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Interview with the President of Estonia
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ZAKARIA: Up next, a rare Eurozone economic success story, a country that's growing faster than India, has almost no debt, and it does this all by practicing austerity. I'll explain.

ZAKARIA: There is only one country in the entire European Union that has a budget surplus. Its national debt is just 6 percent of GDP, less than a 10th that of Germany's. Its economy grew nearly 8 percent last year. The country is Estonia and it does it while employing a very unfashionable practice, austerity.

My next guest got into a Twitter argument with the economist Paul Krugman when Krugman questioned Estonia's status as a poster child for austerity. He called Krugman "smug, overbearing and patronizing."

The author of that tweet is the president of Estonia, Toomas Hendrik Ilves now joins me from the capital, Tallinn.

Mr. President, thank you for joining us.

TOOMAS HENDRIK ILVES, PRESIDENT OF ESTONIA: Well, thank you for inviting me.

ZAKARIA: The basic point Paul Krugman makes is your numbers look very good, but after a depression-level slump, you have still not even returned to your 2007 levels of GDP, whereas the United States and Germany have well surpassed those, so that, in fact, your recovery is not that dramatic after all.

What would you say to that?

ILVES: Well, first, my first objection was simply the cherry- picking of data. I mean, anyone who has studied statistical methodology knows that where you put your graph and your axes can make anything look big or small.

Secondly, I think there's a fundamental mistake here made with cause and effect. I mean, e had a slump as a result of the September 15th, 2008, collapse of Lehman, in which, being outside of the Eurozone and having no European Central Bank funds to access, we just had a -- lost all our liquidity, and so the government lost all its revenue or a large part of its revenue.

So there was not much else to do but cut costs.

ZAKARIA: Would you argue, though, that you represent a kind of viable strategy?

ILVES: Well, we're one example. But again, I would argue, also, we didn't have much choice. But it is true that, on the one hand, cutting dramatically our expenses -- we cut the budget ultimately by 9 percent of GDP, which affected everyone. I mean, we all took 10 percent to 20 percent cuts in salary. This was -- that was the only way to go.

So I mean you could argue in another country's case that they ought to borrow. But we did not have access to those funds at the time. But the point is that you can get growth through different policies. Growth is a result. It is not a policy in and of itself. And so this kind of category mistake that many politicians make is not proper.

ZAKARIA: The central argument against austerity, as you know, is that at a time of weak economic demand, if you cut spending, if you fire police officers, other government workers, you are going to slow the economy further.

Those people who have just lost their jobs won't be able to buy things that -- you turn the -- you send the economy into a kind of downward spiral, which certainly seems to have happened in a place like Greece.

ILVES: Well, we suffered an 18 percent decrease in GDP from 2008 and 2009. That was pretty much of a downhill spiral.

Yes, that's true. But I think that if you take -- if you, for example, if you liberalize the labor market, clearly you get rid of closed shops, closed occupations -- which is a big problem in Europe; not so in the United States -- that in fact you stimulate economic activity.

And I would argue that one of the things we need to do in Europe is, in fact, decrease the barriers that exist in the single market. The opposition to free movement of services -- which again sounds pretty bizarre in the United States but, nonetheless, is a fact of life in Europe.

So I think we can, in fact, stimulate economic activity by removing barriers rather than simply trying to get -- getting additional money from others. And ultimately the problem is, where does the money come from? Who has it? And when one says, well, the Germans should be paying, well, Germany does have a democratically elected government. And if the people don't want to pay more, then how are you going to change that?

ZAKARIA: Mr. President, thank you for joining us.