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President Toomas Hendrik advises to beware of economic crash hysteria. Yet a trip to some sunnier country, or purchase of a new TV set might be postponed till times improve.

Just a few months ago, all Estonian politicians including yourself claimed that Estonian economy was doing well. Now we know that the economic growth has decelerated very suddenly and the state is making strict plans to economise. Are you going to retract your earlier statement?

I am still of the opinion that there is no disaster. For instance, the economy of the US has been affected by several backlashes in the past decade, and even now there are forecasts of recession, which is defined as negative growth during two consecutive quarters. But there is no talk about a disaster.

Likewise, no one is using the word „crash” about Japan, France, or Italy, although the growth figures of those countries have been much more modest than those of Estonia for quite a long period. There was a crash in Finland during lama, but the recurrence of something like that – a wave of bankruptcies in banks, and massive unemployment – is not foreseen in Estonia today.

Estonia has no use for hysteria about “economic crash”, or populist appeals that the state should get radically involved in the mechanisms of economy. In the same way, it would be stupid to continue to act and think in the ways familiar from the years of rapid economic growth.

In my New Year's Address I proceeded from the official forecasts that were known to the public at the time. As they were erroneous, I too made errors. The problems are somewhat graver than we thought at the time.

There has been an accumulation of bad news: Estonian economy has reached a new phase, the world's loans market has been hit by global problems, and the prices of oil and foodstuffs have started to grow at an outrageous pace. All this has caused the situation where Estonia has to take time for serious reflection before going any further.

What are we to do in this new situation? We, and our government?

In my opinion, the Estonian government should hold on to the former basic principles of political economy and at the same time analyse the possibilities of adapting the laws regulating our economic environment to reality – the increasing prices of raw materials and labour force, the specific needs of the labour market.

The government should not remain a resigned and passive observer of the present developments, but should rather, by showing initiative, confirm the existing and potential investors that Estonia's economic environment continues to be one of the most attractive in Europe.

All ideas for creating a more favourable climate for business are welcome, presuming, of course, that they do not involve loss of revenue for the state, at least not in a longer perspective. Sectors and enterprises that enhance Estonia's international competitive ability should be favoured, because the next economic rise shall, unlike those of the recent past, be coming more on account of foreign markets.

To entrepreneurs, I recommend investing more in people, and I presume that the state will further support the continuing education and retraining of employees. Educated employees are one of the preconditions of an innovative and efficient enterprise.

What are we supposed to do about our government when the country is not doing well – is it time to replace them?

The government is employed by Riigikogu, whom we all elected just a little over a year ago. And only the Riigikogu has the right to replace the government.

In my opinion it is now, when times are getting harder, that the government has a chance to justify the people's trust that won them the elections.

The government could certainly proceed from gloomier rather than happier scenarios when drawing up the budgets of the coming years.

Is it time for Estonia to change our present straightforwardly liberal model of economy?

From our government and our parliament, I expect first and foremost a stable economic and budget policy. This is what entrepreneurs and investors need. On the other hand, I would like to see the government shaping the economic and budget policy proceeding not simply from the premise to restore the high growth rate, but also to create the preconditions for the long-term development and restructuring of the economy.

It is obvious that cheap labour is no longer one of Estonia's competitive advantages. I think this is good. Estonians must get fair pay for work well done.

In this respect, it may be education policy that turns the scales, but on the whole it is the quality of life environment. I hope we will be able to create the preconditions for the growth of exporting enterprises. We have quite a few examples of success stories of clever economy. The shapers of government policies might talk to those who are working on high-tech solutions in export enterprises. I have talked to them, and so I know their troubles and their expectations.

What should the population take into account in the current situation of economic decline or depression?

In Estonia, many loans were obviously spent in the non-productive sector, as the bursting of the real estate bubble clearly illustrated. This means that for some time now, we have been living above our means and that we have now reached the limit where a line must be drawn.

Heldur Meerits gave a most lucid description of this situation in an article in Eesti Päevaleht: the economic growth of recent years, exceeding 10 per cent, was abnormal in such form, and Estonia is now returning to the rhythm of economic development that governs the majority of other European countries.

Unfortunately I believe that we have not reached the so-called bottom yet, not all possible bad news have as yet reached us. Therefore it is not impossible that we may witness even negative quarterly growth this year, but there is no need to over-dramatise this phenomenon.

Should people start to economise more, and if so, what expenses should be cut?

For someone with my income, it is certainly difficult to conceive all the problems that, let us say, a single mother with an average income has to face. The experts generally recommend that we

should take a sober look at our needs and resources and postpone the costs that can be postponed.

I would certainly leave the areas of health and education outside the "freezing programme". But a holiday in some southern resort or the purchase of a new TV could wait for economically more stable times. Especially if they would involve a loan.

It is essential for everyone to see that an SMS-loan is not an answer to a complicated situation; although it frequently illustrates the carefree mentality that many people have adopted towards extensive borrowing and living above their means.

Yet all this will only aggravate the problems and people end up encumbered with multiple loans, and the price for paying them off rising all the time. So, please abstain from SMS-loans. If you feel trapped, go to your bank and consult them. I expect the state to take steps for organising the environment of short-notice loans, the need for that is obvious.

Do you think we are facing an economic decline or a short-term depression?

Until now, the moment when this interview started, we could still only talk about the deceleration of economic growth, not economic depression. I am not an economist and shall therefore not speculate on future figures, but the logic of economy says that a depression is always followed by a rise – the economic growth will though very probably be quieter than we have been wont to see.

Has the time come to plough up the potato fields that in the meanwhile have been cultivated into fine lawns? Are you growing potatoes or vegetables at your Ärma farm?

It is in fact expensive to grow potato on small scale – it takes time, energy, money. Everyone should calculate whether it is more expedient to have a small potato field or to buy the potatoes for winter from your neighbour or at the market-place. Our family does not eat potatoes much, and therefore it would not pay off to grow potato.

Is the state doing the right thing when cutting budgetary expenses? How could the state economise, are there things to be given up as well as things on which the state on no account must economise?

Certainly no one would like to have a cheap state where it is everyone's own business to mend their broken legs, teach their children physics or build a road to their home. The government's saving policy needs, in my opinion, to look very carefully into how and where our common resources are invested.

A rigid approach, mechanical cuts or freezing the budgets all over would not be premeditated action, but rather like extinguishing a fire. This is quite a propitious moment for a thorough analysis of our activities and finding the areas where saving is justified and those where it is not.

Have you given up the plan to build the future President's Residence at Keila-Joa? After all, we are not quite so poor that the state could not afford to build in the coming years.

The President's Office has indeed, on the grounds of the tight budget, given up the idea of building a residence for the President. The sale of any state assets, in this case the Keila-Joa palace, is to be decided by the government.

Do you sometimes feel that the President's arm is too short? You would know what to do and how, but have no power to carry your ideas to life?

The limits of the presidential power stipulated by the law were known to me already when I ran for this office. The limits set down in the Constitution are rather giving me extra energy to reach a solution that to my mind is correct and necessary while remaining within those limits.

Have you made any changes in your travel plans proceeding from the need to economise?

Just now I do not know of any official trip in the second half of the year having been cancelled due to lack of funds. In this respect, we have planned our resources well. Yet it is quite obvious that if an unexpected need for a foreign visit should arise, the situation could become complicated.

What is your opinion of the reforms, which all seem to follow a similar pattern when seen from the countryside – fewer rural municipalities, fewer forest districts, fewer post offices, fewer village shops, etc? If we only seek efficiency in country life, shall we not end up by taking the famous advice of Jüri Mõis and moving to Tallinn from all over Estonia?

I have never asked anyone to come and live in Tallinn, not once! To the contrary, I encourage people to build their homes outside Tallinn, and I believe that in very near future, people will start moving out of Tallinn, to the countryside and smaller cities.

As to the administrative reform, my opinion is quite clear: at the moment, the number of local governments is unrealistically large. This must change, because it is wrong when people honestly paying their taxes to the state cannot receive equally good public service from the state.

Saving money is not the key issue of the administrative reform. It is the quality of services of the local governments that is the main issue. I quite agree with the Auditor General Mihkel Oviir who recently wrote that several local governments were incapable of performing all their functions pursuant to law on the required level.

A child living in the country must not receive a poorer education for the simple reason that he or she lives in the country, that the local school lacks teachers or modern teaching utensils.

I support the voluntary merging of local governments. But if that movement should bog down, the state will be bound to assert itself. Above all, I invite the inhabitants of rural municipalities to see the good points of merging and to support it. My forecast is that the people will call the local leaders to account and demand new mergings.

The issue of shops and post offices is more complicated. This is not a question of reforms, but a rather strict economical logic. As far as I know, Eesti Post has promised to guarantee the availability to the population of all necessary postal services in their previous capacity.

When planning the future, the local governments must foresee that there is no serfdom in Estonia and the state is not going to dispatch inhabitants to any location.

They will also have to put up with the fact that cities will remain centres of attraction, although not necessarily all of them. The local governments capable of providing an attractive life environment and normal conditions for enterprising for their inhabitants are the ones that will thrive.

What is your main message to the people of Estonia on this Victory Day?

We must, at all hazards and unconditionally, protect Estonia's independence, the freedom of the people and our democracy, without making any erroneous compromises proceeding from convenience or optimality. This is the main thing.

You have said that as winners, Estonians could show more of a winner's magnanimity in their country. Unfortunately, our local atmosphere does not seem to have been reflecting much magnanimity in the past year. Do you fear that Estonia might get a reputation of a small and hostile country?

I truly cannot recall Estonia having done anything evil or hostile internationally within the past year. From my point of view, your question is best answered by the slogan of our jubilee year: „A future built together”.

Within Estonia, I am still hoping to see a refinement of our political culture and readiness to put public interests before partisan benefits.

How do you like the design of the cross-shaped monument that is to be erected on the Vabaduse Square?

We all have different esthetical preferences, and an argument boiling down to "lovely - ugly" or "suitable – unsuitable" could go on for ever. I will keep to what I have said in earlier interviews and also to people who spoke up against the monument to the War of Freedom: those who fell

for Estonia's freedom deserve a monument, and the will of the people's representatives has been followed in carrying out this project; it is time to get the job done.

Edward Lucas claims that there is already a new cold war going on between Russia and the West – including us. Can you feel the breath of the Cold War hovering above Lake Peipsi?

It is true that the relations between Russia and the West have become more complicated recently, and there are several reasons for that, the analysis would be too lengthy to present here.

I can feel no cold breath, because Estonia is brave and has strong and reliable allies. In time, Estonia will develop normal relations with Russia, based on international agreements rather than emotions. It will just take time.

How would you comment the statement that to approve the Lisbon agreement in the Riigikogu would mean giving up Estonia's independence to the European Union?

We have given up bits and pieces of our independence to the United Nations, to NATO, to the European Union, but also, by joining international conventions, to everything that is called participation in the global life and protecting our interests in the globalising world.

By the way, I have never heard this question asked in the context of NATO – has Estonia forfeited her independence, and how? Yet we know that in accordance with Article 5 of the NATO agreement, Estonia shall go to war if NATO decides so.

I cannot imagine a country existing alone, in isolation, acting only by its own home-made rules. It was encapsulation, stifling of the exchange of ideas, and wrong turnings taken in the 1930s that led to the disaster that struck Estonia.

Ireland's recent "no" to the Lisbon agreement has given rise to a new situation, and further solutions presume a thorough analysis. I am still of the opinion that the developing Europe needs reforms in order to be able to participate in global competition.