of the Latvian legal and democratic national state. It is crucial to observe democratic and liberal norms and values within the Latvian society, to promote the naturalization process, and to actively oppose ethnic discrimination in the labor market and xenophobia in the social consciousness.

### **3. Attitude to the identifier “the Russian Community” among the Russian non-governmental organizations of Latvia**

Social identity is a multidimensional phenomenon. S.Stryker and P.J.Burke single out the following constituents in understanding of an identity. Firstly, the concept of identity is used as a synonym of the concept of culture. Secondly, the concept of identity is used to define the actor's identification with social categories and social collectivities. In this sense it is crucial to demonstrate how social activity and social movements help to form unity between people. (Ritzer 2007, 2224). Thirdly, identity is viewed as one of the “self” elements. (Stryker, Burke 2000, 284-97).

We support the idea of understanding of social identity as a social construction, the formation of which enables identification of social actors with social (for example, national) communities. Here E. Durkheim's, M. We-

ber's, and T. Parson's approach is of high importance. They recognized the significance of standard requirements dominating in a society for individual actors to be able to correct and establish their identity. In particular, in the modern sociology, this idea is expressed by Sheldon Stryker, who speaks about the influence of the established social structures of a society on the identity of individual and collective actors. Identity of social actors is formed as a salient identity (Stryker 1980). The important measurement of such understanding of identity is the idea of it as a phenomenon, which changes along with history, and also undergoes certain transformations in the process of permanent inter-ethnic communication on the foundation of morality (Habermas 1994, 122-128). Such inter-group (inter-ethnic) communication results in the formation of self-categorization (Tajfel & Turner, 1979, 38-43). In this sense self-categorization means distinguishing ethnic boundaries (Barth 1996, 78-81; Stone & Piya 2007, 1457). Ethnic identity serves as a basis for ethnic solidarity but it can be used for ethnic mobilization with the aim to achieve some collective aims attracting different types of resources – organizational, financial and ideological. In this case ethnic self-categorization leads to consolidation of nationalistic ideology (Olzak 2007, 1465). This meaning of the use of the category “identity” applied to large social groups – ethnic minorities – is important in order to emphasize the following key points in the status of the Russian ethnic minority in Latvia:

- the Russian ethnic minority is creating its identity in the restored national democratic state the Republic of Latvia, which presupposes social integration on the basis of Latvian values including guarantees for ethnic minorities, on the basis of individual choices, to preserve and develop their identity;
- the Russian ethnic minority is in the process of forming an optimal model of its own ethnic identity, which, on the one hand, incarnates the values of Russian culture, but, on the other hand, serves as a means of inclusion into Latvian civil identity;
- the changing character of the identity of the Russian minority in Latvia under the influence of inter-ethnic communication (mainly with Latvians) and as a result of reconsideration of its own historic experience;
- two possible bases for forming a civil identity – communitarian and liberal can be pointed out in the social and political consciousness of the Russian minority in Latvia. Thus, the Russian minority's identity

is “reflexive from the inside”, which stimulates its constant construction/formation.

It is popular in the Russian environment of Latvia to search for concepts to adequately express self-identification of this ethnic group. The idea of the “Russian community” of Latvia is distinguished in the public consciousness as one of such identifiers. (By the way, this self-identifier can be found in the names of the oldest and largest Russian non-government organizations – “Russian Community of Latvia” and “Russian Community in Latvia”.)

Recently, especially after joining the European Union, political periodicals in Latvia have shown an increased interest in such identifiers of Russians as “ethnic (national) minority”, “Russian community”, “country-forming community”, etc. At the same time, the number of scientific works on Latvian ethno-sociology and ethno-politology which could competently investigate the problems of self-identification of the country’s largest non-Latvian ethnic group is insufficient at this moment.

In the given article the author attempts to demonstrate the significance of such self-identifier as “Russian community” for the Latvian Russians. This part of the article is based on the materials from the sociological research carried out by the author and his assistant K. Stadnik, a student of Riga Stradinsh University in February-March, 2007. The aim of this research was to find out what meaning the respondents attributed to the concept “Russian community” as a self-identifier for the Russian population of Latvia. Leaders and activists from 15 largest Russian non-governmental organizations in Latvia were chosen to be the objects of the research. The method of the research was profound interviews, each one 1.5-2 hours long.

The research identified a varied degree of articulation of the Russian collective identity. Concepts adopted to denote acceptable forms of the Russian collective identity serve as manifestation of this articulation. The following are the most frequently used concepts denoting collective identity of Russians in Latvia:

1. “Russian community of Latvia”;
2. “Russian Diaspora”;

These basic concepts which characterize collective self-identity of Russians are joined by the concepts which explain the context for identity of Russians in Latvia. These explanatory concepts are:

3. “Russian world of Latvia” and as a variation
4. “Russian culturological environment”.

The research has singled out some differences in respondents’ views on such an identifier as “Russian community”. These views may be grouped into three positions:

- “Russian community” as the only possible identifier for the Russian population of Latvia;
- “Russian community” as one of the possible identifiers for the Russian population of Latvia;
- Negative attitude to such an identifier as “Russian community”.

It should be pointed out at once that the interviewed leaders and activists of the Russian non-government organizations of Latvia, as a rule, positively assessed the importance of the concept “Russian community” as an identifier for the Russian population of Latvia. The motivation for the respondents’ views on the identifier “Russian community” is presented in the tables.

Materials of the table No 1 demonstrate the wide spread of the identifier “Russian community” among the interviewed leaders and activists of the largest Russian non-governmental organizations of Latvia. Among the motives for choosing this identifier there are no indications of “natural” reasons – the percentage of Russians in Latvia and the length of living on the territory of Latvia. In general, motives connected with evaluation of the existing social status of the Russian ethnic minority in modern Latvia and with the desired status dominate there.

It should be pointed out that among one part of Russian population of Latvia and among some prominent leaders of non-governmental organizations and political parties the identifier “Russian community” bears a normative character. From the viewpoint of the adherents of this term, it is given significant ideological content closely associated with the most acceptable form of interaction between the Russian ethnic minority and the State of Latvia as well as the society.

**Table No 1. “Russian community” as the only possible identifier for the Russian population of Latvia**

Motivation	Number of mentions
Perception of Latvia as a conglomerate of ethnic communities	6
Necessity for the effective influence of the Latvian Russians on authority	6
Integration of all Russian organizations	6
Consolidation of the Russian Orthodox Church as a basis of Russian identity	5
Weakness of the civil community of Latvia in the influence on the state	5
Perception of the Latvian Republic political system as a political form of “Latvian community”	5
Preserving Russian linguistic identity for all the people who belong to the Russian culture irrespective of their ethnic origin	4
Necessity to implement specific “Russian” interests – legal assignment of the official status to the Russian language, a financial guarantee from the state budget of education in the Russian language, and “zero” variant of Latvian citizenship	4
Necessity to overcome the legal discrimination of the Russians	3
Necessity for the political integration of the Russian population	3
Autonomy of a Latvian Russian school in relation to the Russian Federation	1
Necessity to form in Latvia a democracy which stands above political parties	1
Type of a civil self-identity of the Russians in the Republic of Latvia	1

It can be said that active use of the identifier “Russian community” reflects a complex way of establishing the collective identity of the country’s Russian minority. It would be right to characterize this identifier also as a way of expected “policy of recognition” from Latvians. This term is being

used in numerous publications of the Russian-speaking press in Latvia (newspapers “Chas”, “Vesti Segodnya”, “Rakurs”, etc.) The meaning of the identifier “Russian community” has become a topic of many discussions within Russian non-governmental organizations themselves and at “round tables”, in which the representatives of Russian general public and Latvian journalists, politologists, sociologists, and historians take part.

Here are the most indicative statements of the interviewed leaders and activists of Russian non-government organizations, which can frequently be seen in the Russian-speaking press in Latvia. An opinion about the necessity of consolidating the Latvian Russians into a “Russian community”:

*There is a specific situation in Latvia. The Republic of Latvia is the Latvian community, but the Russian community is opposed to the Republic of Latvia. But this model has a “cost-based” character for such a small country as Latvia”.*

Or:

*“A model of a bi-community state – is a forced step as a way of defense from the State of Latvia”. The most active supporters of the idea of consolidating the “Russian community” deem that this structure will allow protecting the specific interests of the Latvian Russians:*

*“It is necessary to legally secure the rights of the national minorities’ languages and the guarantees for education in the mother tongue. It is essential to have a common Latvian school, but with an included identity-preserving program in the Russian language. It is necessary to change the law. Now all schools are Latvian but some of them work on the basis of the national minorities’ programs, which depend entirely on the decision of the school authorities. And there are no legal guarantees for preserving the national minorities’ schools. There must be two state languages in Latvia. And the legal securing of the national minorities’ languages’ functions should be welcomed”.*

The interviewed often express the idea of forming the “Russian community” as a forced step undertaken in the condition of the weakness of Latvian civil society when it is impossible to make the authority take into account the Russian minority’s interests:

*“The civil society does not presuppose a bi-community state. The civil society is a positive mosaic of various social groups that are created on the basis of different criteria, on the ethnic ones as well. The modern political*

*situation is confrontation of ethnic groups, which impedes formation of the civil society”.*

Or:

*There is either no civil society in Latvia at all or it is very small because its influence on taking political decisions can hardly be felt. Not only is the Russian but also the Latvian part of the civil society weak”.*

It should be noted that in our research we give the main block of motives connected with accepting the identifier “Russian community” which can be traced in the public consciousness of the Russian minority of modern Latvia. Shown in the table, the articulated motives for identification with the “Russian community”, in our opinion, are connected with feelings of alienation from the State of Latvia, the feeling of ethnic injustice, etc. widespread in the Russian environment of Latvia. All the most popular Russian non-governmental organizations or political associations whose aims are to defend interests of ethnic Russians share these feelings. Unfortunately, in the Russian environment of the Republic of Latvia, the competent, stable, liberal position which could comprehend the most acceptable interaction between the national constitutional state and the multicultural Latvian society with strong collective identity of Latvian Russians and need for individual cultural autonomy that would not presuppose tough dependence of a human being on the communal structures or ethnic collective identity has not yet been formed.

As can be seen from the content of table No 2, along with the identifier “Russian community” the interviewed often use other terms too, among which “Russian world of Latvia” is the most popular one.

As a rule, this term is frequently used as a synonym of the term “Russian community”. However, the identifier “Russian world of Latvia” is also accepted by those adherents of liberal views in the Russian environment who support a broad/full-scale dialogue with the State of Latvia and have a restrained attitude to centralization of Russian non-governmental organizations of the Republic of Latvia and politicization of their activity.

“Russian world of Latvia” is an identifier of the existing reality of diverse functions of the Russian ethnic minority in the social life of Latvia. “Russian community” also bears in itself a legislative potential which expresses aspiration for the legal securing of collective rights of Russian

(and in a wider sense – Russian-speaking) population, first of all, in the sphere of education, in the state language policy and the citizenship policy.

**Table No 2. “Russian community” as one of the possible identifiers for the Russian population of Latvia**

Motivation	Additional identifiers	Number of mentions
Necessity for awareness of the value of the civil society as a means of influence on the state	A positive mosaic of various social groups, “Russian world of Latvia”	3
Overcoming the threat of forming a bi-community state in Latvia	A positive mosaic of various social groups, “Russian world of Latvia”	3
Preserving Russian linguistic identity for all the people who belong to the Russian culture irrespective of their ethnic origin	“Russian world of Latvia”	3
It is necessary to legally secure the rights of the Russian language as the language of a national minority	“Russian world of Latvia”	3
The role of the Russian language in identity of the Russians should not be exaggerated, there are religion and traditions as well		1
It is necessary to overcome the separation of the Russian non-governmental organizations on the organizational or ideological level	“Russian culturological environment”	2
A wide communicative interaction of Russian Non-governmental organizations, their polyphony	“Russian community” as an “outline of inter-action” without legal securing	1
Necessity for a double identity: with Latvia as a state and with Russia as a historic motherland	Russian diaspora	1

It is possible to give as an example one of the common positions, in which, along with articulation of the collective interests of the Latvian Russians a doubt about legal establishing of the Russian community is expressed:

*“I do not approve that a bi-community should be fixed somehow. The Russian community is culturological environment that includes the people for whom the most important values are the Russian language, Russian education, and Russian culture. But, within the frames of accepting these values personal positions can vary. For me, significant is the concept “Russian world of Latvia” which involves/covers both, the people of Russian origin and also others. In the education system for Russians the Russian language should dominate”.*

Or:

*“The most acceptable/optimal model for the Russian national identity in Latvia is “Russian world of Latvia” which is not formally fixed”.*

Although, the search for an alternative identifier to “Russian community” occurs in the Russian environment of Latvia, it is of fragmentary character. Five respondents out of the fifteen interviewed leaders and activists of Russian non-governmental organizations have expressed these ideas (table No 3).

The necessity for developing “outside community” identifiers was uttered by only one respondent who holds an active and fairly expressed liberal position in the political life of Latvia:

*“Interaction of non-governmental organizations does not mean community. There must be polyphony, interaction.”*

The evident supporter of structuring the identity of Russians in Latvia on the basis of Russian Orthodox religion, Russian ethnic origin, and Russian history is also opposed to such an identifier as “Russian community”.

It is evident that the self-identifier “Russian community” occupies an important place in the collective identity of the Russian minority in modern Latvia. In the consciousness of representatives from Russian non-governmental organizations it possesses diverse cognitive content that realizes both, communitarian and liberal interpretations. In fact, strengthening of the liberal reflection of the self-identifier “Russian community” among its bearers depends on bringing together its content with the ideological meaning of the concept “ethnic minority” accepted in the western liberal tradition.

**Table No 3. Negative attitude to such identifier for the Russian population of Latvia as “Russian community”.**

Motivation	Acceptable identifiers	Number of mentions
It is necessary to strengthen the role of ethnicity, the Orthodox Church, and the feeling of a common historic fate in the identity of the Latvian Russians	Polyphony of the social ties	3
Necessity for predominant/primary development of a political nation in Latvia	“Russian world of Latvia”, diaspora	2
In Latvia there is no strong opposition between the civil society and the state, or this opposition is of a fragmentary character	Russian population of Latvia	2
Necessity for predominant development of liberal values in the Russian environment, of “individual autonomy” of the Russian identity bearers	“Russian world of Latvia”, diaspora	2
There is no dramatic intensity in the evaluation of dissociation of the Russian non-governmental organizations	“Russian world of Latvia”	2
Preserving education in the Russian language, functioning in the social life of Latvia	“Russian world of Latvia”, diaspora	2
Preserving the Russian identity through the intensive cultural connections/ties with the Latvians	“Russian world of Latvia”, diaspora	1

P.S. Taking into account the large share of the Russian population in modern Latvia the process of self-identification of this ethnic group affects directly the prospects for formation of a consolidated civil society. The

Latvian political elite keep the track of self-identification processes undergoing within the largest national minority of the country. The liberal range of political parties, which mainly represent the voters of Latvian origin, is inclined to pragmatic cooperation with that part of the Russian ethnic minority which does not emphasize the tough variant of self-identification as an autonomous and self-sufficient “Russian community” in Latvia. Thus, the municipal elections in spring, 2009 demonstrated the possibility for formation of the ruling coalition in Riga, in the metropolitan municipality, which would consist of the Harmony Centre (a political alliance representing mainly Russian voters) and the coalition of Latvian parties – First Party/Latvian Way (Pirma partija/Latvijas celsh). Apparently, the results of these elections and election of Nil Ushakov, a Russian, to the post of the mayor of Riga will enhance the liberal variant of self-identification of Russians as one of the ethnic communities in Latvia.

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## **SECTION IV: HISTORICAL ISSUES**

### **Margaret Thatcher and the EU**

**David Ramiro Troitiño**

Margaret Thatcher has been one of the most influential politicians in the European building process. Many people still share her ideas today and her participation in such issues as the Single European Act or the solution of the British question has consequences concerning our lives. So the reason to discuss this subject is not just to explain her attitude towards Europe and the EU, as that is already well known, but to explain the context of her decisions and especially to explain the consequences of her actions and ideas in the current European Union.

Thatcher was continuously a champion of the euro skeptics, a defender of national sovereignty and the independence of the EU member states from the European institutions. Her basic idea of Europe was related to loyalty and the transfer of this loyalty from the national to the European level. She considered the EU a utopia that could endanger our societies, our liberties, and our ways of life. Thatcher thought that centuries of history had made the nation-states the natural recipient of popular loyalty. The natural defender of people's liberties was the State, and it would be unnatural to transfer that loyalty to an artificial upper level created in the European Communities by civil servants and irresponsible dreamers. The EU was a clear attack on federalist and neo functionalist roles in the European integration. She supported the inter governmentalist as the only responsible way to build a lasting Europe. Almost the same approach as Charles de Gaulle, but Thatcher, like the French president, was involved in Europe, and neither of them retreated their countries from the European Communities. Both were conscious of the benefits for their countries as members of the EC, and neither of them wanted to destroy the European building process. They just wanted to redirect its path from a supranational movement to national cooperation.

All of the EU is divided into two main parts in this essay, the first being an analysis of the main political events related with Thatcher and the European Communities, and the second an examination of Thatcher's ideas and their influence in Europe nowadays.

## **1. FACTS ABOUT THATCHER**

Margaret Thatcher was born in October, 1925, in Grantham, a small town in Eastern England. Her childhood passed in a small and religious community that can partially explain her conservative approach. During these years the United Kingdom was still one of the main world powers with colonies all over the world. By 1922 the British Empire held sway over a population of about 458 million people, one quarter of the world's population; more than 38 countries were included in this Empire (Levine, 2007). Knowing her thinking during her childhood that her country was the biggest in the world may make it easier to understand her proud and nationalistic approach.

During the Second World War Thatcher studied chemistry at Oxford, where she became president of the student Conservative Association at Oxford, linking her life to this political party for good. In the 1950's she twice ran unsuccessfully for Parliament and finally in the third attempt, in 1959, was elected. She was given junior office in the administration of Harold Macmillan between 1961 and 1964. The next conservative government lead by Edward Heath in 1970 gave a more important position to Thatcher: Education Secretary, obtaining cabinet rank.

Edward Heath and the conservatives were defeated in the elections of 1974, and Thatcher, a year later, became the leader of the conservative party. She was the first woman ever to lead a western European political party in a major state. Some people thought of her as just a temporary substitute, a bridge towards a new leader, but she reinforced her position during the following years and won the next parliamentary elections in the United Kingdom, becoming the first woman Prime Minister of the UK.

Her first term, 1979-1983, was strongly influenced by the economic crisis and its solution in the UK. Another strong point was The Falklands War, winning her the respect of many Britons. The second term, 1983-1987, was influenced by a huge strike organized by the British Trade Unions that were defeated, reinforcing Thatcher's economic reforms and determination. Many

reforms of this time tried to achieve a more privatized economy and to reduce the role of the State. She sold state assets – privatization was looking for a more liberal economic system and set a precedent that was followed in many other countries of the world. The Irish question and the IRA were another important issue in the domestic agenda; Thatcher was even subjected to an attack in October 1984. The third term, 1987-1990, meant more reforms, especially in education, taxation, and the health system. The end of the so-called cold war was also a milestone of those years.

Tough behavior, too strong and personal a leadership style, and ideas about Europe lead to an internal revolution in the conservative party, substituting Thatcher with John Major in November 1990 (Thatcher, 1995). After her premiership she was a member of the Parliament and made important interventions concerning Bosnia and Maastricht, until 2002 when she officially retired from public life.

### **1.1. Margaret Thatcher's contributions to the EC**

The relations between the United Kingdom and the European building process during the period from the end to the Second World War were problematic. In the famous speech of Winston Churchill in 1946 in Zurich, the position of the UK was to support European integration, especially between Germany and France, since it was a solid way to avoid future wars on the continent (Jenkins, 2002). According to him, the UK should have been a friend of European integration, but never a part of it. The UK had its own place in the international world beside the world powers, the USA and the USSR. This idea soon proved wrong because of the independence of the colonies, the economic crisis, and the lack of resources to keep Britain at the top of the international arena (Brendon, 2007).

During the negotiations of the European Coal and Steel Community, the UK, as one of the main producers of both, participated in the process, but withdrew when the supranational power of the Community was defined. The situation was repeated in the elaboration of the Treaty of Rome and the creation of the Common Market; again the supranational character of the new community made the UK pull out (Young, 1993). The British then tried to promote a new organization based on a free trade area without any supranational power, based in governmental agreements, and indeed found different partners in Europe. In 1959 the Treaty of Stockholm was signed,

and the European Free Trade Association was founded, entailing a free trade area in industrial goods, and excluding agricultural production between the United Kingdom, Denmark, Sweden, Norway, Portugal, Austria, Ireland, and Switzerland.

Still, the persistence of the economic problems in the UK were not solved by the EFTA, and the spectacular growth rates of the European Communities convinced the UK to apply for full membership. Twice, in 1963 and in 1967, its petition was rejected for different reasons. These were mainly the development of the Common Agricultural Policy, the special relation between the USA and the UK, and the fears the French had of losing their predominance in the Communities. Finally, in 1973 the United Kingdom plus Denmark and Ireland became full members of the European Communities. The negotiations were followed by the regular procedures: the candidates had to accept the whole Community, with all its policies, institutions, treaties, and so on (Booker and North, 2003).

## **1.2. The Common Agricultural Policy and the British rebate**

After WW II Europe was destroyed and many countries decided to subsidize their farming sector in order to avoid famines and keep the social peace, the cities were not able to provide houses and jobs to a massive immigration from the countryside. The effects were positive as production increased and these European countries became independent from the imports of third countries. But it brought side effects, namely overproduction and financial problems that came with the level of subsidies that were increasing hand in hand with production and with higher prices for consumers.

The situation was out of control, particularly in France, where 25% of labour was concentrated in the countryside, and the state was close to the bankruptcy. Once de Gaulle ended the conflict in Algeria, he said that the main problem of France was its agricultural sector. His plan to solve the problem was through the European Communities, using European money to pay the subsidies, and using the European market for the surplus created by the over production that was the consequence of the costly subsidies (Ramiro Trotino, 2008).

The CAP was approved in the Treaty of Rome, but only its general principles; its working system was delayed for many years, until de Gaulle's

lobby forced the other members to accept the agricultural policy. As mentioned, de Gaulle did not want the UK to join the EC until the CAP was already approved, because during the negotiations the British would have decreased the ramifications of this policy as it was against their interest. Once the CAP was approved, the British had no option other than to accept it, because when any country joins the EU, it has to accept all the communitarian policies, not just some.

Once it started working, the system was based on a common customs with high duties for external production, common market rules, market organizations for different products benefiting continental production (French agriculture), monetary payments to the farmers linked to their production, plus other regulations.

On the other hand, the British had decided previously to opt for a different model: cheap imports mainly from its colonies such as Australia, Canada, or South Africa were liberating the work force from the countryside to be used in its industries (North, 2001). The consequences were cheap imports, no financial cost for the state, and low prices for consumers. The main side effect was reduction of the British farming sector to a minimal expression.

At the time the UK joined the European Communities, the British government really thought that the benefits of its actions were going to be greater than the problems, but they did not take the CAP into consideration enough. The problem was clear: the European Communities had their own incomes, a percent of the VAT collected in all the member states. It was not that the states were given some part of the VAT collected by the states; it was that the states collected the EU money and transferred it to the European institutions. After, according to the European Budget, the EC spent its money according to its policies, it transferred the money back to the states via the European policies.

The richer states have a higher volume of VAT and pay more, and more developed countries get back less money via European policies, such as the Cohesion Fund or the Development Fund. But they get more income via the Single Market in the sense that as they are more developed, their companies are more efficient, more competitive, and get bigger profits in a common market without barriers (Young, 1993).

The problem of the UK was that previously the CAP represented more than 80% of the European Budget, which means that most of the European money was transferred back to the states via <sup>the</sup> CAP, but as the UK had a minimal agricultural sector, it did not receive so much from Brussels. On the other hand, the British imported most of their food and these transactions were taxed with VAT, which in proportion made the VAT in the UK higher than in other European countries producing agricultural goods, increasing the gap between the money the UK paid to the EC and what Brussels spent in the UK via European policies. As the British economy was not in its best shape either, the UK did not make up the gap through its private companies in the Single Market, as the British government that negotiated the accession to the EC had thought.

This was one of the problems, among others, especially Labour's general election manifest of October 1974, which committed Labourists to allow people the opportunity to decide whether Britain should stay in the Common Market on renegotiated terms or leave it entirely. Those made the British government call for a referendum in 1975 to ask Britons about the membership in the European Communities. The government at this time was lead by the Labour party, and in its campaign supporting the permanence of the country in the EC, Margaret Thatcher, as the new leader of the Conservative party, supported them. Sixty-seven percent of the votes supported the permanence of the UK in the European Communities. The renegotiation of the terms of the membership was mainly the role of the CAP and the British payments. Harold Wilson, the Prime Minister, got some reductions on the British payments (<http://www.britannia.com/gov/primes/prime52.html>), but the change was minimal and the problem was still there.

Margaret Thatcher became Prime Minister and wanted to change this situation, arguing that the UK was spending too much money in the EC and getting back too little. She put this issue at the top of the European Council agenda. Many of those meetings, attended by the heads of the member states' governments, faced difficulties because of the stubborn behavior of Thatcher and her personal confrontation with the German leader Helmut Kohl and the French Francois Mitterrand.

The president of the European Council, who is the president or Prime Minister of the state that holds the presidency of the European Communities, sets the agenda of the meetings. Though the British rebate

was often not included, Thatcher insisted on discussing it, even threatening to withdraw her country from the European Communities if the situation was not solved (Nugent, 1999). The words of Helmut Kohl are a good example of these difficulties: “The British prime minister, who had completely isolated herself with her position, temporarily lost her nerves and completely lost her temper with me. She argued that Germany had to support Britain because British troops were stationed here.”  
(<http://news.bbc.co.uk/2/hi/europe/4403002.stm>)

After many years of struggling she obtained the reform, thanks to her determination. The system was based on the amount by which UK payments into the EC exceeded EC expenditure returning to the UK, and 2/3 of this money would be given back to the British government, making 2/3 smaller the net contribution of the UK to the European Communities. It means that the UK still pays more than it gets, but it gets a reduction of 2/3 of its net contribution, nowadays around 5.5 billion Euros. The problem in this agreement was the reduction of the European Budget, because the EC were going to lose the money sent back to the UK. The discussions were focused on the refusal of the German government, one of the main net contributors to the EU finances, to pay more. Finally an agreement was reached, and all the member states of the EU each year pay the British rebate, in a complicated system that makes France the biggest contributor to the rebate, because France is also the biggest beneficiary from the CAP (Swann, 1970).

This whole system was the work of Margaret Thatcher, and all of us are facing its consequences, because nowadays the system is still functioning, as Thatcher included in the agreement that it can only be changed unanimously. It means that nobody can force the UK to change the system if they do not want.

The problem nowadays is that the CAP is just 45% of the European budget, at that time it was 80%, and with the last enlargement and the economic growth, the UK is no longer a less rich country in the Community. The UK was the third poorest member of the 10 in Thatcher's time, but by now its economic growth and the last enlargements have changed this situation, locating Britain among the richest members of the Community. Also the increased competitiveness of its companies provides higher benefits for the British State.

### **1.3. The Single European Act**

The Treaty signed in 1986 was the first profound and wide-ranging constitutional reform of the EU since the 1950s. The SEA introduced measures aimed at achieving an internal market plus institutional changes related to these, such as a generalisation of qualified majority voting and a cooperation procedure involving the European Parliament. It also provided a legal format for European Political Cooperation. Margaret Thatcher's idea was to have a real single market working in the European Communities (Thatcher, 1995) because there were still many barriers to free trade between the states. What she did not think about were the consequences of her actions in terms of European integration, because the increased integration of the European market led to the common currency, and the minor side effects as qualified majority and more power to the EU were afterwards major changes towards the procurement of the European State.

It is surprising that Thatcher agreed to these changes, even when she got the British rebate, a minor prize for the loss of sovereignty of the British Parliament, the legitimate source of power for her.

An underestimation of the cost brought about by this treaty, or an overestimation of her own power and ideas can explain this big mistake of Thatcher's betraying her own political beliefs. It can also be that she thought of her position as the British national position, but the subsequent premiers had other approaches and did not use the possibilities to slow down integration. As we can see later in parliament member Thatcher's complaints about the Treaty of Maastricht and the common currency, facts unthinkable without the Single European Act, Thatcher would have used them for sure. Anyway, even today there are members in the British parliament who follow the nationalistic approach of Thatcher in terms of Europe, and Britain's joining the common currency system is not still clear. Maybe this process could speed up with the current economic crisis.

### **1.4. The German Reunification**

The end of the cold war meant the possibility of reuniting Germany and problems inside the European Union because of a bigger and stronger Germany, breaking the balance of power between the main members of the organization. Margaret Thatcher had fears of a German power renaissance, and its domination of Europe, so she opposed the reunification

(<http://news.bbc.co.uk/2/hi/europe/4403002.stm>). Her ally in this issue was Françoise Mitterrand, a former enemy. Helmut Kohl convinced the French leader of the benefits of bringing Germany closer to the European Communities, thus avoiding the problems of a strong Germany outside the EC, rather, having the country inside it, controlled by the European institutions and the qualified majority voting system. According to his system, France and Germany have the same votes in the European Council, no matter that reunited Germany is bigger and more populous than France.

Thatcher was alone when United States blessed reuniting Germany. She could not prevent it's happening, losing her last main battle in office.

Today we can see that the whole approach of Thatcher was wrong because it was based on a false premise of a repetition of the German economic miracle after WW II. German reunification created many problems for the German State in many fields: economy, society, and politics. The differences between West and East Germany are still big and real reunification, in terms of equal development will need much more time.

On the other hand, the agreement between Mitterrand and Kohl to tie Germany closer to the European Union in order to avoid a strong and independent German power has been working perfectly. These facts show the mistakes of Thatcher's approach to important European issues.

## **2. IDEAS OF MARGARET THATCHER ABOUT THE EUROPEAN UNION**

In the following section, the main ideas of Margaret Thatcher about the European building process have been taken completely from a speech of the British Premier at the College of Europe in Bruges, Belgium, on 20 September 1988, a document highly recommended: see <http://www.margaretthatcher.org/speeches/displaydocument.asp?docid=107332>. They have then been completed by additions and explanations.

### **2.1. Europe and the EU**

Margaret Thatcher thought that Europe was much more than the European Union and complained about the identification of both. She complained

about the adjective antieuropean for the people who do not support European Integration following the model of the European Union, mainly because Europe is a wider concept, and because another kind of Europe is also possible. According to Thatcher, Europe is history, religion, culture, language, and politics.

It is history because Europeans have had a similar historical development, influencing each other, having similar goals and similar threats, growing together, and spreading all over the world the ideas of Europe.

It is religion because of the Christian roots of European society, because once Europe was united by a religious link, religion also transferred to Europe the ancient wisdom of Greece and Rome, and especially because of the Christian recognition of the unique and spiritual nature of the individual. On the other hand, this affirmation is polemic in the frame of the rejected European Constitution and the intention of some countries, especially Poland, to include in the preamble of it a reference to the Christian roots of Europe (<http://orthodoxeurope.org/page/4/11.aspx>), and the supporters of secularism in Europe, plus the possible enlargement of the EU to Muslim countries like Turkey. The debate is not about the Christian roots of Europe, because that is an historical fact, but about its influence nowadays in politics.

It is culture because Thatcher spoke about European cultural movements that spread similar ideas and similar tastes all over the continent. It is clear that this idea of a European culture is not homogeneous, but it is real.

It is language because even though Europe has many different languages, most of them come from the same family, the Indo-European, with roots in Anatolia or Central Asia, divided into five main groups: Baltic, Celtic, Germanic, Romance, and Slavonic, plus other languages like Finno-Ugrian, Maltese, and Basque that belong to other families. Anyway, in this diversity we find European influences that show our common roots, like Latin, once a common language for millions of people living in the Roman Empire. Many European languages have words derived from this language, or French, or English, exemplified by the adoption of English words to the vocabulary of European languages that follow different patterns. There is a cross-influence among Europeans that can be seen in the languages.

It is politics because the French Revolution, the development of nation states, the concept of democracy, are mainly European ideas developed not just in one country, but also all over the continent. Napoleon spread the ideas of the French Revolution across Europe with his wars, and even though he lost against an alliance of European powers, he won the fight of the ideas, changing Europe for always. The rise of the nation state is a European creation, and with the expansion of Europe all over the world, the idea was adopted by other states; even the concept of a state is European. Many countries in Europe contributed to the creation of these political concepts and structures that nowadays seem universal.

According to Thatcher, the idea of Europe rests on these five pillars, much wider than the concept of the European Union and its building project, and being participant in these pillars means that you are part of Europe, no matter if you support the EU or you are against it.

To prove it, she spoke about the links of the UK and the rest of Europe. Celts, Saxons, and Danes, ancestors of the current British, came from Europe, just as did the Normans, the religion, the rule of law, etc. She also thinks that the commitment of the UK to Europe is clear with the numerous wars Britain has fought in Europe. Thatcher emphasized the role played by United Kingdom to protect freedom in Europe against different powers that tried to conquer the continent and unite it under one sole power. Napoleon and his wars in Europe, the First World War, and the Second World War are examples of her idea. These wars devastated Europe and were won thanks to, among other factors, the help and the sacrifice of the British. Of course in this matter Margaret Thatcher thinks about the role of UK as a determinate fact, being the British nationalist she is, but no one can deny the involvement of the UK as a main actor in European affairs.

This idea of Thatcher's about the usurpation of the concept of Europe by the European Union is very clear, and was used to defend herself from the attacks of the integration supporters against her policies towards the EU, her strategy. But it also shows the manipulation on the part of the European Union supporters, calling the followers of other ways of integration, cooperation, or just nationalism, anti-Europeans, when they are just against a certain model of integration called the European Union.

## 2.2. The Cold War, the USA, and the European Union

The ideas of Margaret Thatcher about this topic clarify her position in the cold war, her alignment with Ronald Reagan, president of the USA, and her intransigent position towards the USSR. The Prime Minister of the UK declared that the European Commission was one manifestation of the European identity, but was missing an important part of Europe that was behind the Iron Curtain. On numerous occasions Thatcher made it clear that Europe had been divided by force, against the people who accepted the *status quo* of the cold war and thought of Europe as Western Europe. Among others, Charles de Gaulle, president of France, who in his attempt to make France a third and independent power in the context of a battle between the USA and the Soviet Union, accepted the division of Europe as something natural in his obsession of distancing his country from the influence of the USA (Ramiro Troitino, 2008).

Anyway, the influence of the USA in the creation of the European Communities and in its development is clear. First of all, the American government and its intention to liberate West Germany from the occupation of the allies was the principal motor of the creation of the European Coal and Steel Community, the embryo of the current European Union. The USA wanted to have a strong Germany in the context of the cold war, as it would be, in case of war, the first battlefield against the Soviet Union. It was also deemed necessary to help Germany have an economic development strong enough to block the expansion of communism in Europe.<sup>1</sup> In order to achieve this, the USA decided to give full control of the Ruhr area, rich in coal and steel, the basic elements for producing weapons, to West Germany.

France was against that plan and wanted to repeat the system established after WW I, in order to gain an international rule over the Ruhr area; but after the WW II, its power decreased. As the intentions of the USA were clear, the French government had just one option by which to control this problematic area in some way – the creation of a European Community. It is important to mention that at this time of the XX Century the USA was the country that held the Soviet Union to its positions, keeping Western Europe, including France, free.

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<sup>1</sup> It is important to remember that after WW II there were many powerful communist parties in Western Europe, especially in France and in Italy.

So, these historical facts, plus the traditional link between the UK and the USA made Thatcher a supporter of collaboration with the Americans, and the understanding of both sides of the Atlantic. She went as far as calling the Americans the Europeans of the other side of the Atlantic, even proposing some kind of Community between Europe and the USA. It would have been difficult to have a Community between both powers in terms of equality, but the ideas of Thatcher were based more on a Free Trade Area and on political cooperation based on the same cultural values.

### **2.3. The European Community belongs to all its members**

Margaret Thatcher is against the domination of any state over the EU, or a privileged position of any country inside the Community. The influence of France in the Communities since their foundation was clear with such decisions as the CAP or the Lomme agreements. The first, the agricultural policy, was designed for France's benefit: 25% of the labor force was employed in the farming sector there at that moment, the state was near bankruptcy for the payment of huge subsidies to the farmers to keep the social peace and avoid the movement of workers from the countryside to the cities with the consequence of lack of work, social unrest, and communist movements. The second was an agreement between the European Communities and the former colonies of its members, with France being almost the only founding member state with former colonies. The concept was clear: to retain the influence of France in the world using the means of the European Communities because alone agreement would not be affordable.

According to Thatcher, this was inadmissible, all the members should have the same duties and the same rights; all of them should benefit from the European organization and all of them should have the same obligations.

This thought can be linked with the discussions that Thatcher had in the meetings of the European Council, especially with the representatives of France, with the intention to increase the benefits for the UK from the European Communities, equalizing them to the benefits France was getting.

It should be pointed out that since the creation of the European Communities until the present day, the influence of France has been decreasing with each enlargement, depending nowadays completely on its bilateral

cooperation with Germany. The more countries there are in the Union, the less important is the individual position of single members.

#### **2.4. The Community is not an end in itself**

Thatcher's ideas of the meaning of the organization are quite clear: the European Communities cannot become an objective of an intellectual concept, a tool for the creation of the European State. The European Union should be, according to her, just a practical means for the Europeans to enjoy prosperity and security in a world of powerful nations and groups of nations.

In this idea the practical approach of Thatcher is obvious – by improving the life of the people of Europe, the Communities have a sense of being and the way to do it is promoting individual initiative and enterprise, in other words: encouraging private actions and reducing the role of the state to a supervisor of the system. The other two pillars of her conception of development are trade and industry. Thatcher thinks that progress in Europe can just be achieved by promoting economy to increase the welfare of Europeans. The creation of any political entity should not be the main aim in the European building process, and Europe has to focus on providing Europeans enough and fair chances to develop their private initiative.

On the other hand there is the issue of security, a clear bet for a European Defense Community, but not of the kind of the 1950s when France proposed a Security Defense Community among the members of the European Communities with common institutions, but which was finally was rejected by the French parliament itself (<http://www.britannica.com/EBchecked/topic/196110/European-Defense-Community>).

Thatcher believes more in close cooperation between the European states and the USA, where no common institutions could be found, and where the decision-making would be unanimity or consensus in a way to protect both Europe from external threats and national sovereignty from international institutions. Security should also be a way to protect independent Europe from rising powers like China, India, or Russia, a way to have a say in the international world and enough muscle to back the European decisions.

## **2.5. National power against supranational constructions**

Margaret Thatcher was assured that there are not substitutes to nation states, and hence, Europe should be built upon the union of the European states, not on the concentration of power in the European institutions. This is a clear attack on other theories of integration, mainly federalism and neo-functionalism, and a support to intergovernmental cooperation. The three models of integration have the same targets: to avoid wars in Europe and create a peaceful and harmonious social system, but they differ in the way in which to do it. Federalism and neo-functionalism are based on the creation of European institutions that will dominate over nation states, because the latter have proved being ineffective at keeping peace and have not been able to create an international structure to keep away wars and miseries. That is because the essence of a nation is built on the differences between people, emphasizing diversity instead of the common needs of people. In order to achieve a society where people can live together and live peacefully, it is necessary to transfer the loyalty of the people of Europe from the national level to the European level.

At this point, federalism and neo-functionalism split. According to Kant and his peace system, federalism is based on an expanding federation against wars and on a close link with the people. A federal government should have some key policies, such as defense, economy, external relations, and constitution. On a European level, the supporters of federalism have a big bang approach: fast integration with fast creation of the federal institutions will lead to a federal state. On the other hand, for the European federalists, for example Spinelli, the central institution of the European federation should be the European Parliament. Hence the importance of the European elections for the federalists – the people of Europe are the ones to choose their representatives in a European election. In other words, the people have the sovereignty, not the national states, and voting in European Parliament elections, they are transferring that sovereignty from the national to the European level. According to these ideas it is clear that the European Parliament should be the main and most powerful institution in the European Union.

The supporters of neo-functionalism base their integration model differently:

- 1) Integrate areas of low politics, but ensure that these are key strategic economic sectors (coal and steel). So the high politics are less important, and the key sectors have to connect to fill needs and expectations (no big issues such as culture or defense).
- 2) Create a high authority to oversee integration and give it the ability to act as a sponsor of further integration.
- 3) Integration of particular sectors will create functional pressures for integration of related economic sectors. The spillover effect (ECSC → transport policy to move raw materials) needs the economies of the states to be reasonably interdependent prior to integration. Also, problems in one sector will lead to integration in other sectors (customs union → exchange rate coordination → cooperation in monetary policy → common currency). Spillover needs political activism to give a push to the right direction because states will bargain down to a lowest common denominator position.
- 4) Deeper integration is guided by social interest and transfer of loyalty because of searching for the most effective route to the fulfillment of the material interest of social groups. Emphasis is on actors and their interaction. Politics are considered a group-based activity, a competition between different groups for the input into decision-making. Consequently, the state is subject to the competing demands of these groups.
- 5) Deeper integration will create the need for further European institutions.
- 6) Political integration is a side effect of economic integration (Rosamond, 2000).

Thatcher, as de Gaulle before her, attacked both theories of integration and supported actively the third option, intergovernmentalism (Ramiro Troitino, 2008). This is based in agreements between states, good faith between them, common institutions as common forums, and always agreements, not even unanimity. It means that there is no voting system, there are just agreements or, in case there is any voting system, unanimity would be required.

One of her main objections to federalism and neo-functionalism is based on the nation state because she considers it the only institution that really has the loyalty of the people and therefore the only one that can keep such important values as freedom, safe.

Thatcher also thinks that a concentration of power in some kind of supranational institutions would be highly damaging and would jeopardize the targets we seek to achieve, because the real power of European integration is the sum of the strong points of all the nationalities that take part in the process. As each nation in Europe has its own traditions, customs, and identity, it would be a mistake to build Europe on a European identity that does not exist. It should be built on something real instead, as the nations, according to Thatcher, are.

She is against the ideas of the fathers of Europe as well, and mainly against the idea of the USA as a model of integration, because for her the history of the United States is different, the USA was built on emigrants from Europe, escaping intolerance and looking for the creation of a new society. This purpose helped to create a new unity and pride in being American. Such a process never developed in Europe, where unity and pride are still united with the nation state. Thatcher thinks that some kind of integration is needed in Europe in order to keep some predominant role in world affairs, and she wants Europeans working in the same direction, but through national pride in each country and parliamentary powers of the states, not through the European parliament or other European institutions. This raises the questions of the good faith of the states and its natural egoism in order to reach a solution for their own problems. Today some important countries of the EU are trying to face the world crisis with a nationalist approach, not respecting their compromise with the European Union, as the French government promoting the plan to help their car industry with the condition that on French soil there should not be any reduction of workers, affecting by that other countries of the Union, such as the Czech Republic or Slovakia.

However, Margaret Thatcher's speech at the College of Europe in Bruges, Belgium, has an illuminating title: A Family of Nations, expressing all her ideas about European integration.

## **2.6. Weak Bureaucracy**

Another point in Margaret Thatcher's critique against federalism and especially against neo-functionalism is the role of civil servants. Her idea of any kind of government, national or international, is based on supervision. The state is just a supervisor of the social and economic system; it

establishes the rules and looks after respecting them. The state merely provides the legal and social framework wherein society can develop by itself; the state provides the structure in which the people can develop and grow. In other words, the state is just giving the citizens the same chances to succeed, and after that, it is a matter of individual capacity to make use of these chances. So, the state provides security to private initiative. This idea of society is similar to the USA model, but not exactly the same, because Thatcher takes power from minor institutions, such as counties or city halls, to increase the weight of central government. This is something unthinkable in the USA, where the powers of the federal government and the states are more defined.

Anyway, the vision of Thatcher was very different from the model of the member states of the European Communities in the 1980s, especially with France and Germany, where the concept of state is very different. **There the state is not a supervising power, is a proper agent of the system.** The state tries to provide equality, not the same chances, which means a bigger state, more technocracy and bureaucracy, more enrolment in the system, reducing the role of private initiative and regulation of the market by itself, increasing the role of the state.

The institutions of the European Communities were small in the first Community, the ECSC, but afterwards implementation of new treaties and inclusion of more and more policies in the European level made the European institutions grow bigger. At the moment, it is difficult to state the exact number of people working for the EU, the European Commission, the European Parliament, the Court of Justice, etc. An approximate number could be around 150,000 people, if we count also the auxiliary institutions and companies that provide services to the EU. In reality it is not a huge number compared to the number of civil servants in the member states. In France, for example, there are millions, as in Germany. There are considerably fewer in the United Kingdom, more than half a million, but still more than in the EU. If we think that the EU is dealing on the European level, much wider than the national levels, the number of civil servants working in the European institutions does not look excessive. As Margaret Thatcher was decreasing the role of the regional institutions of the UK, and increasing the power of the central state, she did not like the idea of growing numbers in the European institutions; her domestic policies were boycotted on the European level. Her dislike of the European institutions was also

related to her idea of the central role of the national states in the European building process. It made no sense to give power to a European technocracy that was not elected by the European people, that did not respect the national positions, and that could become an alien power to the people by forcing and leading them towards the creation of an artificial political structure. So, according to Margaret Thatcher, the institutions of the European Union should be minimal, enough to assure that the common system is working, but never a substitute for the national institutions.

## **2.7. Policies of the European Union**

Margaret Thatcher had a clear idea about which policies should be European and which ones national. The main reason for having a European policy should be the benefit of the states, and hence the benefit of the people of Europe represented by the states. Thatcher thought that any ineffective policy or a policy benefiting just an unrepresentative part of the European states should be a deal on a national level. By that it is clear that she wanted a reform in the existing policies of the European Communities, mainly the Common Agricultural Policy, that was spending most of the money of the European Union budget, transferring the money just to some countries, and of course, not to United Kingdom. The situation was obvious to her – if this policy costs a lot of money to the European Union, and United Kingdom is one of the main contributors to the finances of the European organization getting no benefit from it, this policy is wrong. According to this idea, a reform is needed inside the EU and in its policies, reducing the policies included in the area of influence of the Communities, and giving back the sovereignty on these policies to the member states.

Thatcher's intentions were obvious and simple: European Union should not move towards the creation of a supranational state taking more and more policies from the member states, even if it was clear that were not effectively dealt in the European level, it should be just a structure to deal with the common wealth, in some policies where the common agreement between governments would provide a benefit for all of them, in other words, a pragmatic union, never political.

## 2.8. European Market

Margaret Thatcher wanted the European Communities to encourage enterprising, to improve the economical situation of its members. For doing so, the best option in her mind was giving the power to the market; it would develop itself in a more effective way than it would be highly regulated by the political institutions. Her ideas about the market have changed radically with the last economical crisis that we are still living, a crisis which still did not show us its main consequences, mainly a new economical system. However, from the time of Thatcher's governance until nowadays, her economical proposals have been the most popular and also important, especially after the collapse of the Soviet Union and the lack of alternatives to the extreme capitalism of our days.

Her proposal for the European Union was the creation of a real interior market in Europe, to improve the effectiveness of the common market approved with the Treaty of Rome, that in reality meant free trade area in industrial production and a highly regulated market in the agricultural production. What Thatcher wanted was free enterprising within a framework of European law, which according to her, was much better to speed up the growth of the European economy.

Thatcher's aim was clear – deregulate and remove the constraints on trade, most of them national. The barriers build up by the member states of the European Communities in order to protect the national economical agents were numerous, and were a brake to the economical development of Europe and its members. So, Thatcher was one of the promoters of a new Treaty, the Single European Act, thinking that it will lead to a minimum legal agenda to improve the economical integration and dismissing the political influence of the European institutions. It was a great miscalculation from Thatcher, because what she thought would be mainly economical became political. The Single Market approved in the Single European Act in 1986 meant great powers to the European institutions because almost all the economical fields were then under the supervision of the European institutions, that instead of deregulating and removing the barriers to trade, as Thatcher thought, made a deeper regulation of the market to finish the national distortions to it. Moreover, the Single European Act meant bigger responsibilities for the European Commission; something translated into a

huge increase of the civil servants working for the organization, something against the will and believes of Thatcher.

The latter consequence of the Single European Act and the creation of the Single Market supported by Margaret Thatcher has been the adoption of the common currency in most of the members of the European market. Thatcher in her great miscalculation did not pay attention to the consequences of her actions and the power of the European integration. The Single Market was created to eliminate barriers on trade between the member States of the European Communities; the same reason can be applied to the creation of the common currency – to eliminate any distortion in the market produced by the exchange rate of the European currencies, or the uncertainty of the future rate of the currencies. That reduces the trade between the holders of different currencies, among other reasons. So, the adoption of the European common currency is a consequence of the Single European Act, and the actions of Margaret Thatcher. The British premier after leaving office became a bitter enemy of the Euro and the inclusion of the British Pound to the European common currency. Now this is again something that could change with the ongoing crisis. Devaluation of the British Pound towards the Euro and its economical consequences could force the British to join the Euro and meaning end of the historical Pound.

Another consequence of the common currency, hated by Thatcher but a consequence of her polices, is the proclaimed end of the economical integration in Europe and the beginning of the political integration, yet another nightmare for Thatcher. The creation of the Euro meant a common currency for most of the members of the European Union, but the European market is not fully integrated, in some sense the market is still divided in national markets, with some economies more integrated than others. This means a great danger of an asymmetrical crisis, a crisis that could affect just a part of the market, not spreading to all the members of it. For example, if there would be a crisis in Germany, it would fast spread to the rest of the market, since the German economy is based on exports and is highly connected to the market of the main economies inside the European Union. This would conclude in the European Central Bank creating a monetary policy against the crisis. Other countries looking more inwards, with economies not so linked with the rest of Europe, for example Spain and its dependence on the real state market, would have a crisis not spreading to the rest of Europe. In such case the European Central Bank implements a

monetary policy for the majority of the system, not helping the Spanish economy, because doing so, it could damage the rest of the European economies. The problem is the loss of sovereignty in the monetary field of the member states of the euro zone, reducing the tools to be used in case of a national crisis.

Let's draw a parallel to this thought, the case of United States and the crisis of California in the 80's. Most of the military industry was located in the State of California, and was strongly affected by the end of the cold war, and the decrease of national expenditure in this field. The crisis was focused mainly in just one state, so the federal reserve could not use its monetary tools to help California, because lowering, for example, the interest rate of the dollar, would have meant bigger economical activity in California, but higher inflation in the rest of the country, and a high risk of overheating the American economy. Also, as the economical activity because of the crisis was lower in California, the incomes of this state were also lower. The solution to the crisis came from an influx of huge amounts of dollars from the federal government of the country.

Following the thought, the next logical step in the European building process would be creating some kind of political structure called federal government, or under any other denomination, avoiding the risks of an asymmetrical crisis in the Euro zone. Of course, the current crisis with its global influence will slow the integration down, but once it will be finished, we will have a new economical model in the whole world to avoid the excess done by the market, and it will be applied on the Euro zone under the power of the European institutions, speeding up the necessity of a European government to avoid asymmetrical crisis (Mulhearn, Howard, 2008).

It is clear that Thatcher did not want this when she supported the Single Market, or that the Euro and a possible European federal government is not only a consequence of the Single Market, but it can be considered a basic and necessary step in order to achieve the European political integration.

## **2.9. European Defense**

Margaret Thatcher thought that the European Communities should focus on two main points, economy, and security. It is linked to the fact that UK has one of the main armies of Europe, and its role in a future European Union

army would be predominant. Of course, according to the ideas of the British premier, was not desirable a defense Community in the terms presented by the French and the European Defense Community of the 50's, proposal with a Common Budget, Common Institutions and a European Army. This proposal was a consequence of the cold war, especially the Korean War and the military effort of USA. The Americans wanted to rearm West Germany to face a possible aggression from Soviet Union, but the rest of the European powers were still afraid that an independent German army could lead to a new conflict in Europe. So, France thought about a similar solution to the ECSC, integration, a common army that cannot be used against its members. The problem of the EDC was that the army is one of the main pillars of any state, and creating a common army with their partners of the ECSC arose the question of sovereignty. Who was going to command and decide the most delicate issues related with the European army? It was too dangerous to leave these decisions in the hands of an institution so independent as the High Authority, predecessor of the current European Commission. Italy proposed a new community to solve this problem, the European Political Community, with a detailed federal program, common institutions and coordinated foreign policy. Five members of the ECSC approved both communities, but France rejected it in her parliament when communists and conservatives voted together against the embryo of a European State.

The problem of the German army was solved with the foundation of the North Atlantic Treaty Organization, but the influence of USA to the organization was, and still is, enormous. It was good as far as Europe was military threatened by Soviet Union, but after the cold war, again European voices were calling for a European army in order to become more independent from USA.

Margaret Thatcher, a great supporter of a close alliance with USA, also thought of the idea of the European Army, but controlled, of course, by the national states – for her would have been unthinkable that someone in Brussels could send the British soldiers to fight, and maybe die in an external war. She proposed to develop the army through the Brussels Treaty, signed in 1948 between the Benelux, France and UK as an expansion of the Treaty of Dunkirk signed the previous year between France and UK. Originally that was a defense Treaty against a possible aggression of Germany, but as the cold war intensified, became an instrument against the

communism expanding. The parties of the Treaty decided to create the Western Union Defense Organization, its main institutions were a Committee at Prime Ministerial level and WU Combined Chiefs of Staff Committee, including all the national chiefs of staff, which would direct the operative organization, clearly an intergovernmental organization where collaboration substituted integration, as Thatcher liked. In 1954 other countries, West Germany and Italy joined the organization that was renamed as Western European Union. Its main institutions were the Council and the Assembly. The most powerful institution and leader of the organization was the Council of Ministers, assisted by Permanent Representatives Council on ambassadorial level. Again, we can see that no supranational institutions were created and the main role was played by the states. Social and cultural aspects of the Brussels Treaty were handed to the Council of Europe to avoid duplication of responsibilities within Europe. The Assembly was just an advisory organ, without any real power.

This organization was fully acceptable for Margaret Thatcher and her ideas, because developing the European army through the Western European Union (<http://www.weu.int/>) and not through the European Communities would prevent any control by any such supranational body as the European Commission, and would keep all this process under the supervision of the national states, plus the problem created by some members of the EU that are neutral and do not desire to develop any defense policy.

The difference between Thatcher and other supporters of a European army is the relation with NATO and USA; Thatcher imagined WEU as a completion to NATO, and never as a tool against the predominance of USA in the world.

Anyway, the idea of Thatcher is still alive, and the WEU is getting more attention from some states of Europe as the best way to develop the European army and the common defense.

## **2.10. Relation between Europe and USA**

Thatcher was a supporter of a close alliance between both sides of the Atlantic, between Europeans and the Europeans of the other side of the Atlantic. For her, one of the most important issues in the political agenda of the European Communities was keeping the traditional ties between USA

and Europe. She clearly disliked the idea of building Europe against the power of America in a futile attempt to become next world power. Margaret Thatcher was a loyal ally of Ronald Reagan, and supported fully his approach against Soviet Union, far from mild positions. She was thankful to the effort of USA defending Europe, and thought that the roots of the American values were European. So, the similarities between both areas are much more numerous than the differences.

Many Europeans, especially in Western Europe want to build Europe as a balance power to USA in the world, an alternative, complaining about the unilateralism of the American government, and a unipolar world where USA decides and Europe has no influence. France has been a champion of this vision, starting with de Gaulle until almost nowadays, with the politics developed by Jacques Chirac.

Meanwhile in Central and Eastern Europe, the views about America are different and friendlier. These differences were clear in the last war of Iraq, when many countries of West Europe, like France and Germany were against the war, and other new members of the EU supported the Americans. These differences can be explained by the fact that the new members of the EU achieved and trust their independence to USA, its victory over Soviet Union in the cold war and its current military muscle.

UK, before Thatcher and after her, has had a special relationship with USA, sharing language, cultural aspects, economical similarities, military cooperation and constant transfer of people and ideas between both sides of the Atlantic. It was even one of the reasons for Charles de Gaulle to reject twice the intention of UK to join the European Communities. Thatcher, following with this tradition supported and considered the creation of a European defense system essential, but working closely with USA, never as an antagonist. This debate is still alive in the European Union, and it seems that the hopes created by the new president of United States, Barack Obama, have developed a wave of support across Europe that can change if the American president does not fulfill the excessive expectations regarding him.

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# **The Competence of the Estonian Parliament in Foreign Relations on the Basis of Pre-war Constitutions and Other Legal Acts**

**Mart Nutt**

## **1. Introduction**

The competence of the pre-war Estonian Parliament, as the legislative body of Estonia, in foreign relations reflects the classical competence of parliamentary European countries in the 1920's. Its legal competence was set by the Constitution and laws of Estonia. In practice, foreign relations were the competence of the government and the role of parliament was quite formal. This is why questions about the competence of various institutions in foreign relations in Estonia should not only be viewed from the aspect of legal acts, but should also be analysed via the implementation of these legal acts, practical administration, representation of the state in foreign relations, and mechanisms for making decisions about internal policies in the organisation of foreign relations.

The legal system of pre-war Estonia is divided into two parts: parliamentary democracy since independence until the coup of 1934, and presidential autocracy from 1934 until the Soviet occupation in 1940. I will also discuss the legal competence of the Parliament in pre-war Estonia.

## **2. Legal Acts – Sources for Publications**

In the pre-war period there were three Constitutions and three Constitutional Acts (preliminary constitutions) valid in Estonia, which regulated the activities of the State before the 1920 Constitution was passed. In addition, there were two referendums conducted in 1932-1933 for passing Constitutions, which failed. The following constitutional acts were used in the present written paper:

1. Decision of a Higher Power. Passed by the Provisional Estonian Province Assembly of the Estonian District on 15. November, 1917 (28.11.1917 according to the new calendar).

2. Manifesto to All the People of Estonia. Declared by the Salvation Committee on 24. February, 1918.
3. Procedure for the Temporary Governance of the Republic of Estonia. Passed by the Constituent Assembly on 4. June, 1919.
4. Constitution of the Republic of Estonia. Passed by the Constituent Assembly on 15, June, 1920.
5. Constitution of the Republic of Estonia. Passed by a referendum initiated by the League of Veterans on 14, 15 and 16 October, 1933.
6. Constitution of the Republic of Estonia of 1937.

### **3. Pre-war Legal Acts on Foreign Relations**

The only pre-war act regarding foreign policy is the Foreign Service Act, which was approved by a decree made by the Head of State on 13. March, 1936. (RT, 1936, 24, 160). The act does not cover the activities and competence of the Riigikogu (Parliament) on foreign policy.

The decision of the Provisional Estonian Province Assembly of the Estonian District on the 28<sup>th</sup> of November, 1917 (15<sup>th</sup> of November according to the old calendar), did not create the State of Estonia (independence was not declared), and formally Estonia was still a province of Russia. In principle, however, the Provincial Assembly (later Assembly) decided to assume the highest power in Estonia. Thus, this decision can be regarded as a preliminary constitution (EVPk 2002, 18-19), which prepared the way for the possible separation of Estonia from Russia and the creation of an independent state. Under these circumstances, it was merely a declarative act or a distinctive confirmation that the dual powers remained during Soviet times (Arjakas 2002, 21).

The certificate of birth of the Republic of Estonia – the Manifesto to all the people of Estonia, which was passed on 24. February, 1918, by the Salvation Committee, which was established by the Province Assembly – did not cover the competence matters of a legislative body, but in a legal sense was a second preliminary constitution. The manifesto established executive power and clearly fixed the historical and ethnographic borders of Estonia (Arjakas 2002, 21).

The procedure for the provisional governing of the Republic of Estonia from 1919, was not a constitution in the classical sense, but it was a constitutional

act that regulated the governing of the State of Estonia until the Constitution was passed on 15. June, 1920 (third preliminary constitution (EVPk 2002, 17-19)).

During the first years in which the Republic of Estonia existed, power was centralised in executive bodies and all foreign relations were delegated to the competence of the executive power. Even before the independence of Estonia was declared in December of 1917, the Province Assembly formed a foreign delegation with the competence of finding recognition of Estonian statehood, and on 24. February, 1918, the same day when independence was declared, the first Minister of Foreign Affairs, Jaan Poska, was appointed (Medijainen 1997, 30). On 12. November, 1918, the Province Assembly appointed the second membership of the Provisional Government and, under a treaty concluded in Riga, the Commissioner of Germany, August Winnig, awarded the entire power of Estonia to the Provisional Government as of 21. November. However, this step with the Provisional Government did not lead to the recognition of the independence of Estonia by Germany. On 27. November, the Province Assembly appointed the third membership of the Provisional Government and delegated its legal power to this government. This gave the Provisional Government the sole right to conclude foreign treaties (Pajur 2005, 47).

The Constituent Assembly was elected on 5-7 April, 1919, and it passed the method for the temporary governing of the Republic of Estonia, which was to be valid until a permanent Constitution entered into force (op. cit., 50). The Provisional Constitution made a sudden change in the form of government by abandoning the principles of parliamentary government and moving towards the Swiss system (it based strongly on direct democracy (referendum) and role of Parliament is smaller than in representative democracies). Up until that time, the principle of balanced power had been followed, and now the role of the parliament was suddenly increased. The government was thereafter an immediate subordinate body of the parliament. Subsequently, the ideas of the Provisional Constitution may be regarded as a deviation in the development of the statehood of Estonia. In reality, the Provisional Constitution did not enter into force and Estonia remained a parliamentary state (op. cit., 50).

The procedure for the temporary governing of the Republic of Estonia of 4. June, 1919, provided in § 9 that in the name and by the choice of people, the

highest power is executed by the Constituent Assembly and the Chairman of the Constituent Assembly is the legal representative of the Republic of Estonia. According to § 11, the Constituent Assembly discusses and approves treaties and unions concluded with foreign countries, authorises declarations of war and conclusions of peace. According to § 15, the government may operate under acts and regulations and the guidelines and tasks issued by the Constituent Assembly. The government was not given a specific competence on foreign relations. Thus, according to the procedure of temporary governing, the Constituent Assembly had complete jurisdiction over conducting foreign relations and the government was entitled to operate only under authorisations of the Constituent Assembly. At the same 4. June, 1919 meeting of the Constituent Assembly, the Standing Constitutional Commission was established with the task of drawing up the Constitution (Arjakas 2002, 23). The main principle of all those acts was that supreme power in the Republic of Estonia belonged to the people and it was implemented in the name of the people (Uibopuu 1996, 3).

#### **4. The 1920 Constitution and its Regulations**

The Constituent Assembly approved the Constitution on 15. June, 1920. As most of the political parties preferred the Swiss system, adopted in the Provisional Constitution to parliamentarism and presidentialism, representative democracy was outweighed by participatory democracy and, in addition to the eligibility to vote; the right to vote and the right to initiate referendums were also included in the Constitution. The balance of powers was pursued by including the institution of the President, but by an initiative of parties on the left the idea of the national government was retained – the people's direct control over the parliament and the initiative process of the people, and extensive right to vote was presumed.

The Constitution of the Republic of Estonia of 1920, continued the extreme parliamentary administration of the state provided for in the procedure for temporary governing. Although the Constitution prescribed broad instruments of democracy, such as the right to initiate referendums and initiatives of the people, § 34 prohibited putting foreign treaties on referendums. At the same time, the 1920 Constitution does not specify the competence of the Parliament in foreign relations. According to § 52, the Parliament passes acts, compiles the budget for the State's income and expenses, decides on the granting of loans, and other matters under the

Constitution. In principle, this provision gives the Parliament a mandate for foreign relations. § 60 appoints management of foreign policy to the competence of the government; by article 3 of the same clause, concluding foreign treaties is granted to the competence of the government, but approving the treaties is within the competence of the Parliament. The Constitution does not provide for the possibility of any foreign treaties to enter into effect without the approval of the Parliament. According to article 4, the government declares war and makes peace under a respective decision of the Parliament.

The economic, political and constitutional crisis at the end of the 1920's and at the beginning of the 1930's, brought along with it disappointment in the parliamentary form of government, which led to the idea of the creation of a Head of State, wielding broad concentrated power. The competence and membership of the Parliament as a legislative body, sought to be limited in the interests of executive bodies by granting executive power and part of the legislative power to the Head of State (later President). However, it must be stated that the global economic crisis reaching Estonia from the outside was inevitable and the emergence of an internal policy crisis, which led to certain conditions creating a sudden deterioration in the quality of life, was also inevitable. The constitutional crisis was, at least to some extent, a pseudo-crisis. It was brought about by the political forces that regarded parliamentary democracy and its basis – the 1920 Constitution – as unsuitable for Estonia (Pajur 2005b, 86-87). The central claim of the critics of the Constitution was that it became evident in implementing the 1920 Constitution that legally we had unlimited democracy, but in reality there was unlimited oligarchy (select domination) by central committees of political parties standing behind the parliament (Laaman 1937). The main flaw in the Constitution was considered to be the lack of the position of a Head of State, which results in the Parliament imposing its will on the government and the government not having any freedom to operate. This was seen as the reason for the long-term government crises and there was a demand that the Constitution should be amended and the rights of the Parliament should be reduced to increase the role of the Head of State and the government (op. cit).

## 5. The Struggle for Balanced Powers in the Estonian Legal System

Konstantin Päts, later the autocratic President of Estonia, was the first person to suggest the idea of amending the 1924 Constitution. The idea was probably motivated by the attempted coup by the Bolsheviks and the main basis was to specify the institution of a president elected by the Parliament in the Constitution (EVPk 2002, 20). At the same time, K. Päts has been suspected of having a personal interest in the concentration of power in a leader and assuming the position of a President with strong powers himself. K. Päts was not satisfied with his limited power to organise the government's activities. There was a specific confrontation with the Minister of Foreign Affairs, Mr. Pusta, whose course was mostly anti-Soviet after the revolt organised by COM intern of 1. December, 1924, and this, in turn, interfered with K. Päts' business interests and ties with the Soviet Union. On 11. March, 1925, the envoy of the Soviet Union in Tallinn, Adolf Petrovski, wrote on the basis of a conversation he had with K. Päts: "{In this conversation,} Päts said that in order to get rid of people like Pusta he intends to initiate a battle for amending the Constitution" (Ilmjärv 2004, 45). As of 1926, there were several drafts for amending the Constitution, concluded mainly by the Farmers' Association, circulating in the Parliament and the government. The drafts provided for the balance of power and suggested establishing the position of the Head of State (op. cit.). On 29. September, 1926, the Farmers' Association submitted a draft for amending the Constitution to the Parliament, which called for reducing the Parliament to 75 members, raising the voting age to 23, and establishing the institution of the President. This draft was not discussed in the Parliament.

In the middle of the 1920's, there were signs of crisis in democratic administrations evident throughout Europe. By that time, most of the countries in Central-Europe already had authoritarian regimes. It is possible that inspiration for subsequent initiatives for implementing a more president-centred administration came from Lithuania, where a coup from democracy to authoritarian administration was carried out at the end of 1926, and where noticeable changes were fixed in the 1928 Constitution (Arjakas 2002, 19). In the autumn of 1929, the Farmers' Association once again submitted a draft compiled in 1926 (this is redundant), but it was not discussed either. On 8. January, 1930, the parliamentary faction of the Peoples' Party also submitted a plan for amending the Constitution that was discussed, but was not supported (Tomingas 1961/1992, 310-317). It should

be noted that jurists decided on the basis of a speech given by lawyer and politician, Jüri Uluots, stated that there was no need to amend the Constitution, as the valid Constitution gave sufficient possibilities, both for the government and the Head of State, to implement their power (EVPk 2002, 20).

In 1931, an unofficial committee began to work under the initiative of two members of the Parliament, Jaan Soots and Hugo Kukk, who compiled a draft for amending the Constitution. The IV Parliament approved it in March, 1932. A referendum on the draft was held on 13-15 August. The referendum was rejected with a slight majority of votes (333,979 voting in favour and 345,215 against). Socialists and the League of Veterans were opposed to amending the Constitution (the latter thought it was too radical) (Tomingas 1961/1992, 310-317). At the same time, the submitted changes are important from the perspective of the development of Estonian State administration. According to the Constitution, the Parliament was intended to have 80 members, and the election system was proportional (§ 36). The Parliamentary terms were extended to four years. According to § 60 (12), the President of the Republic had limited decree rights, according to § 53 of the draft, the right to refuse to proclaim an act, but an obligation to proclaim it in the event that the Parliament passes the act with an absolute majority of votes, the President also had the right to announce prescheduled parliamentary elections (§ 63). According to § 60 of the Constitution, the governing of the internal and foreign policies of the State were still in the competence of the President, as was appointing representatives of Estonia in foreign countries and accepting representatives of foreign countries. Article 5 of the same clause also placed the concluding of foreign treaties in the competence of the President, but prescribed passing the treaties in the Parliament. Article 6 also assigned the right to declare war and make peace to the competence of the President, but limited the right with the competence of the Parliament to make a respective decision. According to § 62 of the Constitution, the government was responsible before the President and it did not have an independent competence on foreign relations. Thus, the competence of the government on foreign relations was given to the President, but the competence of the Parliament on foreign relations was not changed.

The V Parliament decided on 14. February, 1933, to hold a referendum on the second draft for amending the Constitution of the Republic of Estonia.

The draft was drawn up by the Parliament and had some corrections for increasing the part of the Parliament on account of reducing the rights of the Head of State. The vote on the referendum took place on 10-12 June, 1933, and failed to pass, receiving only 161,595 votes for and 333,107 against (67 %) (Pajur 2005b, 88). § 36 of the draft retained 100 members in the Parliament, as was provided for in the 1920 Constitution. It also retained a proportional election system, with a clause that the nation shall have the right to elect people. According to § 53, the President retained the right to declare a law passed with the majority of the legal membership of the Parliament for the second time. § 60 of the Constitution prescribed the President as the head of foreign policy, as did the previous draft. Article 4 also gave the President the right to conclude foreign treaties while retaining the right to pass the treaty to the Parliament. Unfortunately, § 60 (10) gave the President the right to issue decrees with the power of laws. However, the Parliament retained the right to reject the decrees. The Constitution also provided limitations to which acts the President cannot enforce through decree. Foreign treaties were not included in that list, which leads one to the conclusion that the President was given the right to approve foreign treaties through decree.

## **6. The Constitution of the League of Veterans of the Estonian War of Liberation and the Coup**

At the end of 1932, before the Parliament prepared the draft for amending the Constitution, citizens Aleksander Seimann, Leopold Tõnson, Theodor Rõuk and Artur Sirk submitted to the Parliament a draft for amending the Constitution of the Republic of Estonia (the so-called League of Veterans' draft) under a right of initiative, which was published in the State Gazette under the Elections of the Parliament, the Referendum Act and Citizen's Initiative Act. The League of Veterans of the Estonian War of Liberation applied for abandoning parliamentary administration, which was based on a system of political parties, and wished to replace it with a system that would be characterised as having a Head of State with strong power and absolute rule through executive power mechanisms (Nutt 2006, 134). The slogan of the League of Veterans was "democracy without political parties" (Kasekamp 1999, 66), and they denied in public that they opposed the parliamentary system and supported a one-party system and dictatorship (Tomingas 1961/1992, 324).

Directly before the referendum, the draft found support from the United Agrarian Party, led by K. Päts, which was the deciding factor in the passage of the decision (Pajur 2005b, 89). The amendment of the Constitution was passed by referendum on 14, 15 and 16 October, 1933, with the votes of 73% of the people in favour and 56% of the people eligible to vote for the draft, i.e. 416,878 for and 156,894 against (op. cit).

In its form, the League of Veterans Constitution was an amended version of the 1920 Constitution (amendment; of the 89 clauses, 30 were amended), but its content was fundamentally different (op. cit). On 24. February, 1934, the new Constitution of the Republic of Estonia entered into force. The League of Veterans' path to power was cut short by the military coup of 12. March, 1934, organised by Head of State, K. Päts, which resulted in the prohibition of the League of Veterans of the War of Liberation, and the arrest of its leaders (Nutt 2006, 134-135). K. Päts and his supporters justified the coup with the need to prevent the League of Veterans from seizing power and implementing a dictatorship that had been in preparation for a long time (Tomingas 1961/1992, 375-403). At the same time, K. Päts left the 1934 Constitution in force and kept his power under said Constitution (Nutt 2006, 138).

According to the 1933 Constitution, the parliamentary administration of Estonia was replaced with a presidential administration. A broad institution of the President was created, public control over the government was decreased by means of the Parliament, and the government was made independent of the Parliament (Varrak 2000, 120). At the same time, the Constitution provided broad direct mechanisms of public power – in addition to electing the Parliament and the Head of State, referendum and public initiative were retained under § 29 of the Constitution. Limitations on referendums to the extents under drafts were retained. Thus, according to § 34 of the Constitution, treaties with foreign countries could not be subject to referendum.

The Parliamentary election system was the same as in the draft of the 1933 Constitution, which was rejected – the proportional election system in § 36 was retained provided that the electors had the possibility to elect independent candidates, but the membership of the Parliament was limited to 50 members. According to § 39, the Parliament was elected for up to four years. The competence of the Parliament was limited by extending the

vetoing rights of the Head of State: § 53 provided that the Head of State was entitled to not proclaim an act passed by the Parliament until the Parliament accepted amendments suggested by the Head of State, or if the Parliament passed the same act after following elections (with two memberships). Thus, the same membership of the Parliament no longer had the right to pass an act without the consent of the Head of State.

The Head of State united the power of a head of state and executive body; the government was changed into a body under the Head of State (§ 57), which was appointed independently by the Head of State and was subordinate to him/her in every matter (§ 63 and 64). But the government had to have the trust of the Parliament, however, mistrust of the government or of its members gave the Head of State a basis for announcing new parliamentary elections (§ 63).

§ 58 provided direct elections of the Head of State by the nation. A candidate for the Head of State position was to be appointed by a public initiative of at least ten thousand citizens. Thus, the 1933 Constitution established a strong mandate for the Head of State, issued by the public and, through these means, broad powers as well.

As the drafts for amending the 1932 Constitution did, § 60 of the 1933 Constitution granted the Head of State administration over both internal and foreign policies. Similarly to previous drafts, the said Constitution provided for the conclusion of foreign treaties by the Head of State, but the treaties were to be approved by the Parliament (§ 60 (5)). Article 12 of the same clause granted the Head of State the right to issue decrees with the power of law, which enabled the approval of laws as well.

§ 3 of the second part of the 1933 Constitution determined that new elections of the Parliament and the Head of State were to be held within one hundred days from the Constitution entering into force. However, new elections were not held. Prime Minister K. Päts suspended the elections for the Head of State and the Parliament, with the decree of 19. March, 1934 (Tomingas 1961/1992, 292). § 4 of the second part determined that the power of the Parliament shall be valid until the power of the new the Parliament enters into force. As the new Parliament was not elected, the power of the existing Parliament retained its power until 1. January, 1938. But as the Parliament was not convened during that time, the Head of State

governed the State by decrees, acquiring indivisible power by violating the Constitution. The security situation established on 12. March, 1934, for six months extended until 12. September, 1939. The regulation of the Minister of Internal Affairs of 1935 suspended the activities of political parties and other political unions (except for the Pro Patria Party established in 1935) (EVPk 2002, 21).

On the international level, Estonia was regarded, after the overturn in 1934, as a country under a dictatorship (Nutt 2006, 138). Even the decision of the Estonian Court Department of 1934 stated that the overturn of 12. March, resulted in eliminating constitutional order and replacing it with a dictatorship (Tomingas 1961/1992, 509).

Due to the coup on 12. March, 1934, the Parliament lost its competence on foreign policy altogether. Until the coup in 1934, the political parties in Estonia (and Latvia – author’s note), as well as public opinion, had been able to wield rather considerable influence on the country’s foreign policy. After implementing an authoritarian regime, the right of the State to make foreign policy decisions was reserved only for a small group of people (Ilmjärv 2004, 915).

## **7. The Last Pre-war Constitution from 1937 and the Creation of a Corporative State**

The new Constitution received criticism due to the extensive power it granted to the Head of State. In September, 1935, the League of Veterans submitted their second draft for amending the Constitution. But the Head of State rejected it granting it official power in October. During the so called “age of silence” three members of the Parliament submitted a second draft for amending the Constitution, but this was also rejected by the Head of State (EVPk 2002, 22).

In his speech at the end of 1935, the Head of State, K. Päts, stated that a new Constitution should be compiled and the Constitutional Assembly should be convened for this purpose. The referendum of 23-25 February, 1936, gave the Head of State authorisation to convene the Constitutional Assembly for the preparation of a new Constitution. The basis for presidential public order and the principles of a bicameral Constitutional Assembly were approved. A draft compiled by the committee formed by K. Päts, and based on the 1935

Constitution of Poland, was taken as a basis for the new Constitution. The Constitution was passed on 28. July, 1937, at a common meeting in the chambers of the Constitutional Assembly, with 115 affirmative votes (three opposed and two undecided). The third Constitution of the Republic of Estonia came into force in January, 1938 (Pajur 2005c, 98).

Official propaganda described the Constitution as a return to democracy (Vellerma 1938, 3). Unfortunately, this Constitution was not more democratic than the 1934 Constitution (Nutt 2006, 138), instead the 1937 Constitution was more undemocratic. It may be regarded as symbolic that if the Constitutions of 1920 and 1934 (and drafts of 1932) gave more power to the Parliament than to the Head of State (the President) and/or the government, article 4 of the 1937 Constitution concerned the President of the Republic, article 5 the Government of the Republic and article 6 concerned the Parliament. The direct power of the people was considerably decreased compared to earlier powers. The initiative process was excluded. Organising referendums was the right of initiative of the President, which enabled the position to increase its mandate over the Parliament even further (§ 98, 148-150). According to § 40, direct elections of the President were possible only in the case of an emergency. Only both chambers of the Parliament and the representative body of local governmental institutions were permitted to announce presidential candidates. If only one candidate was announced, the election of the President was the competence of the common meeting of these bodies.

In parliamentary elections, the nation was electing only 80 members to the State Council under the majority system (§ 35 (2)), which had practically no power as an independent legislative body. The Parliament did not even have independent power to initiate acts. According to § 92, at least one fifth of the membership of the State Council was entitled to initiate an act, provided that the President was informed. In addition, both the State Council and the President had veto rights over acts.

The so-called Supreme Chamber of the Parliament, the State Council, was a corporate body that consisted of the positions of heads of institutions, representatives of local governments and chambers and persons appointed by the President.

In general, the power of the Head of State was, under the 1933 Constitution, transferred to the President of the Republic. However, electing the President was, as a rule, within the competence of the State Council and not of the people. Thus, the power of the President was similar to the previous system, but there was no people's mandate, except in the case of an emergency (§ 40).

Foreign treaties were covered in the 1937 Constitution separately in chapter 8. § 101 therein provided that foreign treaties are concluded and ratified by the President of the Republic. The Constitution provided that the Parliament ratified foreign treaties, but it also differentiated types of treaties that were distinguished by law as treaties not subject to approval, and according to § 102, the President was entitled to demand approval of other treaties subject to approval in general meetings of the Parliament. The 1937 Constitution did not include the prohibition on placing foreign treaties on referendums that was included in the Constitutions of 1920 and 1933. This left the President the right to approve foreign treaties via referendums, in case they were not passed in the Parliament for some reason, and thus bypassing it to approve the treaty.

On 17. June, 1940, the Soviet Union occupied Estonia, and on the 6th of August, Estonia was annexed and united with the Soviet Union in the "rights of Union Republics". The 1937 Constitution formally was in force until 1992, because Soviet annexation was not internationally recognised. But real life continued according to Soviet regulations.

## **8. Conclusion**

There have been two rather different administrations in Estonia since the State gained its independence in 1918, until Soviet occupation in 1940 – a parliamentary democracy from 1918-1934, and a presidential autocracy from 1934-1940.

These periods are also evident in the foreign relations of the Parliament. If until 1934 the role of the Parliament in foreign relations was important, considering that the government was responsible to Parliament and foreign treaties were ratified by Parliament, then after the turnover in 1934 the competence of Parliament on foreign relations ceased to exist (it was transferred to the Head of State [Riigivanem] and in 1938 to the President).

In the period of autocracy both legislative and executive power was monopolised by the Head of State, and the role of the government was for the administration of the Head of State. It made the legislative body – the Parliament – the same as a puppet-parliament.

In foreign relations, including the ratification of international treaties, the Parliament lost its functions completely to the Head of State. Did this change in influence cause Estonia to lose its independence through foreign occupation is a question without an answer.

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## SECTION V: BOOK REVIEWS

Richard Caddell

**Anneli Albi. *EU Enlargement and the Constitutions of Central and Eastern Europe*. Cambridge University Press, 2005. xxxii + 257 pp.**

In May 2004 the European Union underwent what may arguably be considered to be its most important round of enlargement to date, both in terms of numerical and symbolic significance to the ongoing project of European integration. The absorption of ten new Member States, largely drawn from the former Soviet bloc, represented a new Easternisation of the EU from its traditional emphasis upon long-standing Western European diplomatic powers, to the incorporation of a number of states with often tragic and turbulent Twentieth Century experiences. In many of these new Member States a short but hugely eventful transition from a totalitarian system to one addressing both indigenous and “EU” values emerged between the fall of the Iron Curtain and the 2004 enlargement. The story of the tectonic shifts in the legal, political, administrative, judicial and social landscapes within these individual jurisdictions is only now beginning to emerge in full. A valuable and significant addition to the corpus of transition literature is Anneli Albi’s *EU Enlargement and the Constitutions of Central and Eastern Europe*.

The evolution of the key domestic legislative framework to facilitate the formal acceptance of the EU *acquis* is a gargantuan, multi-faceted and multi-jurisdictional tale and one for which a comparative analysis is often elusive, given the broad range of national legal cultures and conditions experienced within the 2004 enlargement states. Nevertheless, perhaps the one common legal root for all the various accession countries in which a broad comparative appraisal may be attempted lies in the evolution of the constitution, which each of the nations in question – especially those of the newly independent Baltic States – held particularly dear. In this deft and engaging analysis, Anneli, an Estonian scholar and now senior lecturer in law at the University of Kent, presents a snapshot of the transition process as encapsulated in the necessary amendment of the various national constitutions of the states in question.

*EU Enlargement and the Constitutions of Central and Eastern Europe* comprises ten substantive chapters, complemented by an “epilogue” and a host of appended primary materials. The book opens with a concise chapter outlining the broad conditions of the accession process, which provides a brief backdrop to the motivations inherent within the Central and Eastern European (CEE) nations in joining the EU and an outline to the history of the accession process. Chapter 2 then moves on to examine constitutional adaptations within the earlier Member States, observing the broad models followed by previous entrants, with the honourable exception of the UK which lacked (and still does) a formal written constitution to amend and for which European Economic Communities Act has served primarily as the key accession document. In this respect, Albi argues that a series of broad models of constitutional adjustment may be observed in previous EU entrants – primarily dependent upon whether an explicit provision on the delegation of powers to the EU was incorporated into the national constitution, or whether the basic position regarding membership of international organisations was used instead. In other cases, modification of these clauses was required to address specific powers of the EU. In reviewing the historical membership issues experienced in earlier entrants, Albi nonetheless determines that there was no one common denominator that might be used as an indicative guide or template for newer entrants or aspiring entrants. This is perhaps not so surprising, giving the wide range of jurisdictions reviewed and the prevailing national conditions at the point at which the various Member States joined the EU. Nonetheless, Albi’s observation that there has been a steady and almost involuntary Europeanisation of constitutional provisions, reflected in periodic amendment to reflect shifting policies and competences inherent within an increasing degree of integration (page 17) is worthy of note and reflects something of a trend towards a stronger degree of national recognition of the integral role of EU membership within key legislation.

Having determined in Chapter 2 that previous practice has proved to be of limited guiding value to observers of the constitutional contortions of new and aspiring entrants, Albi moves on in Chapter 3 to note that the CEE nations were also subject to constitutional idiosyncrasies that are not generally present in older Member States – with the possible exception of Spain and Portugal. In this respect, Albi observes that many of the CEE states have experienced a traumatic and turbulent period of constitutional development within the Twentieth Century with the imposition of Com-

munism (and, in the case of the Baltic States, annexation by the Soviet structure) followed by a transition to democracy and a return to an emphasis upon national legal values. To this end, although a constitution remains a fundamental legal expression of national identity and values in any state, those of the CEE were viewed as being particularly cherished in the sense that they enshrined fundamental rights and the concept of nationhood in a manner that had been primarily illusory under the previous arrangements. In this respect, at the drafting stage such documents made specific mention of the vital importance of sovereignty and of independence. Allied to this, as Albi observes, few such instruments were well adapted to the demands of the European Union in transferring large swathes of sovereignty to a supranational organisation, which was rather reflective of the traditional – and well-earned – distrust of external conglomerates, given the experiences of the Twentieth Century. Accordingly, Albi observes that many of the CEE constitutions were inherently different to those of earlier EU entrants, requiring particularly demanding hurdles to be crossed in order to be crossed in order to permit sweeping amendments of the type required under the accession process. One can only speculate on the individual motivation of the drafters, but this is a highly revealing insight into the prevailing viewpoint at the material time regarding the utility and trustworthiness of international and regional instruments to the new CEE governments following the fall of Communism.

Having established the broad conditions governing the constitutional background of the CEE countries, Albi considers the next important step in the accession process – the development of a programme of harmonised legislative activity within the jurisdictions in question and the growing adaptation of national laws to dovetail with those of the EU. This process, often rather patronisingly dubbed by some commentators as “Europeanisation”, an unfortunate term that invokes unpleasant comparisons with the “civilising” missions of European colonial powers, is one of the most fascinating areas of modern transition studies from a legal standpoint. It is also one of the most unexplored, by dint of the vast nature of its subject matter – it is simply not possible to address the entire harmonisation process across the sprawling areas of sectoral activity that constitutes the EU *acquis*. With these practical impossibilities in mind, Albi focuses on the broader aspects of the various Europe agreements signed with the candidate states in the early stages of the accession process, which provides the primary legal basis for the formalised relationship between the two entities in question. In

this respect, Albi begins with an outline of the legal effect of these instruments, namely its direct effect and direct applicability, an issue upon which there appears to have been surprisingly little case-law on a national level.

As Albi observes, the *acquis* for which the CEE countries were required to adopt was significantly broader than that which had characterised previous enlargements. On one level, this reflects the significant inroads that EU law has made in the fields of social affairs, justice, financial issues and external policies that were rather more embryonic at earlier points in the integration project. This was also a far from painless process, with nuclear safety concerns resulting in the closure of power plants in four different countries, while a series of novel requirements, such as effective implementation and the almost quaint, but practically onerous condition of good neighbourliness made the 2004 accession a more intensely pressurised process than perhaps its predecessors. In outlining this process, Albi notes a striking paradox in respect of the participation of the CEE states. In this respect, during the early part of the implementation of the *acquis*, the CEE states undertook a process of almost blind adherence to the EU standards, in the sense that national legislators were required to incorporate legal standards and policies in which they had had no previous participation. This created further concerns in respect of the traditional democratic deficit of the EU, in that the CEE states were treated as parties with regard to live obligations arising from the EU *acquis*, but had no formal input into the substance or range of these obligations. As Albi notes, this changed dramatically in 2002 when the candidate countries were granted access to participate in debates concerning EU internal affairs, a position that thereby permitted these states to finally exercise a degree of influence over the precise direction of the legislation that they were required to incorporate as such an integral part of the accession process.

Following this review of the harmonisation process, Albi proceeds to consider in Chapter 5 what she deems to be the “centre of gravity” of this work, namely the formal adaptations of the constitutions of the CEE states. In this respect, Albi adopts a useful approach in taking each individual state in turn, detailing the individual circumstances of national constitutional reform and shedding light on the challenges incumbent within the process. In this respect, Albi notes that the amendment process was far more protracted in certain states than in others, where the legal landscape – and,

on occasion, public opinion – was far less conducive to a swift and expedient adjustment of this key legislative provision. Albi observes that Slovakia, the Czech Republic and Slovenia were the first of the CEE states to take the requisite steps – although considerable difficulties of constitutional interpretation were encountered throughout the process – while the constitution of Poland, of all the states in question, was perhaps the most prepared for a swift incorporation of the necessary amendments. Albi observes that the sternest resistance and greatest legal difficulty was encountered primarily in the Baltic States, where the threat of post-Soviet annexation had been purportedly dispelled with a rigorous and highly demanding series of constitutional roadblocks to any attempted devolution of national sovereignty. These difficulties were heavily compounded in Estonia and Latvia by a strong undercurrent of Euroscepticism, for which a series of ingenious solutions were required. As Albi observes, the Riigikogu largely by-passed these difficulties by introducing a supplementary Constitutional Act as opposed to formally introducing swingeing changes to the Constitution itself, thereby permitting Estonia to implement the necessary legislative conditions without crossing the psychological Rubicon of a full amendment to the original document.

In her assessment of the process as a whole, although noting that the diverse and sometimes Quixotic practices of the CEE countries rather undermines attempts to establish a series of overarching principles to the amendment process within these jurisdictions, some key unifying features are still nonetheless apparent. Most ostensibly, political realities within the CEE countries had a strong impact on the final scale of constitutional amendment, which was ultimately surprisingly minimal given that a number of the states in question exploited existing provisions regarding accession to international organisations, as opposed to engaging in an attritional and politically corrosive exercise in wheel reinvention. In this respect, Albi considers the constitutional revolution that constitutes the accession process to be one essentially characterised by minimalism and a latent commitment towards fuller legislative changes at a more expedient point in the post-accession landscape.

The remainder of the book encompasses a series of concise chapters advancing insights into the accession process. The Chapter on referendums is particularly illuminating. Given the considerable Euroscepticism that lingered throughout the region in the years immediately prior to accession,

this process was a necessary undertaking fraught with political risk – both to the political elites seeking to convince a population as to the merits of EU membership, as well as to the Eurocrats keen to preserve the smooth development of the integration project. The parallels with the tortuous passage of the Lisbon treaty in recent months are ironically clear in this regard. Additionally, Albi devotes a concise degree of attention to the role of accession to other key international organisations and units – outlining the importance to the CEE states of membership of NATO and the Council of Europe respectively – while noting that growing pains may be experienced within the various Constitutional Courts when faced with conflicting provisions of EU law. The volume closes with an appraisal of the (then) nascent Constitutional Treaty and a broad epilogue. In this respect, Albi concludes that the striking experience of the CEE countries in acceding to the EU has a number of key implications. In the first instance, she notes that the process has asked interesting questions regarding the popular conception of the role of a constitution, noting that in CEE countries at least, the concept of sovereignty remains an integral issue. Albi further concludes that the political factors have loomed exceptionally large in the accession process and that the constitutional journey undertaken by many of the states was deeply unpopular with considerable sections of national society. The preceding discussion leads Albi to conclude that the very concept of constitutionality may be considered to be in transition, with the demands placed on new constitutions in the unique crucible of the EU system demonstrating a clear set of lessons for those keen to pursue a particular constitution for the Union itself.

Overall, *EU Enlargement and the Constitutions of Central and Eastern Europe* is a fascinating review of the unique legal history that accompanied the transitional stage towards accession in a number of key jurisdictions. The challenges and historical backgrounds to this exceptionally pressurised task are vividly told and Albi has an engaging and very thorough style, as well as an impressive empathy for and understanding of the unique position within a variety of disparate jurisdictions. Those with an interest in constitutional theory and the accession process will find a veritable goldmine of information and analysis within this well-written, well-argued and concise review. In sum, this is a fine book indeed, and ought to be considered both a benchmark and a starting point for any serious future study on this emotive and important aspect of constitutional change and European integration.

## Mait Talts

**Martin Kala. Euroopa maailma teljel (Europe on the axis of the world). Tallinn: Eesti Päevaleht, 2009. 318 pp.**

Sometimes it seems that the entire discussion on the significance of Estonia's European Union membership ended with the EU referendum in 2003. On the one hand, Estonia, which joined the EU as one of the most Euroskeptic countries, has become one of the most optimistic within those five years that Estonia has been an EU member. On September 14<sup>th</sup> 2003 only 67% of the people that went to the polls voted in favour of Estonia's accession to the EU, whereas 33% were against membership. Since the referendum and the actual accession, the popularity of the EU has grown significantly. According to the 2008 Eurobarometer survey, as many as 80% of the citizens of Estonia believe that the country will benefit from being a member of the EU, and 56% believed that things are developing basically in the right direction (Eurobarometer 68, 4). Moreover, in 2009, despite the current economic crisis, still 78% of Estonians were optimistic about the future prospects of the EU (Eurobarometer 71, 8). This is the second highest indicator among the EU countries (only the Irish are more optimistic about the EU's future prospects). In 2008 only 16% of the people in Estonia were convinced that things are going in the wrong direction in the EU, whereas the average number of EU citizens that share the same viewpoint is as high as 47%.

Along with this perpetual growth of EU popularity the one time heated discussion on the costs and benefits of Estonia's EU membership has apparently cooled off and almost died away. It even seems that the expected paradigm shift towards such principal underlying questions as what is the role of Estonia within the Union or how should Europe meet the challenges of globalization has not occurred yet. Such questions are raised only occasionally by intellectuals and usually without any tangible consequences. The bulk of the ordinary Estonians seem to be basically satisfied with developments after the country's accession despite the fact that quite often they acknowledge the EU's negative aspects (such as incapability of decision-making, and unfair and irrational decisions as in the infamous case of the sugar penalty fee) and love to complain about them. Nevertheless,

these things seem to be just a fair price to be paid for the advantages of membership that are taken for granted. Even the discussions on the European Constitution and the Lisbon Treaty have been quite inert in Estonia as if they had nothing to do with the country's future.

The book with its pretentious title "Europe on the axis of the world" by well-known columnist Martin Kala, which was published in May 2009 to celebrate the 5<sup>th</sup> Anniversary of Estonia's membership in the European Union, is a pleasant exception in this sense. There have been only a few other columnists (i.e. Erkki Bahovski or Ahto Lobjakas) who have mediated the news flow and the recent discussions from Brussels unveiling the background factors, but Martin Kala is the first who has managed to publish an entire book on the basis of his previously published press essays. As an advisor to former MEPs Toomas Hendrik Ilves and Katrin Saks, he gives ordinary Estonians a possibility to take a look 'inside'. In addition to that, Martin Kala is one of those very few Estonians able to follow Francophone discussion on European matters.

In his book the author, Martin Kala, presents his personal views as a strong proponent of the European Union and of European values, but he is, at the same time, a very concerned proponent. His personal beliefs and convictions are overshadowed by the problems and concerns about the future of the European project. And, of course, there are many reasons to be worried. Unlike some other strong proponents of the EU, he does not believe that the problems of the future will be simply wiped away by "Europe's invisible hand" as seems to believe, for instance, the well-known American analyst Mark Leonard (Leonard 2007, 15), but that they will require still both far-reaching visions and hard and persistent work for the goals set by the Europeans in order to maintain even their present status. He is also convinced that we cannot isolate ourselves from the influence of globalization unless we want to taste the 'bitter fruit' of the parallel process of globalization – 'new regionalism' in terms of isolation from world affairs, which can be already seen in some parts of Africa (see Hettne, Inotai and Sunkel 1999).

Europeans seem to have obsessions of their own. One of these is an attitude described by many social thinkers such as Isaiah Berlin (see Berlin 2003, 175-176) and which can be called the 'dark side' of Enlightenment. Europeans are so convinced of the rationality of their views that they tend to

believe that these views are so superior in comparison to other views that they do not need any explanations. Instead of that, these kinds of allegedly 'fully substantiated' ideas should simply be imposed on others. Martin Kala seems also to believe in the universalism of so-called European values, but finds still rather little proof of the self-assertive power of these values. Like many other advocates of Europe, he seems to have so deep a confidence in the self-evidence of European values that a discussion of the universal applicability does not even occur to him. In some cases he has to admit that in some countries the perception of the values we call European is often superficial or even purely extrinsic. Many countries simply copy them without a real willingness to implement those very European standards. The non-democratic regimes (i.e. Saudi Arabia or China) use their economic advantages on the world market without wasting efforts on the development of such values as human rights, individual liberties, democratic procedures, and a secure environment for everyone, etc. How these European values should be imposed in the case of the cultures that have a strong belief in their moral superiority in regard to the West (i.e. Islamic countries) remains without any reasonable explanation.

The existence of the European Union has been perceived here in Estonia as an inevitable part of people's everyday life, but at the same time a part that seems to be so remote a background factor that it has no direct impact on people's everyday life and therefore is not an object for discussion. The wider audience seems to believe strongly that ordinary citizens cannot influence EU affairs, and therefore it is better to stay as far removed as one can. This dual attitude is also inherent in the perception of the European Union in general. On the one hand, it has been a relatively successful project that has found partial imitation by others, if we bear in mind such associations of states as *Mercosur*, the African Union, the *Union de Naciones Suramericanas*, and the possible union of Turkish nations proposed by the President of Kazakhstan Nursultan Nazarbayev. The EU is still an arena where formal sovereignty can be exchanged for real power (Beck and Giddens 2005). On the other hand, one can see a certain weariness, the lagging behind of institutional reform, the absence of a clear vision of the future, a lack of consensus in vitally important issues, growing unemployment and other economic problems, the unsubstantiated dominance of bigger countries (first of all France and Germany) in some important areas, the bureaucracy, and the dealing with false problems, all of which no one can deny.

Despite the problems, the EU has not yet experienced any serious setback. The EU is still a good example to its closest as well as to some remote neighbours, and the union's citizens are still quite unconcerned about their future. But one has to add that these things will definitely be changed and most likely quite significantly in the future, perhaps even in the near future. Martin Kala keeps reminding the reader that, as he puts it, "the map of the world will be different", and the later 21st century world will have many other important players, not just these 'famous three' big future powers: the EU, the US, and China (India's economy is also growing, but so far at an unknown pace), but also many new ascending countries called the 'Second World' by US analyst Parag Khanna (Khanna 2008). Countries as Japan, Switzerland, Brazil, Argentina, Venezuela, Australia, the Republic of South-Africa, Mexico, Nigeria, Indonesia, Kazakhstan, and perhaps even Russia – the countries competing with the First World and with each other -- may strongly influence the economics of the future world as well as its international political climate. The EU's proportional share in the world can only decline. Martin Kala reminds us that 50 years ago there was 15% of the population of the world living in Europe; this figure has come down to 6% at the present, and 50 years from now there will be no more than 3% of the world's population living in the territory of the present-day European Union. Therefore, it seems inevitable for Europe to initiate something that could put a basis to the possibility of growing its influence in terms of qualitative change.

Europe has come to the point where the most significant feature of its citizens seems to be in a certain way "convenience" – people and, as the matter of fact, the overwhelming majority of politicians are so satisfied with recent developments that they do not desire any significant changes and therefore tend to leave the questions of the European future without adequate attention. The horrible events of the 20<sup>th</sup> century as well as Europe's colonial past have caused also quite a large number of Europeans to feel ashamed and to have turned their back to the Past in hope of a better Future. Unfortunately, the Future has been seen quite often as simply a continuation of the Present. Moreover, the majority of Europeans seems to be so pleased with the current situation despite widespread tendencies to criticize the current state of the bureaucratic and indecisive nature of the EU that they do not actually desire any substantive changes. In the case of Estonia, Martin Kala argues for a hypothesis that the relative "popularity" of the European Union here is at least partially explicable by the fact that the

Estonian media reflects the work of European institutions remarkably demurely. The very limited coverage has created an image of EU among local people as something very remote, which does not affect people's everyday life overly much.

It is clear that the French, Dutch, and Irish referendums are clear evidence of that thinking as well as of the weakness of the European identity, the commitment to the selfish interests despite the common values and considerations. But the question of European identity is also the question about European borders, something that has been actually disputable for centuries. As many other proponents of Europe, Martin Kala is also strongly against drawing new dividing lines and believes that there is no alternative to the enlargement of the European Union if the EU wants to maintain its present role in the future. Opposing the dividing lines and standing for enlargement, he has to refer repeatedly to the recent attitude of 'Old Europe' towards the new Eastern European members, an attitude which found its manifestation in the notorious expression *Polish plumber*. Martin Kala openly blames the political leaders of Estonia and some other Eastern European countries that they did not protest in due time against this obviously 'racist' slogan.

Using the terminology of physics, Europe is culturally not a discrete, but rather a continuous, phenomenon. We cannot indicate where the clearly defined limits of Europe's civilization lie and where the land of the *barbarians* begins. This concerns especially Eastern Europeans who have become members of the EU quite recently and should understand better than anyone the aspirations of the nations knocking on the EU's door. Martin Kala argues that the strength of the European Union lies paradoxically in its "weakness" – in the fact that Europe is not "present" in other parts of the world as it was during the colonial era, but is simply showing a good example worth following. Rephrasing the famous Chinese Taoist thought of the "decisive role of non-existence" (Lao zi 1995, 25) he states that "Europe acts because it does not exist", at least in the terms of coercive action. In this sense the 'soft power' possessed by the European Union really acts due to its non-coercive nature. However, this is in clear contradiction with the existence of non-democratic countries and the helplessness of Europeans to have any influence on them, a problem that was considered a few paragraphs back. The 'soft power' affects first of all, if not exclusively, the countries in the EU's closest neighbourhood, those countries that have a

clear intention of becoming EU members (such as Turkey, the Balkan countries, and Moldova. Other, more remote, countries can continue without significant problems on their current track whether it is democratic or authoritarian. But even those countries that have been developing their legal and value systems towards greater conformity with European standards during the last years in the hope of becoming EU members can suffer serious setbacks if the ‘door’ to the EU remains closed; this could be the case especially in regard of Turkey.

Nevertheless, Martin Kala believes that the actual weakness of Europe lies in the limitations of the conceptual and spiritual basis. The traditional religion has become marginal in almost every way, and the traditional Christian values have transformed into secular everyday moral principles without transcendental significance. It seems that most of the Europeans have created something that could be called ‘**civil religion**’ on the basis of generally accepted civil liberties, secular values, human rights, belief in democratic way of thinking, etc., which has replaced the role of traditional religion. At the same time, this *Weltanschauung* proves to be very weak when its values and their ability of self-assertion have been confronted by e.g. radical Islam. However, what could be the strengths of European values vis-à-vis Islam, which believes strongly in the moral superiority of its own values, seems to be rather unclear to Martin Kala as it is for most of present-day European popular thinkers.

Martin Kala reminds as about one often forgotten, but essentially important, principle: **unexpected has a tendency of becoming inevitable since we do not pay enough attention to unlikely development because of our strong faith in what we believe is inevitable**. Paradoxically, our faith in inevitable and the feeling of confidence caused by that gives to the unexpected phenomena a chance to occur. So, therefore, we cannot simply rule out any tendencies that seem to be unlikely for our superficial observation and deficient intellectual capacities to distinguish the inevitable from probable and probable from unlikely. Despite the ‘generally accepted’ European values, there is still only rather little that unites all Europeans. Why is it that the only effective solidarity seems to be the solidarity of fear created by facing a common threat or believe in the possibility of facing it (Beck 2005, 52)? Does it have to be this way always and by all means?

I do not believe that books like the one under observation here could change the attitudes of the general public directly. But it seems quite obvious that Martin Kala has managed to raise important questions and hopefully arouse at least some interest among representatives of the political and cultural elite. The future of Europe will be quite different from the Europe of the present day, and it will be by all evidence much more problematic. The alteration of the thinking of general public can be achieved only through the change of the attitudes of the elite and of respective communicative actions. Martin Kala's book is definitely a serious step in this direction.

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