



**Présentation de l'Honorable Mart Laar, premier ministre de l'Estonie (1992-1994 et 1999-2002), devant l'Institut économique de Montréal, le 30 avril 2004**

**Address by The Honourable Mart Laar, Member of Parliament of Estonia and former Prime Minister (1992-1994 and 1999-2002), before the Montreal Economic Institute, on April 30, 2004**

Ladies and Gentleman, Dear Friends,

I am very honoured to stand here today and share with you my experiences with miracles. I come from a country called Estonia, a country whose fast transition from totalitarianism to democracy, from a controlled to a market economy, has produced a theory of "The Estonian miracle." Estonia is called "The Little Country That Could" by foreign experts and our example has given encouragement and hope for lots of countries in transition.

Estonia is a small Nordic country on the shores of the Baltic Sea. Estonian history has not been easy. Through centuries we were at the crossroads of East and West, North and South or, as Samuel Huntington states, the Estonian border is a border of Western civilization, a border where civilizations clash.

### **Freedom lost and regained**

Throughout history Estonians have fought for freedom. In 1918 Estonia declared its independence and within 20 years successfully built up a modern Western state. World War II then began and Estonia was occupied again. First by Communists, then by Nazis, and then by Communists again. We fought, but we were defeated. During the war, in the period of terror, and in the resistance movement, Estonia lost 30% of its population. The number of Estonians in Estonia has not yet reached its pre-war level.

Nevertheless we never gave up. Estonians at home and Estonians abroad – by example exiled Estonians in Canada – continued the struggle for freedom. And as history offered us a new chance in the 1980s, we used it. Estonia became one of the first countries in the Soviet Empire to pry open the cracks in the Empire. And so – after more than fifty years of occupation and colonization – Estonia was free again in 1991.

But what kind of freedom was it? Estonia was ruined, our economy was in shambles and our people's spirit was spoiled by the socialist heritage. Shops were completely empty of goods and our money did not have any value anymore. The four-year struggle for independence had not left enough time for effective economic reforms. Real wages fell by some 45 percent, fuel prices rose by more than 10,000 per cent over the same period, inflation was running at more than 1,000 percent per annum. Forecasts for unemployment rate ran at 30%. People stood hours and hours in line to buy food. Bread and milk products were rationed.

Not many people believed in a better future at this moment. But, after just five years, we could not recognize our country. Sometimes it is even hard for ourselves to remember how this country looked under the socialist system. Estonia is now a modern and vibrant young country, integrating with astonishing speed with Western structures like the

European Union and NATO. Tomorrow, on May 1st, Estonia will officially join the European Union.

Ten years ago Estonia was one of the most unfree countries in the world. Yet, two years ago and for the first time for a former communist country, Estonia already had a free economy according to the Heritage Foundation's annual Index of Economic Freedom. And even more remarkable is that we are not only a "free economy," but one of the freest in the world. Estonia ranks on the sixth place in the Index of Economic Freedom and is Europe's most free-market orientated economy.

### **The economic reforms**

In Estonia we first launched a quick and radical monetary reform based on a currency board system. We have balanced our budget and opened our country to competition. To energize our people we also introduced a radical tax reform, based on the understanding that if somebody works more and earns more he should not be penalized for this. We sharply decreased the taxation level and we introduced a flat rate proportional income tax. This flat rate tax has been a very important part of the Estonian success story. The tax is easy to collect and easy to control. The only losers of this tax reform were the tax lawyers.

We have abolished our tax on corporate income that is reinvested in the domestic economy. This decision is quite unprecedented in the world. Reinvested earnings are not subject to taxation because, in our opinion, this is the money that goes to the creation of new value in our economy, something that Estonia really needs.

As a result of these reforms, Estonia has become the country with the fastest economic growth in Europe. We have attracted more foreign investments per capita than other countries in Central and Eastern Europe. Living standards in Estonia have also improved fast.

Estonia has made a real jump in modern technology and this is to our advantage. Our government uses no paper. All members of parliament use computers during the sessions. One third of Estonians use mobile telephones, many of them manufactured in Estonia. 44% of our exports are electronics.

Estonia is ahead of many European Union countries in terms of Internet use. Estonians make a big part of their bank transfers through the Internet. Tax declarations can be sent electronically to the Tax Department; I did this just last week and it took about 20 minutes to fill it. E-government can be a very effective tool in creating a lean and open government.

### **The lessons learned**

A large number of experts and politicians have asked how we did it. Planning our "jump to nowhere" we tried to learn from the experiences of other countries that had undertaken a transition from a leftist socialist utopia to a free-market economy.

A few main lessons emerged.

One is to take care of politics first and then to proceed with economic reforms. Do not underestimate the importance of a new modern constitution and a democratic legislature. In some transition countries the importance of the "rule of law" was not understood properly. It has been a huge mistake. No kind of general understanding, best effort or wishful thinking can replace the sound and constantly improving legal environment. There will be no market economy and democracy without laws, clear property rights and a functioning justice system.

Secondly, you could not use the old machinery to be successful. The old administration must be changed by representatives of the people who are not spoiled by the past. You must put an end to the system of decision-making based on personal relationships and

political manipulations. You do not need people with experiences from the past, because you just cannot teach the new tricks to the old dog.

Another lesson is summed up by a well-known advertising slogan: "Just do it." In other words, be decisive about implementing reforms and stick with them despite the short-term pain they bring. Aim high! A radical program launched as quickly as possible after the breakthrough, has a much greater chance of being accepted than either a delayed radical program or a non-radical alternative that introduces difficult measures in a piecemeal fashion.

Finally, and most important, you must not be afraid. Because the worst thing that could happen to you is that you do nothing and that your dreams are never realized.

Of course, to achieve such changes is not easy. I can tell you that you will not be very popular with such politics. A government that implements such policy can become unpopular and be ousted from power. But this is not important. The most important is that your country is changed beyond recognition. Looking back you can say that this was a dirty job, but someone had to do it. The train that you pushed to move will not be stopped. And this is actually the only thing that matters.

We see the world changing under our eyes and we can really be part of it! You can do it!