TARTU HISTORICAL STUDIES
Edited by
Eero Medijainen and Olaf Mertelsmann

VOLUME 5

Behind the Iron Curtain
Soviet Estonia in the Era of the Cold War

Zu Qualitätssicherung und Peer Review der vorliegenden Publikation
Die Qualität der in dieser Reihe erscheinenden Arbeiten wird vor der Publikation durch beide Herausgeber der Reihe geprüft.

Notes on the quality assurance and peer review of this publication
Prior to publication, the quality of the work published in this series is reviewed by both editors of the series.
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Tiiu Kreegipuu
The Economic Impact of the Early Cold War on the Estonian SSR

Abstract: The author describes and analyzes in detail how the Estonian SSR's economy was affected by Sovietization, postwar reconstruction of the economy, the needs of the armament industry, and the impact of the Cold War. He also analyzes the reorganizations carried out in the Union republic in the context of changes that took place in Europe.

Introduction

Economic history is not usually a central focus of Cold War historiography, which is far more interested in politics.

1 Nevertheless, a great deal of effort was invested by the West in researching the economic system of the ideological enemy, and the

This paper was written in the framework of the target-financed project "Estonia in the Era of the Cold War" (SF0180050S09). I have used some material from a previous publication: Olaf Mertelmann, 'The Social Costs of the Early Cold War: An Example from a Soviet Republic,' Olaf Mertelmann and Kaarel Ptlirem (eds.), The Baltic Sea Region and the Cold War (Frankfurt, 2012), pp. 141–61.

first deep insights into Soviet economics were a product of the Cold War.2 But in the last two decades this field did not develop much.3 Still-existing restrictions hamper archival access. Thus, to my knowledge, only four monographs have been published that are based on research in Soviet archives and that deal with postwar Soviet economic history and the military industrial complex.4 Nevertheless, the economic impact of the Cold War on all societies involved was significant, which makes this topic a valuable one.

For far too long, master narratives presented the Cold War as a conflict taking place in a bipolar world with only two superpowers. But Moscow and Washington were not the only parties involved. It would be more accurate to regard the Cold War as a conflict taking place on various levels with a multitude of players fulfilling different roles. Small countries like Finland, Denmark, the Netherlands, and Czechoslovakia were not simply pawns on a chess board; they were also actors, as were international institutions, NGOs, and some large enterprises. Recent investigations of the Cold War from a regional perspective stressed the importance of local players and local studies in the larger picture.5 This approach also justifies picking out a single Soviet republic, in this case the Estonian SSR, and exploring the economic impact of the early Cold War on a local level. This kind of case study might serve not only to better understand Estonian history but also to investigate the Cold War from a local perspective.

In the case of the Estonian SSR, in the postwar years three different processes appeared in parallel, and they were very difficult to distinguish from each other. First, Sovietization continued. Estonia belonged to a vast stretch of territory from the Baltic to the Black Sea with more than 20 million inhabitants that was first occupied and


Sovietization

This term refers to a complex network of processes of adoption, transfer and imposition of the Soviet model of power and social structure. These processes included the institutional and structural change of society, economy and state, and the restructuring of culture and education and of everyday life.9 For the Estonian economy during the first year of Soviet rule, Sovietization meant the nationalization of the majority of enterprises and of larger houses, severe restraints on private consumption, price-fixing, a confiscatory exchange rate for the national currency, delivery norms for agriculture, an inefficient land reform, large-scale exploitation, first steps towards a command economy, and a severe decline of output. Contrary to official propaganda, the first Soviet year ended in an economic and social catastrophe that was overshadowed only by Stalinist terror and the subsequent war.10 The process of economic restructuring was not finished when war broke out in June 1941. In fact, the vast majority of the economy still remained in private hands—agriculture was largely privately owned and run. In addition, some small private enterprises survived until 1947. Since Estonia had been an agricultural country, a Soviet-style economy was initially more developed in the towns. Even there the establishment of the command economy was not finished and was greatly improvised. Any large-scale transformation of an economy exacts a high price, and this was the case in the newly acquired territories. According to my own estimate, due to Sovietization, Estonia's national income might have declined by one-quarter within only one year.11

The Soviets prepared their return during the war in the unoccupied Soviet hinterland. Some institutions were built up, specialists trained, and general plans made. While the leitmotif of 1940–41 had been the restructuring of existing institutions according to the rough blueprint for Eastern Poland, the second attempt seemed to be better prepared. Available documentation of the people's commissariats of the Estonian SSR reveals that a Soviet style of administration was implemented comparatively quickly. Stalin and his inner circle decided to deal with the peasants in the newly acquired territories more slowly. First, the land reform was restaged, then agricultural taxes increased tremendously, dekulakization started, and finally agriculture was collectivized in 1949, which was accompanied by a second mass deportation (the first one was in 1941).12 By this time private enterprises had been nationalized, but private economic activities like petty trade, moonlighting, or growing food in the garden nevertheless formed an important part of individual survival strategies.13 Thus the Soviet economy always contained an important but declining element of private economic activity.

In the late 1950s, the Sovietization process for the Estonian economy was more or less finished. Several elements of Estonia's Sovietization stood out in the context of the USSR. In agriculture, dairy farming and pig breeding was more important than grain production, and in industry the share of the light industries was larger than the average, where heavy industry dominated. According to published statistics, the inhabitants of Estonia and Latvia possessed the highest standard of living in the Soviet Union, comparable only to Moscow, Leningrad, or some privileged centers of the arms industry. In addition, they could legally own larger houses in towns than elsewhere. Still, the Estonian SSR had turned into an integral part of the Soviet economy, which was based on the results of Stalin's "revolution from above" in the late 1920s and early 1930s. Back then Stalin had started the first Five-Year Plan, the forced collectivization of agriculture, the brutal industrialization process, and the establishment of a command economy. The Soviet government financed the high investment rate, especially concerning heavy industry, by reducing the standard of living of the overall population. The outlook of the Soviet economy would continue to bear the strong imprint of Stalin's revolution in the future.14

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11 Mertelsmann, Der stalinistische Umbau, p. 74.
14 For Soviet economic history and Stalin's impact, see Berliner, Factory and Manager in the USSR; Bergson, The Real National Income of Soviet Russia; Abram Bergson, The...
Reconstruction

The preparations for the postwar Five-Year Plan covering the years 1946–1950 became apparent in 1943, and a year later the basics for this plan of "reconstruction" (vaastanovlenie) were clear. The plan continued the prewar tendencies of high investment into heavy industry and of massive defense spending. In addition, the Soviet Union intended to build its own atomic bombs. In that sense, the main emphasis in the "reconstruction" plan was put not on reconstruction but on building up the military strength of the USSR and further developing heavy industry.

Concerning our case study, in October 1944, after Estonia's liberation from German occupation and the re-occupation by the Soviets, the State Planning Committee (Gosplan) of the Estonian SSR already possessed 47 employees. Other Union republics supported this institution by finding the personnel for the local Gosplan. The first plan targets were set, and "local resources had to be mobilized to fulfill those targets quicker." By the end of 1944, the assignments for 1945 were the following, listed according to their importance: 1) reconstruction of the energy sector; 2) the oil shale industry; 3) production of construction materials; 4) regularity of deliveries for industry; and 5) transport and fuel. In May 1945, after the end of World War II in Europe, the targets for industrial reconstruction were re-formulated as 1) the energy sector; 2) oil shale; 3) construction; 4) engineering and metal works; and 5) textile and food industries.

Because the war was still raging in Europe, and because of the damage caused by the war and because of the planned war against Japan, in late 1944 or early 1945 a transition to a peace economy was unthinkable for Moscow. Putting energy, construction, transport, and fuel on the list appears logical, as does the mention of the textile and food industries in the later version of the plan targets. Other states would have set similar priorities. The positions of oil shale, engineering, and metal works on the list are problematic, because investment into those sectors needed a longer span of time to bear any results, and they were clearly related to the defense industry, just as the oil shale region, which had a role in the project of constructing a Soviet atomic bomb. For the forthcoming conflict with Japan, this investment was useless, because it could not have borne fruit until long after this conflict was over.

The war losses were smaller in the Estonian SSR than in other occupied Soviet regions. The population did decline from 1.1 million in 1939 to 854,000 in January 1945. But this decline was not caused by the war alone. The resettlement of Baltic Germans in 1939–1941 and of Estonia's Swedes in 1944 (27,000 people in all), arrests (8,000), and a first mass deportation (10,000) during the first year of Soviet rule, evacuation to the Soviet hinterland after the beginning of the German attack (25,000), mobilization into the Red Army and into units fighting on the German side (together more than 100,000 males), Nazi terror (8,000), the mass flight to the West in 1944 (70,000), and the wave of arrests until the end of 1945 all contributed to population losses. By 1950, 70,000 people returned to Estonia. The low standard of living and malnutrition led to approximately 40,000 additional deaths in the 1940s.

Demographically, the losses were later compensated by immigration from other Union republics.

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16 Estonian SSR State Planning Committee (Gosplan) 1941–48, 28 October 1948, Eesti Riigiarhiivu Fiiiaal (Branch of the Estonian State Archives, ERAF) f. 1, n. 4, s. 47, l. 169.
17 Ibid.
18 Explanatory report concerning the economic plan for the Estonian SSR in 1945, 16 May 1945, ERAF f. 1, n. 3, s. 429, l. 1.
19 Mertelsmann, Der stalinistische Umbau, pp. 116–8.
20 Ibid., p. 125.
In literature we often find official Soviet estimates for war destruction concerning the Estonian SSR, but the data is frequently exaggerated and contradicts Soviet archival documents. In reality, war losses were, apart from the population losses, smaller in Estonia than one would expect. Neither Germans nor Soviets employed a scorched-earth policy on a large scale in Estonia; instead, both sides destroyed infrastructure and industrial capital stock when retreating. Some machinery and other goods were also evacuated. By the end of fighting, Estonian industry had lost about half of its capital stock. Another reason for this was the negative investment rate since 1940, which did not allow for the replacement of outdated equipment. Officially, the war destroyed 55 percent of the urban housing stock, but the Soviet Extraordinary Commission working on war and occupation damages reported only 9,200 out of 39,500 houses in Estonian towns as being demolished—less than half of the published figures. Their data is, in fact, consistent with later sources, too. In rural areas less than 5 percent of all buildings were lost. The amount of livestock declined by one-third in comparison with the figures of 1941. Nevertheless, material war damages were not as excessive as declared.

In postwar reconstruction there was more to recover from than infrastructural damage. The population was exhausted from German exploitation and a long period of extremely low living standards, which, for many, meant long-lasting malnutrition. But, as mentioned above, Soviet priorities were elsewhere. Feeding the population and helping to recover from war and exhaustion was not high on the agenda.

The Impact of the Early Cold War

There is no final agreement among scholars as to when the Cold War started. But there is enough evidence concerning postwar economic planning, as mentioned above, that the Kremlin anticipated some kind of international conflict and intended to continue a policy of high investment in heavy industry, especially in the arms industry. In Estonia, as in all other Soviet republics, this meant that reconstruction was delayed in favor of high defense spending and heavy industry investment. This indicated that the population paid a high price, since wartime was characterized by stricter austerity, extreme shortages, and even malnutrition and hunger. This unfavorable situation would continue longer than necessary due to Stalin's priorities. The postwar famine in western parts of Russia, Ukraine, and Moldova might be attributed at least partly to the Kremlin's policy of heavy industry investment and defense spending instead of reconstruction. Only with the end of the 1940s did the Soviet population enjoy a modest food security of sorts, after decades of destitution. Below I will explore the details of this development, using the example of Estonia.

The Estonian SSR was an agricultural country with more light industry than the Soviet average. This meant that the concentration on heavy industry and defense would slow down the postwar recovery of the dominant fields of the economy. In addition, a vast restructuring and reallocation of resources was needed to develop the preferred fields. In the Estonian case, this was oil shale-mining and processing and the establishment of a secret uranium enrichment facility in Sillamäe.

First of all, we have to look at the role of defense spending. In the 1930s, due to the political situation in Europe and the rise of right-wing regimes like that of Hitler, an international arms race started, in which the Soviet Union duly participated. This became possible because of the establishment of a large heavy-industry sector by brute force during Stalin's "revolution from above" and because of the expansion of education and R&D that provided those industries with experts and engineers. The Red Army was turned into the world's largest army, designed to overwhelm potential enemies not only by its mass of soldiers but also by the amount of its weapons, like tanks or air fighters. While Hermann Göring in Nazi Germany spoke of "cannons instead of butter," in the USSR the reality was "cannons instead of bread," which led to another food crisis by the end of the decade.

22 Mertelsmann, Der Stalinistische Umbau, p. 221.
24 Gosudarstvennyi arkhiv Rossiiskoi Federatsii (State Archives of the Russian Federation, GARF) f. R-7021, o. 97, d. 6, l. 24.
25 Mertelsmann, Der Stalinistische Umbau, p. 90.
26 Data for January 1941, ERAF f. 1, n. 47, s. 49, l. 61; October 1944, Eesti Riigiarhiiv (Estonian State Archives, ERA) f. R-1, n. 5, s. 93, pages not numbered.
29 Elena A. Osochina, Jerarkhiia potrebieniia: O zhizni liudei v usloviiakh Stalinskogo snavsheniiia 1928–1935 gg. (Moscow, 1993); idem, Our Daily Bread: Socialist Distribution and
Obviously, by then the Stalinist project of socialist modernization with the help of heavy industry had turned into a project of military buildup at the expense of society, especially the peasants. We do not know exactly how high Soviet defense spending really was in peacetime, but approximately 15 percent of GDP until the late 1980s seems to be a realistic estimate. Mark Harrison has assumed on the basis of a recently found source that in 1980, more than one-fifth of GDP was used for defense-related expenditures. Thus for more than half a century, the USSR spent a much larger share of its GDP for defense than its Cold War opponents, whose defense expenditure remained in the one-digit range. In other words, if the Soviet Union had been less militarized and spent a “normal” amount of money on the military, then real incomes would have been much higher. If Abram Bergson’s estimates of the USSR’s national income are correct, the Soviet defense burden was equal to one-third of private consumption from the 1930s until the late Cold War. “Normal” levels of spending for defense would have raised real incomes by one-fifth. This was a lot for a poor and underdeveloped country, where until the late 1940s man-made famines occurred regularly. With the Soviets’ westward expansion in 1939 and 1940, the inhabitants of the newly acquired territories experienced the extreme austerity of the socialist economic order, and those territories were also exploited on a large scale.

Given the international tensions and the threat posed by Hitler in the 1930s, there is no doubt that the USSR had to participate in the arms race to guarantee its security. Whether Stalin actually planned to launch an attack is outside the scope of this paper. Without timely armament and without Stalin’s industrialization, the Soviet Union may not have survived World War II. During the war, the Soviet Union did mobilize a larger share of the economy for the war effort than any other combatant. The defense burden increased to more than half of the national income, according to estimates, while private consumption declined to only about 30 percent of it. This led to a social catastrophe in the unoccupied Soviet hinterland, regional famines, and excess mortality. In 1943, after the battles of Stalingrad and Kursk, it became clear that the Allies would win the war, but war ended only after Japan’s capitulation. To understand the Soviet side in the Cold War, it is important to note that certain developments that had started during the arms race in the 1930s and World War II, such as the draconian labor legislation, the continuation of Stalinist terror, or the policy of extreme austerity, continued into the postwar period. The Soviet Union obviously learned the wrong lesson from the war: Stalin understood this conflict as the final test for the regime, which it survived only because of the militarization of the economy. Thus such policies had to continue.

The Soviet arms industry after the war was sited mainly in the core and not the periphery of the country. The network of defense industry factories and secret defense R&D institutes contained, as we now know, some 27,000 institutions, only 60 of them located inside the Estonian SSR. Thus the Estonian SSR was not of direct importance to the Soviet defense industry, though the population paid equally for the expenses. One of the reasons for the USSR’s high defense spending was definitely the desire to prevent any other power from attacking like the Germans did in 1941. It has also been argued that the establishment of socialist puppet regimes in Central Eastern Europe was Stalin’s attempt to establish a cordon sanitaire.

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32 Martin M. G. Van der Geest, “The TTCP and the Turn to Command Economy,” pp. 349–75.
33 Mikhail Meitushkov, Upushchennyi shans Stalin: Sovetskie Soiuz i bor’ba za Evropu 1939–1941 (Moscow, 2000); Bogdan Musial, Kampfplatz Deutschland: Stalins Kriegspläne gegen den Westen (Berlin, 2008).
34 This is so even though the author of this paper does not believe that Stalinism was necessary. A democratic and capitalist Russia could have defended itself without the human costs of Stalin’s “revolution from above.”
To explain the impact of the continuation of high defense expenditure after the war, I use a very simple model. A defense burden of 15 percent of GDP might be financed in two ways: by suppressing consumption or keeping investment low. There is ample evidence and nearly no doubt in the literature that the Soviet Union, until its final days, had a high investment rate and relatively low and only slowly increasing levels of consumption. In comparison to Western Europe, where approximately 5 percent of GDP was used for defense, the Soviet Union spent at least 10 percent more, the equivalent of approximately one-fifth of private consumption. Soviet citizens would have had 20 percent higher real incomes in a peaceful USSR. But these were, of course, not the only outcomes of the Cold War for the Soviet population. Long years of people's lifetimes were spent in obligatory military service. Large areas were reserved for the military and closed to the public, environmental damage occurred on an epic scale in Estonia and elsewhere, and obviously many repressive measures in the newly acquired territories were related in various ways to the unfolding Cold War. The border regions were cleared of potential enemies. In addition, such extraordinary military spending is negative for economic growth. Defense expenditures not only cost money but also commit labor, human capital, resources, raw materials, and equipment needed elsewhere in the economy. If we estimate that defense spending excesses slowed economic growth in Soviet Estonia by 1 percent annually, then without this burden, in the late 1980s GDP and real incomes would have been 50 percent higher. If defense spending excesses restrained economic growth by an annual 2 percent—which seems plausible to me—then GDP and income levels could have been twice as high as they actually were. This indicates the price that Soviet citizens, including those of the Estonian SSR, paid for the Cold War in the long run.

Recently Martin Klesment constructed a rough GDP series for the Estonian SSR since the year 1950, published in a joint publication. This is the first GDP estimate for any Soviet republic based on the use of statistical output data from the archives. Since my own estimates based on qualitative, not on quantitative, methods for the 1940s and 1950s were quite similar, Klesment's series appears credible to me. Without the excess military spending of the Cold War, Estonia could have reached today's level of economic development much earlier.

Second, we have to consider the impact on infrastructure. The postwar re-construction of infrastructure, sewage systems, communications, and so on to enhance transport and trade and to improve hygienic conditions remained slow. In fact, the infrastructure was only partially rebuilt, and for many years even fresh water, not to speak of a proper sewage system, was unavailable in many parts of Northeast Estonia. This led to unbearable hygienic conditions, because the Soviet leadership preferred to spend money on arms than on soap and proper sewage. Instead of on infrastructure, money was spent on arms and heavy industry, which hampered the development of other branches.

Third, agriculture was in dire need of support, but no help was forthcoming from the state. During the war, levels of mechanization and the amount of horses, the most important source of draft power, had already declined in Estonia. The uncollectivized peasants needed cheap loans to improve their equipment and to buy horses. Furthermore, production of agricultural tools and machinery had to increase. The state did not provide any loans, though the peasants could buy horses on their own initiative, but the de-mechanization of agriculture continued. Despite high inflation in 1945–47, procurement prices for agricultural products were not increased; thus in real terms, they declined. A second land reform was staged and agricultural taxes, mostly to be paid in kind, nearly tripled in 1947 and increased further in the following year. There were not many incentives for the peasants to increase output. Instead of helping agriculture, the state damaged this sector, especially with the forced collectivization in 1949. There was neither the

41 Harrison, 'How Much Did the Soviets Really Spend on Defence?', p. 4.
42 Anto Raudkas (ed.), Endise Nõukogude Liidu sõjaväe väljakoolitus ja sellelikvideerimine (The Remaining Pollution of the Former Military of the Soviet Union and the Liquidation) (Tallinn, 1999); idem (ed.), Nõukogude okupatsiooni poolt tekitatud keskkonnakahjustused (Environmental Damage Caused by the Soviet Occupation) (Tallinn, 2006).
43 Martin Klesment, Allan Puur and Jaak Valge, Child Bearing and Macro-Economic Trends in Estonia in the XX Century (Tallinn, 2010), p. 44.
44 Mertelsmann, Der stalinistische Umbau.
45 Even in 1955 most of the statistical indicators concerning infrastructure did not indicate a better situation than in 1939. See Estonskaia SSR za gody Sovetskoi vlasti: Kratkii statisticheskii sbornik (Tallinn, 1967), p. 105.
46 Report on the living conditions in the oil shale district, ERAF f. 1, n. 40, s. 4, l. 35–6.
47 On the horrifying postwar conditions in Russian towns that were not occupied during the war, see Donald Fitzler, The Hazards of Urban Life in Late Stalinist Russia: Health, Hygiene, and Living Standards, 1943–1953 (Cambridge, 2010).
48 In 1939 there were still 210,800 horses (Mertelsmann, Der stalinistische Umbau, p. 63). By 1944 their number had declined to 140,000 (Statistical overview on farm animals 1940 and 1944, ERAF f. R-6, n. 16, s. 1, l. 14) and increased by 1947 to 167,000 (Feest, Zwangs kollektivierung im Baltikum, p. 208).
49 Mertelsmann, Der stalinistische Umbau, p. 174.
50 As a result, agricultural output declined further: ibid., p. 197.
will nor the funding to support agriculture. On the contrary, the peasants were exploited, and agriculture was supposed to provide cheap labor for other sectors of the economy.\textsuperscript{51} This meant the largest sector of the economy was neglected and could not properly recover from war and the bad agricultural policy in the 1940s. Indeed, collectivization of agriculture provided more cheap labor, but the desolate state of agriculture all over the Soviet Union led to widespread malnutrition and sometimes even hunger. Now imagine an economy where most of the work is manual and not mechanized, as it was in the USSR and in the Estonian SSR until after the death of Stalin. Human beings and work animals—horses did more work than tractors—subsisting on an insufficient diet will be less productive. Due to the neglect of agriculture in favor of weapons and steel in the context of the Cold War, Stalin harmed the entire economy and the society.

Fourth, if consumer industries had been prioritized after the end of fighting, not only would the living conditions have improved, but it would have led quicker to economic growth; investment in heavy industry takes longer to achieve results. In practice, heavy industry received priority; in Estonia this was oil shale mining and processing. According to labor historian Donald Filter, in the first postwar Five-Year Plan, approximately 88 percent of investment went into heavy industry.\textsuperscript{52} The situation in the Estonian SSR was very similar, but because of the larger share of light industry,\textsuperscript{53} one might assume that investment in this sector was likely above the Soviet average. Much of heavy industry was related to the military-industrial complex, and thus "cannons instead of bread" remained a reality. Furthermore, often "industrial investment" actually represented hidden military expenditure. For example, one-fifth of "industrial investment" of the Estonian SSR in the first half-year of 1946 was used for military construction, especially installations for the Soviet Baltic Fleet.\textsuperscript{54}

Fifth, to repair the war damage in the towns, large construction projects were needed. This need, however, was not met. According to calculations by Romuald Misiunas and Rein Taagepera, due to the speed of urbanization as a result of large-scale immigration and fleeing the countryside after collectivization, available urban living space per capita actually declined from 12 sq. meters in 1945 to 8.8 sq. meters in 1955.\textsuperscript{55} This means that for many urban families, housing conditions became even worse. In Soviet parlance this was called "increasing the density of the population." People who are not well fed and live in overcrowded housing conditions cannot be expected to be highly productive.

Sixth, the improvement of medical services and hygienic conditions was highly important. Estonia lost much of its medical personnel through the mass exodus in 1944, war losses, and evacuation to the Soviet rear in 1941. All kinds of diseases threatened the population, which was already weakened by malnutrition. In this field the state acted and increased employment in medicine from 1940 to 1955 by three times.\textsuperscript{56} Though the new physicians and nurses were not always well qualified, medical treatment still improved over the long term.\textsuperscript{57}

The Cold War definitely slowed down the tempo of reconstruction and the recovery from war. Soviet propaganda claiming that economic recovery was achieved by 1950 was false. Martin Klesment's data suggests that GDP recovered to the prewar level only by the late 1950s.\textsuperscript{58} The Cold War severely harmed Estonia's economy. But it is impossible to fully isolate the impact of the early Cold War from the shocks of Sovietization and the results of war damage.

### The Example of the Estonian Oil Shale Industry

From Moscow's perspective, the mining and processing of oil shale was the most important sector of Estonia's economy, and the largest share of investment went into this industry in the postwar years. Thus it makes sense to take a closer look at this sector.\textsuperscript{59} Rurik Holmberg has recently analyzed the phenomenon of Estonian oil shale, though not in a Cold War context. He sees the industry as an excellent example of path dependence under different political regimes allowing for the

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\textsuperscript{51} Misiunas, Taagepera, *The Baltic States*, p. 364.
\textsuperscript{52} Mertelsmann, *Der stalinistische Umbau*, p. 245.
\textsuperscript{54} Klesment, Puur, Valge, *Child Bearing and Macro-Economic Trends*, p. 44.
survival of industrial dinosaurs that were not really profitable. Even in the interwar period, when the branch was established, Estonian oil shale was severely dependent on protectionism and state subsidies. Because of its low energy value in comparison to coal, oil shale is only cost-effective when there are high energy prices on the world market. In addition, environmental damage and the need for huge stretches of land have to be considered.

Immediately after Estonia's annexation by the USSR in 1940, the oil shale industry was not yet in Moscow's focus. Nevertheless, due to the arms race, the USSR suffered from a lack of fuel. Soviet oil production and processing could not cover the demand. Thus the Soviet leadership decided to extend oil shale mining and processing in the old republics. In December 1940 the Council of People's Commissars (Sovnarkom) and the Politburo decided that earlier plans had not been fulfilled and that by 1945, 10 million tons of oil shale should be mined, not including the capacity of the Estonian SSR. One month later, in January 1941, the Politburo and Sovnarkom approved a plan for the Estonian economy that foresaw the "accelerated development" of the oil shale industry and an increase in mining by one-half. Later, Moscow provided additional funding. Even before the Germans attacked, the Estonian oil shale industry helped the Soviet arms industry to overcome fuel shortages and also delivered special fuel to the German navy, the Kriegsmarine. By 1945 the mining of oil shale was intended to be increased to eight million tons to process 750,000 tons of fuel. The Estonian SSR would have turned into the most important oil shale producer and processor in the entire USSR. For a better understanding of postwar priorities, it is thus important to look briefly at prewar planning.

In 1944, when the Five-Year Plan of "reconstruction" was developed, those prewar ideas were realized. Oil shale mining received the highest priority of all industrial branches in Estonia; only in the 1950s did a few other branches catch up with it in status. On the one hand, we might view this as a case of path dependence, as Holmberg does. On the other hand, the lack of energy and fuel in the postwar period due to war destruction and armament also played an important role, as did the construction of a secret uranium enrichment factory in Sillamäe, the single most important construction project of this period in Estonia. Uranium for Stalin's atomic bombs was to be produced there. Again, the Cold War and not profitability was the main driving force behind the expansion of the oil shale industry.

Because the Soviet command economy functioned on the basis not of market prices but of fixed prices, which did not really mirror production costs, the scarcity of resources, or the relation of supply and demand, it was impossible to calculate precise losses or profits. This meant it was even impossible to figure out which factories or branches were permanently in the red. Obviously, the oil shale industry was such a loss-maker during the early Cold War. Even according to the strange methods of Soviet bookkeeping, half of the enterprises under the authority of the Estonian SSR's oil shale ministry made "planned" losses in 1951. In 1955 every worker mined 2.7 tons of oil shale per day, while in Soviet coal mining the corresponding figure was 1.4 tons. Given that the energy value of oil shale is only one-fourth that of coal, and given that labor was, before large-scale mechanization, the largest cost factor in mining, oil shale mining in Estonia cost approximately twice as much as coal mining in the Ukrainian SSR in terms

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63 Joint decision of the Council of People's Commissars of the USSR and of the Politburo of the VKP(b) "On the Extension of the Mining and Processing of Oil Shale," 29 December 1940, RGASPI f. 17, o. 3, d. 1031, l. 208-15.
64 Materials concerning the decision of Politburo, protocol 26, point 91, 28 January 1941, RGASPI f. 17, o. 163, d. 1294, l. 53-4.
65 Statement concerning occupation damages, People's Commissariat of Oil Shale and Chemical Industry, Estonian SSR, 15 March 1945, GARF f. 7021, o. 97, d. 865, l. 31.
66 Report on the first years of the Five-Year Plan (1951-55), ERAF f. 1, n. 126, s. 33, l. 119.
69 Balance sheet of the enterprises of the ministry, ERA f. R-4, n. 13, s. 43, l. 18-23.
of energy value. In other words, the expansion of oil shale mining in Estonia was economically absurd, and the industry could never have afforded the high level of investment it required—40 percent of the republic’s total capital investment—during the postwar Five-Year Plan of 1946–1950.71

Instead of supporting reconstruction and improving the population’s living standards, the regime invested large sums into an inefficient branch of industry and mainly wasted the money. Instead of repairing war damage, three-quarters of the German prisoners of war were assigned to work in May 1945 in the oil shale region in mining and construction.72 The building sites and enterprises of this region attracted so many immigrants from the “old republics” that in less than a decade, the ethnic structure was changed forever, and the towns in the region became Russian-speaking.73 In the immediate postwar years, the region had the worst living conditions in the entire republic. In addition, the ecological damage caused by oil shale mining and processing continues to this day. The large-scale development of the oil shale industry is also an example of how the Union directed Soviet republics onto a wrong path of development that had to be corrected painfully during the post-socialist transformation. The stress on heavy industry and defense-related industries became a liability for the economic structure.74 Even today, more than 70 years after Stalin’s decision to expand the Estonian oil shale industry, structural and social problems and high unemployment in the region are the result.

Conclusion

As mentioned above, only well after the death of Stalin did Estonia’s economy recover from the war, Sovietization, and the Cold War. Under Khrushchev’s rule the Seven-Year Plan of 1959–65 provided relatively high economic growth,75 and

the standard of living improved, too. This is one reason why the decade was referred to in Estonia as the “Golden Sixties.” Nevertheless, we should not disregard the long-term impact of an inefficient command economy and extremely high defense spending. Before World War II, Europe was economically divided between north and south, with two poor northern countries—Ireland and the Soviet Union. In the north the western half of the continent was richer. Southern Europe—Spain, Portugal, Italy, and the Balkan states—was poor and underdeveloped in comparison with Czechoslovakia, Estonia, Latvia, Finland, and, at least in some cases, Poland. Today, economically there is a fairly neat division of Europe, still following, with few exceptions, the borderline of the Cold War. The reason seems clear to me—the long-term impact of high defense spending and of the command economy.

71 Kukk, ‘Industry’, p. 64.
72 Ivanov, deputy head of the People’s Commissariat of the Interior of the Estonian SSR, to Nikolai Karotamm, 30 May 1945, ERAF f. 1, n. 3, s. 438, l. 4.
73 David Vseviov, Kirde-Eesti urbaanse anomaalda kujunemine ning struktsuur pärast Teist maailmasõda (Tallinn, 2002); Mertelmann, ‘Ida-Virumaale sisserändamise põhjused’.