

GOVERNMENTS, STABILITY AND DEVELOPMENTS OF THE ECONOMIC POLICY OF THE REPUBLIC OF ESTONIA

Introductory thoughts on the current situation

Estonia survived three periods of occupation over half a century: Soviet occupation in 1940–1941, German occupation in 1941–1944, the second Soviet occupation in 1944–1991. The Republic of Estonia was restored on 20 August 1991 after an occupation period of more than 50 years. Thus we have been an independent Republic of Estonia for more than thirty years by now (by 20 August 2021). We have had a number of government compositions during that time.

Constitution of the Republic of Estonia¹ was adopted on the basis of the referendum conducted on 28 June 1992, according to §1 of the Constitution which came into effect on 1938. Thus all subsequent governments have been constitutional governments starting from the first government of Prime Minister Mart Laar from 21 October 1992 until the current second government of Kaja Kallas who took the office on 18 July 2022. The government which took office in July 2022 is already the **17th composition of constitutional governments**. So we can state conditionally that Estonia has had in total 20 government compositions after regaining of independence:

- government of the Estonian S.S.R. (03.04.1990 – 20.08.1991);
- two transitional governments (20.08.1991 – 21.10.1992);
- 17 constitutional governments (21.10.1992 – 18.07.2022 ...)

Almost all governments have been in office for a short period, however.²

It is interesting to note that twenty governments have been in office during a little more than thirty years, so the period in office for each government has been about one and a half years, i.e. 18 months!³ This is certainly not enough and shows unwillingness of different political parties to work in a stable coalition and also poor political culture.

Without going into details we will point out below a few important problems which the Estonian state and the society have to solve reasonably and succeed or to avoid premature actions. We will treat these issues proceeding from the main areas of the theory of economic policy (order policy, structural policy and process policy) and their subareas.⁴

For instance, the range of problems related to order policy and process policy, specifically, above all, to ownership policy and budgetary policy, including taxation policy, but also the subareas related to income policy. For some time already the issue

¹ Eesti Vabariigi põhiseadus / Constitution of the Republic of Estonia. Tallinn: Eesti Vabariigi Riigikantselei, 1993, 47 lk.

² List of Estonian governments. [https://et.wikipedia.org/wiki/Eesti_valitsuste_loend] 17/07/2022.

³ This calculation is not exact but approximate to illustrate the situation in general.

⁴ See the article in Estonian (third page); see, e.g., also: Raudjärv, M. (2000). Majanduspoliitika alused. (Basics of Economic Policy) 3rd, updated edition. Tallinn, Tartu: Mattimar OÜ, 158 lk.

of establishing **property tax** in Estonia has been raised now and then. Establishing the tax seems to be premature both at present and in the next few years as the Estonian society is not ready for it yet. The argument that property tax is used in developed countries is not sufficient as these countries are far ahead of us in their development and they have successfully solved many problems for their citizens during the previous decades, including securing a high welfare level for the citizens. In Estonia the situation is unfortunately different – welfare of our citizens still needs important attention and development and certainly also time.

Very many families (not only young people) have acquired an apartment or house with a bank loan the repayment of which is a very high burden for them. If we added the property tax to it, it would be unfair compared to those who do not have to pay the debt or have already fully repaid it to the bank.

Another problem we can point out is **forestry**, namely the efforts of the so-called environmentalists to considerably reduce cutting of forests. This concerns both environmental, regional, sectoral policy, raw materials policy and business policy but also budgetary policy, income policy and other subpolicies (thus it concerns all main areas of economic policy). Estonian spruce forests have namely been damaged by borers to a very large extent. Unless we cut these spruce forests (and perform the appropriate reforestation), we will simply lose a lot of timber and jobs and will impair regional and business development. It would be reasonable to use this damaged timber after all and not to let the damaged forests stand.⁵ Sometimes it seems that the people who are actively demanding restriction of forest cutting have never been in a forest.

Besides the above-mentioned areas we should also not forget the subareas of education, scientific research and innovation and above all the range of problems related to **education and research**, including their underfinancing (concerns structural and process policy and their respective subareas). There are language problems (underestimated needs for studies in the Estonian language all over Estonia) and high workloads of teachers and the academic staff and researchers without sufficient compensation. Here I have to point out the arguments and applications of the trade unions of many universities and institutions of higher education and other educational institutions for many years about the need to increase the financing of the educational and research area in the situation of free education. Otherwise the activities of that large and important area will decelerate, education will be increasingly superficial and there will be a lack of qualified specialists.

Achievement of economic growth has often been an important issue in Estonia but it has mainly been achieved through price increases and not through higher productivity and

⁵ The undersigned has been a forest owner for 30 years, has repeatedly participated in training events for private forest owners and has managed the forest and is a member of several forest owners' associations, including a founder member, and is therefore familiar with the forestry problems.

new, higher value. And while the importance of raising salaries is emphasised everywhere, there is almost no talk about the need to increase the productivity first.⁶

There are also many other problems and areas which are topical and require solutions to achieve normal development. For instance, it is important to raise issues and offer solutions related to the situation of investments, pensions and also social welfare and other problems. Financing opportunities are certainly topical above all.

The issues raised above are, however, enough for the current so-to-say introductory thoughts. But we also have to understand that in economic policy it is important to take into account the fact that when we start solving a problem in one subarea, we have to be ready for its inevitable connections with **also other, sometimes all subareas of economic policy**, i.e. we need to have a **systematic and integrated** approach to problems. By forgetting or ignoring some aspect (subarea and/or a part of it) we can get an incomplete or distorted solution.

In August, 2022

In Tallinn, home office at Pirita-Kose

Sincerely,

Matti Raudjärv

⁶ During the first fellowship period of the undersigned in the Federal Republic of Germany from November 1989 to January 1990 at the University of Kiel and at the University of Frankfurt (Main), it became clear when studying their literature and economic statistics and also from discussions with German colleagues that they regard the increase in productivity before increasing salaries very important. This is constantly monitored with great attention.