Top Estonian Politician
Konstantin päts's Financial Dealings with Moscow
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This article analyzes the financial relations of Konstantin Päts with the Soviet Union’s Tallinn Legation, Trade Representation, and oil company. In 1940, when authoritarian Estonia had Päts as its head of state, Estonia submitted without resistance to the Soviet Union. The role of Päts, both in 1940 and earlier in 1934, when he led a coup, has been one of the most debated issues in Estonia’s recent history. Could Päts’s actions be linked to his being financed from Moscow? Is it possible that Päts was open to blackmail and on Moscow’s payroll until 1940?

**Keywords:** Estonia’s inter-war history; Päts; financial dealings; Soviet Oil Company; Moscow’s objectives

**Background**

Soviet Russia recognized The Republic of Estonia’s independence in 1920 after the War of Independence. Trade between Estonia and Soviet Russia in the years after the peace treaty was much reduced in comparison to the pre-war period. Because of this, many major Estonian industrial companies struggled. The policies of the governments in power in the period 1920–1923 were based on the hope of restoring pre-war economic ties with Russia (Valge 2006, pp. 102–25). The government of Konstantin Päts was in power for most of this period of so-called ‘major-industry orientation’.

Päts had been a recognized national leader since the pre-independence period, and business interests were certainly not new to him. In 1920–1921 he was chairman of the Tallinn Bourse Committee and a shareholder in many enterprises, including...
Harju Bank, which mediated Bolshevik gold. Päts was a follower of Realpolitik who did not exclude cooperation with the Bolsheviks, expressing it thus in one of his much cited speeches: ‘In international politics one must be ready, if necessary, to take the arm of the devil’s grandmother and to put on a good face, if so required by the interests of the state and the people.’

In 1923, contrary to expectations, Soviet Russia reduced its trade orders from Estonia. On 10 March 1924 Päts’s government was forced to resign. This was followed by a painful economic policy turnaround in favor of agriculture and Western European markets. This turnaround was confirmed conclusively by the attempted coup by the Bolsheviks on 1 December 1924, proving that rather than getting trade orders from Russia, Estonia was more likely to get armed Reds. Päts then concentrated for some time on business, but stayed on as a member of the Estonian parliament and as an influential lobby politician. He was one of the founders of the Chamber of Trade and Industry in 1924, and became chairman of its council the following year. In autumn 1924 he also became chairman of the Estonia-Soviet Union Chamber of Trade.

Although the attempted Bolshevik coup resulted in increased distrust of the Soviet Union, there was still awareness in Estonia of Russia’s possible economic importance. Päts was one of the outspoken supporters of increased Estonian-Soviet economic ties. He was in close touch with the Soviet Legation and Trade Representation, and managed to make himself popular with them. The Soviets did indeed see Päts as an influential politician, with whose assistance Estonian policies could be made more Soviet-friendly, but they did not see him as one who would stand up for Soviet interests. In 1925 Soviet envoy Alexander Gambarov characterized Päts as follows: ‘He is the most authoritative person in Estonia, the chairman of the Russia-Estonia Chamber of Trade, and at the same the chairman of the Chamber of Trade and Industry, a big supporter of expanding economic ties with us, although according to his political convictions he is an inveterate fascist.’ In the summer of 1929, Adolf Petrovski – an envoy to a trip by an Estonian business delegation to Moscow – wrote to his boss, Boris Stomonyakov – a member of the collegium of the People’s Commissariat for Foreign Affairs in Moscow – that Estonian foreign minister Hans Rebane, the head of the delegation, ‘would not be at all worse, but perhaps even better than Päts, who would definitely be more demanding’.

In 1934, just before the elections for president and parliament, Päts – together with General Johan Laidoner – organized a coup, thus ending the democracy. The period that followed has been termed in Estonian history the ‘silent era’: the new regime postponed the elections, the parliament was not allowed to convene, and the basic rights and freedoms of citizens were restricted. In 1938, the Päts regime enacted a new constitution, which Päts used to ensure his election as president. In September 1939, after the Soviet Union and Germany had concluded the Molotov-Ribbentrop Pact – which resulted in Estonia falling into the USSR’s sphere of influence – Estonia agreed to accept Soviet military bases on its territory. On 16 June 1940 Moscow issued Estonia an ultimatum to permit the entry of more forces and a change of government. Five days later Päts signed off on the appointment of a new government, staying on formally as president until 21 July 1940, and signing most of the new government’s decrees.
Previous Research

The role of Päts in interwar Estonia is so important that the first period of nationhood is also known in the Estonian mass consciousness as the ‘Päts era’. But the role he played in Estonia’s political choices has developed into one of the most debated issues in recent Estonian history. Päts’s activities have received conflicting assessments. In Soviet historical approaches, Päts is presented as a classical bourgeois anti-Soviet politician. The regime that resulted in 1934 from his actions is considered fascist. The events that took place in Estonia in June 1940 are presented as a socialist revolution, and Päts’s actions as a conscious inevitability (Maamägi 1971, pp. 496–8; Siilivask 1980, pp. 185, 225). In the historical approaches by the post-World War II Estonian exile community the idealization of both the Republic of Estonia and Päts initially dominated. However, in the first half of the 1950s there was already an awareness in academic circles of the need to study these issues (Loit 1953). An acrimonious debate took place in the subsequent decades, but since the exiled historians did not have access to vital sources, this debate was mostly political, not academic. Some critical assessments of Päts’s actions were published (Ots 1981; Tomingas 1961). Nevertheless, considering the tone of the general analyses (Mägi 1979; Uustalu 1968), it seems that the Päts supporters’ camp remained the more influential.

The restoration of Estonia’s independence in 1991 again brought to the fore a tendency to idealize the earlier independence period, and analysis of Päts’s actions was either left in the background or assessed positively (Elango et al. 1998; Ruusmann 1997). Although publications critical of Päts’s actions also appeared in the 1990s (Ilmjaärv 1993; Riismaa 1997; Valge & Onno 1996, 1997), the breakthrough came in 1999, when Magnus Ilmjaärv’s article on Päts’s relations with the Bolsheviks attracted public attention. This cast Päts’s behavior in a completely different light. Ilmjaärv discovered information in the Russian Federation’s Foreign Policy Archive about Päts receiving payment from the Bolsheviks. His series of exposé articles on Päts as a Soviet hireling first appeared in a newspaper, then in academic publications (Ilmjaärv 1999). Ilmjaärv’s articles created a storm in the Estonian media. In 2001 a book purporting to be the memoirs of high-ranking Soviet intelligence officer Pavel Sudoplatov seemed to support Ilmjaärv. The book claimed Päts’s cooperation was organized by Yakovlev, a resident Soviet spy in Estonia, and although President Päts did not sign a recruitment obligation to collaborate with the GPU in 1930, he was nevertheless financially supported by Moscow until 1940, and it was indeed this secret cooperation with the Bolsheviks that led to the rapid achievement of mutual understanding (Sudoplatov 2001, pp. 112, 114). In 2004 Ilmjaärv published books in English and Estonian in which he repeated his basic standpoints, according to which ‘bringing’ Päts into the pay of the Soviet oil company was a most successful high-level scheme by Moscow, approved by the Politburo, to implicate Päts by making him look like he had been recruited by a foreign country (Ilmjaärv 2004a, pp. 89, 93, 95; Ilmjaärv 2004b, pp. 54, 58–9). In these books Ilmjaärv also stated there were grounds for Sudoplatov’s claim that Päts was financially supported by the Soviets until the occupation of Estonia: the Soviets had in fact placed orders with the Tallinn Ship Association, where Päts was a major shareholder (Ilmjaärv 2004a, pp. 96–7;
Ilmjaerv 2004b, pp. 59–60, 99). Other historians have also used some of Ilmjaerv’s conclusions (Turtola 2002, pp. 98–102; Zubkova 2008, pp. 26–7).

In 2007 this author disputed Ilmjaerv’s standpoints, also based on the Russian Federation’s Foreign Policy Archive, arguing that Pats had been receiving payment since March 1930 from the Soviet oil company via the Trade Representation, and the last known payment was made on 21 February 1931. What is inaccurate, according to this author, is Ilmjaerv’s claim that the ‘oil affair’ was coordinated by the Soviet Communist Party Central Committee’s Politburo, and that the entire reorganization of the sale of oil products was undertaken only to ‘include’ Pats. This author claimed the primary aim was to foster — using Pats’s connections — the sale of Soviet oil products on the Estonian market. A related aim for the USSR People’s Commissariat for Foreign Affairs, however, was to strengthen Pats’s political ties to the Soviet Union’s Tallinn Legation (Valge 2007, pp. 1480–1; Valge 2009, pp. 187–8). In 2010 Ilmjaerv republished his book, no longer referring to some of the key documents, but continuing to claim the reorganization of the sale of oil products had been approved by the Politburo and planned on a high political level with the aim of subversion in Estonia and buying off Pats, and culminating in Moscow’s triumph (Ilmjaerv 2010, pp. 87; 95; 100; 102–3).

The following questions are analyzed in this article: on whose initiative and with what objectives did Pats get involved with Soviet oil exports? How were these objectives realized? Is it possible that Pats was open to blackmail and on Moscow’s payroll until 1940? Clarifying this issue is important for providing an assessment of Pats as Estonia’s most influential politician, and of Estonia’s political behavior, but it also has wider meaning as it casts light on the goals of Moscow’s foreign policy — in particular on the goals of its Baltic policies during the inter-war period — as well as on its capability to carry out this policy.

The most important sources are the correspondence between the Soviet Union’s Tallinn Legation and the People’s Commissariat for Foreign Affairs and the work journals of the diplomats in the USSR Tallinn Legation. The information found in the latter does duplicate somewhat the letters/reports sent from Tallinn by the diplomats, but it is also more detailed in parts. These documents are held in the Archive of Foreign Policy of the Russian Federation (AVPRF), accessible to all researchers in relevant fields. In using diplomats’ reports and work journals, it should be kept in mind that the authors were attempting to show themselves in a positive light for their Moscow bosses. Nevertheless, they had to remain realistic, as Moscow prepared further instructions for them based on these reports. In this article, documents hitherto unused in recent research have been introduced, particularly from 1928 and 1929, which make it possible to explain the process from its very beginning.

In addition, reference has been made to the materials of the People’s Commissariat for the Workers’ and Peasants’ Inspectorate held in the National Archive of Russian Federation (GARF). These materials make it possible to clarify the relations between various Soviet institutions, and also partially the activities of the USSR People’s Commissariat for Foreign Trade and its subordinate, the Tallinn Trade Representation. The documents of the latter institution have either not survived or are unavailable to researchers. In addition to previously used sources, supporting documents relating to the Soviet-Latvian joint enterprise Larunafta in the Latvian
History Archives have been used to provide wider background for the topic. Documents from the Estonian archives have also been used.

Soviet Oil Exports

In the 1920s, oil products were the main source of foreign currency for the Soviet Union, but export was complicated due to ownership disputes. The oil industry owners who had fled Russia sold their shares to the world’s major oil companies, Royal Dutch/Shell and Standard Oil of New Jersey. The Bolsheviks, who nationalized the oil industry, did not recognize these companies’ property rights in Russia (Kostornichenko 2005, p. 159; Sokolov 2005, pp. 120–2). This opposition meant the Bolsheviks were forced to sell part of their oil products using Western oil companies as mediators. In 1924 the Bolsheviks began to set up a retail network abroad, with both their own offices and cooperative ventures such as Derunaft in Germany, ROP in Britain, Petrolea in Italy, and Larunafta in Latvia (Igolkin 2006, p. 139; Sokolov 2005, p. 122).

In 1927, at the time of the breaking off of British-Soviet diplomatic relations, Royal Dutch/Shell initiated a new boycott of Soviet oil products in Britain, which developed into a worldwide price war (Kostornichenko 2005, pp. 164–5). Royal Dutch/Shell became one of the top enemies of the Soviet Union. In September 1928, three of the world’s leading oil companies concluded an agreement to form an oil cartel, and began negotiations with the Soviet Union. On 25 September 1928 the issue was discussed in the Politburo. A three-year agreement was concluded in January 1929, which set the amount and price of the Soviet petrol and petroleum to be exported to the British market (Bamberg 1994, pp. 108–09; 112–13; Igolkin 2005, pp. 185–90). The Bolsheviks treated oil exports as an essential source of foreign currency to support their ambitious industrialization plan. In 1928–1929 one-third of oil products were exported. In 1931, the Soviet Union’s Gosplan expected the export of oil and oil products to substantially increase. This did not happen, mainly due to increasing domestic demand for oil products (Igolkin 2005, pp. 184, 191, 193–4). The peak for pre-war Soviet oil exports was 1932. In mid-1936 most of the joint enterprises were disbanded.

Constant reforms and leadership changes also influenced the formation of the strategy for Soviet oil exports. The Oil Syndicate (Neftesindikat) was headed until the end of 1926 by Georgi Lomov, thereafter by N. I. Solovev, Grigori Sokolnikov, Alexander Serebrovski, then Lomov again. At the end of 1929, Oil and Gas Industrial Group (Soyuzneft) replaced Oil Syndicate. In October 1931, Soyuzneft was divided up (Sokolov 2005, p. 131). Constant reforms were also a feature in the People's Commissariat for Foreign Trade. In the 1930s there were even rumors that the Soviet Trade Representation in Tallinn was to be closed.4

In addition, the export of oil products was obstructed by the hunt for enemies and the removal of old specialists in order to make the staff more communist (trustworthy). The ‘search for “vermin”’ campaign began in the spring of 1928, in relation to the OGPU-fabricated Schahty case. The British General Staff was alleged to be the conspirators’ center and was associated with Standard Oil of New Jersey.
and Shell. According to the OGPU charge, the conspiracy involved the central office of Oil Syndicate and the representatives in London, Berlin, and elsewhere (Sokolov 2005, pp. 128–30).

The relationships and lines of command of Soviet institutions further complicated the situation. In Estonia representatives from the Soviet Oil Syndicate, the Trade Representation, and the legation were involved in the reorganization of oil sales. The oil company was subordinated to the USSR Higher People’s Economic Council, the Trade Representation to the People’s Commissariat for Foreign Trade, and the legation to the People’s Commissariat for Foreign Affairs. The management scheme foresaw that the Trade Representation was to assist the oil company, and the envoys had the right to halt the economic operations of both institutions considered politically unsuitable (Quigley 1974, p. 89). In addition, there was active interference by the People’s Commissariat for the Workers’ and Peasants’ Inspectorate. Taking decisions was also not made any easier, as explained by the general manager of the Estonian-Soviet Chamber of Trade Rudolf Renning: the Trade Representation was obliged to ask for the Moscow bosses’ opinion about even the smallest detail. Correspondence between the Soviet Union’s Tallinn Legation and the People’s Commissariat for Foreign Affairs proves that such a situation was also characteristic of the legation’s operational framework. Although the correspondence between the foreign representations of the oil company and the Moscow central office has not survived, there is no reason to believe that the working style of this institution was any different.

The very different backgrounds of the staff in Soviet institutions caused additional problems. Envoy Adolf Petrovski (in Estonia 1925–1930), a former journalist, was a former secretary of Soviet People’s Commissar for Foreign Affairs Georgi Chicherin. Trade representative Smirnov and his successor Andrei Dedya both had only an elementary education, and were bakers by trade.

Based on the way management was organized and on the varying backgrounds of the Soviet officials, it is a logical conclusion that the Soviet micro-society in Tallinn, where 40–50 Soviet citizens worked, was brimming with contradictions – a conclusion also supported by considerable evidence. Smirnov characterized the envoy as conceited and arrogant, a person who was physically and spiritually ill. In January 1929 Petrovski asked Smirnov to leave his office and announced that he would meet him in the future only in the presence of others. Smirnov generally interpreted the approval process required by the management model as letting the envoy know what he had already done. Petrovski suggested that influencing the Trade Representation to follow the necessary political direction should be done by Moscow. The People’s Commissariat for Foreign Affairs, however, responded that since they did not know what was going on, they could not know what could be influenced. Petrovski often found out from the Estonians what the Trade Representation or the oil company were planning.

The representation of Oil Syndicate in Estonia was anything but efficient. Piryatinski, the representative of Oil Syndicate in Tallinn in 1925–28, was accused of taking bribes, getting drunk, and chasing women. Legation secretary Mihail Buravtsev accused Smirnov of frivolity. Although Piryatinski’s friend Smirnov plotted together with oil man Vassili Kashitsin against the envoy, Smirnov did not get
along with Kashitsin either, saying that ‘Kashitsin knows damn nothing about oil’. It is understandable that the organizational chaos resulting from the hierarchical system and the personal interactions – which naturally was known to the Estonians as well – left its mark on the newly begun negotiations.

Two more facts can be gleaned from the correspondence between the Soviet Legation in Tallinn and the People’s Commissariat for Foreign Affairs: first, participation by Päts was not treated as a separate issue but in connection with particular combinations in the organization of oil product sales, and second, the sales organization of oil products was among the least important issues in the correspondence between the legation and the foreign affairs commissariat.

Negotiations for the Formation of a Joint Enterprise

Estonia was not an important market for Soviet oil products – in 1927–1928 only 0.4% of the exported oil products came to Estonia (Sokolov 2005, p. 126). The Bolsheviks sold oil products via major Western companies operating in Estonia, and via local wholesalers, but they also set up their own storage facilities and petrol stations in Estonia, and carried out their own retailing. This latter activity began to seriously unsettle Estonian traders. The chairman of the Chamber of Trade and Industry, the influential merchant Joakim Puhk, took a strong stand against Soviet activities in retailing (Vaba Maa 1926).

On 12 March 1928 the founding meeting, chaired by trade representative Smirnov, was held in Tallinn to form a joint enterprise, with participation on the Soviet side by representatives of Oil Syndicate and the Trade Representation, and on the Estonian side by August Kuusik from the Silva company and businessman August Keller. The principles of the enterprise were agreed upon. The founding document gives the role of mediator to the Estonian-Soviet Chamber of Trade, which means Päts, as chairman of the council of the Chamber of Trade, had to be involved from the start.

The origin of the initiative for the direct involvement of Päts in the joint enterprise is unknown. It was not, however, the initiative of the foreign affairs commissariat. On the contrary, Boris Stomonyakov was initially skeptical, and wrote to Petrovsky:

> It seems to me that the association with Päts could have a greater political meaning for us if he were not working for our oil company in Estonia.... If you... conclude that there is no point, or it is already too late to argue against this combination, you may give your consent to the Trade Representative.... Understandably, this issue still needs to be resolved by the People’s Commissariat for Foreign Trade.15

This means Päts was invited to handle oil matters by the Soviet Trade Representation or Oil Syndicate, but it cannot be excluded that the initiative actually came from Päts himself. Päts responded to the envoy’s sounding out by saying that in dealing with oil matters he had no concerns about his political prestige. Thus began the laborious negotiations that lasted for years.
The directives issued in July 1928 by the People’s Commissariat for Foreign Trade to the Tallinn Trade Representation said that a more extensive increase of market share in Estonia would create animosity in certain circles, and there should therefore not be competition with Estonian-only companies. With the same objectives in mind, it was recommended that Päts and Kuusik be included in the joint enterprise, giving them a certain number of shares. Smirnov was given the task, in his contacts with Oil Syndicate, of clarifying the possibilities for including them as members of the company’s management board, also considering the possibility – in addition to the pay that would be similar to those in the Latvian company – of paying them an honorarium. ‘Should it prove impossible to include Päts and Kuusik under these conditions, new candidates are to be appointed.’ Ilmjaev claims this decision was made under pressure from the People’s Commissariat for Foreign Affairs (Ilmjaev 2010, p. 88). However, Ilmjaev presents no evidence to support this unlikely event.

In summer 1928 the idea arose of Päts becoming legal counsel. This came independently from the legation, and it again cannot be ruled out that it was Päts himself who offered his services. He would have had to be well informed of the current situation, and could have spotted an opportunity to earn some money. As can be seen from the later negotiations, Päts was indeed most interested in this position. Petrovsky wrote that Smirnov had informed him on one occasion of negotiations with the men of the oil company, coming to see him accompanied by the representative from Oil Syndicate, and showing him the draft compiled by Kuusik, and their draft response. He wrote: ‘The issue of Päts’s role was resolved with his agreement to participate in the matter as legal counsel.’ On 4 October, Petrovski again wrote to Stomonyakov that Smirnov had recently stopped by and announced that a negative response to Kuusik’s proposal had arrived from Moscow:

Moscow considers the combination to be too expensive and does not agree to paying interest on turnover, suggesting that Kuusik be satisfied with receiving pay. Kuusik did not agree, but Smirnov plans to retain Oil Syndicate and only to include Päts as legal counsel, who seems to have given his agreement for this. I did not have any particular objection to such a combination (by the way, even if I had, it would not have made any difference anyway, post factum), but I do have doubts about whether it would have been more convenient for us to become even a fictitious company.

Stomonyakov agreed to Päts as legal counsel but emphasized that this had to be formulated carefully:

It should be noted that in the Estonian public opinion cannot object to a renowned Estonian lawyer giving legal advice to our oil company. But if this public opinion should discover that Päts is receiving not an honorarium but definite pay, i.e. that he is actually in the employ of Oil Syndicate, then this could of course be used by his opponents, in the same way that in Latvia the fact was used that the former chairman of the Bourse Committee became the chairman of our oil company in Latvia. Please discuss in detail with Smirnov the particularly careful formulation of the relations between Päts and our Oil Syndicate.
It should be noted that in the Latvian-Soviet joint enterprise that was formed at the end of 1927, the chairman of the management board, and minor shareholder, was Janis Pauluks. One of the minor shareholders, and member of the management board up to 1931, was Karlis Blodnieks. Pauluks had been Latvian minister for roads and labor, and prime minister in 1923; Blodnieks was director of the Latvian commerce bank from 1924–1931, and previously and subsequently was also head of Latvian railways.

A half-year break then took place in Estonia during which there was no progress in dealings. This could be related to the rapidly changing situation on the world markets for Soviet oil exports. In April 1929 Renning informed Petrovski that Smirnov intended to carry out negotiations with Puhk instead, this either on recommendation by Päts or at least with his knowledge. The dealings, however, continued to drag out. Stomonyakov repeated the objectives of the Foreign Affairs Commissariat in his letter of 8 May 1929: ‘We did indeed have two objectives in deciding for such a joint enterprise: 1) To neutralize competition from Shell through its Estonian agent, Silva. 2) To involve prominent Estonian figures in such an action.’ Stomonyakov explains the reason for this involvement in the following letter: ‘Comrade Sokolnikov (JV: chairman of Oil Syndicate) is of course mindful of the material aspect, but for us this is of no interest. We are interested in the need to ensure the position of Oil Syndicate in Estonia.’

The management of Oil Syndicate had not yet given up on Silva, deciding on 20 June 1929 that the involvement of Silva would be considered possible under the following conditions: Kuusik would become the chairman or deputy chairman of the newly formed company, with payment of 500 dollars per month; the new company would pay Silva 1% of turnover, i.e. 4,000 dollars per year. At this stage, the People’s Commissariat for Workers and Peasants Inspectorate intervened, saying that involving Silva would be problematic.

In October the envoy began to be concerned about Estonian-Soviet economic relations as a whole, and also because the promises made to Päts had not been kept. He described a meeting with Rudolf Renning, whom he had never seen ‘looking quite so depressed’, and noted he did ‘not doubt that this mood reflects that increasing dissatisfaction in Estonian economic circles, which is the unavoidable consequence of the careless attitude of our businessmen towards their work, the promises they have given, etc.’. Petrovsky also wrote:

Renning recalled ‘also our – absolutely impermissible – attitude towards Päts, to whom the Trade Representative nevertheless offered the position of legal counsel with Oil Syndicate, despite the association between Oil Syndicate and Silva not going ahead, and stated (this is a fact) that Päts will start receiving pay as legal counsel from this moment on, regardless of the official procedures’ . . . I am thus indicating a potential problem, and I ask you to do whatever you can.

In his next letter, Petrovsky continued his concern, confirming that the Trade Representative was acting irresponsibly. He listed a number of issues that needed to be resolved, including the Päts question. ‘The Päts issue must be resolved quickly, appointing him as legal counsel to either the joint enterprise or Oil Syndicate.’
Petrovsky added that he had happened to find out that negotiations with Silva had been restarted but Smirnov had not informed him of this, nor shown him the draft that had been sent to Moscow for approval.  

In a few weeks, however, Petrovsky found out that the negotiations with Silva were not about forming a joint enterprise but about making Silva the main representative of Soviet oil products, and appointing Kuusik as chairman. Next to the word ‘chairman’, Petrovsky wrote the ironic ‘of what?’ in brackets, and summarized: ‘So, this is even more of a mess than I thought.’ He had recommended that Smirnov ask Päts for help during the negotiations, as the future legal counsel. ‘Smirnov did not object, but we concluded that it was mandatory for us to have Moscow’s permission to include Päts, independent of the results of negotiations with Kuusik. Only then can we be sure that Päts really wants to help us in this matter.’ Then a meeting took place in Moscow with Deputy People’s Commissar for Foreign Trade, Lev Hinchuk, where no decision was taken about Puhk, but Stomonyakov said that ‘Oil Syndicate expressed a readiness to hire Päts as legal counsel’. Ilm járv claims that the topic of the meeting was ‘Päts’ cooperation and his pay’ and continues, without a reference: ‘This was done with the prior approval of the Politburo’ (Ilm járv 2004b, p. 55; Ilm járv 2010, p. 95). There is nothing to support the claim that the meeting was held just to discuss the Päts issue, and it is also very unlikely it had been previously approved by the Politburo.

At this stage, Päts responded to Smirnov’s request for mediation by convening at least three meetings within two weeks and directing the interest of the Soviets towards Puhk. He also became more resolute regarding his pay. On 20 February 1930 Renning notified Buravtsev that Päts was most interested in how the issue of the organization of Oil Syndicate was resolved:

According to Renning, Päts spoke on this matter very decisively, no doubt keeping in mind that the legation would be informed. Päts believes that this matter has dragged out too long and that since he has associated his name with the matter, giving his agreement to become the legal counsel of the future company, he wishes that the matter proceed as quickly as possible. Otherwise he will consider himself to be released from the commitment that he has given.

**Payment**

On 27 February 1930, Buravtsev found out that Kashitsin – the Soviet oil company’s representative in Riga who was in charge of offices in all the Baltic States – had received approval from the oil company to establish a joint enterprise. A meeting took place in the Tallinn Legation on 9 March, attended by the new envoy Fyodor Raskolnikov, Buravtsev, Dedya, Kashitsin, Shevyakov and Zhukov (the latter two were employees in the Soviet oil company’s Tallinn office), during which Kashitsin announced that the management board of Soyuzneft had agreed with the formation of a joint enterprise in Tallinn and requested a draft agreement be drawn up and sent to Moscow. Kashitsin also stated he had received a directive for the allocation of resources to include Päts as legal counsel. The meeting agreed to accelerate the establishment of the joint enterprise, to include in this Puhk’s company and to clarify
whether participation by both Kuusik and Puhk would be possible. Should this not be possible, it was decided to prefer Puhk. It was also decided, while the joint enterprise was still being formed, over a period of two to three months, to pay Päts ‘for consulting to the local oil syndicate’.33

On 11 March, as recorded by Buravtsev and Raskolnikov in their diaries, Kashitsin went to negotiate with the heads of some of the Estonian companies, and with Päts. Buravtsev writes that, in response to Kashitsin’s proposal to ‘receive payment via the Trade Representation for dealings related to the organization of the joint enterprise, Päts stated his agreement, and according to Kashitsin, was very much interested in the whole matter’.34 Raskolnikov writes that Kashitsin went to see Päts and Puhk: ‘Päts was clearly pleased that the issue of his inclusion as legal counsel had been resolved, and agreed that, until the formation of the joint enterprise, he would be paid the same amount (4000 dollars per year) for consulting to the local oil syndicate’.35 It should be noted that Päts had actually already given his agreement — almost two years previously. Raskolnikov’s diary is the only document that mentions Päts’s pay, and it is not known whether he actually received such a large payment.

However, on 27 March, Stomonyakov informed Raskolnikov that the oil company had confirmed that resolution of the issue of inviting Päts was delayed because Päts himself was uncomfortable about becoming a consultant for the oil company’s department. As a result of this, the Soviet-Estonian joint enterprise needed first to be established, which was the topic of the negotiations led by Comrade Kashitsin: ‘The oil company informed me that resources had been allocated for this, and everything was now waiting for Comrade Kashitsin.’36 Nevertheless, Päts began to be paid sometime between March and June. In any case, Raskolnikov wrote in June 1930 about Renning and mentioned that Päts ‘trusts him to get his pay’.37

Another change of direction took place in the formation of the joint enterprise. A letter by Solovev, the deputy chairman of the Oil Syndicate’s management board, indicated that Soyuzneft was considering giving up the idea of a joint enterprise, due to Silva’s bankruptcy and doubt regarding the usefulness of cooperation with Puhk.38 Stomonyakov responded: ‘the issue which for us remains open at the moment, is finding ways for P. to be paid legally. If the current situation still satisfies the parties, we must wait and try to find an acceptable solution.’39

The letter from Stomonyakov to Buravtsev on 1 October indicates the People’s Commissariat for Foreign Affairs was not particularly informed about the matter. It cannot be excluded that Stomonyakov had merely forgotten the details of these tortuous negotiations. In any case he accused the legation of being superficial:

We once assumed that Päts was pleased with his being appointed as legal counsel for oil matters at the Trade Representation but...we have since discovered, firstly, that Päts has been appointed as legal counsel for matters related to the future joint enterprise and secondly, that he is in a hurry for the joint enterprise to be formed since he finds it uncomfortable being the legal counsel for the Trade Representation.

Stomonyakov continued that it was decided during negotiations at the beginning of September with Soyuzneft and the People’s Commissariat for Foreign Trade that the formation of a joint enterprise in Estonia was undesirable, as no good could come
of a combination whereby Puhk sat on the management board of a joint enterprise that sold oil products to his own company. That scenario could result in conflict and make Puhk an even greater enemy than before. ‘I can see a way out of this situation being either that the People’s Commissariat for Foreign Trade finds some possibility to keep Puhk as a non-public oil consultant for the Trade Representation, or a fictitious joint enterprise is formed.’ (The document says Puhk, but Stomonyakov probably meant Pätts).

Stomonyakov recommended that Buravtsev openly inform Pätts that Soyuzneft definitely wanted to keep him on as an oil consultant and to ask how he would prefer his status as legal counsel to be formalized:

Naturally it would be the most practical if he, Pätts, would just become the Trade Representation’s legal counsel for oil matters. If Pätts says that this would be politically uncomfortable for him then tell him that in your personal opinion the fact that Pätts is the Trade Representation’s permanent legal counsel need not be made public. If Pätts categorically states that he can under no circumstances be the Trade Representation’s legal counsel then... ask him whether it is possible to organize a company, which would be a joint enterprise only in form, and where the capital actually belonged to Soviet organizations.40

On the basis of this document, Ilmijärv claims the formation of the joint enterprise was undertaken solely to include Pätts: ‘after Pätts had become the Oil Syndicate’s legal counsel, and had secretly received payment for it, it was decided not to go ahead with the formation of a composite company, and the only interest was to continue paying Pätts’ (Ilmijärv 2010, pp. 100, 102). But such a conclusion cannot be drawn on the basis of this document. What Ilmijärv considers a turning point, as the objective had been achieved, was just one new decision in a process with numerous participants and turning points.

On 7 October, Buravtsev did indeed go to see Pätts. Buravtsev did not propose to Pätts that he might become a ‘non-public’ oil consultant for the Trade Representation, or at least he did not write that he had done so. But participation in a fictitious joint enterprise was unambiguously rejected by Pätts, who nevertheless agreed to ‘occasionally consult to the Trade Representation’.41 It is not known how much payment he expected for this.

Something, however, was indeed paid. At the end of 1930 the Soviets concluded a contract with Puhk for the resale of oil products.42 On 12 December 1930 Raskolnikov wrote that, according to Renning, ‘Pätts keeps asking via Puhk for the money... being in agreement with the unsuitability of the current situation, I suggested finding some other format’.43 A month later he wrote:

Things can’t be dragged out any longer. This is annoying P. He categorically rejects receiving money from the Trade Representation or the Chamber of Trade. In such a case he would prefer to not receive payment at all, so that he would not be compromised... Therefore, not seeing another way out and being very well aware of the unease in involving Puhk in this matter, I nevertheless suggest compensating P. through one of Puhk’s contracts... There is of course the danger that, if it is useful for him, Puhk could make public this fact in order to
compromise both us and P., but in this case, as is the case with P. himself, this would also compromise him as the mediator.44

On 21 February 1931, when Päts had already become State Elder (prime minister), he sent someone to pick up his pay. Raskolnikov wrote to Stomonyakov: ‘Comrade Dedya paid him not only for February but also for March. Päts’s coming to power means that we should hurry to formalize his situation. I have not been able to come up with anything besides giving Puhk a bonus. The matter now rests with you.’45 As becomes clear from Raskolnikov’s next letter, he did receive approval for the payment. The following sentences apparently refer to Päts’s pay: ‘The bonus was handed over by Comrade Dedya to Puhk before he left. Naturally this was done with my knowledge and approval, on the basis of the telegram that you had sent. We were unable to think of any other way.’46

But now the Soviet oil company decided the contract with Puhk should be cancelled. Raskolnikov protested: ‘I am convinced that cancelling the contract will result in not only political but also financial damage.’47 This also probably meant the end of the payments. In any case, there are no further references found about payments. In May Raskolnikov wrote:

At this stage we are on the brink of an economic war.... In this manner, war against Standard Oil and Royal Dutch Shell Estonia will become a war against Puhk and other merchants, instead of being able to use them against our competitors. Our fight will become extremely difficult, because the Estonian government [then headed by Päts] will start to support Estonian merchants.48

Nevertheless, in June a new contract was signed with Puhk. Some gloating could perhaps be detected in Raskolnikov’s comment: ‘So, everything turned out as I predicted.’49 In late autumn, a new agreement was signed between the Soviet oil syndicate and Puhk, in which the conditions for the Soviets were less favorable. According to Raskolnikov, this meant a ‘complete capitulation to Puhk’.50

The sale of Soviet oil products on the Estonian market was hit by not only complete capitulation but also catastrophe, as confirmed by the figures. Of the 20 countries to which the Soviet Union exported a minimum of 10,000 tons per year during those years, exports to Estonia decreased the most – both in volume and value. In 1932 more than four times fewer Soviet oil products were transported to Estonia than in 1929 (Bakulin & Mishustin 1939, pp. 134–5). During the crisis Estonia started to extensively use domestic oil shale fuel. The main reason for the sudden decline in Soviet export possibilities was the increase of customs and excise duties, which was undertaken by the Päts government in 1931 (Valge 2009, pp. 185–6). This could be seen as revenge for the failure to set up a joint enterprise. In neighboring Finland and Latvia the Soviets had more success establishing joint enterprises and selling oil products (Bakulin & Mishustin 1939, pp. 134–5).

There is also the matter of the paragraph in the memoirs of Pavel Sudoplatov that claims cooperation with Päts was organized by resident spy Yakovlev in Estonia, and that although Päts did not sign a recruitment obligation for collaboration with the GPU in 1930, he was nevertheless financially supported by Moscow until 1940 (Sudoplatov 2001, p. 112).
There are no other sources confirming that Soviet intelligence had organized or even kept an eye on Päts’s relations with the Soviet oil company. As described above, it was not necessary to organize Päts’s ‘cooperation’ since he was already cooperating and had taken the initiative himself in 1928. He did not let himself be entangled in 1930, as implied by Ilmja¨rv’s 1999 writings. Actual payment was held up due to indecision on the part of the Soviet institutions. In the Estonian SSR KGB Department of Foreign Intelligence documents from the 1920s and 1930s, held in the Estonian State Archive, there is indeed information on the scheming carried out by Piryatinski and the Estonian resellers of oil products, but not on relations between Päts and the Soviet oil company. In 1940, however, the topic of payment to Päts did emerge briefly, when on 12 March the NKVD (formerly OGPU) foreign intelligence representative in Estonia, Vladimir Botchkariov (‘Lado’), responded to an enquiry from Moscow: ‘In the matter of paying Päts, Krasnov told me that the details of this are known to the previous trade representative Parushin, the former employee of the People’s Commissariat for Foreign Trade Tchvialov, and Passov, who has discussed this with Krasnov. I consider it necessary to clarify the details of this matter with Passov.’ Pyotr Krasnov was the Soviet trade representative in Estonia in 1940, Vladimir Parushin was the trade representative in 1933–1934. The identity of Passov is unknown. It therefore seems, at least at that time, that the NKVD had only a vague knowledge of the matter. It cannot be excluded, however, that the relevant information could have disappeared together with the NKVD’s employees who were repressed in 1937–1938. However, it seems quite probable that the topic did actually arise in Estonia, due to information provided by Renning, who was recruited in February 1940 as a Soviet agent by Boris Yartsev-Rybkin, the Helsinki resident for Soviet foreign intelligence.

In any case, it was also difficult in 1940 to obtain information from other people who had been aware of the topic: Stomonyakov had been arrested; Petrovski had also been arrested and perhaps already killed; Raskolnikov had died; and the trade representatives Dedya and Gustav Klinger had been shot.


Sudoplatov himself worked until 1938 in positions that had nothing to do with Estonia. It therefore cannot be excluded that these texts ended up in the 2001 book of memoirs because of the claim made by Ilmja¨rv in 1999 that Päts was ‘included’ in 1930 by a Politburo-planned affair – a claim that resulted in much controversy in Estonia and Russia.

Ilmja¨rv says Sudoplatov’s claim ‘may have some truth – there might have been channels through which Soviets were able to pass large sums of money to Päts’, referring to the economic ties between Tallinn Ship Association Ltd. and the Soviet Union. As of 1933, the Soviet Union chartered ships from the Tallinn Ship Association. Ilmja¨rv states that Päts was the major shareholder of the Tallinn Ship Association (Ilmja¨rv 2004b, pp. 60, 99).

Ilmja¨rv claims this based on the list of shareholders compiled during the German occupation. But the source quoted by Ilmja¨rv clarifies that in 1940 Päts did indeed
hold Tallinn Ship Association shares, but only a token number of three shares, or less than 0.1%.\textsuperscript{54} In addition, the Soviet Union was not the only client of the Tallinn Ship Association. There is therefore no evidence that after 1931 Päts was being paid by Moscow through some other channel. In the book published in 2010, Ilmjärv admits Päts only had three shares, but adds that the division of the shares and the Soviet-oriented ship charters ‘require further study’ (Ilmjärv 2010, pp. 104–6).

**Was Päts Open to Blackmail?**

The attempt to set up a joint enterprise in Estonia, and the subsequent organization of oil product sales – where decisions were made, or at least monitored, by the Politburo – was not a high-level affair to involve Päts. The Soviet oil company made the main financing decisions. The additional objective of the Soviet Union’s Tallinn Legation and the People’s Commissariat for Foreign Affairs, however, was the closer political inclusion of Päts, and later to avoid offending Päts.

Providing legal consultation for the formation of a joint enterprise and ‘occasionally consulting to the Trade Representation’ was not compromising for Päts when he was only a member of parliament. Many, perhaps even the majority of the Estonian lawyer parliamentarians at the time also maintained private practices. For example, Mihkel Pung, an Estonian economic figure and statesman, worked as a paid lawyer for the Soviet Trade Representation, while he was economics minister in 1931.\textsuperscript{55} The Soviets were likely to consider it normal for a politician to have a private practice, being aware that, for example, Jaan Teevant continued private practice while serving as State Elder, and that Ants Piip as foreign minister was also a representative of British firms.

If the Estonian public had found out about Päts’s honoraria while he was a member of parliament it would have no doubt caused him major political discomfort, though this would probably not have signaled the end of his political career. But as of 12 February 1931, when Päts became State Elder, the situation changed. Receiving an honorarium from the Soviet Trade Representation would have undoubtedly been very compromising politically for Päts, and caused a scandal if the public had found out. It could have meant the end of his political career. But this does not mean the Soviets could have blackmailed Päts or that there was any point in doing so. Päts was characterized by political observers of the time as being crafty and experienced, renowned as a brilliant political schemer, and there is no reason to doubt this generally held assessment. He was certainly taking a risk to some degree, but he must have been convinced the Soviets would not be able to compromise or blackmail him. He could have been encouraged to believe this because of the very low level of Soviet administrative capability, and also because there was no point in the Soviets compromising him: Päts had managed to give the Soviets the impression that he was one of the most Moscow-friendly of Estonia’s top politicians.

There is no evidence that Päts had any kind of a special relationship with Moscow regarding oil in particular. There is also no information that Päts’s being financed by the Soviet oil company would have in any way directly influenced Estonia’s domestic
or foreign policy, as Zenonas Butkus claimed happened in Lithuania, where the USSR financed the nationalist press (Butkus 2007, pp. 229–30). Of course, it cannot be totally excluded that as-yet-undiscovered sources could shed new light on the issue, but on the basis of currently known sources, it would seem Päts was more likely to consider his receiving payment as him actually outwitting the Soviets, with no subsequent obligation whatsoever. Päts had the opportunity to use his State Elder position to promote the import of Soviet oil products but all the information shows he tended to do the opposite, which seems in turn to prove he did not fear blackmail. It is therefore difficult to see his involvement as a genuine triumph for Moscow. The sale of oil products in Estonia, and securing the place of the Soviet oil company on the Estonian market – which he was meant to be facilitating and for which he was being paid – was a complete failure for the Soviets. Whether the additional objective of the People’s Commissariat for Foreign Affairs and the Soviet Union’s Tallinn Legation – to make Päts more Soviet-friendly – was achieved or not is difficult to say. The most likely answer is no, as there is no information that the Soviet participants wrote anything at all on this matter, and there is also no record of an increase of friendliness in any context.

This affair, however, does characterize Päts as a shrewd politician for whom material interests were far from unimportant, and for whom gamesmanship was no stranger. It is unlikely that in the summer of 1940 Päts’s actions were driven by the possibility of Moscow compromising him, but he might have acted on the belief that he had always previously managed to outplay the Soviets.

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Notes
3 Petrovsky to Stomonyakov, 1 August 1929. AVPRF 04-47-295-54296, p. 61.
4 Buravtsev’s diary, 22 February 1930. AVPRF 0154-22-30-6, p. 58; Buravtsev’s diary, 9 March 1930. AVPRF 0154-22-30-6, p. 19.


Buravtsev to Abezgauz, 2 September 1929. GARF 374-28-3248, p. 32.


Aleksandrovski to Petrovsky, 17 September 1928. AVPRF 04-47-295-54292, p. 57.


Minutes of the meeting of employees from the Soviet Union’s Tallinn Legation, Tallinn Trade Representation, and the People’s Commissariat for Workers and Peasants on the possible taking of bribes by Piryatinski, the former representative of the Oil Syndicate, 18 September 1929. GARF 374-28-3254, p. 53.


Draft statutes for the joint enterprise, 12 March 1928. AVPRF 054-12-24-3, pp. 27–8. Ilmja¨rv claims that Moscow, after considering a number of candidates, nevertheless planned to offer the position of the oil company’s legal counsel to Päts. As proof, Ilmja¨rv cites Petrovsky’s letter to Stomonyakov on 12 April 1928 (AVPRF 04-47-295-54291, p. 65): ‘I tried to act through the good offices of Renning. As we confidentially talked with M. M. [Ilmja¨rv clarifies in a note that this is Deputy People’s Commissar for Foreign Affairs Maxim Maximovich Litvinov], I did not reveal the whole truth to Renning, but requested him to ask Päts to suggest a public figure who could manage the Oil Syndicate operations, and whether he thinks that this job could negatively affect the political reputation of chosen individual’ (Ilmja¨rv 2004b, pp. 49–50; Ilmja¨rv 2010, p. 87.) In reality, the paragraph in Petrovski’s letter mentions the name ‘Päts’, and not the initials M. M. indicating Maxim Litvinov. Replacing Päts with Litvinov creates the impression that the issue was initiated at a high political level in Moscow.


Petrovsky to Stomonyakov, 26 April 1928. AVPRF 04-47-295-54291, p. 66.


Petrovsky to Stomonyakov, 4 October 1928. AVPRF 04-47-295-54291, p. 129.

Stomonyakov to Petrovsky, 15 October 1928. AVPRF 04-47-295-54292, p. 64.


Stomonyakov to Petrovsky, 8 May 1929. AVPRF 09-4-39-40, p. 37.

Petrovsky to Stomonyakov, 23 May 1929. AVPRF 04-47-295-54296, p. 44.

Petrovsky to Yurenev, 24 October 1929. AVPRF 04-47-295-54296, p. 80.

Petrovsky to Stomnyakov, 10 November 1929. AVPRF 04-47-295-54296, pp. 82–5.

Petrovsky’s diary, 2 December 1929. AVPRF 0154-21-27-5, p. 207.

Stomnyakov to Petrovsky, 7 January 1930. AVPRF 0154-22-30-2, pp. 1–2.


Buravtsev’s diary, 20 February 1930. AVPRF 0154-22-30-6, p. 27.

Buravtsev’s diary, 27 February 1930. AVPRF 0154-22-30-6, p. 54.

Raskolnikov’s diary, 9 March 1930. AVPRF 0154-22-30-6, p. 62.

Buravtsev’s diary, 11 March 1930. AVPRF 0154-22-30-6, p. 45.

Raskolnikov’s diary, 11 March 1930. AVPRF 0154-22-30-6, p. 61.


Raskolnikov to Stomnyakov, 21 June 1930. AVPRF 0154-22-30-1, p. 40.

Raskolnikov to Stomnyakov 21 June 1930. AVPRF 0154-22-30-1, 40.

Raskolnikov to Stomnyakov 21 June 1930. AVPRF 0154-22-30-1, 40.

Solovev to the People’s Commissariat for Workers’ and Peasants’ Inspectorate, 2 June 1930. GARF 374-28-3251, p. 4.


Stomnyakov to Buravtsev, 1 October 1930. AVPRF 0154-22-30-2, pp. 52–5.

Buravtsev’s diary, 7 October 1930. AVPRF 0154-22-30-6, pp. 154–5. Note: Larunafta, which was formed in Latvia, was indeed a fictitious joint enterprise. Soyuznefteexport and Berlin-based Soviet Derunafta held over 95% of the shares.

List of shareholders, 10 May 1928; 28 January 1930; 21 April 1931; 30 April 1932; 30 April 1934; 12 September 1935; LVVA, pp. 21, 51, 74, 90, 104, 128.

Buravtsev’s diary, 11 November 1930. AVPRF 0154-22-30-6, p. 177.

Raskolnikov’s diary, 18 November 1930; 12 December 1930. AVPRF 0154-22-30-6, pp. 169, 183.

Raskolnikov to Stomnyakov, 11 January 1931. AVPRF 09-6-54-58, p. 3.

Raskolnikov to Stomnyakov, 21 February 1931. AVPRF 09-6-54-59, p. 4.

Raskolnikov to Stomnyakov, 30 March 1931. AVPRF 09-6-54-58, p. 8.

Raskolnikov to Stomnyakov, 20 April 1931. AVPRF 0154-23-33-1, p. 36.

Raskolnikov to Stomnyakov, 9 May 1931. AVPRF 0154-23-33-1, p. 45.

Raskolnikov’s diary, 23 June 1931. AVPRF 0154-23-33-2, p. 70.

Raskolnikov to Stomnyakov, 10 November 1931. AVPRF 0154-23-33-1, p. 76.


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