

THE MODEL OF POST-SOCIALIST RURAL TRANSITION: OPENNESS AND (UN)LEARNING VERSUS INFORMAL RELATIONS

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*In the conditions of the modern world, only the man
apart, the marginal, the peripheral the anomic, those
excluded from the horde has a creative capacity...*
Henry Lefebvre 1980

Abstract

The aim of this article is to discuss development issues at the locality level. Below, we are working with the learning economy theory and the concept of bottom-up indigenous development in combination with other approaches. The principal transformation model for the post-soviet rural areas further development is elaborated.

The acknowledgement of local social networks is crucial, especially in economically decreasing areas. Innovation and development potential in rural areas with primary sector dominance, where few service industries and jobs have been created, remain usually low. Improving infrastructures and creating jobs by outside authorities (state subsidies) and enterprises only will not be enough for the sustainable economic development of a locality or a region.

Besides, in the case of strengthening informal structures and behaviour, local (self)exclusion will tend to grow as a side effect in these areas. The (self)closeness of the society can be considered as an important impediment to indigenous development.

Key words: *rural restructuring, institutional thickness, self-closene, Estonia.*

MODEL POST-SOCIALISTIČNEGA PREHODA NA PODEŽELJU: ODPRTOST IN (NE)UČENJE PROTI NEFORMALNIH ODNOSOM

Izvleček

Prispevek na teoretičen in praktičen način (študija primera: Mustooc in Kasepää) podrobno analizira elemente in instrumente, pa tudi posledice prehoda v tržno gospodarstvo v Estoniji.

Ključne besede: podeželje, obnova podeželja, Estonija.

Introduction

In rural areas, during the last centuries, there have not been enough jobs or they have been poorly-paid jobs because of the low required level of qualifications. Therefore, people have been forced to seek better working and earning conditions. Regions dependent on agriculture, fishing and forestry have experienced migration of inhabitants at various levels. Due to out-migration, other economic branches in the regions have lost clients and have been forced to reduce (or eliminate) the turnover of producer-service units (Figure 1).

But the reasons for economic decline are not so simple. Quite often, reasons of local development can be found in the local networks and power relations. In many localities the lack of willingness or abilities to work at restructuring the community can be seen as the real reason of economic decline.

In Estonia, particularly in rural areas, extremely rapid restructuring has taken place since the end of the 1980s. It is not realistic to preserve or increase employment in Estonian agriculture in the future, even with the help of comprehensive state policies, because of low labour productivity. This means that if alternative jobs are not created in the countryside, or at least within a reasonable daily commuting distance, continuously-high rates of unemployment will remain in rural areas. This has already led to migration to the centres, rising social exclusion and extra social costs.

about quality and skills are working even more successfully in rural locations, because of the stability of labour and lower input costs (Porschlegel et al. 1999). These industrial developments generally need sufficient modern infrastructure - roads and telecommunications (which in Estonia are almost guaranteed at the commune centre level) - but primarily the awareness and willingness to see these particular developments at the local level (by the local authorities or enterprises).

Many opportunities in tourism, recreation and cultural industries exist thanks to the particular set of values in Estonia, too. Well-off city people are willing to pay more for a good environment, which means that after about 10 or 20 years the population in rural areas could be much different than it is now. City people serving leisure industries will support a dispersed settlement structure as well. The forecasts for the previously and currently still-declining rural areas ought not to be so pessimistic.

At the same time, however, the side effects of economic decline in rural areas (distress, social exclusion, and the share of a hidden economy and illegal activities) are continuously growing in many areas. These particular societies may close themselves from the outside world and deteriorate significantly from the smooth shift to the recreational or manufacturing economies of the urban field or disperse urbanism.

So we can draw two basic quite challenging scenarios for such areas (see Figure 2). This chapter will continue to empirically describe the situation in still-declining rural areas (challenge number II) of Estonia.

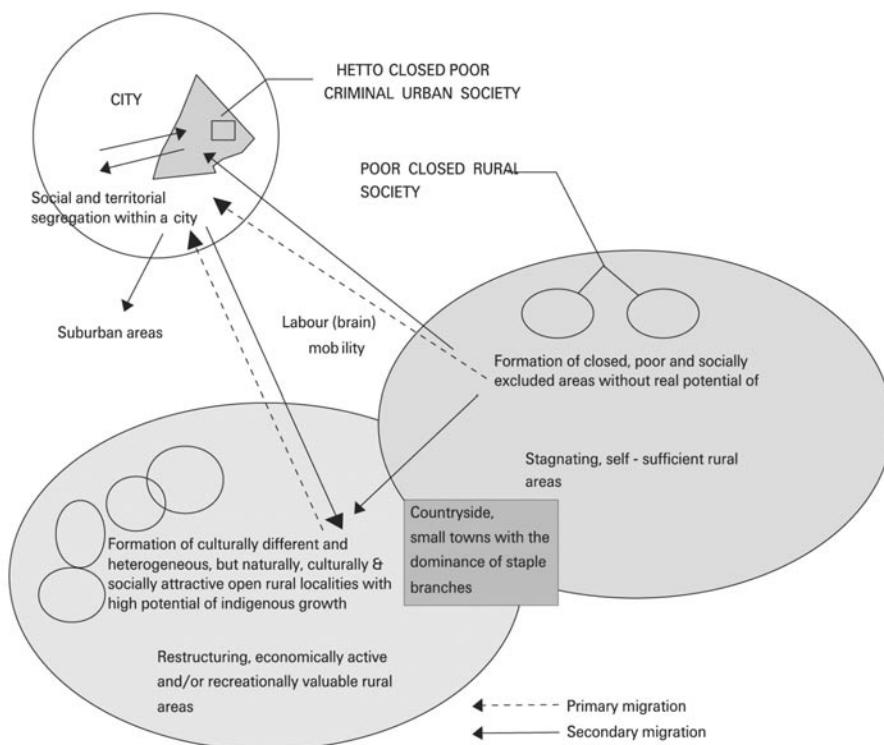
The development model for sparsely populated rural areas

Challenge for rural areas I - restructuring to a recreational economy

When relatively more attention is paid to the new growing economic activities which may be useful for sparsely-populated (rural) areas. One such field is culture (arts and entertainment), which has become a new industry with enormous growth potential (Cooke 1997). Cultural industries, in combination with tourism, environmental activities, all other forms of recreation, producer services (training in particular) and SME manufacturing and handicraft, form a wide complex of activities highly applicable for rural

Figure 2. Principal transformation model for the CEEC rural areas.

Skica 2: Glavni transformacijski model za podeželska območja srednje- in vzhodnoevropskih držav.



and semi-rural areas with natural beauty and rich cultural heritage.

Common car ownership has substantially increased the mobility of the local work force. On one hand, it reduces the turnover of the local service units even more; but on the other hand, labour market areas may widen significantly and allow local people to participate in the urban labour market. The living function of rural areas, so called dispersed urbanism, will tend to grow.

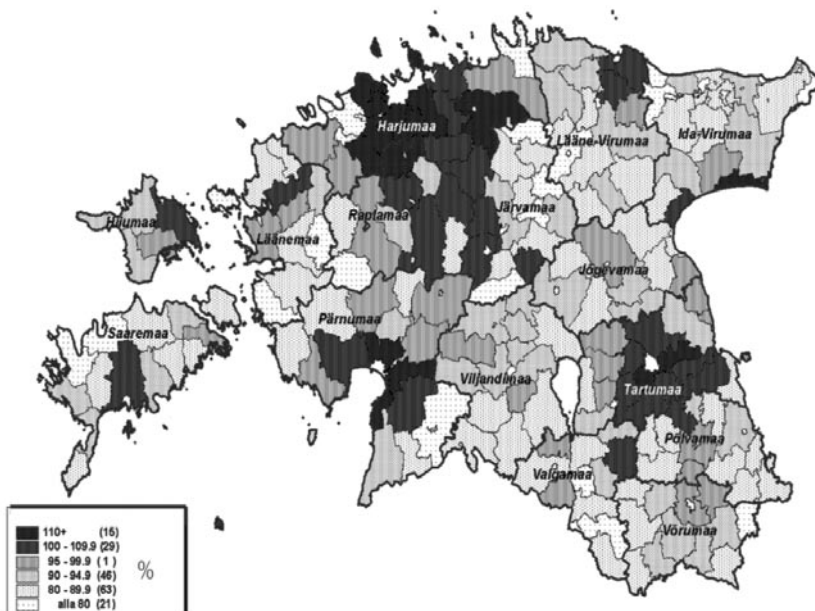
Many urban people are interested in spending their weekends and holidays in a rural, naturally-clean and more secure environment. In the West, and particularly in Estonia, it is popular to own two homes, one in the city and

the other in the countryside. This means that the person has a job in town, which provides the principle income. In the rural location, they have a summer cottage, where they can rest, but also take up land cultivation as a hobby or to supplement their urban job.

A country environment is very suitable for certain kinds of mental work: fresh air, silence, physical work or sport as a change. Country households with farming and gardening can provide significant income to the family budget and enable children to be raised with love for work and nature. Modern communication (telephones, the World Wide Web) enables people to work in the country without requiring extended periods in the city.

Map 1: Population change in Estonian rural communes (%) 1989-2000 according to census data (ESA 2001)

Karta 1: Prebivalstvene spremembe v estonskih podeželjskih skupnostih 1989-2000 (po podatkih popisa 2001).



Distance workers, able to function thanks to the web, may live for long periods or even most of the time in the countryside. However, in all these cases - but especially when speaking about highly qualified people - the quality of infrastructures and the social environment - particularly social

and cultural institutions, i.e., public services, schools and NGOs - achieves decisive importance influencing migratory behaviour. Consequently, high mobility and distance work opportunities set quite different basic conditions for rural areas. They demand heavy restructuring, of not only infrastructures and the economic base, but of attitudes of local culture - training local political elite for guarantying openness and a social milieu for potential newcomers and innovations.

Older, less active inhabitants have been noticed returning to the country (Vartiainen, 1990). Although in Estonia profound empirical studies have not been carried out, by referring to the superficial statistical analysis, we can claim that those processes here are even stronger than in Finland thanks to the fact that older people are unable to compete in the new labour market conditions. Older people leave for their country homes from their expensive town apartments. In the Tallinn agglomeration a large number of people are rebuilding their summerhouses into dwellings (Kliimask, 1994). This process is also characteristic of the peripheral regions of Estonia, too. Older people are unable to compete in the labour market and leave their expensive city apartments (Tammaru and Sjöberg, 1999) for country or summer homes or garden cottages, so-called "datchas" of the Russian inhabitants. This has caused de-concentration of population to the garden settlements close to the cities (Map 3).

When the opportunities are near each other, then determination will be people's attitudes. When in society there are dominating thinking patterns that proceed from the (yuppie) city-culture, then people are easily ready to take to the centres. They do not have nostalgia for the country. Domination of the environmental (sustainable) values favours the moving into the natural environment in spite of its deficiencies, like distance from the centres and information (Hautamäki, 1985, Hautamäki et al., 1992).

Observing the attitudes of Estonian youth that have been amplified by the rapid development of the number of well-paid jobs and the demand for qualified workers (banking, real estate, business services), it has become a distinct reason that deepens the processes of concentration. Cities and office work have become popular among the young. However, the 1998-1999 recession and the consolidation of banks and insurance companies forced unemployment upon many "yuppies". And many still-employed "yuppies" have confessed that city life and work is very stressful. They need to take time off often, and for many the best opportunity to recharge

their "batteries" is to spend time in the countryside and wildlife.

Older city people are used to commute to their country houses for weekends, and some of them are spending even more time there. The two key questions here are whether they might be interested in contributing to local politics and how open the local political elite is to involving these highly-intellectual people with many important contacts and good ideas.

Where such interaction takes place, it will mean increased awareness to learn and cope with very complex global processes we described in previous chapters.

Challenge for rural areas II - return to a self-sufficient (hidden) economy

There is another option which, unfortunately, can be considered very realistic for many Estonian rural areas. The declining regional economy and rising unemployment may benefit significantly from the emergence of hidden activities that reflect a widespread change of attitudes rather than a desperate reaction to unpleasant circumstances (Kockel 1993). This kind of "hidden" path, starting from an economic or cultural decline, may seriously damage development perspectives for any locality in the long run.

Consequently, a locality where the official living standard falls and hidden activities tend to grow will gradually lose its ties with the rest of the nation. Economically and culturally (and therefore often also politically), the opportunistic local micro-culture closes onto itself and becomes increasingly traditional and intolerant towards official (national) standpoints and different thinking and thinkers within the locality - other cultural layers. Usually, this kind of segregation is associated with the emigration of more capable youngsters who see no possibility for the modernisation of local life and the extremely low business activity due to the lack of societal interaction and the very unfavourable business climate.

The hidden economy is the sort of production or distribution that takes place beyond social regulation and is divided into the informal and the domestic economies (for further reference see Raagmaa 1997). Western authors consider the hidden economy to be the valve that regulates the restructuring hardships of the official economy. People cannot afford to

wait because of unemployment and the ever slimmer purse, so they try to improve their living conditions on their own (Cassel, 1984).

Economic recession and unemployment reduces people's real income and forces part of them to seek additional earnings (Cassel, 1982). When the share of the hidden economy in a totally urbanised and highly-industrialised region with well-organised public control over production has been reduced to a minimum, then its share tends to grow in the declining rural areas and, in the long run, local societies may distance themselves from formal structures forming their own subculture.

Where such particular micro-culture has already formed, any development action taken by public policies within these areas should consider these particularities. Otherwise, the intervention may just waste public resources or even worse, damage local existing potential.

Creating competitive advantage through localised learning

Since the publication of Michael Porters' theory on "The competitive advantage of nations", which can be easily extended to the regional level, the number of possible success factors has been well extended. According to Porter (1990), the strength, composition and sustainability of a nation's or a region's competitive advantage will be demonstrated by the value of its national (regional) product and the rate of growth of that product, relative to that of its leading competitors.

The extent to which a country (region) is successful in achieving this goal then depends on the kind of goods and services produced by its enterprises and the efficiency at which they are supplied. Porter suggests that this results because of the extent and quality, but also interaction of, four sets of attributes:

1. the level and composition of natural resources and created factor conditions;
2. the quantity and quality of demand for goods and services by its domestic consumers;
3. the domestic rivalry of wealth-producing agencies (the nature and extent of inter-firm competition) and
4. the extent to which its firms are able to benefit from agglomeration or external economies by being spatially grouped in clusters of related activities.

Surrounding and influencing these variables are two others: the roles of government and chance. Porter (1990) prefers not to consider government as a main attribute of the diamond but as a fashioner of its structure and efficiency. This means that direct (political) intervention in the economic system may deteriorate its "normal" regional and social structure and competitiveness. Implementing effective policies means first of all creating and improving the innovative, entrepreneurial milieu, then increasing the capacity of learning and utilising new knowledge and technologies.

Post-fordism, flexible specialisation and the importance of learning

One of the most fundamental trends in the economy over the last decades has been the accelerating rate of innovation and change, driven by intensified competition in many product and service markets. The faster rate of innovation and change is closely related to the transition towards a global economy that has been taking place since the 1970s.

However, globalisation is not an automatic, unlimited and concluded process. Globalisation today has a direct impact on firms belonging to different industrial sectors and territories through intensified competition. This means that economic performance in this new economic context increasingly depends directly on the learning ability of individuals, firms, regions and countries (Lundvall and Borrs, 1997).

In the 1970s, when mass production and consumption were getting difficult, a very important ability was flexible specialisation, the knowledge of how to re-specialise from one market to another. Earlier, attention was paid to production process; now the customers became more important. Perfect systems of production and services are characteristic of flexible specialisation, that is different technologies which despite their complex nature have their own ability to regulate and therefore to be flexible (Piore and Sabel, 1984). Because of the communication with customers, it is very important to renew the product. This means that a good network is needed to guarantee permanent interaction. Importance of competition is more essential while talking about quality than about prices. Here is where small enterprises found their places, not because of competition, but because of regional co-operation. Competitors are far away in the global market.

Orientation to consumers makes it impossible to create stable networks of distribution. It requires certain goods at certain times; time is taken by days or sometimes even by hours. There is no hope for profits when the enterprise is not able to act just in time. Selling small amounts of goods means a good knowledge of distances, and therefore it is not reasonable to transport goods (Fisher, 1988).

Ricardo's classic theory of exchanging goods was based on productivity of labour (like later fordism). It varied in different regions because of each regions' society, environment or climate. It did not consider technological possibilities in different countries. At that time they were not important, although they are now. At that time far more important features were land, price of labour, natural resources and capital. But technology turned these values upside down, and subsequently a new paradigm was needed. This is what we now call a conception of learning economy (Maskell and Malmberg, 1996).

The concept of learning economy tries to go further by integrating theories of innovation, industrial economics, theories of development, economical geography, international trade, political science and sociology. The theory of learning economy proceeds from wide empirical material. According to this, technological knowledge and skills allow a certain region to produce certain goods efficaciously. This means high-quality products and cheap prices. It is reasonable for a region to specialise in certain products and export them and import other goods that are effectively produced in some other regions. Such a system will enlarge the effect of mass production (Maskell and Malmberg, 1996).

New perspectives according to the learning economy concept are expanded productivity through more effective production; increasing profits as products are better propagated; the ability to renew and continuous learning and improvement (Lundvall, 1992). More simply: the old ability "to sell yourself cheaply" is exchanged for the new one "to work intelligently/wisely" (Cooke, 1995). The market selection of change-oriented firms further accelerates innovation and change. There is nothing to indicate that the process will slow down in the near future. Rather, the deregulation of product markets and the entrance of new competitors on to the world market will give new momentum to the process (Lundvall and Borrs, 1997).

Under the conditions of almost fully-available technical information, inter-

personal relations became more important. Under the condition of stress and "absolute" but competing information, the importance of intangible social factors and trust has increased. The mutual interaction between economic agents and trust became ever more important for economic success.

Over the past years we have witnessed the spread of this new paradigm and its derivations like network (Castells, 1996/8) or associational economy (Morgan, 1997, Cooke and Morgan, 1998). According to this, it is clearly believed that markets and hierarchies do not exhaust the menu of organisational forms for mobilising resources for innovation and regional development. Many earlier authors (Illeris, 1986, Scott, 1990, Powell, 1990, Camagni, 1991, OECD, 1992, Lundvall, 1992, Cooke and Morgan, 1993, Sabel, 1994, Storper, 1995, Amin and Thrift, 1995 have) noted the same.

Localised learning, the transfer of non-codified knowledge and limits of learning

In the learning economy the winners are those who learn quickly and have better knowledge than their rivals, not those who have cheap prices. Changes in the international economy have put more emphasis on competition of knowledge than on prices. Winners are those enterprises who are ahead of their rivals in creating knowledge (Porter, 1990). Knowledge has become the main factor of modern production systems. The continuous creation of knowledge is now the key process of competition.

As the number of firms grows, competition cannot depend on cutting prices but on renewing the process of production, on new methods of how to take over markets and on producing improved goods (Prahalad and Hamel, 1990). The moral is that to help firms on the national or regional level, the creation and use of new knowledge (learning) must be developed (MacLeod, 1996).

The process of constructing knowledge can be divided into two by the means of its transmission. There is a type of knowledge which is based on facts and is therefore easy to write down, and, if necessary, to translate and multiply. Other things are easy to learn, but difficult to describe or codify. For example, it is impossible to learn to ride a bicycle, to drive a car or to fly a plane without hands-on instructions. Picking up these skills quickly and effectively assumes a certain cultural and psychological background.

The distinction between tacit knowledge and codified knowledge is important, because, if knowledge remains tacit, it flows less easily across organisational and geographical borders. If all knowledge were readily transformed into information to which everyone had easy access, there would be little incentive for firms, regions and nations to invest in R&D. Technology gaps between regions and countries would be minor and temporary (Lundvall and Borrs, 1997).

Basically, knowledge remains tacit if it is complex or variable in quality: where in situations several different human senses need to be used at the same time, when skilful physical behaviour is involved and when understanding social relationships is crucial. This is especially difficult to overcome when the context undergoes rapid change (ibid.).

It is interesting how this "tacit knowledge" influences competition between firms. With the development of IT, standardised production, educational programs, easily accessible material and human resources, the differences between firms should decrease. At the same time, the unassailable and non-codified "tacit knowledge" which can be constructed and exchanged only in practice rises by its importance and is highly valued in international markets of business.

The market does not enable perfect transmission of information. It is ideal for the transmission of material resources, but it is far from perfect when talking about knowledge (Lundvall, 1992). In reality it is very difficult to assess information so that price will satisfy both the seller and the buyer. Sold information is never the same as the original, and this fact may discharge the seller. On the other hand, the person who just bought the information may add something to it and start selling it himself, sometimes even having more success than the person who actually worked out the knowledge.

Confidence is very important in relations between modern firms; only long-term contacts and (networks of) acquaintances enable effective relationships. Therefore, networks between firms are developing better than ever before (Axelson & Easton, 1992). Due to the exchange of information, a pre-capitalist or post-socialist barter way has been formed. One kind of knowledge and skills are exchanged for another (Maskell & Malmberg, 1995).

As all of the processes in the economy have a (deep) social background, the main part of knowledge has been constructed and put to use in social

networks. At the same time it is very difficult to identify different parts of knowledge. Actually, it is invalid when talking about special qualified workers or machinery, which are used in production. But when the knowledge is the result of the inside processes and the routine of the enterprise or organisation, and a specific culture has appeared, it is hard to explain where and when this or that element appeared (MacLeod, 1996). So it is impossible to copy big and complicated organisations, as the construction of knowledge brings along identification impediments (Maskell & Malmberg, 1995).

The exchange of information and social skills itself sets limits to the size of enterprises. Only the owners of small enterprises, who know each other, can depend on confidence (usually on oral agreements) and are therefore more successful and operative than big enterprises, which lose time and means by arguing over official contracts (ibid.).

Sometimes the results of the knowledge are extraordinarily successful and this success leads to continuous routine behaviour. So, it may happen that dislocations are forgotten and only those experiences which worked well yesterday are recognised. The previous experiences are considered to be the base of today's plans, and tomorrow's success is taken for granted (ibid.).

It is just hard to unlearn previous successful customs, even though they are certainly restraining future development. It has been proven that it is easier to change generally-accepted points of view than someone's personal points of view. Many firms have had difficulties after a period of success when the situation has changed. Even whole branches of the economy may find themselves in such conditions until someone breaks through and starts the new way of thinking (ibid.).

Unused knowledge may therefore exist in many forms, even inside enterprises, but it has not been learned because of certain preferences, prices or routine. Case studies have come to the same conclusions: there is a lack of open communication channels between those who decide for the firm, its departments and the different levels in the organisation. People have heard of new chances, but the rules of the organisation prevent them from using these chances. Inside barriers may also limit using the knowledge that the organisation already has (Maskell & Malmberg 95).

The formation of new and successful firms makes regional enterprises

change their *status quo*. When successful newcomers are supported at the beginning so that they can prove themselves, it is easier for the others, too, to take over new methods and ideas. The problems of regional culture are the dinosaurs. They will blow up the economy of the whole region if they keep on existing for some time. They may have a successful come-back if they step aside for some period of learning.

The attitude towards new enterprises, initiators and personal development is the key to regional success. Successful regional economy means that enterprises themselves work hard to bring in new people with new ideas, money and consumers. All in all, this is the social capital of a local region: technology that practically cannot be copied but still has some elements for learning.

Social mobilisation and local network formation

The ability to compete regionally is defined as an ability to bring in new firms as well as preserve already existing enterprises in stable growing markets. At the same time standards of living should have stable growth. Such ability is based on regional resources, physical structures and the specific local institutions. It has been noticed that regions with successful enterprises (with good competition ability) have improved their position in the global market and their inhabitants' standards of living even during periods of a declining economy. That is different from the other concerns and regions who lost their position in the global market despite of their work and decrease in prime costs (Cooke & Morgan, 1995).

Institutional capability of regions/localities - creating an innovative milieu

The *Standort* theories assumed that enterprises based on ubiquitous resources (water, for example) are not dependent on the location and will follow either market, labour or energy costs. New theories overflow these statements. Institutional endowments on certain territories can essentially change the economical efficiency through certain knowledge.

A region's institutional accommodation is characteristic of the change of knowledge from time to time and should cover:

- 1) factors of production (capital, employees, infrastructures and knowledge),

- 2) efficient market for products and services,
- 3) quality of pretensions and preference of needs of customers,
- 4) governmental forms, open sector, process of political discussions and their appliances, enterprising and
- 5) rules, practice, habits, agreements, cultures, moral convictions, religion and other values which are characteristic to the region or country (Maskell and Malmberg, 1996).

Together with resources and physical infrastructures the industrial endowment forms regional abilities, which in turn influences the regional competitiveness of the enterprises. A certain part of institutional structure is the result of the long-term historical process of formation. The other part is firmly connected with today's economical environment. For instance, the pretension may be a far more qualified factor, which develops due to close contacts with consumers. Such contacts are more easily created on local levels (Becattini, 1990).

It is important to notice that not all the firms depend on learning. Many of them develop thanks to the outer competition, which has no connection with the region where they come from. The process of learning is often divided between firms. It strengthens through the co-operation between consumers, purveyors and other people who form the environment of business. Social relationships and institutions form the basis on which knowledge is constructed on local, regional and national levels (Storper, 1994).

Regional institutional endowment has direct influence on creating and avoiding certain types of knowledge. Here the best example is the comparison of the Third (central and north-eastern) and Second (Mezzogiorno or southern) Italy. In the north, an open-minded and individualistic economy has been dominating, whereas the south is a closed society because of different conquerors. In the north people and enterprises trust the government. Local democracy is working; government acts effectively and the economy is growing. In the south the society is split up into clans. Democracy is not working; the majority of the people do not trust the government. GDP per capita and economical growth is far below national average (Putnam, 1993).

In Europe the best examples of regional network economy, the motor regions are (Emilia-Romagna in Italy, Rhone-Alps in Germany) where open and private sectors are based on mutual trust and co-operation (Cooke, 1996). Competitiveness depends on continually renewing regions with the

innovative environment, which is recognised by:

- 1) many connected but still independent enterprises (especially small enterprises),
- 2) presence of supporting and co-ordinating institutional structure (usually it is some kind of co-operative, self-governmental or national development agencies) and
- 3) intensive co-operation between enterprises and local networks (Becattini, 1990).

According to Anderson (1983), Johannisson (1995) and others, creative regions are characterised by:

- 1) presence of some unique skills,
- 2) intensive inner and outer communication and
- 3) lack of unstable and inflexible structures which restrict creativeness.

The competence of firms is formed by market-structures (Sutton, 1992), some special technological elements (Teece, 1986, Dosi, 1990) and, at the same time, by local, regional and national formal and informal institutions. Constructing a regional or national system of knowledge on different levels has a very important part in integrating enterprises of a specific region into the global market.

We should definitely be quite cautious in comparing Third Italy-type handicraft networks with Soviet collective farms. Estonian, and probably most Eastern European rural post-war developments, are more similar to contemporary France where a massive centrally-planned restructuring has taken place since the 1950s (Ganne, 1992).

This specific, centrally guided "non-creative destruction" had major effects in older industrial zones and led to the disappearance of the old forms of the organisation within the local industrial systems. Thus, contrary to what is observed in the Italian case, local integration did not always guarantee openness and adaptability for the industrial systems. For the French post-war planners, these systems constituted just too many obstacles to be removed (*ibid.*). In former socialist countries local networks and former economic structures were destroyed for ideological and political reasons.

The internal development factors: local networks and social mobilisation

Characteristics which local initiators considered successful were mainly indigenously-triggered and mobilisation-oriented local entrepreneurial resources, economic diversification and introduction of new products, skill upgrading and introduction of new organisational forms of economic, cultural and training activities. Less successful local development schemes, on the other hand, seem to have been characterised by a heavy reliance on external (state) agencies, concentration of efforts on intensifying rather than diversifying existing local activities and the lack of local entrepreneurial capacity (Stöhr, 1990).

Stöhr (ibid.) draws out guidelines for starting the local development process. Local preconditions for innovations are:

- 1) Crisis conditions (such as those resulting from changes in the international division of labour) represent a strong potential trigger for innovation and entrepreneurship in the sense of Shumpeterian creative destruction.
- 2) Societal incentives and rewards must be offered for individual initiative and entrepreneurship and for their orientation toward broader benefits to local society.
- 3) The institutional transfer of information, innovation and entrepreneurial initiative from outside and within the local community are further key prerequisites.
- 4) Synergetic local interaction networks for the exchange of information, commodities and services as bearers of innovation and co-operation have proven to be worthy of promotion as important vehicles for transfers.
- 5) The promotion of local entrepreneurial co-operation as a framework for individual initiative and the orientation of its benefits.
- 6) A broad democratic decision-making process is usually an important prerequisite for the broad local distribution of benefits. It can also lead, however, to inefficient resource allocation and rigid local structures.
- 7) Formation of rigid local hierarchies which limit incentives for innovation and the broad diffusion of their benefits should be avoided.

Indeed, innovation itself can be singled out as the crucial factor to promote indigenous growth and competitiveness of the locality. Innovative activities account for up to 90 % of GDP growth (Freeman, 1994). We may consider both innovations within an industrial branch as well as the restructuring of the whole economic structure. Porter (1990) describes spatial clustering

and the innovative development of industries, the importance of local collaboration and rivalry as well as public action (e.g. structural planning, various enterprise support services provided by regional authorities).

The concept of indigenous or bottom-up development has served as a prime force for economic growth in geographically-remote areas since the mid-1980s (Sweeney, 1990). If we consider the question of external help to regional and local societies, we must consider that this development initiator, particularly an external one, had to have (or gain) access to existing local information through social and institutional networks. The local initiator had to become a local development agent interrelating different local actors and institutions with each other and motivating them to collaborate. A further prerequisite for successful initiatives was high local mobility of relevant information through formal channels (such as local newspapers) or informal channels (such as intensive social interaction) (ibid.).

The local initiatives considered successful were mainly indigenously-triggered and oriented towards mobilising local entrepreneurial resources, towards economic diversification, the introduction of new products, the upgrading of skills and the introduction of new organisational forms for economic, cultural and training activities. Less successful local development schemes, on the other hand, seem to be characterised by a heavy reliance on external (state) agencies, the concentration of efforts on intensifying rather than diversifying existing local activities and a lack of local entrepreneurial capacity, *ibid.*

We should stress here the local dimension has long been overshadowed by concern with the macro-economy. This is due in part to the rediscovery of the diversity of economic forms which dominate the economy in many countries and constitute an alternative to mass production systems (Sabel and Zeitlin, 1985). According to this thinking, Leborgne and Lipietz (1992) argue that the formation of a local economy involves not just the development of a productive apparatus on the basis of atomised decisions of firms and workers, but also a "politics of place".

Locality, the concept that we follow next, is the space within which the larger part of most citizens' daily working and consuming lives are lived. Locality is making effective individual and collective interventions within and beyond that base, providing a base from which subjects can exercise their capacity for pro-activity. There are several nice examples of local

mobilisation of individuals and groups taking full advantage of what may be called pro-active capacity. Subsequently, locality is the base for cultural, economic and social life (Cooke, 1989).

Piore and Sabel (1984) defined an industrial district, the classical example of which is given by Emilia-Romagna. The patterns of social relations are specific to particular places and, therefore, to the history of each district. Social relations, specific to each village, clan or family, and the specific, local cultural foundations underpin the economic organisation and policy of each district. They act as a system for economic informational exchange which in turn promotes the circulation of products throughout the entire district (Piore and Sabel, 1984). Within this social, cultural and economic territory, we may speak about "studied trust" (Sabel, 1992), which benefits a locality due to the lower level of transaction costs and increased flexibility of local industries (Piore and Sabel, 1984) and well-targeted policymaking.

The classic model of a district (Tuscany) developed in the presence of an extended family, which in turn accompanied the historical form of agricultural sharecropping (mezzadria). The dense family networks or proactive public sector form the conditions for a small-scale entrepreneurial class and promote solidarity (Courault and Romani, 1992).

Localities and industrial districts emerge on the basis of local processes within a defined local historical context. Economic foundations have a powerful structuring effect on the formation of districts. The foundations themselves are inseparable from the social forces - especially in the labour market - in the rise and regulation of the local response. Local communities, which generate their own economic prosperity, have been noted for a distinct local and technical competence (Sweeney, 1990).

Institutionalised territorial identity may be instrumental to indigenous development, because the localities with a reputation of high cultural standards are assumed to attract more people, potential entrepreneurs, investors and labour (Spilling, 1991). People with high regional identity are easy to mobilise for a community action (Raagmaa, 2000)

Microeconomic transition in Estonian rural areas

Route to societal decline: from Soviet fordism to the domestic ("post-secondary") economy

In 1940 there were slightly fewer than 140,000 farms in Estonia (1.2 million people lived in Estonia of which 60% in the countryside). Most farms were small with about 10 hectares of arable land. After the war, the Soviet authorities launched a collectivisation campaign, which was accompanied by political repression and the dismantling of existing public and civic structures (business networks and trust). Farmers were forced to surrender all machines and domestic animals to the collective farms, where they worked without salaries until 1965, at which time Estonian rural life began to improve again.

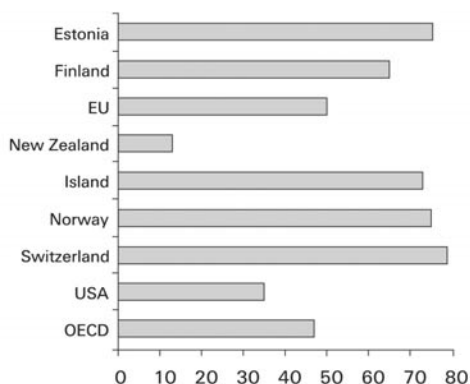
This period was accompanied by large-scale migration from rural areas and a shift of the population to urbanisation. Estonian rural areas lost their most active and productive population. Collective farm members were allotted up to 0.6 hectares of land for private gardening, while state farm workers were given up to 0.25 hectares. The intensity of land utilisation of pastures and woodlands of the collective farms determined the amount of land available for the workers' personal utilisation. Surprisingly, people often received a larger income from their small, private plots than they officially received from the collective farms.

Although the number of farm animals per household was limited for a long time (i.e., 1 cow), many families bred additional cattle, especially in state or collective farms where the land was used less intensively. At the beginning of the 1980s, the so-called "Soviet nutrition programme" raised procurement prices and facilitated private production through subsidies. In addition, due to the lack of foodstuffs, townspeople began to utilise land more extensively (horticultural co-operatives). In Estonia in 1966, 5698 families belonged to horticultural co-operatives. In 1985 42,115 families belonged to 1089 horticultural co-operatives. Approximately 200,000 people, or 1/7 of the Estonian population and 1/5 of urban residents, officially used 5839 hectares of land (Raig, 1988).

The "Soviet nutrition programme" also raised subsidies for collective and state farms (Figures 3 and 4) which became considerably strong economic agents in Estonia. Many urban dwellers moved to the countryside to

Figure 3. The rate of agricultural producer subsidies in various countries in 1986.

Grafikon 3: Delež kmetijskih proizvajalcev, ki dobivajo podpore (1986).

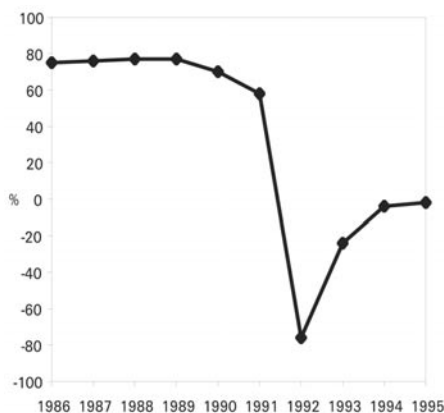


Source/vir: OECD, 1996.

work in collective and state farms in the 1980s because of better wages and available accommodation (Raagmaa, 1996). This caused the relative de-concentration of the population in Estonia (Marksoo, 1992). Rural decline stopped in 1983 (Katus, 1989), and during next ten years rural areas enjoyed a population inflow.

Figure 4. The dynamics of Estonian agricultural producer subsidies in 1986-1995.

Grafikon 4: Dinamika podpor estonskim kmetijskim proizvajalcem v obdobju 1986-1995.



Source/vir: OECD, 1996.

It should be noted that non-Estonian migrants possessing neither a summer cottage nor a house constituted much of the horticultural co-operative membership in suburban areas. In addition to these 200,000 people, there were an even larger number of urban residents who cultivated land in the gardens of their town houses, summer cottages and country houses. Thus, it can be said that an absolute majority of the Estonian population was engaged in inefficient agriculture within the secondary (hidden) sector. A return to the self-sufficient economy took place during the 1980s because of the lack of foodstuff and consumer goods (see also Raagmaa, 1997).

Official statistics showed a fall of the purveyance of cattle-breeding products as well as field and garden products. However, higher market prices and an even greater shortage of agricultural products in Russia (Leningrad and Pskov in particular) channelled a large part of the production past official purveyance, therefore remaining incalculable as a matter of course.

Despite a strengthening of the Estonian agricultural sector and increasing incomes in rural areas in the 1980s, this period of rising self-sustainability created mainly in primary industries an extremely large hidden, or secondary as it was called by Eastern economists, sector until the very beginning of the 1990s (Zaslavskaya, 1980, Raig, 1987, Gabor, 1991). We discuss this phenomenon in depth below.

Transitional nightmare - collapse of the socialist agro-industrial cluster

Estonian agriculture, which by the end of the 1980s had evolved into a rapidly developing and well-paid branch of the economy, became one of the most problematic spheres of the economy during the transition. In 1989 the average wage in manufacturing was 268 roubles; in transportation, 272 roubles and in agriculture, 274 roubles¹. In 1998, the average wages were 3753, 4524 and 2188 kroons, respectively.

Agricultural reform dismantled collective farms in the hope of replacing this production system with private farms. However, the most active and entrepreneurial farmers had already migrated to cities. Currently, according

¹ We should also consider the fact that in the framework of the so-called secondary economy agricultural workers had the best opportunities to go (unofficial) additional income.

to estimations, there are at most 3000 wealthy private (family) farms in Estonia with sufficient machinery and equipment. Most of the 34,671 private farms (1999) are producing products for personal consumption mainly and continuing Soviet-style, small-scale, inefficient farming practices (i.e., a household with 2-3 cows and/or pigs, various crops). In many cases, these "pseudo-farmers" are retired people receiving non-paid assistance from their children and relatives who live in cities.

These private farms cannot solve the unemployment problem in the countryside, since they are usually not productive enough to sell products in the market. The collective and state farms employed more than 180,000 people in 1989, and only 50,000 (30%) rural people were employed by the primary sector enterprises ten years later. In 1996 the number of rural unemployed was 21,900 (11% of the labour force), which did not include the substantially increased inactive rural population (housewives, long-term unemployed) which grew from 83,000 in 1989 to 116,000 (40%) in 1996 (Paas, 1998).

Many people who lost their jobs during the transition have not been able to adjust to all the changes and rejoin the labour force after several months on unemployment assistance. Some unemployed could be classified as discouraged and officially no longer part of the labour force (ibid.). Unemployed and inactive rural people are surviving thanks to their households or pseudo-farms.

The largest employers in rural areas are still co-operative societies, most of which are directed by a former collective farm leader. Many of these co-operatives continue inefficient collective farm practices. Due to the lack of new management and sales skills often these co-operatives faced large deficits and decreasing production. In many instances their workers receive minimum wages (1400 EEK per month since 2000) or even less, but they try to retain their staff as long as possible. Many former collective farm employees cannot work in private enterprises or farms because of their extremely low work moral. The future of these co-operatives and employment looks quite dismal.

Official employment in agricultural enterprises has dropped anyway. Many enterprises and co-operative societies during a difficult economic situation have dismissed part of their staff and hired labour episodically, by contracting out or using "underground" labour. At the same time, many jobless are actually not unemployed because they work and obtain income in their households, do odd jobs in towns or auxiliary work in farms.

Fishing & forestry - shift to the hidden employment

As in agriculture, the dissolution of large former state or collective fishing farms (actually large companies) - there were only eight in Estonia - has taken place. The former large enterprises have been replaced by dozens of affiliate firms and hundreds of fishermen and boat crews who obtained their shares in the form of boats and fishing gear.

While earlier, in addition to industrial control, the Soviet border guards and nature protection agencies played an important role on the coast, today the former no longer exists and the latter lacks resources to control anything. As an additional factor we should not forget that in comparison with agricultural products, fish is relatively expensive on the world market, and therefore purveyors and foreign businessmen evince a livelier interest in this sphere. There is a real danger that illegal fishing has substantially diminished our fish resources in recent years. There was warning information in the media during 1998 and 1999.

Forestry and the primary processing of timber is currently a branch of a rapidly developing industry. The export of timber and timber products has grown quickly since 1992 and now accounts for 8-9% of total exports. The number of people engaged in the forest industry is dropping steadily, since those portions of the forest formerly belonging to the state collective farms have been, and will continue to be, returned to private owners. The personnel required to maintain the forest and cut and saw lumber is diminishing.

In reality, logging and the processing of timber have become a noteworthy alternative to those who have lost agricultural jobs, especially in the regions far from cities and market towns. In addition, recent years have seen a trend towards wood processing: the development of the sawmill industry which utilises most of the sawmills of former collective and state farms and forest industry and applies modern Western technology.

The number of workers officially employed in forestry (0.94% in 1989) has dropped by half. Simultaneously, the role of "underground" labour has obviously grown, because in the past few years the felling volumes have increased. Logging as such will evidently be a seasonal winter activity which offers only episodic employment and is very difficult to control.

However, the negative consequences of increasing informal activities are

not limited to disfigured statistics. Thousands of pseudo-farmers, lumbermen and fishermen continue to use old and inefficient technologies (manual labour). They are not investing in producer goods, and they are unable to raise productivity and production quality. They are included to the purest group of population. When such kind of small-scale "pot-agriculture behaviour" embraces an entire locality, it causes the emergence of social exclusion and self-reproduction due to the degradation of local self-government, school and civil practices.

Finally, it may even halt emigration of youngsters; because their prospects to study further or get better jobs outside are restricted due to the closeness and their lack of qualifications. So far, however, the trend has been quite the opposite; the younger and more capable are leaving rural areas for cities while older generations are returning to their rural roots (Tammaru and Sjöberg, 1999). As a consequence, primary branches dominated areas age structure becomes polarised and educational level diminishes during the transition.

Hidden economy as the moulder of illegal networks: dissociation of a community, its openness and indigenous development potential

The hidden economy² denotes all those activities that are deliberately intended to break with established institutions in order to explore new forms of economic organisation and transaction in a more individualistic fashion. The decades-long practices of informal economic behaviour will form a subculture immersed with personal networks that socialise their participants.

Once established, the informal rules - like several other forms of a hidden economy - endeavour to find reinforcement and become stable. Local informal institutions are very persistent. When formal institutions, created by local economic agents, are encouraging, innovating, opening, stabilising and endorsing local networks and thereby improving both the local entrepreneurial environment and investments and identification with a community, then illegal networks and rules retain their basic character and resist any kind of change (Kosonen, 1996).

² For a clarification of terms used under the hidden economy discussion, see Raagmaa, 1997.

Informal institutions flourish very much in an economic decline (of the primary sector); the society dominated by the hidden economy tends to close. The economic restructuring of such areas would be rather difficult. It might be impossible or even harmful when traditional top-down policy instruments are applied without considering specific culture. The failure of Italian regional policy in Mezzogiorno, characterised by a high share of illegal activities and a high level of inertia (Hall, 1987), can serve as a classical example here.

Secondary economy and its post-Soviet successors

The transition economies of former socialist states represent a special type of capitalism strongly influenced by the earlier social formation (every system has its inertia which it attempts to maintain). This capitalism is much more unstable than in Western societies owing to political as well as social (stress caused by rapid changes, unemployment, accelerating material stratification) problems.

A result, expression and amplifier of instability and crisis are the spread of hidden activities during the transition period. On the one hand, it is due to the persistence and intensification of the old traditions of the socialist period. On the other hand, it is caused by new niches which are not yet rigidly regulated and/or are rather uncontrollable because of the weakness of government and incomplete legislation. It is also due to general economic difficulties.

The so-called secondary economy came into being under socialism. In addition to domestic and informal economies it also included the private sector. The state (first) sector, involved state-owned productive enterprises and institutions of the non-productive sphere. The secondary economy did not harmonise with the ruling Marxist ideology which said human activity was to be channelled into the public sector as much as possible while the domestic economy (let alone private entrepreneurship) was reduced to a minimum. The forced building and subsidising of canteens and kindergartens served this purpose and was to reduce the amount of household chores.

Yet the weaknesses of command economy and the perpetual deficit forced the authorities to allow people to utilise their small plots of land and, later, to resort to small-scale production. Towards the end of the socialist period

many families (because of the rampant deficit as well as of the wish to compensate for the ever-widening gap between Western and local living standards) took up production activity in their households, food growing in particular. Although the rural population kept falling up to the beginning of the 1980s, the number of those using the land was steadily growing: from 243,000 in 1966 to 284,000 in 1983. The growing shortage of foodstuffs in towns forced residents of apartment houses to start growing their own food.

The operation of ancillary farms was regulated by laws (for example, the use of paid labour was prohibited, participation in production was required). The earnings could, by the tacit consent of authorities and in remote places (in forest farms, for instance, which could explain the tough competition for low-paid forestry specialities), and as a matter of course, by keeping the production low and concealing the income, grow much bigger than income from official state sector.

For example, an electronics engineer, who I know, with a university degree grew cucumbers every summer. With his regular wages of 150 roubles a month he would never have been able to build a home for his family, buy a car and other necessary things within 4 years. Such an opportunity to earn money in the evenings and over the weekends to be able to purchase necessary things became one of the reasons, apart from the higher wages offered in agriculture, why Estonians, who were closer acquainted to the Western style of living, went to the country en masse.

Until the transition period, the secondary economy had no difficulty in realising production due to the general shortage of goods and the national procurement system subsidised by the state - which was the best means for achieving control over secondary production. Neither marketing nor public relations were necessary; quality was unimportant (Sik, 1994). Society was split into the state and pseudo-private sectors where the people tried to take advantage of the benefits of the formal sector as much as possible. Theft from the state was not considered a crime.

During the transition, when economic decline and unemployment reduced families' incomes, nearly half of the households followed a defensive strategy by living more sparingly (Rose, 1992) which in turn involved the fall of domestic demand, causing hardships for local producers, giving rise to a cumulative downward cycle. A more sparing way of life means that people try to produce most of the necessary products (especially food) at home (Rose, 1992).

On the other hand, other families try to increase their income in every possible way. Usually the salaries earned in civil service or in a large privatised enterprise are insufficient for subsistence. While in Austria 20% of the respondents answered negatively to the question "Are the wages earned in your official job sufficient for you?", in Poland, Bulgaria and Hungary, over 60% answered in the negative. In the Baltic States the percentage was even higher. More than a quarter of East Europeans thinks that two incomes are better than one (Rose, 1992, Rose and Maley, 1994). It means that people are forced to find additional income to manage better. In the long run, a second job may become a generally accepted way of life. The hardships of domestic economies may push many people to overt illegal activity, like smuggling, theft, and participation in criminal groupings.

Unemployment and poverty, in border areas in particular, may thus considerably increase the number of people earning their living illegally. In the rural areas of Estonia, barter and income from family businesses are virtually the only way to make both ends meet under the circumstances of extremely high unemployment rate.

Secondary economy as the moulder of informal networks and behaviour

During the Soviet era, the reckless attitude towards work caused disorder in supplying enterprises and generated the deficit. The need to buy up raw materials "just in case and at the first opportunity" aggravated the shortage of these materials (Kornai, 1980). Personal relations and acquaintances began to play an ever-bigger role in procuring technology and raw materials, while at the same time creating fertile soil for various manifestations of corruption - the so-called parasitic economy (Rose, 1992).

Directors and collective farm leaders who wished to successfully lead their enterprises and cope with the planned tasks were unavoidably forced to use semi-illegal means to stipulate funds and limits.

Academician Bronötein discovered an explicit relation between the enterprises' production indicators and their saunas: the more successful the firm, the more luxurious its sauna where, after having a drink and a good time, the vitally important signatures were obtained from Tallinn and Moscow officials (Raig, 1988). This was one of the peculiar

examples of socialist economic relations.

Illegal transactions and hidden private work were also widely evident at the level of individuals and grew during the Soviet stagnation period. The shortage of consumer goods and the poor quality of services offered by state firms caused a boom of under-the-counter trade and speculation. (Raig, 1988). A big part of (imported) goods in short supply moved through a wide supply network based on personal relations. People were fashionable clothes, owned cars and colour TV-sets, but it was virtually impossible to buy anything at a shop.

A positive side-effect of the forced situation and hidden activity is the emergence of many new entrepreneurs. People who are jobless or dissatisfied with their income will develop their own domestic economy or additional jobs to the level that they are able to officially register them. True, at the first stage, they try to keep books in the typical way of family businesses: by showing that they break even despite the actual situation, by using as much black labour as possible and by paying them the so-called additional wages. But as the firms get stronger, they should start legalising an ever bigger part of their activities.

"You can end up driving a Mercedes in the grey economy," says Richard Rose, "but you won't end up with your own widget factory." It means that the stabilisation of the situation and the concentration of capital result in legalisation and the reduction of hidden activity. At the same time, there are warning signs in post-socialist societies as far as such genesis of entrepreneurs is concerned: "The grey economy helps create a bourgeoisie, but it's dangerous if it becomes a sub-culture that the people and government get used to," says Endre Sik (Valencia et al., 1994).

The transition period changes many things, but the habits and the personal networks concurrent with the second economy never disappear. The spirit and practice of the secondary economy will haunt the new market economy, its institutional conditions and the behaviour of the residents who are trying to enter the official economy. The existence of a secondary economy for decades led to a nation-wide subculture and to a dense personal network in the economy which socialised the participants and organised their relations (Sik 1994). Such a subculture could not disappear rapidly because every social formation has a degree of inertia, and it would take some time before it disappeared completely no matter how inconvenient it were.

In the contemporary unstable and quickly polarising economy the only thing both winners and losers can rely on is their previous knowledge. People are rational. They make use of the behavioural patterns, skills and networks which have proved efficient and which they know are working. They do it not because of traditionalism but because they have invested in these assets (Sik, 1994). Because of the conservatism and self-supporting habits that took shape in the secondary economy, the real standard of living did not fall as low as statistics suggested.

On the other hand, if the state (at any level of the administration) is respected by neither ordinary citizens (who conceal their income because they otherwise aren't able to make both ends meet), private entrepreneurs (who evade taxes or establish off-shore firms because the state cannot guarantee them legal or physical security) nor civil servants (who spread the violations), a vicious circle may ensue. The abating confidence in the state and its officials will lower the self-esteem of civil servants and tempt them to violate the laws or generate simple negligence. As far as Estonia is concerned, the past decades of alien ideology and government have added to our people's distrust in the state. The regaining of independence enhanced confidence in the state and its leaders, but the enthusiasm quickly abated. The Soviet-time passiveness has been replaced by relatively overt dissatisfaction. The secondary economy and transition period with its modifying personal networks and system of values are an important phenomenon that expands the illegal activities, distances people from the official structures, and forms closed societies without particular hope to change the economic structure of the community. The next study serves here as an example of such self-closing phenomenon.

An example. Socially declining and closed economy with a particular hidden component in Mustvee³

The communes of Mustvee and Kasepää near Lake Peipsi (Map 2) have characteristics of a typical problem area. With its peripheral location, demographically ageing population and traditional means of subsistence like horticulture and fishing, it does not differ so much from other similar regions in Europe, regions that are distinguished by high unemployment

³ This part is based on several free form interviews and publications carried out from 1994-2000 with people from Mustvee and Kasepää in Mustvee, Kasepää and outside the region.

and constant emigration rates. Gaeltacht (Western Ireland), the Scottish Highlands, Friesland (Northern Netherlands) and Bretagne (Northwestern France) are a few examples in Europe (Berg and Raagmaa, 1997).

Map 2: The location of case studies in Mustvee and Kasepää communities in Estonia.

Karta 2: Študiji primera-Mustavee in Kasepää.



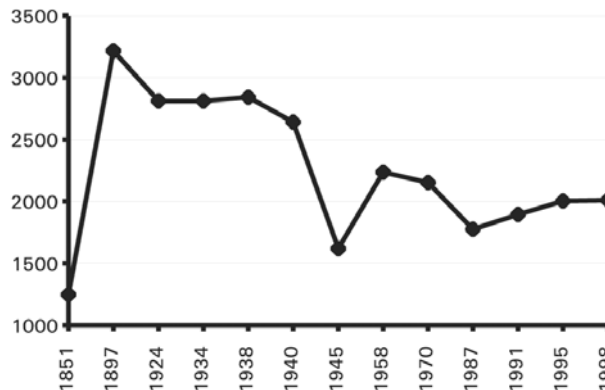
The Mustvee area consists of two neighbouring, interrelated communities (Mustvee and Kasepää⁴). Its population of 3500 has a very special religious composition. As a Russian- and Estonian-speaking area, it contains four different congregations: Russian Orthodox Old Believers, Russian Orthodox, Lutherans and Baptists. Old Orthodoxy is particularly conservative and difficult to match with today's fast changing values (Berg, 1997).

One hundred years ago, Mustvee was the second largest town (see Figure 5) in the former territory of Tartu County (Pommer and Kuuse, 1993). All other centres have grown, while centres near Lake Peipsi like Mustvee have lost population. Mustvee grew during two periods: at the end of the 1950s when an administrative district (rajoon) of Mustvee existed for 9 years and at the end of 1980s when the shortage of food in the cities pushed people to the countryside.

⁴ The old name of the community Kasepää was re-established in 1998. Still, people continue to call this part of the area Raja, the name of the main village located very close to Mustvee. Other villages are smaller.

Figure 5. The population dynamic of Mustvee 1851-1998.

Grafikon 5: Prebivalstvo dinamika-Mustvee (1851-1998).



Source/vir: ESO, Pommer and Kuuse, 1993.

* Note: Population registration since 1991 is not correct, the real number could be probably smaller.

The share of the population over 55 in Kasepää and Mustvee is higher (32% and 27 % respectively) than the Estonian average (26 %; Table 1). Registered unemployment in both communities is remarkably higher than the county and national averages (Table 2, underlined rows). The Mustvee area is characterised by low social activity and is well known for its high involvement in hidden economic activities.

There could be four external reasons for such a social decline here and in other Estonian peripheral communities. Firstly, the drastically-increased labour demand in large cities and new industries in the 1950s, enabling youth to escape the pure collective farm society, caused emigration and the sharp ageing of the population. New jobs were also created in the northeast oil shale mining and chemistry industries. But this trend was common to all Estonia.

Secondly, the regional economic policy of the Soviet government played an important role. A new growth pole in the area was established near the railway stations (Jogeva). Some these railway centres had been built up after 1959 to function as new district (rajoon) centres. After they lost district

Table 1: The population age structure of the Kasepää and Mustvee communes and Estonia as of 1.01.1999.

Tabela 1: Starostna struktura prebivalstva - Kasepää in Mustvee (1.01.1999).

	Age group	0-14	15-24	25-39	40-54	55-64	65+	Total
Kasepää	Men	119	91	153	149	95	78	685
Commune	Women	135	104	126	132	126	192	815
(rural)	Age group total	254	195	279	281	221	270	1500
	% of men (in age group)	47	47	55	53	43	29	46
	% of men (from total)	8	6	10	10	6	5	46
	% of women (from total)	9	7	8	9	8	13	54
Mustvee	Men	184	140	283	185	108	107	1007
Commune	Women	171	124	184	182	146	193	1000
(town)	Age group total	355	264	467	367	254	300	2007
	% of men (in age group)	52	53	61	50	43	36	50
	% of men (from total)	9	7	14	9	5	5	50
	% of women (from total)	9	6	9	9	7	10	50
Estonia	Men	137484	105940	157004	134357	70472	67419	672676
	Women	131350	103188	153334	152201	93435	139396	772904
	Age group total	268834	209128	310338	286558	163907	206815	1445580
	% of men (in age group)	51	51	51	47	43	33	47
	% of men (from total)	10	7	11	9	5	5	47
	% of women (from total)	9	7	11	11	6	10	53

Source/vir: ESO 2000 (<http://stat.vil.ee>).

centre status, headquarters of different enterprises were concentrated in centres outside of the area (Jogeva, Tartu, and Tallinn). Step-by-step branch-factories and service enterprises were closed, causing a steep fall in local employment. While serving as the district centre several new buildings (culture centre, shops, living space) were constructed, but the last 30 years have witnessed the construction of only two dwellings and a kindergarten (Pommer and Kuuse, 1993). The lack of jobs and also free living space have been two important reasons for the population decrease.

Thirdly, we must account for the technological change that replaced water transport with railways and cars. The old system coach-river-lake-river, which fed Mustvee growth in the 19th century, has been replaced by the car-railway-car system. Despite the Sonda-Mustvee narrow-gauge railway branch, which was in use from 1926 to 1967, Mustvee could not compete with Jogeva, where a transit railway station was located. In addition, the number of private cars was too small to justify logistical changes up to the late 1970s.

Table 2: Official number of unemployed (unemployed + job seekers) and their share in the working age population⁵ in the selected communities of the Jõgeva County and Estonia as a comparison 1995-1999.

Tabela 2: Uradno število nezaposlenih (nezaposleni in iskalci zaposlitve) in njihov delež v aktivnem prebivalstvu-v izbranih območjih okrožja Jõgeva in Estoniji (1995-1999).

	Sept. 1995	Sept. 1996	Dec. 1997	Oct. 1998	Oct. 1999	Sept. 1995	Sept. 1996	Dec. 1997	Oct. 1998	Oct. 1999	Working age population 1997
Jõgeva town	283	313	299	320	352	6%	7%	7%	7%	8%	4375
Jõgeva rural comm.	180	215	286	197	287	5%	6%	9%	6%	9%	3320
Kasepää comm.	70	113	86	99	105	8%	13%	10%	12%	12%	844
Mustvee town	119	162	165	206	215	9%	12%	12%	15%	16%	1353
Põltsamaa town	175	184	164	148	193	6%	6%	5%	5%	6%	3053
Põltsamaa comm.	159	196	135	162	212	5%	7%	5%	5%	7%	2950
Jõgeva County	1376	1567	1849	1641	2086	6%	6%	8%	7%	9%	24427
Estonia	44386	53175	48853	47443	72899	5%	6%	5%	5%	8%	932017

Source/vir: ESO 2000.

Fourthly, the diminishing status of national minorities paradoxically caused the weakening of local identity and local economic and cultural life in Old Believers' areas. In the framework of cultural autonomy, the very active local economic, cultural and social life that took place before the 1940s was more active and innovative than the local Estonians'. Several new innovations like chicory and onion cultivating were introduced by Russians and only later adopted by Estonians (Pommer and Kuuse, 1993).

On the other hand, during the 1920s and 1930s non-Estonians had few opportunities to secure permanent jobs in cities. This means that the most active part of the population remained connected to the home, despite high physical mobility. The situation changed completely after the war: non-Estonians as presumably much more reliable persons easily found positions in important governmental posts. However, they often also lost ties with their own commune. Consequently, the area lost its best people more intensively.

⁵ The unemployment rate was calculated from the working age population, because the size of the labour force is not available at the community level. According to the ILO classification, the unemployment rate is calculated from the active labour force, which is about 66 % of the working age (15-69) population. According to the Estonian Labour Survey results, the Estonian unemployment rate was 9.8 % in 1995, 10 % in 1996, 9.8 % in 1997, 10.3 % in 1998 and 11.7 % in the second quarter of 1999 (Estonian Labour Force, 1999).

Fishing - a big business

Primary activities are still of major importance. Fishing has always been an important branch of the economy in Mustvee and Kasepää communities. The first settlements that came into being on the western coast of Lake Peipsi were fishing villages. Fishing has never been such a profitable and desired activity as it has been during the 1990's. Fish has a high value on foreign markets, making fishermen's salaries more than ten times higher than average regional incomes (Berg and Raagmaa, 1997).

The largest fishing enterprise in the area "Peipsi Laine" is situated 15 km away at Lohusuu in East-Viru County. It has 250 employees, 80 % of these (about 200 people) being inhabitants of Mustvee. Thus "Peipsi Laine" is the biggest employer for Mustvee. There are 20 employees in a fillet department in Mustvee. Also, it is remarkable that the sons inherit the equipment and their fathers' places in the boat crews. And there are many who fish for their own needs or for additional income (ibid.). A good number of local men are engaged in part-time semi-illegal fishing. The over-fishing has already caused a serious reduction in fish resources in the lake and increased limits for official fishermen and firms.

Horticulture - a small scale domestic industry

Horticulture has been the second most important traditional economic branch of the Mustvee area (particularly for women and children). Vegetables have always been cultivated on very small plots (less than 2 ha). Mustvee/Kasepää inhabitants earn their main living from household activities - in Kasepää, for example, 44 % of the working-age people (Berg and Raagmaa, 1997). In the 1920s and 1930s chicory and onions were produced for sale. The growing shortage of food and the increase of private car ownership since the 1970s encouraged domestic production of vegetables for sale. A cucumber-producing (a new innovation!) region developed along Lake Peipsi during the 1980s.

"Typical" collective farms established along Lake Peipsi encountered frequent difficulties and never succeeded. For example, the "5th Congress of the Communist Party of the Soviet Union" collective farm consisted of 45 agricultural workers, 150 fishermen, 10 cows, 4 pigs, 3 horses, 1 lamb, 3 hens, and 1 cock when established. The appointed chairman of the farm

was a former lieutenant-colonel with 4 years of education. Following its establishment in 1950, this collective farm was liquidated after only two years of operation due to large financial losses (Pommer and Kuuse, 1993).

The horticulture activity has been characterised by an extremely low specialisation and technological level. There were no co-operative links between neighbours, since official private-public co-operation was impossible at that time. It was amazing how people pulled trailers with their small cars to transport vegetables about 300 km to the St. Petersburg market. Even at the end of the 1980s, when different types of enterprises like co-operatives were permitted, no co-operation in establishing transport and marketing chains emerged.

However, the closure of the Russian border has become a great obstacle for the Mustvee horticulture industry. The local market is very small indeed; only a few inhabitants in apartment blocks lack any land allotment. To sell produce in St. Petersburg or Pskov is no longer possible because of the inaccessibility through Russia's border, double tariff barriers for Estonian foodstuffs and the lack of marketing structures or co-operation in that field. The people dream of import barriers to Western foodstuffs and the re-establishment of ties with St. Petersburg and Pskov markets, but these prospects are not likely to be forthcoming (Berg and Raagmaa, 1997).

It has become commonplace, therefore, that cucumbers, tomatoes, onions and smoked fish are sold simply along the Tartu-Johvi road or to the wholesalers operating in the Tallinn and Tartu markets. Factories like Poltsamaa Felix and Tartu Cannery did not succeed in getting Mustvee people to grow cucumber and onion on a contract basis. People did not agree, because, firstly, the small capacity; secondly, they hoped to get better prices elsewhere; thirdly, the factories required certain terms and technology to be followed and quality to be guaranteed (this meant learning many new things and doing things differently from the past); and finally, if they signed a contract with the factory, they would have to officially declare their income and pay taxes.

Other activities

The third important area of activities throughout the history has been construction works (for men) outside of the home region: before the 1920s in St. Petersburg, from 1920-1940 in rich farms of Upper-Estonia and since

the 1950s until recently in the big cities, especially in Tallinn, St. Petersburg and Moscow. Common behaviour is to sell one's labour illegally. During the Soviet time some large manufacturing plants were built in the Mustvee area. The Marat Company's (headquarters is in Tallinn) sewing Mustvee branch plant, which employed about 250 women from the area, was closed down in 1997. Although salaries paid by Marat were not very large, closing down the plant caused a social catastrophe for the area.

The former Kirov collective farm (headquarters was situated in Viimsi, close to Tallinn) built a plant producing artificial protein caviar in Raja in 1986. A large farm, repair shop, big warehouse for vegetables and several social infrastructure elements were built; extensive amelioration works were carried out, too. By the end of 1980s this complex employed over 300 people, but less than half were from the area. Today the factory has changed its ownership and is still operating, albeit in a much lower capacity and without operating the social infrastructures and farming. The factory increased its production and sales and employment in 1998 again.

Small entrepreneurship has developed slowly in the Mustvee area. Several private shops have been established. Another field of subsistence for less qualified people is berry and mushroom picking. There are some families that make their living only from the forest. There has been one more source of additional income for some people: renting out rooms to summer guests from St. Petersburg and Northeast Estonia.

Mustvee, as well as the whole coastal area and the countryside in general, is characterised by heavy alcoholism which is associated with the contraband and distribution of illegal vodka.

The resistance to formal rules and social behaviour

Consequently, a significant portion of Mustvee/Kasepää people is supposed to be involved in domestic and hidden economies. Taxes are generally unpaid to the state in fishing, horticulture activities, construction and other businesses. Hidden income is already part of the local culture. This assumption can be proven with by indicating official per capita revenues in Kasepää and Mustvee as the lowest in Jogeva County. However, when 1994-1997 was characterised also with the lowest revenue growth, then revenue growth accelerated during 1998-1999. Possibly, according to latest information (May 2000), due to the raised activity of revenue office.

When walking around in Mustvee and especially in Raja, however, an entirely different picture appears. Large houses, ongoing construction works and common private car ownership indicates much higher real wealth. It is not possible to see the misery that actually faces researchers when they analyse the official data. Still, according to interviews, many people suffer because of closed factories and cuts in the cucumber industry; they have difficulties getting by. On the basis of recent data of revenue growth, hidden income is appearing to be more visible possibly thanks to the efforts of the State Revenue Office (see Raagmaa, 1997) as well as the slowly, ongoing formalisation of local business activity.

The secondary sector, which was hidden from Soviet legislation, continues functioning in some way more demonstratively. When it was possible to witness the building of new homes and the purchase of new private cars during the "golden cucumber age", then some years ago the so-called "fish kings" built even grandeur houses and drove even more grandiose vehicles. Despite the past relative economic prosperity of the families in this region, young people have continued to leave for many decades. Many did not want to work as unskilled labourers and live in such economically, educationally and socially limited communities. Estonian writer Lehte Hainsalu states about the Mustvee lifestyle: "If endless hunting for money becomes the only sense of living, once achieved it brings emptiness in your soul and disappointment." Mustvee and especially Kasepää have lost the most capable part of their population, and high hidden incomes did not help communities.

Table 3: Personal income tax revenues in the selected communities of the Jõgeva County in 1994-1999.

Tabela 3: Dohodnina v izbranih območjih okrožja Jõgeva (1994-1999).

	In thousands EEK				Per capita in EEK				Growth		
	1994	1995	1997	1999	1994	1995	1997	1999	1997/94	1999/97	1999/94
Jõgeva town	5847	6553	1221 7	1512 6	879	985	1837	2274	209%	124%	259%
Jõgeva comm.	3213	3752	7830	9210	551	643	1343	1579	244%	118%	287%
Kasepää comm	507	567	857	1366	333	372	563	898	169%	159%	269%
Mustvee town	937	929	1556	2129	468	464	778	1064	166%	137%	227%
Põltsamaa town	3838	3850	8134	10452	784	786	1661	2135	212%	128%	272%
Põltsamaa comm.	2290	2448	5315	6363	447	478	1038	1242	232%	120%	278%

Source/vir: ESO 2000.

The level of social mobilisation within the area has remained rather weak. There are 5 choruses getting together at the cultural house and church in Mustvee; and there are some circles for pupils at schools. Involvement in other kinds of cultural and sports activities does not exist. There is no single cultural or citizen's society in Kasepää. People only think about cultural things and just claim for culture activist who would run the cultural life: very few things really happen.

At the same time, political activity has been observed as remarkably high, approaching and exceeding 75 % in local elections⁶ (1993, 1996 and 1999). The reasons for high electoral activity could be the national composition and permanent rivalry between Russian and Estonian electoral lists. Fortunately, there are no direct conflicts between the nations and religions. Local Russians distinguish themselves more from the Russians who came during the Soviet time than local Estonians do. Still, political awareness and attitudes (leftism) are quite clearly different on the national (cultural) basis: Russians are less aware and share more leftist standpoints (Paljak and Ehin, 1997).

At the same time, people's economic attitudes, defining problems and economic behaviour of the area are very much similar and not dependent on the nationality or religion. Estonians were more pessimistic. But 76 % of the people said that the central government should help the economy of the area (ibid.). This is partly because the closure of the border depends on the central government. But not only.

Old Believers had and they still have very strong community control over the economic and social life for preserving traditions and identity. Conservatism is embedded deeply in Mustvee/Kasepää's everyday life and serves as the maintenance of its archaic features (Berg, 1997). They have relatively weak individualistic values, legal enterprises and no co-operation vis-a-vis ownership. These values are to a great extent characteristic for all people living in the area. Hope for the state to help and low entrepreneurialism can be explained though this cultural particularity.

The economic institutional structures of the Mustvee area have been remarkably weaker than in most Estonian agricultural areas throughout history. Old Believers were not even landowners; they rented it from the state

⁶ Average Estonian participation has been between 50 and 60 %, in the rural areas of Jõgeva County even lower, about 40 %.

during the 1920s and -30s. This means that collectivisation, on the one hand, impacted this region less severely than in richer parts of Estonia. Repression was much milder here⁷. On the other hand, when new authorities destroyed the local social structure and arrested the learned and religious leaders (bathjushka) or promoted some active people to Tallinn, the impact was more severe than in areas where dominating individualistic values prevailed. Just affected by the emigration, this ageing, lakeside society encapsulated itself and concentrated only on earning money without any particular social and cultural life. Local Estonians and Russians have adopted the same attitudes.

Estonians in other parts of Estonia started to feign collaboration with the Soviet regime as early as the 1960s in order to successfully lobby for remarkable investments in their regions. The so-called agro-industrial complex, probably the most efficient such structure in the former Soviet Union, was fashioned in Estonia. But the Mustvee area was not involved in this process formation; no linkages into the services and new production units were formed.

The economy of the Mustvee area encapsulated both socially and economically and did not enrich the structure of production and consequently did not generate indigenous development. This fact is also obviously crucial to explain the region's lack of investments from the 1960s - 80s. The path-dependency continues and no changes happened during the 1990s either.

Summary

Fast changes in society cause problems for areas with one-sided economic structures. Especially threatened are regions with dominating primary branches: agriculture, forestry and fishing. If the country chooses so-called "high road" development (Cooke, 1995), then some parts of its territory stands under double pressure of "natural decline" and forced development - the pull-effect created by fast-extending high growth branches like IT, tourism and cultural industries, producer services and others (Cooke 1997, 1998).

The main problem is that extensive parts of the population previously employed by traditional industries and particularly by primary branches are

⁷ For instance, during the second deportation 14 people from Mustvee were sent away. The average for the same size community in Estonia was about 30-40 people (Pommer and Kuuse, 1993).

not capable (willing, able) to obtain new skills and move to the cities where growth predominantly occurs. Social exclusion in remote rural areas dominated by rigid traditional employers and structures poses a great danger for sustainable economic development.

In Estonia, as in other post-socialist countries, the situation in the past ten years has been even more turbulent. The new structures of formerly socialist agriculture and other industries adopted conditions of an extremely liberal trade policy with dramatic results. After monetary reform in 1992 and trade liberalisation, more than a half of the total primary sector employment had disappeared. This process still continues.

The countryside has not been able to duplicate these achievements and has lagged behind in development. Contemporary labour and migration surveys (Eamets et al., 1999, Sjöberg and Tammaru, 1999) show fast ongoing migration to the cities. At the same time, mainly older and former manual workers are being pushed out of the labour market and are returning to their rural roots to work in self-sustainable agriculture, which continues its "secondary economy" heritage of the 1980s.

Openness and learning are important to adapt to the rapidly evolving market and technical conditions as well as to achieve innovation of processes and products and forms of organisation. Change and learning are two sides of the same coin. Accelerating change confronts operators and organisations with new problems that demand new skills.

Traditional values, isolationism accompanied by strong community control and even aggressive behaviour towards newcomers, innovators, and tourists may halt or restructure from the very beginning. The self-seclusion of rural areas and a lowering level of social quality, the continuous dominance of the status quo preserving primary industries, deepening informal economic relations and therefore rising transaction costs - all can be considered as the main impediments to modernisation and restructuring through the development of recreational, cultural and tourist economies.

On the other hand, considering changes in people's attitudes, rising mobility and the development of telecommunications and new spatially independent jobs may paint a very challenging future for many naturally and culturally valuable localities. But this is the topic of another case study.

Zaključek

Hitre družbene spremembe povzročajo probleme zlasti v gospodarsko monostrukturih območjih: močno so prizadete regije s prevladujočim primarnim sektorjem (kmetijstvo, gozdarstvo, ribištvo).

Številčno velik del prebivalstva (predhodno zaposlen v tradicionalni industriji in v primarnem sektorju) namreč ni sposoben (ne želi) pridobivati novih veščin in znanj ter se preseliti v mesta, kjer se večinoma koncentrira gospodarska rast. Veliko nevarnost za sonaravni gospodarski razvoj predstavlja družbena izločitev odmaknjenih podeželskih območij (tudi zaradi okorelih tradicionalnih struktur in vkoreninjenosti tradicionalnih zaposlitev).

V Estoniji (kakor tudi v drugih post-socialističnih državah) je situacija v zadnjih desetih letih izredno dinamična. Nove strukture so prevzele ekstremno liberalno gospodarsko in trgovsko politiko, kar vodi k dramatičnim rezultatom. Po denarni reformi v letu 1992 in liberalizaciji gospodarstva in trgovine je »izginila« več kot polovica delovnih mest v primarnem sektorju – proces se še nadaljuje. Podeželska območja niso sposobna slediti temu trendu in so razvojno zaostala.

Sodobne raziskave migracij in delovne sile potrjujejo močno doseljevanje v mesta. Vendar – istočasno so številni starejši ljudje in nekvalificirana delovna sila izrinjeni iz trga delovne sile (predhodno opravljali predvsem ročno delo) in se vračajo k podeželskim koreninam - k samooskrbnemu kmetovanju (podoben trend je bil prisoten v osemdesetih let 20. stoletja). Pomembni razvojni elementi so: odprtost, učenje, prilagoditev hitro spreminjajočim se tržnim in tehničnim pogojem, inovacije. Le-ti generirajo nova nasprotja in probleme ter zahtevajo nova znanja.

Tradicionalne vrednote, izolacionizem, močna kontrola skupnosti in celo agresiven odnos do prišlekov, inovatorjev in turistov, lahko že na samem začetku zavrtijo obnovo podeželja. Samoizključitev podeželskih območij, zniževanje stopnje kakovosti življenja, nadaljevanje trenda ohranjanja primarnega sektorja, poglobitev neformalnih gospodarskih odnosov – vse to lahko smatramo kot glavno oviro za modernizacijo in obnovo podeželja (npr. s pomočjo razvoja rekreacijskih, kulturnih in turističnih dejavnosti). Po drugi strani pa so spremembe v obnašanju ljudi, povečana mobilnost, razvoj telekomunikacij, nova prostorsko neodvisna delovna mesta lahko potenciali za prihodnje izzive na številnih območjih z naravnim in kulturnim potencialom – kar pa je že predmet nadaljnjih raziskav.

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