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'Obama Could Learn From Estonia,' Says Economist

By John Gizzi
September 5, 2014

Although President Obama was in Estonia Wednesday to pledge U.S. and NATO support for the Balkans in the event of a Ukraine-style strike, one U.S. economist said he could also have benefited from a lesson in economic policy, as the government in Tallinn executed major spending cuts and lowered government employees' salaries, and refused to engage in further borrowing.

These policies not only ended a recession but also put the country's economy on the road to growth.

"Obviously, the meeting between Obama and [Estonian] President Toomas Ilves Wednesday was about NATO and security and not domestic policy," Dan Mitchell, an economist with the Cato Institute, told Newsmax. "But I can't help see the irony of one world leader who did the wrong thing by ramming through [Congress] a $787 billion fake stimulus package in 2009, and another whose country did the right thing the same year with genuine spending cuts."

Mitchell recalled how what he called “statist” economists such as Paul Krugman messed up when analyzing Estonia, attempting to blame the 2008 recession on spending cuts that were implemented in 2009.

In keeping with its tradition of a balanced budget since Soviet occupation ended, Estonia did not dip into its reserves or pursue deficit spending. Instead, it slashed the salaries of government employees by 10 percent and froze public pensions.

Mitchell calls the government’s policy "the real stuff, and not the fake spending cuts and major tax increases you are seeing in Greece, Italy, and Ireland."

Meanwhile, Estonia’s economy has rebounded from the 2008 downturn.

"The gross domestic product dropped more than 14 percent that year," noted Bloomberg Business Week. "At Estanc, which makes high-pressure steel containers at a plant outside of Tallinn, profits stagnated. The company postponed plans to double floor space at the factory. Unemployment in Estonia got as high as 16 percent, and many of the country’s welders took the ferry ride across the Gulf of Finland to Helsinki to look for work."

“Estanc has increased its head count by more than a third in 2012. [Estanc plant manager] Palmik sells to Finland and Sweden; he wants to break into the German market and has moved forward with plans for expansion. Estonia’s unemployment is down to 10.8 percent—not ideal, but less than half that of Spain, and enough to get both the country’s president and its ruling coalition reelected in 2011.

As for results from the Estonian experiment, Bloomberg Business Week reported, "In 2010, Estonia’s GDP grew by 2.3 percent. At the end of that year, the country ran into a burning building and adopted the euro [to replace its longtime currency, the kroon]. [In 2011], GDP grew by 7.5 percent.

"Last November [2011], the International Monetary Fund praised the country’s export-led recovery and 'enviable fiscal position.' "

Estonia is one of only four member countries that meet the NATO obligation of maintaining defense spending at 2 percent of GDP (the others are the United States, United Kingdom, and Greece). In addition, Estonia’s business climate is considered a ripe territory for IT investment and has been characterized as the "Silicon Valley of the Baltic."

Did Estonia raise any taxes?

Mitchell did concede that it increased the value added tax by 2 percent in ’09, but quickly added: "It’s about the only [tax] they raised. That’s a big difference from the other European countries, where they are raising every other tax, or in the U.S., where they passed a massive new healthcare scheme which increases the size of government and includes major tax increases."

More importantly, Mitchell noted, government spending in Estonia is falling as a share of GDP, which means "Estonia is following the Golden Rule of having the public sector grow slower than the private sector."