

3 The Power to Choose

What does it take to go from unfree to free?

After the Soviet Union collapsed in 1991, the new nations that emerged from the wreckage were able to make their own political and economic choices for the first time in decades. All chose to move from a command economy toward a market economic system. In most cases, the transition has been bumpy. But one success story stands out from the rest: Estonia.

In this article, Estonia's former prime minister Mart Laar describes Estonia's amazing economic transformation. As you read the article, look for clues as to "how Estonia did it." Then ask yourself what it took for Estonians to go from unfree to free in a decade.

How Estonia Did It

by Mart Laar

There are countries where impossible dreams have been achieved. In the *2002 Index of Economic Freedom*, for the first time, a former communist country had a free economy. Even more remarkable, it was not only a "free economy," but one of the freest in the world.

This country is called Estonia, and I had the honor to serve two terms as its Prime Minister. Estonia's ranking in sixth place in the *2003 Index of Economic Freedom* makes it one of Europe's most free-market-oriented economies. Ten years ago, however, we were probably among the most "unfree" of the world's economies.

Estonian history has not been easy. In 1940, independent Estonia was occupied by the Soviet Union . . .

But after 50 years of Soviet occupation, Estonia was in ruins. Our economy was a shambles, the spirit of our people spoiled by the socialist heritage. Shops were empty of goods, and money no longer had any value . . . People stood for hours and hours in lines to buy food.

Within 10 years, Estonia has changed beyond recognition . . . Estonia is now a modern and vibrant young country . . .

Three Key Lessons

A large number of experts and politicians have asked how we did it . . .

Some key lessons emerged. One is to take care of politics first and then to proceed with economic reform. Don't underestimate the importance of a new, modern constitution and democratic legislature with free elections.

In some transition countries, the importance of the rule of law has not been understood, and this has been a huge mistake . . . There can be no market economy and democracy without laws, clear property rights, and a functioning justice system.

The second lesson is summed up by a well-known advertising slogan: "Just do it." In other words, be decisive about adopting reforms and stick with them despite the short-term pain they bring. To put it briefly: no pain, no gain. Of course, that is easy to say and hard to do.

The most basic and vital change of all, however, must take place in the minds of people. In the era of socialism, people were not used to thinking for themselves, taking the initiative, or assuming risks.



Tallinn, the capital of Estonia

Many people had to be shaken free of the illusion—common in post-communist countries—that, somehow, somebody else was going to come along and solve their problems for them. It was necessary to energize people, to get them moving, to force them to make decisions and take responsibility for these decisions.

To achieve this change, we had to wake up the people. First, competition had to be supported. In 1992, Estonia abolished all import tariffs and became one big free trade zone. Foreign competition pressed local enterprises to change and restructure their production. At the same time, Estonia stopped all subsidies, support, and cheap loans to enterprises, leaving them with two options—to die or to begin working efficiently. Surprisingly, a lot of them chose the second option.

At the same time, we had to make clear that if somebody

works more and earns more, he will not be punished for this. Radical tax reform was introduced . . .

At the same time, countries in transition not only must deal with their current problems, but must have the courage to look into the future as well. If you are severely underdeveloped, you can make a tremendous leap to the future by moving immediately to the most modern technologies.

Trade, Not Aid

To do this, one should not rely too much on foreign aid . . . Shipments of outdated computers to any transition country can secure them a permanent seat in the Third World. “Trade, not aid,” was proclaimed by Estonia in 1993 and characterizes its forward thinking.

As a result, Estonia has made a real jump to modern technology, and this gave us our ad-

vantage. The government uses no paper; all members of the government use computers during meetings and sessions. One-third of Estonians use mobile telephones, many of them made in Estonia, while 44 percent of our exports are electronics . . .

Of course, to implement such changes is not easy. I can say to you: 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. More important is that your country is changed beyond recognition. Looking back, you can say: This was a dirty job, but someone had to do it. The train that you pushed to start it moving will not be stopped, and this is actually the only thing that matters.

Mart Laar served as prime minister of Estonia from 1992 through 1994 and from 1999 to 2002.