



6. November 2018 In Honour of Mart Laar

Herbert B. Schmidt

Honoric Speech

Der ehemalige Ministerpräsident der Republik Estland Dr. Mart Laar wurde mit der „Ludwig-Erhard-Medaille für Verdienste um die Soziale Marktwirtschaft“ ausgezeichnet. Die Übergabe fand am 1. November 2018 in den Räumlichkeiten der estnischen Zentralbank in Tallinn statt. Nachfolgend dokumentieren wir die Laudatio, die Dr. Herbert B. Schmidt (Foto), Chefberater der estnischen Regierung für Privatisierung von 1992 bis 1996 und Ehrenmitglied der Ludwig-Erhard-Stiftung, auf

der Veranstaltung gehalten hat.

Dear Mr. Laar, dear guests! My first encounter with Mart Laar, exactly 26 years ago, is described in his books as follows: »He stormed through the wall of my secretaries, with a big cigar smoking, although this was forbidden in my rooms, with his figure medium height and a little oversized he reminded me of the late Ludwig Erhard.«

So, already in 1992, when Mart Laar was 32 and I 61, now we are approaching 60 and 90 respectively, he knew Ludwig Erhard by appearance, to whom he also refers repeatedly in his books reading Ludwig Erhard's main interpretation of his Soziale Marktwirtschaft „Wohlstand für Alle“, although Milton Friedman also played a major role in his economic thinking. But again, in a press interview in 2010, Mart Laar says, I quote: »I am not an expert in economics, I am an historian, so I looked at what had functioned and what not. Very good was the German economic policy at the time of Ludwig Erhard. So we tried to follow this example.«

In other words, there is a longstanding relationship between Mart Laar and Ludwig Erhard, and this was crowned by a big success story, both in post-war Germany and post-communist free Estonia. So, it was about time to document and celebrate this meeting of the minds with the Ludwig Erhard Medal, rarely given, last time eight years ago.

I will not comment on the big achievements of Mart Laar in domestic or foreign policies, this is well known to this audience, but limit myself to the subject of economic policy. What are the essentials of Ludwig Erhard's Social Market Economy?

- A sound and reliable monetary system, meaning a good currency
- Personal freedom, backed by private property, free markets, backed by enforceable competition, external free trade without barriers
- A reliable yet not too detailed legal system. Permitted, what is not forbidden, yet respecting the rights of other citizens and the community
- A fair economic relationship between citizen and the state, meaning a tax system with incentives to economic activities within a balanced budget

Now let's look at Estonia: Like Ludwig Erhard, in 1948, right after the war, not only enacted the currency reform, under US leadership, but also immediately freed prices from rationing and other constraints, Estonia did the same, 10 months after regaining independence, even before voting on the constitution, turning hyperinflation into normality.

Tiit Vähi, Siim Kallas and Ardo Hansson were the prime movers, organized rather like an adventure in those days, also getting back some of the old gold reserves. The Kroon was pegged to the DM, so it quickly gained international acceptance.

Private property did not exist under communism, more or less. Therefore, the restitution to former owners and the

transition of the economy from East to West, like in all other former East Bloc countries, was of utmost priority. Privatization of the former state-owned large enterprises, small ones started earlier, began already in September 1992, three months after the currency reform. With the help of the German Treuhand this became the quickest and most efficient privatization in the former East Bloc, according to the judgement of the World Bank. The underlying method of mass tendering (otherwise called the Schmidtology) was soon asked for by other countries like Latvia and the Russian Federation. Tschubais asked for it to privatize the remaining 24.000 medium sized enterprises left from the previous infamous voucher privatization, yet this already developed program came to a halt, when he was not re-elected to the Duma end of 1995. What difference that would have made!

Immediate turn to the West from previous dependency to the East required open markets. No Free Trade Zones, the whole country was turned into a free zone, no customs, even if unilateral, no restrictions. Mart Laar was met with astonishment, when he asked for immediate enactment.

Foreign investment into Estonia was needed, not only for lacking internal capital but also for know-how transfer and international ties. Already the Estonian Treuhand had done this job by tendering worldwide in the respective languages, e.g. Japanese in Japan, and foreign bidders in the privatization process were not few. FDI per capita was already in 1994 highest relatively to the other former Eastern bloc countries. History teaches us, that foreign investments raise the international interest in the fate of that country, increasing the risks for big neighbours.

One of the big achievements of the first Mart Laar government was the worldwide unique tax reform, introducing a flat tax for corporations and individuals, laughed at or criticized by nearly all international institutions. Estonia even pushed it through in the later European accession negotiations. Only 10 years later, another country tried it, Slovakia, but could not resist slow crumbling.

The establishment of a Western legal system took some time, yet Mart Laar reports of 300 new legal acts already in his first year of his being Prime Minister. The only law, which took until 2001, was the competition law, but also Ludwig Erhard had to fight for it until 1957! Looking at the time span available and the different historical circumstances I wonder who of these two great personalities did more for their country. The Ludwig Erhard Medal is well earned! But maybe, at this occasion, we should look at what is the situation today, after 25 years in Estonia and 70 years in Germany.

Let us look at the currency. The Estonian Kroon was pegged to the DM, which in those days was undoubtedly one of the best currencies in the world; today both countries have the Euro. Are we happy with the permanent flooding of the markets with liquidity? Are we happy with accumulated debts to heights never seen before? Are we happy with the divide between the South and the North? Who finally is going to foot the bill? With the ECB-Target system certainly Germany. Estonia is still in the best of all worlds because of its strict budget rules, its lowest public debt nearly worldwide – Germany surely is not. Certainly, Ardo Hansson knows more about it, he would be a good successor to the present Euro Chieftain.

What happened to free trade in the global world? Protectionism has risen its ugly head, trade battles are fought with customs and other restrictions. No more it is a business decision to ship US-milk to Canada, but it has become a result of political haggling. Back to the world of the thirties, to Bilateralism!

Foreign investment no more is also of political benefit, no, today it has become a threat and the more governments are case by case deciding on such foreign capital take-overs, the more the other side will do the same. Only certain hedge funds apparently can do what they like.

What has happened to private property? Is it true that the richer get richer and the poorer get poorer? How many Estonians live in their own property and how many on rental basis? How many own shares or similar instruments? In Germany, that is a poor figure of appr. 6 % of all households.

What happens to historic knowledge of the Estonian youth? I look at the 100 years museum and find only two hidden sentences on post-communist transition privatization. As if all the efforts of Mart Laar and his co-fighters and their success had fallen from heaven. The perfect privatization was the greatest event of post communism in Estonia. But the archives of the Privatization Agency were shredded. Why and by who's order, may I ask.

What happened to the simplicity of the tax system? More and more exceptions, more and more regulation. Estonia still is in heaven, Germany in hell with the highest and most complex taxes in Europe. Balanced budget also becomes difficult; sometimes Brussels is not helping out.

The legal system is getting more complex. We are flooded with regulations for any details, apparently for the benefit of the citizen, but finally reducing his personal freedom, for which Ludwig Erhard and Mart Laar fought. George Orwell sends his best.

Only slowly it dawns on us, that our populations are getting rapidly older, fewer children, better medicine. Old age becomes a financial threat. The hidden state debt becomes a political reality, so far we closed our eyes to this growing calamity.

Let's not forget the most recent threats to Europe by the growing migration and its various problems, the divide it creates within Europe. What would Ludwig Erhard and Mart Laar do today to avoid Armageddon?

To finalize my laudatio of Mart Laar I want to mention one common trait for both, Ludwig Erhard and Mart Laar. And that is courage! When I presented the Estonian translation of „Wohlstand für Alle“ in the German embassy back in 1998, Mart Laar was present, I mentioned that Ludwig Erhard drew his courage from his firm belief, that God had granted him a second life, when, in 1918, heavily wounded in the last battles of the war, he was given up by his doctors and put to the heap of already dead soldiers, but then, to everybody's surprise, he recovered and got up and out of the heap. Mart Laar showed his courage as a young man when, in 1988, he returned from his first

trip abroad back to Estonia, knowing full well, that the communist security authorities had in the meantime launched an investigation against him on reasons of anti-system activities and writings, leading definitely to prison or worse.

Mart Laar certainly would have been liked, more, would have been highly esteemed by Ludwig Erhard. Thank you for your attention!

(Foto: Jane Faizullin)

Hier geht es zur [Dokumentation der Veranstaltung](#) mit Videoaufzeichnung und Fotogalerie.