Center for Social & Economic Research

TRANSFORMING THE LITHUANIAN ECONOMY:

from Moscow to Vilnius and from Plan to Market

Val Samonis
University of Toronto

Warsaw, May 1995

Paper was prepared for the project: ***"Economic Reforms in the former USSR"*** *(Reformy gospodarcze na terenie dawnego ZSRR)*, financed by the ***Committee of Scientific Reasearch*** *(Komitet Badań Naukowych)*.

ISBN 83-86296-38-0

Editor:

CASE - Center for Social & Economic Research
00-585 Warszawa, Bagatela 14
tel/fax (48-2) 628 65 81; tel/fax (48-22) 29 43 83

1. ACKNOWLEDGEMENTS

Over a long period of research leading to this study, I have benefitted from materials and discussions with a large number of people in Lithuania and outside of it. First, my thanks go to former Prime Ministers of Lithuania: Dr. Albertas Simenas, Dr. Aleksandras Abisala, and Dr. Gediminas Vagnorius; former and current Cabinet Ministers and other high government officials: Dr. Gediminas Serksnys, Mr. Vytenis Aleskaitis, Mr. Algis Dobravolskas, Mr. Vytas Navickas, Mr. Gediminas Miskinis, Prof. Aleksandras Vasiliauskas /Minister of Economics/, Mr. Kestutis Zaborskas /Chief, Lithuanian Department of Statistics/, Mr. Algirdas Semeta /President, National Stock Exchange of Lithuania/, Mr. Stasys Vaitkevicius, and others. I am also indebted to Prof. Vytautas Landsbergis, Leader, and other members of the Parliamentary Opposition, as well as to Prof. Kazimieras Antanavicius, former Chairman, Economic Committee, The Parliament of Lithuania; the same goes for Mr. Romualdas Visokavicius, former Governor, The Bank of Lithuania, and Dr. Eugenijus Maldeikis, former Senior Economic Adviser to the President of Lithuania, and his directed Center for Economic Research. For discussions and insights, I am in debt to my international colleagues from The International Baltic Economic Commission /formed by The Hudson Institute, USA/ and The International Baltic Economic Survey Commission /formed by the Swedish Government/. My many business and academic consultants in Lithuania and outside of it are too numerous to name them here. I have also benefitted from my multiple discussions with other people of Lithuania who provided me with their perceptions and opinions. I wish to acknowledge research assistance provided by Ms. Miglena Nikolova, MA, and Ms. Lavinia Stan, MSc, at the University of Toronto. This study would not have been possible without the help of the above people. However, the responsibility for errors and ommissions should be attributed to the author only.

2. INTRODUCTION

2.1. A Historical Background

Europe's largest country in the sixteenth century, Lithuania has a statehood tradition going back to the eleventh century. Notwithstanding this, the Republic of Lithuania reborn after the World War One had to start in every sphere of life almost from scratch. During some two decades of interwar independence, a substantial progress was made in many spheres, including the economy, despite practical nonexistence of natural resources except land. Predominantly based on agriculture, the economy developed rather close interindustry-type trade relationships with the Western world, especially United Kingdom, Germany, and Scandinavia. Lithuania exported agricultural products /hog, poultry, etc./ to these countries and imported advanced machinery and other industrial products from them. Lithuania's economic development level was well below that of the United Kingdom or Germany but was considered at par with some Central European and Scandinavian countries [Simutis 1942; Antanavicius 1995; et al]. As a result of sound fiscal and monetary policies, the macroeconomic equilibrium was quickly achieved after the war and maintained throughout the whole period which included the Great Depression. The Lithuanian currency was strongest or second-strongest in Europe {Simutis 1942; Misiunas & Taagepera 1983; Samonis 1993d; Grennes 1994; et al.].

2.2. The Scope and Purpose of the Study

By the end of the 1980s, the degree of the suppression of free thought in the USSR has diminished appreciably. As a result, various independently developed solutions to a multifaceted Soviet crisis were put forward. The Baltic states /Lithuania, Latvia and Estonia/ have been leading the way in terms of intensity and originality of discussions as well as the progress of reforms. This is not surprising in view of their political and economic predicament /illegal Soviet occupation in the postwar period/ as well as attitudes prevailing among the population. The purpose of this study is to explore economic reform initiatives and their implementation /economic transformation/ in Lithuania during the period starting before independence and ending some five years after regaining it. The broader aim is to contribute to the economics and/or the political economy of the postcommunist change. An international interdisciplinary and comparative perspective is adopted in the study.

3. LEGACIES OF THE SOVIET OCCUPATION

The structure of the post-World War Two Lithuanian economy was formed when it was a forcibly /based on the Ribbentrop-Molotov pact/ incorporated part of the Soviet economic system. As a result, Lithuania is a country with a distorted economy, compared to Denmark, Finland or other comparable, independent Western countries. Above all, it is industrialized in a heavy, distorted way to the detriment of other economic sectors, especially production of consumer products and services. In the year of independence restoration /1990/, the industry was dominated by three major branches: machinery and equipment including electronics, light and food industries which were producing some 70% of the total industry output. A related important feature is that the Lithuanian industry is not oriented to the production of final products. In the Soviet period, the Lithuanian industry was oriented to the production of intermediate products, components and half-finished products destined for the Soviet market. Consequently, the share of finished products in the total amount of industrial production is comparatively small. The share of half-finished products in the total amount of industrial production constitutes 30-40%. It is especially big in electronics, machinery and metal processing industries /40-45%/; in light industry /27-30%/; in different branches of timber, timber processing and cellulose-paper industries it fluctuates from 23% to 74% [Rainys... 1994; Samonis 1985; et al.].

Investments were mainly directed from Moscow based on needs of various union ministries. Priorities were given to the development of union-wide industries and the construction of new large enterprises. Republican needs played only a supplementary role at best and exerted only a small influence on the formation of the structure of the Lithuanian economy. These policies have greatly changed the fixed assets structure. In 1950, around half of all industrial fixed assets belonged to food and light industries while in the 1990s these industries account for less than 20% of them; over half of industrial fixed assets is concentrated in energy, machinery and metal processing industries. Although the development of the heavy industry was a priority in the USSR for a long time, it has not created any stronger technological base. Machinery and equipment used in the Lithuanian industry are behind the world standards. Despite the fact that more than two thirds of all industrial production were produced in the machinery and metal processing industry, physically or morally old equipment and technologies predominate. The coefficient of fixed assets renewal has been declining; it has dropped by 2.4 times in two decades. Almost half of industrial employees work manually; thus labour productivity in industrial enterprises is low. Technologies are heavily resource-intensive. In Western developed countries energy consumption per unit of GNP declines about 1-2% per year; in Lithuania the opposite tendencies were observed. According to Soviet statistics which generally grossly disregard the impact of hidden inflation and are of doubtful value otherwise, during the period of 1950-1990 Lithuanian industrial production increased 44 times while the energy consumption in industry increased 99 times. About 40 Lithuanian industrial enterprises are very harmful ecologically due to resource-wasting and otherwise outdated Soviet technologies [Maldeikis 1994; Samonis 1994; Lainela & Sutela 1994; et al.].

The level of production concentration and consequent monopolization was very high at the beginning of the 1990s. This was the result of horizontal and, to a much lesser degree, vertical industry integration. Of 300 main products produced in Lithuania in 1990, 123 were manufactured only by one enterprise, 196 - by 1-3 enterprises, which constitutes 40% and 60% respectively. The situation is similar across all the industries. In main industries such as machinery and metal processing, food, light, chemistry, the share of production by large enterprises with more than 1000 employees ranged from 76% to 90% in 1990. Because of poorly developed production services as well as related and supporting industries, to use Prof.Michael Porter's term [1990], most enterprises had to establish low-tech supplementary production departments - moulding, technological preparation, stamping, packing, transportation, construction, repair services, etc. - trying to do everything by itself. The efficiency of such departments is low, 3-4 times lower than in specialized enterprises. Besides, most enterprises performed social and cultural functions for the employees and their families. Such operations included kindergartens, shops, recreation and sport centres, summer camps, libraries, cultural centres, etc. [Maldeikis 1994; Samonis 1994; et al.].

As a legacy of the Soviet occupation, Lithuania inherited an almost completely state owned agriculture which was firmly moulded by the Soviet orthodoxy, if one disregards a very small percentage of arable land allotted as garden plots. Both nominally collectively owned kolkhozes and state owned sovkhozes were operating under a heavy hand of state; only about one third of them were profitable by Soviet standards which disregarded input underpricing. Dominated by animal husbandry /hog, cattle/, the Lithuanian agriculture was made heavily dependent on cheap mixed fodder, oil, and other inputs imported from Russia and other Soviet republics. The use of local inputs, except heavily underpriced labor, was limited to a minimum. This only served to breed gross inefficiencies inherent in the Soviet system [Samonis 1985; Wadekin 1985; World Bank 1993; et al.]. Combined with "propiska" /population movement restrictions including prohibition/ and other elements of political-economic oppression, the agricultural system imposed on Lithuania was little more than a variation on a feudal serfdom.

These Soviet-imposed distortions have had definite implications for the transformation of the Lithuanian economy away from Moscow to Vilnius and from plan to market. Above all, they kept the Lithuanian economy unduly dependent on resources imported from Russia and other former Soviet republics as well as acted as a drag on the speed and scope of transition to competitive markets.

4. REFORMING INITIATIVES BEFORE SOVIET PERESTROIKA

The idea of granting some economic autonomy to the Soviet republics was born during the Khrushchev thaw. It was supposed to remedy two main problems of the extreme centralism of the Stalin years: economic inefficiency and political resistance. It could be seen as part of the new trend away from a totally centralized economic management by the ministries located in Moscow and towards greater emphasis on the region as a unit of economic administration. In 1957, the sovnarkhoz /regional economic council/ system was established. It was a step towards a limited economic autonomy at the republican level since some smaller republics were treated as regions. The sovnarkhoz system was in some cases successfully manipulated by local administrators to the benefit of Lithuania, giving it some input in running its economic affairs. A good example is building of roads with funds "bought" from other regions [Misiunas & Taagepera 1983, 179-180; Samonis 1985; Antanavicius 1995; et al.]. In the 1980s, the issue of republican economic autonomy began being associated with the khozraschot /self-financing/ principle. It simply meant an effort to devolute economic responsibility from the centre to the lower levels of administration which were supposed to confront costs with the results of their activities and bear the financial consequences. Both the sovnarkhoz and khozraschot concepts have been used by the Lithuanian administrators to legitimize the drive towards independence in the eyes of Moscow. Overall, the effects of this game were not and could not be far-reaching due to Moscow's vigilance. In particular, no appreciable decrease in systemic or structural distortions was noticed. Anyway, the rollback of these limited freedoms took place towards the end of the 1960s [Misiunas & Taagepera 1983; Antanavicius 1995; et al.].

5. LITHUANIAN REFORMS DURING SOVIET PERESTROIKA

Mikhail Gorbachev was appointed the General Secretary of the Communist Party of the Soviet Union /CPSU/ in March 1985. In the Gorbachev era, which later came to be known as the time of glasnost /openness/ and perestroika /restructuring/, the situation changed appreciably. Reflecting advances of glasnost, economic sovereignty or independence initiatives started to slowly appear on the surface of discussions; economic system reform proposals were being constantly radicalized. This process started with the emergence of the concept of khozraschetnaya respublika /self-financing republic/. Under pressures from below, Gorbachev's economic advisers were pushing this idea as a model for the Soviet republics in an effort to contain separatist tendencies. In September 1988, the Central Committee of the CPSU was pressured to propose the experimental introduction of self-financing in, among others, the Baltic republics, starting January 1, 1990. This concept was supposed to be the answer to grievances and accusations flowing back and forth between Moscow and the republics regarding who was supporting whom, that is who benefitted from unilateral transfers of resources [USSR: Russian...1988; Samonis 1991a,1993d; et al.].

Moscow's propaganda machine was constantly drumming up the fact that the centre supplied Lithuania with cheap raw materials, natural gas /SUR28 as opposed to USD97 for 1,000 cubic meters on the world market/, and oil /SUR30 as opposed to USD110 a ton on the world market/ [How Will ...1990; et al.]. Also, the Soviets claimed that for some time Lithuania was running a trade deficit in its relations with the USSR /USD5.9-7bn a year/ and received heavy investments financed by the centre. Moscow circulated wildly differing figures for the accumulated Lithuanian debt. They ranged from SUR1bn to SUR500bn /USD33bn at something approaching free-market exchange rates at the time/ and more [Terleckas and Baldisis 1989; Terleckas 1990; Hammer 1990; Summers 1990; et al.].

Some prominent Lithuanian and Western economists argued the opposite: Gorbachev should pay Lithuania. Underpricing of centrally supplied inputs /oil, etc./ served mainly to further distort the structure of the Lithuanian economy and breed the inefficiencies of the Soviet imposed system. True, the Baltic states received above average investments /capital transfers/ from Moscow but mainly because the center could get much better returns on them than in Central Asia, for example; in the case of Lithuania, the empire's military considerations were also important. Furthermore, one has to keep in mind that there were transfers of resources going in the opposite direction. For example, large part of substantial resources mobilized by the Lithuanian sections of the Soviet banks were simply confiscated by Gosbank Moscow and never returned. On a net basis, Soviet policies resulted in a drain of resources away from Lithuania [Samonis 1991a,1993d; World Bank 1993, 107; et al.]. Partly due to taking incomplete or biased Soviet data and/or propaganda at face value without much critical examination, the above issues were misunderstood by many analysts in the West and elsewhere.

Those who argued that Gorbachev should pay Lithuania estimated that the sum owed by Moscow to Lithuania could be ten times larger /around USD500bn/. This would cover old Soviet debts to Lithuania agreed upon by the Russian-Lithuanian peace treaty of July 12, 1920, the exploitation and devastation of the Lithuanian economy during the first years of the Soviet occupation /1940-1941/, and the terror, exploitation, distortions and devastation perpetrated by the Soviets in the post-World War Two period, including the issues mentioned above. The overall retarding effect of the Soviet occupation on Lithuania's economic development and consumption is sometimes estimated by reference to Denmark, Finland, or other comparable Western states of the region. While in 1930 Lithuania had reached 90% or more of Finland's level, it fell to perhaps somewhere between 10 and 40% if not lower by 1989. Others argued that the imposition of the Soviet communist system on Lithuania is responsible for some three decades of economic retardation [Rugieniene 1990; Aleskaitis 1990a; Terleckas & Baldisis 1989; Terleckas 1990; Summers 1990; Ed Hewett ... 1990; Lithuania's ...1990; Samonis 1991a,1993d; Lainela & Sutela 1994; et al.].

As the limits of the freedom of speech were pushed still further by the advances of glasnost, the concept of khozraschetnaya respublika was being abandoned in favour of republican economic sovereignty. This trend was pretty well pronounced in Lithuania. From various discussions in the Lithuanian media, one could draw the conclusion that economic sovereignty meant something less than independence in the beginning. This differentiation was largely designed to calm Moscow's suspicions. During 1988 however, these terms converged and began to be used interchangeably [Uosis 1988; Slyshat'... 1989; Antanavicius 1995; et al.].

5.1. The Blueprint for Lithuania's Economic Independence

The scope and direction of the Lithuanian economic reform initiatives is best illustrated by the single most fundamental document in this regard, namely the blueprint for Lithuania's economic independence /further referred to as the blueprint/ which was prepared by the ad hoc scholarly committee organized at the Institute of Economics of the Lithuanian Academy of Sciences [Lietuvos...1988; Samonis 1990a; et al.]. The following prominent Lithuanian economists are among the authors of the blueprint: K. Antanavicius /chairman/, G. Vagnorius, K. Prunskiene, K. Glaveckas, S. Uosis, and E. Vilkas. Finalized in September 1988, the blueprint contains guidelines on where to go in search for more specific and practical solutions to the problem of development of the target economic model which would be acceptable to the people of free and independent Lithuania. Similar documents were prepared and officially adopted by all the three Baltic states at the conference in Riga, Latvia, in September 1989. In Lithuania, most subsequent reform discussions used the blueprint as a frame of reference or at least related to some of the issues raised in it. In particular, the blueprint was adopted by the Lithuanian Movement for Restructuring, best known by its Lithuanian name Sajudis /The Movement/ and led by Prof. Vytautas Landsbergis. It was in part a source of inspiration or reference for many initial reform bills under preparation by about 40 governmental task forces /over 300 people/ [Aleskaitis 1990b; Sajudis ...1990; Antanavicius 1995; et al.]. We will therefore analyze the blueprint adopting the conventional Western differentiation between the macroeconomic and the microeconomic level. A chapter on transition will be added as well.

5.1.1. The Macro Level

From the macroeconomic point of view, the blueprint is based on two essential foundations. First, the economic system of Lithuania should be separate from that of the USSR which implies the need for disengagement from the Soviet economy. Second, the very philosophy of macroeconomic management should be changed which calls for the development of the new,target model. The first foundation is derived from political aspirations /self-determination/ of the Lithuanian people and economic necessities. While the former consideration is self-explanatory in view of a strong popular desire to regain independence which was illegally taken away in 1940, the latter needs some clarification.

On the first look, it might seem that tendencies towards global economic integration, effectively cutting their way through opposing processes of fragmentation, dictate something totally different, namely closer unification of economies. This view disregarded the nature of the links between the economies of Lithuania and the USSR. Although the blueprint does not raise this particular point, some 90-95% of the Lithuanian economy was firmly controlled from Moscow according to various circulating estimates. It might seem therefore that this is the case of almost complete integration and the mutual economic benefits flowing from it, based on the theory of integration, are accordingly high. The majority of economists in Moscow, and especially in Vilnius, would probably doubt the applicability of such a reasoning. As usual, the devil hides in details. The Soviet-type integration /bureaucratic centralism/ could not bring the expected benefits because it was based on artificial, largely noneconomic criteria. In the Soviet-type resource allocation mechanism, an economic cost-benefit analysis in most cases played only a marginal role [Bienkowski 1988; Samonis 1989, 1990a; et al.].

The blueprint implicitly assumed that Soviet perestroika would not change this basic assessment. Therefore even purely economic considerations point to the need to separate these economies and base their links on entirely different, sound premises. In the words of the blueprint [Lietuvos ...1988, 5], "the time has come to design and implement the system of sovereign Lithuania's economic organization and management which would be capable of raising the unjustifiably low living standards and of assuring the appropriate satisfaction of social and spiritual needs of all the social strata. The economic sovereignty of the Republic is virtually a sine qua non condition of making the economy more efficient".

The blueprint's authors believed that, in the conditions of economic independence, not just autonomous enterprises but also the republic-level management bodies would be interested, capable, and obliged to maximize income. Since income maximization is only possible through the increased production and sales of quality output, all the economic agents in the republic would be strongly interested in output expansion, cost reduction, and the development of commercial activities. The uravnilovka /egalitarianism/ which induced the tendency to grab as much as possible from the common pie would disappear. An economically rational cooperation with the Soviet republics, an efficient division of labour, would be achieved through the common Soviet market, according to the blueprint. Once the functioning of the economy is changed, productive forces can be distributed in a manner satisfying the most important needs of the republic.

Thus, economic independence of the republic would be based upon its complete sovereignty over the whole natural and man-made wealth within its jurisdiction. Land, subterrainian resources, inland and territorial waters, sea shelf, forests and atmosphere, etc. constitute the Lithuanian state property. This form of property also extends to a broadly defined infrastructure /transportation, communications and energy systems, the central bank, governmental offices and other objects built using state funds/, large enterprises, liquid and invested /also abroad/ financial resources and securities originating from state funds. The blueprint mentions the possibility of transferring property rights relating to objects of special use

/e.g. military industry or installations/ to the Union or republics, after the Lithuanian people have expressed their approval.

Also, the blueprint proposed the introduction of litas /LTL/, a separate Lithuanian currency unit used in the interwar period of independence. Litas would form the cornerstone of Lithuania's monetary policy. It should be regarded as the principal way to shield the economy against the dangers of powerful Soviet inflationary tendencies fuelled by deficit spending and money printing. Otherwise all the benefits of the new Lithuanian economic system would be immediately redistributed throughout the common currency area. Given the relative size of the two economies, it would mean effective neutralization of any expected benefits. This could lead to the total discreditation of reform in the public opinion. The blueprint mentioned the problem of currency convertibility only in passing, however.

The blueprint foresaw the establishment of The Bank of Lithuania, with the general monetary regulation, analysis, and all the other prerogatives of the central bank in a market economy. In particular, the bank would be charged with the emission of money, securities, and would regulate the amount of money in circulation as well as establish the rules of the game for commercial banks. An important function of the bank would be its foreign currency reserve and exchange rate policy. In accordance with its property form and the overall mission, its operating balance would be transferred to the republic's budget. Such a bank was established by the Lithuanian Supreme Soviet decision of February 13, 1990 [Vainauskiene 1990].

The second foundation of the blueprint rests on the premise that the system of centralized management of the economy is totally discredited which calls for the introduction of a decentralized market economy system which has proved to work well in most of the world most of the times. This presupposes a complete change of the relationship between central economic management authorities /economic centre in short/ and enterprises. Besides property relations, the basic distinctive feature of a traditional centrally-planned economy is the obligatory character of plans imposed on enterprises by the economic centre [Endnote 1]. Ministries /union, union-republic and republic/ are singled out in the blueprint for particular criticism of their administrative interference. It proposed to do away with this practice and stipulated that no ministry, committee or board of the government should issue commands /orders/ interfering with the economic activity of enterprises which are autonomous and therefore cannot be assigned any obligatory tasks. All the enterprises independently shape their programs of activity based on the analysis of demand and profit motives. Vertical ties /hierarchies/ are thus to be replaced by horizontal ones /markets/ as the dominant mode of coordination in the economy [Williamson 1975; et al.]. Not the tasks assigned by superiors in the bureaucratic structure but contracts with the users of output - including state agencies - are to guide enterprises in Lithuania. As proposed in the law on regulation of the Lithuanian economy published in 1990 [Del ekonomikos ...1990], the allocation of state orders, which are to be the main form of the implementation of state programs, is decided by normal commercial criteria on the basis of competition among enterprises regardless of their form of ownership. However, the law stipulated that at the "stage of market formation" state orders which do not put enterprises at an economic disadvantage are obligatory.

There are two principal instruments of macroeconomic management or regulation in market economies: monetary policy and fiscal policy. Some basic foundations of the Lithuanian monetary policy - as proposed in the blueprint - have been characterized above. As far as the fiscal policy is concerned, taxes are recognized as an important tool of economic regulation, income redistribution and economic policy execution. Republican and local budgets are formed via taxes which are to be paid by all the enterprises. The blueprint stipulates what is payable to the budget of the republic:

1. Enterprise profit or income tax
2. Payments for the use of state-owned assets, including rent for land, natural and financial resources, buildings, energy and communication systems, etc.
3. Excise payments /for tobacco, alcohol, etc./
4. Taxes for the monopolization of the market
5. Customs duties and taxes on income from international operations
6. Charges levied on enterprises or citizens by government agencies of the republic.

There is a clear inclination in the blueprint to develop a competitive market system; the acute need to counter monopolistic tendencies, especially evident in the behavior of ministries, is explicitly recognized. Associations can be formed only at the initiative of autonomous enterprises and organizations and should be financed by their voluntary contributions. An anti-trust legislation should be passed to secure the benefits of competition.

The blueprint saw the need to create a market economy infrastructure in Lithuania. A banking system is the most important element of it. In line with the practice in most market economies, a two-tier banking system was envisaged: the central bank and a network of competing commercial banks. State planning and price committees were to be abolished and in their stead a research centre for economic and social developmment was to be created. Its central mandate would be to study socio-economic trends in the country and the world at large and to prepare various forecasts for the government. A statistical board is to gather and analyze information on the economy and society.

5.1.2. The Micro Level

All the enterprises in Lithuania, irrespective of their ownership form /state, collective or private/, are autonomous economically and are not administratively subordinated to ministries. They operate according to principles of economic rationality. Their most important goal is to maximize profit or income in a sufficiently long time horizon. With the exception of the workers'collective, nobody has the right to impose any obligatory tasks, limits or plan indicators upon autonomous enterprises. All the economic activities of enterprises are to be guided by contracts with the users of output within the framework of regulating laws. Contracts determine the volume of output, prices, terms and mutual economic responsibility for contract breach.

Enterprise profits are distributed autonomously, guided only by economic rationality and procedures established by the workers' collective. With the exception of banks and financial authorities, nobody is allowed to inspect the enterprise's financial results or their distribution. Banks analyze the enterprise's activities for the purpose of determining its ability to pay or creditworthiness. Financial authorities check whether the enterprise pays its taxes due to the republican or local budgets. Payments to the republican budget were outlined in the macro section above. According to established norms, the following is payable to the local /district or city/ budgets:

1. Enterprise profit or income tax
2. Wage income tax
3. Payments for the use of assets /financial resources, buildings, social or cultural objects, energy or communication systems/ owned by local authorities
4. Payments from residents, including registration fees payable by immigrants from the USSR.
5. Penalties for environmental pollution or degradation

6. Fines for violation of the law.

In certain cases, local budgets are subsidized from the republican budget.

Research on markets for output, labour, technological, organizational or other issues related to the expansion of the productive potential is done by enterprises themselves or with the help of hired organizations. The necessary scientific-technological or economic information is gathered by enterprises themselves or with the help of specialized centers which collect information from the world, analyze economic, social or scientific developments, prepare forecasts and act as consultants. In place of the state committee for supplies, autonomous, specialized, commercially-guided wholesale trade centres and data banks are to be established. Supplies are to be obtainable through these wholesale centers or contracts. The administrative distribution system is to be abolished. Since supplies are financed from the enterprise's own sources or bank credits, hoarding - a notorious practice in the centrally-planned economies - is hoped to be rendered unprofitable.

The blueprint expected workers' collectives to initiate the use of state property by way of leasing and saw them as masters of state enterprises [Lietuvos .. 1988, 8 and 18]. Cooperative enterprises are based on labor or capital cooperation. Joint stock companies are formed by pooling capital assets represented by shares. Shares, even a controlling package of them, can be owned by anybody, that is state, individuals or cooperatives, including the workers' collective of the enterprise. The functions of the state owner are executed by the representatives of the appropriate local or republican authorities. Open or limited circulation of shares can be practiced. The blueprint envisaged the creation of mixed enterprises called state-joint stock companies which supplement state capital with individual or cooperative assets. In such an enterprise, the controlling package of shares belongs to the workers' collective which is responsible for the use of local or republican state funds. Private shareholders are free from such a responsibility. However, any operational losses incurred are distributed among the workers' collective and individual shareholders in proportion to the capital invested. International joint equity ventures are also envisioned by the blueprint which places no restrictions on who may form them. The establishment of such ventures is subject to regulation by the republican authorities based on the society's interests.

Shareholders are paid dividends according to the rules agreed upon. Within the republican laws, anybody can buy, sell or donate shares or other securities according to their real, that is market value. Individuals can dispose of their property as they see fit. They can buy, sell or donate productive or nonproductive assets or means of living, invest their liquid assets into state or cooperative enterprises or put their money in commercial or savings banks or perform any other operations not forbidden by the law. Amortization rates are fixed by workers' collectives themselves based on the structure of productive assets and the rates of their depreciation. Financial authorities inspect the formation and use of amortization funds. If productive funds are financed by the state, enterprises make state-determined payments for the use of capital /a certain percentage of the initial value of the funds/. If these funds are financed by credits, maturity and interest rates are agreed upon in the contract with the bank. Via their credit operations, banks help implement a policy of technological progress.

5.1.3. The Transition

A one-time comprehensive and radical action to implement the economic reform is advocated in the blueprint. A gradual economic reform is inadmissible; one cannot go step-by-step, sequentially reforming different aspects /prices, taxes, etc./ or branches of the economy [Aleskaitis 1990b; et al.]. The blueprint forcefully states that no economic instruments will work if one part or aspect of the economy is to go the new way and the other part or aspect the old way [Endnote 2]. Comprehensive economic reform measures should simultaneously affect all the enterprises. An ad hoc commission composed of competent and reform-minded scholars is to oversee the transition, according to the blueprint. Such a commission would be charged with the organization and coordination of all the reform measures in the transitional period. One subsequent proposal looked for inspiration in this regard in the postwar Japanese experience with the so called wise men committee. The possibility of using the expertise of "The Blue Ribbon Commmittee" which prepared the Hungarian economic reform model was also suggested and such a committee was established between all the three Baltic governments and The Hudson Institute /USA/in the form of The International Baltic Economic Commission [Vysniauskas 1990; Aleskaitis 1990b; Samonis 1991b; et al.].

6. THE POSTCOMMUNIST ECONOMIC TRANSFORMATION IN LITHUANIA

6.1. Institutional Preparations Amidst the Conflict with Moscow

Institutional preparations for the implementation of economic reform initiatives /economic transformation/ have started with the 1989 creation of the Economic Reform Implementation Committee chaired by Prof. Kazimiera Prunskiene as the Deputy Prime Minister in Charge of Reform. On May 18, 1989, the Lithuanian Supreme Soviet passed a law which in principle adopted the blueprint as the set of guidelines in search for the Lithuanian economic model. However, the law was based on a rather watered down version of the blueprint [Personal ... 1989; et al.]. After a prolonged period of fierce debate between Moscow and the Baltic states, the Act on Economic Autonomy of Lithuania, Latvia, and Estonia was passed by the USSR Supreme Soviet on November 27, 1989. As a compromise, the Act was deliberately vague. For instance, it contained a controversial and ambiguous provision about the use of Baltic natural resources "in the interests of the republics and the Union" [Law ... 1989; Miljan 1990]. Although Moscow did not specifically approve of the more radical Lithuanian proposals /like the introduction of a separate currency/, it did not specifically prohibit them either. This led to interpretations, like that of Gorbachev's adviser Leonid Abalkin, that the Baltics could develop their own currencies for use within the republics but they would still be required to use the rouble in dealing with the USSR. As a result, Lithuania was allowed to begin making preparations for the introduction of its new economic model as of January 1, 1990. However, subsequent developments proved that Moscow's idea of the Lithuanian transformation substantially differed from the one envisioned in the blueprint and the subsequent Lithuanian legislation.

The conflict between Moscow and Lithuania started in earnest with the December 20, 1989 creation of the Communist Party of Lithuania, independent of the CPSU. Tensions further developed during Gorbachev's visit to Lithuania and escalated in subsequent months. The climax was reached after Lithuania's March 11, 1990 declaration of independence which Moscow regarded unconstitutional and which marked the beginning of the qualitatively new stage of state building and transition to a market economy. To force the Lithuanian parliament into submission, Kremlin resorted to its power play the centerpiece of which was the economic blockade instituted on April 17, 1990. Instead of loosening in accordance with its own republican self-financing scheme, Moscow actually reinforced its grip [Grazin & Miljan 1990; Peel 1990; Abisala 1993, 1995; et al.]. The blockade forced the Lithuanian government to resort to centralization of available energy resources and to other crisis management techniques. Most of them were in contradiction to the very philosophy of a market-oriented reform. However, it seems that the blockade also forced Lithuanian enterprises to aggressively seek partners at lower than governmental levels, thereby inadvertently contributing to the development of horizontal enterprise-to-enterprise ties, an essential feature of the postcommunist economic transformation [Kaminskas 1990; Abisala 1993, 1995; et al.].

Within the framework of transformation, the number of government ministries was initially reduced from 34 to 17. The republican planning committee, so characteristic of the centrally-planned economy, was replaced with the so called Ministry of Economics which was supposed to function as the center and the "think tank" for the transformation effort. The Ministry prepared what it considered a legislative backbone or a skeleton of transformation. The privatization law and program formed the heart of transformation [Aleskaitis 1990b; et al.]. This was more radical than envisaged by the blueprint which called for equalization of all the forms of ownership before the law. A minimum of two thirds of the state owned material production /some SUR30 bn/ needed to be turned into group or individual property. Since the total savings of the Lithuanian citizens amounted to some SUR6-7bn and only half of this sum was reckoned to be available for investment purposes, at least two thirds of the resources needed to buy the property to be privatized would be provided by the government in order to considerably shorten the transition period and otherwise help the process [Kaminskas & Parulskis 1990; et al.]. The Primary Privatization Law of March 1991 called for the one-time issuance of vouchers called compensation or investment checks. In a scheme rather similar to Czechoslovakia's, vouchers were distributed for free among the Lithuanian citizens proportionately to their age. They entitled citizens to buy state property at auctions or through share subscriptions. For those who were not interested in enterprise shares, an alternative of buying 15-year maturity interest-bearing state bonds was envisaged. To minimize any inflationary impact, vouchers were not supposed to be tradable, in particular not against consumer goods. An added benefit of the voucher-type privatization was that it provided a safeguard against a massive buyout of the Lithuanian assets by the KGB or other Soviet mafia structures utilizing inflated SUR. The whole operation was to be supervised by the Privatization Department created for this purpose and equipped with the right to sell state property. Privatization was supposed to provide a boost to a radical monetary transformation because an inventory of all the enterprise assets was supposed to be made. In this way, a sort of "bottom line" for the monetary transformation would be constructed - the sum of material wealth to back the new currency /litas/ which was to be introduced by 1991. [Jaskelevicius 1990; Kaminskas & Parulskis 1990; Samonis 1990b]. All the other necessary laws called for in the blueprint /on the tax structure, competition, bankruptcy, etc./ were supposed to be added on to the privatization law. Some 40 such laws were envisaged [Ekonomikos ... 1990; et al.]. Over the next couple of years more laws were passed than originally planned, indicating a tendency to overlegalization characteristic of parliaments in many postcommunist countries. This resulted in a number of legal inconsistencies or contradictions which did not help the process of transformation.

6.2. Almost Full Speed to Competitive Markets: The Progress of Transformation till 1992

Compared to almost all the other former Soviet republics, prices were quickly liberalized and subsidies dramatically reduced, resulting in the so called corrective inflation, see Table 1. During 1989-93, prices of goods and services have increased close to 200 times, resulting in the corrective inflation which only in 1992 and 1993 amounted to some 1100 and 400 percent, respectively [Maldeikis 1994; Samonis 1994; World Bank 1993; et al.]. However, prices of agricultural produce procurement, energy, telecommunications and transportation services have to varying but generally rapidly declining degrees still remained under some form of government control up until 1994, even though they were raised at about the same rate as other prices. A large drop in the purchasing power of wages and salaries resulted which factor helped maintain employment. However, the drop was compensated in large part by temporary governmental policies sometimes referred to as "dragging Lithuania on top of the Moscow-produced inflation mountain". Under the then existing conditions of the shortage-type economy within the unified rouble zone, this was a way of staying ahead of the Moscow-produced inflation, "sucking in" goods and services from the rest of the zone. As a result, the availability of goods and services and living standards improved. This spell of short-lived populist policies was in evidence in some other former Soviet republics as well, ultimately bringing about the demise of the rouble zone [Havrylyshyn & Williamson 1991; Antanavicius 1993, 1995; et al.]. Radical price liberalization was accompanied by the removal of impediments to the establishment and operations of new enterprises including in the external sector. However, some administrative and voluntary restraints on employee layoffs were practiced though with decreasing intensity over time. This has had the effect of keeping the unemploment levels below output decline and thereby hampering needed structural changes in the enterprise sector, see Table 1.

Liberalization in the external sector was also proceeding smoothly but at somewhat more gradual pace. A relict of the shortage mentality /and reality/, some export licencing was practiced in 1990-92. However, due to lax border controls and a rather widespread corruption, its impact was smaller and less restrictive than otherwise the case would be. On the import side, liberalization was fairly smooth as well. With some exceptions, tariffs were low and rather uniform. By 1993, imports were liberalized almost completely. Lithuania introduced a liberal foreign investment regime. While the preferential treatment /e.g. in taxation/ of foreign investments has reigned supreme in Central Europe, the Lithuanian thinking, if not all the policy steps, rather quickly moved towards a more promising formula of national treatment [Samonis 1991b; Guide 1993; Background...1994; et al.]. Overall, the regulation of the external sector was brought into conformity with the basic requirements of a market economy, even if this was not done in the shortest of times as in Poland, for example.

As part of the postcommunist transformation, stabilization had to be conducted concurrently with liberalization in order to prevent corrective inflation from becoming a permanent one. In Lithuania, stabilization was pursued by means of fiscal, income, and monetary policies. Throughout the late 1980s, Lithuania's central and general government budgets were in deficit. After regaining independence, the government moved to terminate sizable transfers to the FSU, dramatically reduced enterprise subsidies, and introduced basic elements of modern market economy taxation /e.g. income tax, excise and profit taxes/. Before 1993, fiscal policies as part of the postcommunist stabilization were among the most conservative and sound in the whole world, perhaps in the continuation of the interwar tradition. Invariably, Lithuania recorded budget surpluses, see Table 2. True, Lithuania's temporary leadership of the FSU in price liberalization may have contributed to revenue growth; it was, however, counterbalanced by the Tanzi effect under the conditions of high inflation. Supported by the IMF, income policies were attempted in the state sector in the second half of 1992. The initial target was to reduce real wages by about 30-35% from the July 1992 level. In reality, wages fell by more than that [Navikas 1995; World Bank 1993; Infliacija ... 1995; Tanzi 1977; et al.]. However, beneficial stabilization effects of the radical Lithuanian fiscal and income policies were offset in part by a mixed record on the early monetary policy or rather the shortage of it.

As a result of the failed August 1991 coup d'etat, the USSR finally disintegrated into independent states. Lithuania and the other Baltic states regained their real as opposed to only formal independence and joined international organizations starting with the United Nations. One manifestation of this real independence was the introduction of separate currencies, a move contrary to the initial position and a rather gradualist philosophy of the IMF which argued for the retention of the rouble in principle /as an optimal currency area/ or at least until interstate payment agreements are negotiated. In 1991-92, Lithuania used general purpose coupons /talonas/ as a parallel currency to the rouble to first help ease shortages of goods due to cross border shopping and then to alleviate the shortage of the rouble banknotes. On October 1, 1992, roubles were withdrawn from the circulation and talonas became the sole currency, a move aimed at eliminating the increased inflow of inflated roubles from the FSU. However, in a marked contrast to the blueprint /and Estonia's bold, rebellious move/, Lithuania replaced the Soviet rouble with talonas, only a provisional currency. Because of the usual credibility and related problems, the Lithuanian monetary policy was hardly possible under the circumstances. The permanent currency /litas/ was not introduced until June 1993. There were a couple of reasons for the delay. In 1992, the Lithuanian central bank and government were waiting until the huge jump in the Russian oil import prices, some of it delayed since 1990-91, works its way into the price level driving the corrective inflation to its peak which was exactly what happened, see Table 1. Also, there were some still not fully explained technical difficulties in printing the permanent Lithuanian currency abroad. Last but not least, the shortage of Lithuania's resolve in the implementation of the monetary transformation according to its own blueprint had also something to do with the above mentioned IMF position [Abisala 1993,1995; Konopliovas 1993; Samonis 1993; World Bank 1993; Lainela and Sutela 1994; Materials ...1993; Wolf 1994; Dabrowski 1995; et al.].

Privatization and the associated demonopolization is by far the most important element, indeed the backbone of transition from plan to market. On top of a smoothly progressing small-scale privatization /especially in trade and sevices/, the voucher-based large-scale privatization of the hard core of state owned and collective enterprises was implemented aggressively in Lithuania as foreseen in the blueprint. With its vouchers and the corresponding amount of money, every citizen could bid for state assets in pre-announced auctions, share subscriptions or business plan-based tenders designed for maximum transparency and participation. Some 300 to 600 private licenced or unlicenced investment funds sprang up to participate in the process, much like in the Czech Republic. In contrast to other postcommunist countries /again, except the Czech Republic/, Lithuania moved quickly to widely use restitution as the form of privatization, especially in agriculture. Temporary kolkhoz and sovkhoz administrators were given the mandate to restitute or otherwise move a substantial portion of assets into private or genuinely cooperative ownership within the initial period of some half a year! A list of objects for sale for hard currency was also developed and advertised. All in all, Lithuania was seen by international experts as probably the most aggressive privatizer of all the postcommunist countries, including Central Europe, see Table 4. By the end of 1992, the economy crossed the formal Rubicon of 50% of enterprises in private hands; they represented over one third of Lithuania's productive assets. Due to the aggressive privatization of housing, emergence of real estate markets and the associated potential for labor mobility, not only capital but also labor was beeing freed from the heavy hand of state faster than in most other postcommunist economies. In general, as called for in the blueprint, a due care was given to the development of competitive markets. Demonopolization was carried out via opening the economy, especially to the West. Also, an anti-trust agency was created as part of the institutional framework designed to govern the transition to competitive markets [Abisala 1995; World Bank 1993; IMF 1993,1994; Hansson 1994; Lainela and Sutela 1994; Background...1994; et al.].

As a consequence of the Soviet legacies, a severe trade disruption resulted from the rapid disintegration of the USSR. As the Russian oil prices rose to world levels, Lithuania suffered a terms of trade shock which has been much more severe than the Western oil crisis in the 1970s. In combination with the usual disruption stemming from the radical privatization and other transformation measures, this resulted in a drop in measured output. In 1992, Lithuania recorded a drop in the officially measured gross domestic product /GDP/ by about one third, including a drop in measured industrial production by up to a half, Table 1. The decline was exacerbated by the asset stripping activities of the former communist nomenklatura, particularly in agriculture; after the 1990 elections, local administrations were in the hands of this stratum rather vehemently opposed to the Sajudis-sponsored governments. Kolkhoz and state enterprise directors were opposed to restitution- and voucher-based privatization rightly feeling that it would undermine their privileged positions in the process of asset distribution. Part of the agricultural machinery was simply stolen by kolkhoz and sovkhoz administrations which took advantage of the absence of a proper stock-taking and an inadequate law enforcement rather typical of any revolutionary situation. The political struggle sharply intensified over agriculture and other issues in the postcommunist transformation of Lithuania [Samonis 1993a,b,c; et al.].

As a result of the inevitable Soviet trade disruption following the empire disintegration as well as other transformation-induced phenomena /e.g. output decline/ which were not anticipated /though not by everybody, see Samonis 1991c, 1993c/, a negative perception of the government policies developed. In reality, however, these phenomena were probably the best evidence that the radical economic transformation was going on. Unsalable goods, military output or other useless but resource-wasting and environment-polluting "pure socialist production", to use Prof. L. Balcerowicz's [1994a&b, 1995] term, was being eliminated via a sort of Schumpeterian "creative destruction" and only a market-test passing output could continue to be produced. And of course, a substantial part of this negative perception was based on the postcommunist statistical illusion, well described even if not fully accepted in the literature by 1995 [e.g. Lainela & Sutela 1994; Kolodko 1993]. The radical transformation was bound to bring appreciable beneficial results later on. At that time, however, such a perspective did not develop to any appreciable degree, generally due to the myopia of the political process also known from the developing countries' experience. Thus, the necessity of a short-term pain for a much bigger long-term gain did not find adequate acceptance [Samonis 1992, 1993c; Something...1993; Krueger 1990; et al.].

6.3. The Impact of the Postcommunist Government

6.3.1.Taking the Systemic Detour

The negative social perception of progress in transition from plan to market formed a fertile ground for a massive anti-government propaganda campaign launched by the Democratic Labour Party /DLP/, a successor of the Communist Party of Lithuania /prior to 1990, the Lithuanian section of the CPSU/. The decline in output was portrayed by experienced propagandists as the result of the anti-Soviet, anti-communist zeal and the managerial incompetence of "musicologists", "physicists", etc., of the Sajudis-sponsored governments; only the experienced "economists" can deliver Lithuania from the imminent disaster /including hunger!/ and put it back on the growth path. In order to stave off this alleged disaster, DLP also wanted more cooperation with Russia rather than the West. The Party bragged about their knowledge of the corridors of power in Moscow and the ability to obtain softer than market conditions for the Lithuanian oil imports. A spell of early winter in 1992 seemed to emphasize these issues and confirm the doom and gloom picture. Not suprisingly, the Fall 1992 election produced the parliament dominated by the alternative, that is the postcommunist DLP which formed the national government. Local governments have been in the hands of these forces since 1990.

One of the first moves of the newly formed government was to stop privatization for some two months, pending the elaboration of "better, less socially painful" ways of carrying it out; one particular concern was the alleged domination of the privatization process by mafia [Antanavicius 1995]. The immediate effect of this move was the inflationary devaluation by some 50% of the provisional currency /talonas/ used in bidding for enterprise shares alongside vouchers; by May 1993, this devaluation was by more than 100% [Abisala 1993; et al.]. In the winter of 1993, privatization was officially resumed but, due to the shortage of political will at the highest echelons of power, did not come any closer to regaining its pre-election character and momentum until at least the final months of 1994. According to some assessments, privatization stopped altogether for some longer time, especially land restitution in agriculture which used to be of the farmer-type in the interwar period of independence. Based on a distorted, Soviet-type thinking "chem bolshe, tem luchshe" /roughly: big is beautiful/, farmers who regained their land were even pressured often by local administrations and kolkhoz directors to lease it back to kolkhozes renamed agricultural partnerships. The agriculture was supposed to be largely based on these revamped kolkhozes and sovkhozes for a long time to come /e.g. 20 years!/. Reports on these and similar trends abound, see Gineitis 1993; Valatka 1993; Peleckis 1993; Dvi... 1993; Antanavicius 1995; et al. In the final analysis, these efforts did not amount to much due to gross kolkhoz inefficiency and farmer resistance instilled by the privatization momentum and expectations created by former governments. At the end of 1994, only just above 10% of land remained in the hands of revamped kolkhozes [Simenas 1994; Antanavicius 1995; et al.].

In general, the radical, mass, enfranchising-type of privatization practiced by the Sajudis governments was replaced with a confusing process exhibiting features which constitute detours from a direct road to a system based on competitive markets. According to some interpretations [e.g. Semeta 1994], at least ten such features were introduced by changing the privatization laws by 1994.

One such a feature is the enhanced former communist nomenklatura privatization. Otherwise known as the spontaneous privatization by old nomenklatura /mainly state enterprise directors/, it was experienced in Hungary and Poland in the first years of the postcommunist change 1989-1990. While it poses no theoretical problems on the grounds of neoclassical economics as long as the transferability of property rights is assured, spontaneous privatization may cause /and has caused!/ a backlash against privatization among the disenfranchised majority of the population. Besides, state enterprise directors and other former Soviet "economists" /except for few academics/ have many characteristics one would like to avoid in privatization and systemic change in general. In large part engineers, they have little or no knowledge of economics or outside world; they are firmly moulded by the Soviet command economy and tend to expend their efforts on obtaining governmental help rather than on competing, etc. [Something... 1993; Samonis 1993b; et al.]. The agricultural kolkhoz and sovkhoz nomenklatura had been "privatizing" into their own hands even before the 1992 election, taking advantage of the duality of political power persisting in Lithuania /noncommunist governments at the national level, local governments in the hands of former communists/. The national governments' efforts to put a stop on stealing of state property by old nomenklatura and new mafia were in vain due to broad powers enjoyed by the local governments and an alleged sabotage by the judicial system influenced by these forces, especially nomenklatura.

The typical mechanism for the nomenklatura privatization under the postcommunist government is as follows. A state enterprise director arranges for a loan from his bank to finance the purchase of a large amount of vouchers previously purchased by one or several investment funds /groups of enterprising individuals, some of them controlled by mafia/ from the population at large. Usually, the enterprise has lots of unsold output, so the director uses this state owned output as a collateral for the loan. After he has received enough vouchers financed by the loan and exchanged them for the enterprise shares to become the controlling shareholder, the enterprise /including the unsold output put up as a collateral/ ceases to be the state property and becomes the property of the director and his friends /including the bank president, etc./. Expending vigorous efforts as the new private owner, the director then sells the collateral and repays the loan, thereby completing the operation of property transfer [Simenas 1994; et al.].

Another feature of the changed privatization is the increased right of employees to acquire shares, from 10% originally to 30% to 50%. Labor ownership and other variations on the labor-managed socialism have been theoretically and practically proved nonsolutions or much less efficient solutions than those based on private property rights. However, as analyzed above, the blueprint for Lithuania's economic independence was not free from the remnants of labor ownership, thereby providing a theoretical underpinning for the postcommunist government's policies [Samonis 1990a; et al.]. While 30% of the shares sold under this law are to be regular, 20% are to be with no voting rights. Such a provision will make it more difficult to create clearly defined, strong property rights thereby undermining effective corporate governance. Given that there are reports on informal and/or formal prohibition to resell such shares to outsiders, it seems that labor ownership is little more than a gimmick designed to consolidate the power of monopolistic action by nomenklatura. Evidence of the monopoly power abuse is plentiful in Lithuania, especially in the interaction of monopolistic food processing enterprises with farmers [IMF 1993,1994; Simenas 1993,1994; Valatka 1993; Peleckis 1993; Abisala 1995; et al.].

Still another feature of the changed privatization are substantially enhanced opportunities for insider buyouts /both MBO and LBO/ using inflated enterprise profits, a mechanism allowed by the 1990 Enterprise Law. Since the value of enterprise assets has not been adequately indexed to inflation and capital markets are at rather embryonic stage, this provides a very effective mechanism for transferring property rights into the hands of the nomenklatura. According to at least some legal interpretations, the 1991 Primary Privatization Law made part of the 1990 State Enterprise Law null and void, thereby rendering this mechanism illegal, especially if assets are not adequately indexed to inflation and the competition is excluded. According to the State Comptroller of Lithuania, all in all over LTL2.5 billion of state assets have been illegally privatized by 1994. Some of the opposition forces, like the Conservative Party of Lithuania, campaigned against the postcommunist government's policies, albeit in the beginning from rather populist positions. The August 1994 referendum on this and related issues produced a turnout which fell short of a high standard /50% + 1/ required to carry the motion to stop or reverse the illegal privatization. The primary /voucher-type/ privatization ends in June 1995 and the second stage /for litas or convertible currencies/ begins [IMF 1994; Pripazintas ...1994; OMRI 1995; et al.] .

Last but not least, the postcommunist government "dusted off" some of the old bureaucratic nonsolutions. The number of ministries increased from 17 to 20, and that of various governmental agencies, committees, etc., was firmly on the increase during 1993-94. This not only increased the cost of running the government but, more importantly, distorted some of the desirable systemic change which took place before. These tendencies find their manifestation in the increasing tax burdens on the society and the bureaucratic meddling in business affairs /of mixed capital commercial banks, for example/ which have the effect of imparting the short-term thinking on both government and business. In particular, such a thinking is detrimental to savings and investments which are the base on which sustainable economic growth rests [Nauseda 1995; Antanavicius 1995; Samonis 1995b; et al.]. In general, by blurring boundaries between government and business, the rising government interventionism forms a fertile ground for rent-seeking activities by the old nomenklatura as well as the new bureaucracy and mafia. On the positive side, the Lithuanian consolidated tax burden at some 30% of the GDP is still equal to or lower than in many other postcommunist economies, e.g. Estonia /33%/, Hungary /54%/, the Czech Republic /49%/. Also, the process of the modern tax structure formation /VAT, income tax, etc./ was largely completed by the end of 1994. Even though tax evasion is still widespread, tax collection is being strengthened, according to various Lithuanian governmental sources and The European Bank for Reconstruction and Development [Kniuksta 1995; Navikas 1995; et al.].

6.3.2. Mixed Stabilization Policies

Before 1993, Lithuanian fiscal and income policies as part of the postcommunist stabilization were among the most conservative and sound in the whole world; invariably, Lithuania recorded budget surpluses, see Table 2. In 1993-94, however, the picture on the stabilization front was mixed, while still not bad compared to other postcommunist countries. The new postcommunist government quickly resorted to old bad habits of inflationary wage increases, reversing some of the effects of the earlier income policies. Also, it resorted to the budgetary subsidization of large state and collective enterprises, starting with agriculture in the Spring of 1993. In particular, the government's Decree No. 147 freed 147 large state enterprises from payment of taxes and late penalties to the budget in 1993; 49 enterprises from this number were freed from tax paying to the budget up until the end of 1995, 14 - up until the end of 1996! Even if there is some doubt about the accounting of taxes payable by enterprises, such a gradation of tax concessions has at the very least served to unnecessarily politicize the whole process of economic transformation. There are attempts to cover part of the resulting budget deficit in a noninflationary way by issuing obligations which can be purchased by the commercial banks; there were ten emissions by 1994 and this trend is on the increase. However, given underdeveloped financial markets, low savings, and the growing distrust of the postcommunist government policies, this is a shallow source of funds. Moreover, this way of financing government appetites is bound to crowd out private borrowing for investment purposes and thereby slow down the economic growth. Also, the government resorted to protectionist policies by raising import duties, especially on agricultural imports. This generated more inflationary pressures on top of ones induced by the temporary privatization stop and other factors [IMF 1993; World Bank 1993; Vyriausybe...1994; Samonis 1994; Nauseda 1995; Abisala 1995; et al.].

The macroeconomic stabilization picture could have been worse if not for the monetary policy. The Bank of Lithuania /B of L/ is independent from the government. The long awaited permanent national currency, litas, was successfully introduced in June 1993. It was made convertible on current account and, with some restrictions, on the capital account as well. The introduction of convertible litas had a strong depressing effect on subsequent inflation rates. Mr. Romualdas Visokavicius, the newly appointed B of L governor, adopted a tight monetary policy aimed at bringing inflation further down and safeguarding the value of the litas. Also, he insisted on privatization of commercial banks to induce needed changes in their behavior. However, he was fired for an alleged criminal misconduct after about half a year in the office and did not return to it after the court of law found the allegations entirely fabricated. Predictably, his policies put him on a political collision course with the DLP dominated parliament and government preferring "easy money" policies facilitating various rent-seeking activities by the nomenklatura. As a result, in late 1993 the money emission and inflation was on the rise, even though the measured output continued to fall at only slightly slower rates. After some tightening of the monetary policy in the first quarter of 1994, inflation subsided. As tensions were building in the state budget and the monetary policy changed, inflation was on the rise again in 1994, still not conquered by the admission of the President himself [Algirdas Brazauskas...1994; IMF 1994; Materials ...1993; Lainela & Sutela 1994; et al.]

Faced with consequences of its own "easy money" fiscal and interventionist policies /state enterprise subsidies, import barriers, bureaucratization, etc./, the Lithuanian postcommunist-dominated parliament and government made a pretty sudden, hasty move to change the monetary policy institutions. The so called Law on Litas Credibility was passed in March 1994, proving that the old Soviet habit of legislating everything /recall: plan used to be the highest law in the Soviet rhetoric/ dies very hard indeed!. But the government made one real, as opposed to just a formal-legal, move as well. Advised by one Western enthusiastic "one solution economist", it introduced the currency board /CB/ known as the alternative to the central bank and the monetary policy in general. Fully backed by reserves of the chosen anchor currency, CB is nothing more than a bureau exchanging domestic currency for the anchor currency, and vice versa, at the fixed nominal rate. The chosen rate of 4 LTL to 1 USD udervalued the former from some 3. CB was to be administered by the government itself starting April 1, 1994. Largely politically motivated, the move effectively transferred some of the most important constitutional functions of the Bank of Lithuania /B of L/ to the government which, by the way, caused inflationary pressures in the first place. However, the government still probably wanted to take credit for the good monetary policy of B of L under the Governor R. Visokavicius. Several months later, the move was partially reversed quietely to save on embarassment stemming not only from the violation of the Lithuanian constitution. The said adviser soon condemned his brainchild in Lithuania, and other countries, as "undesirable" because it was not pure enough [Hanke 1994a&b]. I have always tended to broadly agree with his changed opinion in this matter. Here is why [Samonis 1994a, 1995a].

Theoretically, CB is a strong medicine against populist pressures in market economies [Hanke, Jonung & Schuler 1993; et al.]. Also, it is probably advisable to introduce CB solutions in countries beset by protracted difficulties to emerge from the first phase of the postcommunist stabilization /e.g.Ukraine, Belarus, Russia/ [Samonis 1994a&b, 1995a]. However, I doubt that there is a strong case for CB in countries which entered the second stabilization phase, like Lithuania. If the Lithuanian government continues in its bad fiscal and interventionist ways, no CB is possible in reality anyway. If it adopts a fiscal restraint as some of the rhetoric and moves indicate, this is much ado about nothing since no CB is necessary, especially if one considers the Lithuanian litas record under the central bank. Europe's strongest or second-strongest currency in the interwar period of independence, litas was appreciating against Western currencies on the interbank market /LICE/ in the longer term since its reintroduction in June 1993. As a result, the Lithuanian corrective inflation fell from its 1992 peak of over 1100% to some 410% or less in 1993, with a strong litas-introduced downward momentum still not exhausted by far, see Table 1. A hastily introduced CB is therefore a cure in search for an illness in the case of Lithuania which was well on the way to relearning a nontrivial art of the central bank monetary policy. Furthermore, CB effectiveness and side effects within the context of transition from plan to market and the East-West European economic reintegration have not been adequately researched; West European countries operate central banks not currency boards. In the postcommunist world, the only existing /since 1992/ case of Estonia is somewhat of a formal-technical success due to rather peculiar circumstances /e.g. large regained gold reserves, devaluation of DM, the anchor currency/. However, it was introduced rather by accident and, as an instrument insuring a bold, direct move from the rouble to the permanent national currency, is likely to be transitional only. Anyway, it seems to amount to no big deal. For example, Estonian inflation and output decline levels were higher than those of Lithuania in the first half of 1994, when the Lithuanian CB was introduced. At the very least, claims of CB enthusiasts /like Prof. Steve Hanke before/ that in contrast to the central bank it can immediately introduce stability into the Lithuanian economy or that the transition from B of L to CB, or abolition of the former, is of crucial importance as the guaranty of the Lithuanian independence should rather be put among science fiction. If anything, money supply and inflation for the remainder of 1994 was firmly on the rise after the CB was introduced in Lithuania on April 1, despite /or rather because of/ the fixed nominal exchange rate. If exports continue to outstrip domestic activity beyond the initial litas undervaluation effect, CB may turn into an inflation- sustaining institution. This may well happen in a small, trade-dependent European country as it makes progress in removing Soviet imposed distortions in its economy [Hanke 1994a&b; Bennett 1993; Bareisis 1994; Kizas 1994; Lainela 1993; Lainela and Sutela 1994; IMF 1993,1994; Samonis 1995; et al.].

7. FIVE YEARS DOWN THE ROAD: THE SITUATION AT THE END OF 1994

Below is an attempt at stocktaking after about five years have elapsed since the preparation of the blueprint for Lithuania's economic independence and the first moves to implement it. It gives an idea where Lithuania is five years down the road from Moscow to Vilnius and from plan to market, see Tables 1,2,3,and 4.

7.1. The Macro Level

Compared to other FSU republics or even Central Europe, the Lithuanian transformation was still progressing at quite respectable rates at the end of 1994, subject to limitations and warnings as described above. However, this is largely due to a strong momentum created by the radical transformation strategy of the pre-1993 governments and The Bank of Lithuania; the effects of governmental policies in transition economies are usually delayed by some 1.5-2 or even more years. In 1994, inflation averaged at just over 3% a month and it was the first year of a real economic growth, a rather respectable 3% according to the Lithuanian authorities, see Table 1. The official unemployment rate of around 4% is still low due in part to a large decline in real wages. Also, this suggests some hidden unemployment /unpaid leaves, shorter workweek, etc./ and/or a substantial employment in the informal sector which is very hard to estimate. Such phenomena are not unique to Lithuania; they are not that different from those observed in other transition economies, FSU or even Central Europe /e.g. the Czech economy/. The IMF, however, criticized different aspects of policies by the postcommunist government /the privatization process, inadequate banking reforms, underdeveloped tax and statistical systems, budget straining policy moves, social policies, etc./. It remains to be seen whether the memorandum with the IMF for 1995-97 achieves its goals [From the Executive...1994; et al.].

7.1.1. The External Sector

With the exports-to-GDP ratio at the level of around 60%, Lithuania is a strongly outward-looking economy by the end of 1994. Its foreign trade is liberalized and regulated largely via market economy instruments known in the West; the earlier licencing and foreign exchange surrender requirements have been repealed. Some two thirds of the Lithuanian imports enter duty free; the rest face 5 to 15% duties becoming more and more uniform. 10 to 50% export duties are applied to raw materials of the Lithuanian origin only but the goal is to repeal them. In 1994, Lithuania maintained economic relations with over 160 countries but, with over one third of trade turnover, Russia remains the main partner. The postcommunists' bragged about contacts have counted for nothing in the new, in several respects rapidly changing Moscow. It kept demanding world prices for oil and slapped a double import tariff on imports from Lithuania, pending permission for military transit to Kaliningrad on concessionary conditions /granted in January 1995/. Part of the Lithuanian output decline was due to too slow reorientation of trade away from the FSU and towards the West. Foreign direct investment is rather modest due to this and related factors having to do with instability in Russia. This is indirectly corroborated by the experiences of countries in similar situations, e.g. Estonia, Bulgaria [The Little...1994; IMF 1994; Background ...1994; et al.].

Despite a large, competitiveness-boosting drop in real wages, the current account position of Lithuania deteriorated into the negative, see Table 3. The surplus on the capital account primarily reflects quite substantial disbursements of the official assistance since the country joined international financial organizations /IMF, WB, EBRD, etc./ in 1992. There seems to be a trend to go deeper and deeper into internal and external debt. The external debt amounted to some USD600m at the end of 1994, reaching the level of Lithuania's hard currency reserves. A hard to estimate but rather substantial part of it is aimed at propping up consumption levels in the known populist tradition [ELTA 1993; IMF 1993; Rainys 1994; Algirdas Brazauskas...1994; Nuo-iki...1994; Nauseda 1995; Talocka 1995; et al.].

7.2. The Micro Level

7.2.1.The Enterprise Sector

At the end of 1994, roughly two thirds of the Lithuanian labor force and some 60% of the Lithuanian economy /GDP, asset value/ was in private hands in a formal-legal sense, see Table 4. Even though these measures are far from precise due to still underdeveloped statistical systems, one can conclude that this is respectable by any standards in the postcommunist world. The average enterprise capacity utilization ratio is estimated at some 50%, with one quarter of enterprises utilizing their capacities below 30% and only 12% above 80%. This shows that the potential for exit of inefficient enterprises from the economic system of Lithuania is higher than the actual intensity of this process [Balcerowicz 1994a; Samonis 1994b; et al.]. Even though the nominal profitability of industrial enterprises is comparatively high /28%/, enterprises have sizable outstanding liabilities /arrears/ to their suppliers and contractors, particularly domestic ones. These liabilities are equivalent to roughly one third of their capital and some one tenth of the GDP. On July 1, 1994, Lithuanian enterprises had claims on other enterprises totalling over LIT1.5bn, of this some LTL500mn /or 34%/ in foreign countries; the liabilities of the Lithuanian enterprises amounted to LTL1.1bn, of this some LTL300mn /or 27%/ to foreign partners. Except for Latvia and Tajikistan, Lithuania's claims exceeded its liabilities with the FSU. The above figures present a picture which is not all that disturbing but does suggest some perverse reaction of enterprises to the macroeconomic liberalization and stabilization. The analysis of problems of individual enterprises shows a build-up of accounts receivable which mirrors a buld-up of accounts payable, effectively draining liquidity out of the enterprise sector. As part of inertia stemming from the Soviet period, enterprises continued to ship goods or perform services in expectation that they will be paid. This was in vain in many cases and suggests that changes in the enterprise behaviour are rather slow to materialize.

On a related note, there is some progress in the process of exit of inefficient enterprises from the economic system of Lithuania. Despite the above described government policies which aim at some accommodation of internal /that is transformation-induced/ and external /trade disruption/ shocks to enterprises, there has been a rather substantial downsizing of activities in the state sector. However, this unconventional exit is very hard to measure because, among other reasons, large chunks of enterprise activity are in the informal sector. Downsizing has been occurring in a muddled and rather uniform way throughout the economy, with no clear, strong links to the efficiency of individual enterprises; this may be changing, however [Samonis 1994b; et al.]. As far as the conventional exit is concerned, there has been well over a dozen bankruptcies initiated usually by nonbank creditors by the end of 1994 and the momentum is growing rapidly. The potential for bankruptcies has been much higher than the actual intensity of them due to a number of factors. They include the shortage of experienced lawyers, judges, and administrators in bankruptcy procedures as well as inadequacies of other elements of exit processing capacities. Also, they stem from various inconsistencies in the Lithuanian law, like the contradictions between some stipulations of the labour law /e.g. on collective agreements, severance pay, etc./ and the provisions and procedures of the bankruptcy law. The same goes for the privatization law which prohibits the sale of assets for prices below the book value. According to the Law on Enterprise Bankruptcy, the bank is considered a priority creditor, if some assets of the enterprise are taken up as a collateral. However, banks have been reluctant to trigger insolvent enterprise bankruptcy proceedings due to a number of factors which boil down to inadequate incentives under which they operate. In general, commercial banks avoid triggering bankruptcy by prolonging the terms of loans. However, with the new stricter regulations it would be impossible for banks to prolong it more than 180 days, afterwards a loan is to be judged as a bad loan. Enterprises practice such tricks as loans taken up by another /usually fictional/ enterprise. A common practice is the renegotiation and roll-over of credits. The most creditworthy borrowers obtain three-month loans on a roll-over basis due to both banks' and borrowers' inability to undertake longer-term commitments in the exceptionally risky environment. The Consulting Agency for Enterprise Restructuring has been working since December 1993. The aim of this Agency is to provide consultations to large-scale state enterprises, propose their restructuring and preparation for privatization. The Agency is established under the Ministry of Industry and Trade and supported by the European Bank for Reconstruction and Development /EBRD/. However, as a consulting institution, the Agency will not provide financial assistance [Maldeikis 1994; Samonis 1994b; IMF 1994; et al.].

7.2.2. The Financial Sector

The Bank of Lithuania /B of L/ credit policy was highly restrictive since the beginning of the genuine Lithuanian central banking. During the first half of 1993, commercial banks faced individualized but tradable quarterly credit ceilings imposed by B of L. This caused a short-term /one month/ need to depart from the B of L's fundamental position to eschew interest rate controls and allow market determined rates. Since the introduction of the currency board on April 1, 1994, the B of L policy is to refrain from new lending to commercial banks in order to preserve a rudimentary ability to act as a lender of last resort. Prudential regulation of commercial banks was executed utilizing standard Western bank capital adequacy calculations /Basle Committee/, lending risk criteria, and reserve requirement policies. For example, reserve requirements were increased from 8 to 12% in order to restrict credit [Laws ...1994; Materials...1993; IMF 1994; Bennet 1993; Lainela and Sutela 1994; et al.].

By the end 1994, the commercial banking sector is largely privatized, consisting of over two dozen banks. State role and control was strengthened in several commercial banks with a still mixed, state-private capital over 1993-94 [Nauseda 1995; et al.]. In general, the banking sector's exposure to the private sector is growing, however. First foreign banks /Polska Kasa Opieki S.A., Royal Bank of Scotland, some German banks, etc./ have been opening their offices in Lithuania since 1994. Consequently, there is some growing even if still inadequate competition in the banking sector. Still unconquered inflation caused high nominal interest rates which are market-determined and have a clear longer-term tendency to go down, however. As a result of the variable inflation rate, real interest rates have been fluctuating between negative and positive. As exemplified above by their reluctance to initiate enterprise bankruptcies, banks act in a rather passive manner, reflecting legacies of the past including the property rights. They do not act aggressively as agents for enterprise restructuring. By 1993, the restructuring process of the Lithuanian banking sector itself has been complicated by its overall net debtor position with regard to both housholds and enterprises as well as by its sizable claims of doubtful value on extinct financial institutions of the FSU. Several banks went bankrupt by the end of 1994. However, generally the shortage of acceptable risk and profitable investment opportunities seems to be more of a problem than the shortage of liquidity as evidenced by unused credit resources and intensive buying of government debt instruments [Lainela & Sutela 1994; World Bank 1993; Background...1994; Nauseda 1995; et al.].

The role of nonbank financial markets is still rather weak. Even though theoretically the voucher-type privatization has provided a boost to stock trading, there is not much evidence of this on the institutionalized market. While a relatively large number /over 100/ of firms is listed on the well organized National Stock Exchange of Lithuania /NSEL/ modelled after the Paris Bourse, trading is rather low and suffers from the shortage of liquidity, a condition affecting most stock exchanges in the postcommunist economies. Overall, Lithuanian financial markets are not underdeveloped by the FSU or even Central European standards [Hansson 1994; Semeta 1994; Siemet 1995; et al.].

8. TOWARDS THE CORPORATIST SYSTEMS?: IS THE POSTCOMMUNIST CHANGE "HIJACKED"?

As analyzed above, the blueprint for Lithuania's economic independence called for building the target economic model for the country. While the debate on target models for postcommunist economies has not been resolved, there is little doubt among the great majority of transition economists that the so called third road systems are not an optimal solution. Given the unjustifiably low level of Lithuania's economic development and living standards noted in the blueprint, such an optimal solution would be a pro-growth system based on competitive markets. It is therefore important to note that the blueprint has not been entirely free from "third road" tendencies which subsequently materialized in some of the above described transition modifications undertaken especially since 1993. Even though the Lithuanian transformation has proceeded at relatively fast rates and has not entirely been off track by 1994, "third road" or similar detours from a direct road to competitive markets are still a likely possibility in that and other countries. The more so, that international organizations advising on the postcommunist transformation and assisting it /e.g. IMF, WB, EBRD/ usually specialize in a rather short- to mid-term approach, pushing aside long-term aspects of building the appropriate target economic and political systems which task is left to sovereign nations and their governments.

Based on the above presented course of the Lithuanian transformation, one can draw the following conclusions in this respect. Generally, the old nomenklatura seems to have vigorously engaged in rent-seeking activities made possible by the "already not a plan but still not a competitive market" stage in Lithuania's transformation. The emergence of this rentier class providing a sociological underpinning for the postcommunist parties was observed in other non- or semi-transformed economies [e.g. Havrylyshyn 1993]. Opportunities for rent-seeking activities are provided by different aspects of economic systems in transition. For example, only partial liberalization of foreign trade allows various officials to handsomely profit by taking bribes for the issuance of export/import licences, discretionary import duty exemptions or customs clearing at the border. Others benefit from the mono- or oligopolistic position of their enterprises on the domestic market. Still others benefit from rent-seeking opportunities provided by bureaucratization and state interventionism in the economy. This trend may lead to the emergence of corporatist systems rather than competitive markets as the outcome of the postcommunist transformation. Corporatist systems are characterized by the bureaucratic, politicized, mono- or oligopolistic type of bargaining among the few dominant large corporate bodies and government structures. In the contemporary world, most Latin American economies tend to exhibit signs of corporatism.

Some ways of such a "hijacking" of the postcommunist change by the old nomenklatura in Lithuania have been outlined above. Another "hijacker", not necessarily independent from the first one, is the new mafia /organized crime/. The symbiosis of the old nomenklatura, new mafia, and the postcommunist government structures is bound to lead to such pathological phenomena as rampant corruption and the economic polarization of postcommunist societies into haves and have nots, a trend which is already well pronounced in Lithuania according to some assessments [Abisala 1995; et al.]. Have nots would naturally be excluded from the economic process based not on competition but rather on the politicized, bureaucratic, mono- or oligopolistic type of bargaining characteristic of corporatist systems. This would effectively prevent development of the middle class which is the main stabilizer of any ship of state. One can hardly expect high levels of stability anchored in sustained economic development in countries which succumb to the above trends. At best, Eastern Europe becomes Latin America, not Western Europe or North America.

There is a growing evidence suggesting the emulation of the Lithuanian detour elsewhere in the postcommunist world. Parliamentary elections in Poland, Hungary, and Bulgaria resulted in the return of former communists or related forces to power. Still in other countries communists or former communists have never really left power /e.g. Romania, Ukraine, Belarus/. According to the report of the outgoing Solidarity government, after four years of transition Poland was still in a half-way house and change could still be "hijacked" by special interests. Some measures introduced by the Polish postcommunist government /cancellation of administrative reforms, commercialization instead of privatization, state interventionism, protectionism, etc./ seem to confirm such fears [Andrzejewski 1995; Tarnowski 1993; Baczynski 1993; Nowy...1994; Szanowny...1994; Kulesza 1994; Janecki & Zybala 1995; et al.].

As outlined above, at the very least, the Lithuanian precedent puts a question mark on the ability and/or willingness of the postcommunist governments to resist special interests and other such temptations in order to continue the radical transformation towards competitive markets benefitting the society at large. Still, there is a hope that governments and voters all over the former communist world can learn lessons and draw appropriate conclusions from the "postcommunist detour" on Lithuania's and other countries' road from plan to market. Lithuania was the first country to take such a detour; it is likely to be the first one to return from it.

Endnotes

1. In the traditional centrally-planned economy, the enterprise is assigned a goal function /success indicators/ and induced /by administrative orders and bonuses/ to maximize it subject to some constraints. Utilizing a Cobb-Douglas production function, this could be formalized in the following way:

$Y = L^a C^b$; lim Y = max, subject to: D < D', E > E'... Z < Z'

where:

Y - value of the output;

L - labour; C - capital; a,b - elasticity coefficients;

D, E ... Z - enterprise goals left outside the goal function;

D', E'... Z' - constraints imposed by the economic centre;

2. One conceptual explanation of the relative efficiency of these two modes of transition could be based upon the theory of synergy. In a one-time transition, all the aspects of change reinforce each other, producing the total effect which is greater than the sum of partial effects by the amount of synergy effects. The opposite is true for the gradual transition, partial effects of the reformed aspects are largely neutralized in a clash with the unreformed aspects.

References

Abisala, A. 1993. "Issues in the Post-Soviet Transformation in the Baltics: The Case of Lithuania". A presentation by Dr. Aleksandras Abisala, former Prime Minister of Lithuania, at the seminar of the Centre for Russian and East European Studies, University of Toronto, Canada, March 2, 1993.

Abisala, A. 1995. Personal communication with Dr. Aleksandras Abisala, former Prime Minister of Lithuania, University of Toronto, Canada, February 20.

Aleskaitis, V. 1990a. "Islaikytine, duodanti nauda". Atgimimas, No. 12.

Aleskaitis, V. 1990b. "Tarp susizavejimo ir nusibodimo faziu". Atgimimas, No. 22.

"Algirdas Brazauskas prieme Tarptautinio valiutos fondo atstovus". 1994. Litas, No. 36.

Andrzejewski, P. 1995. "Bilans strat". Wprost, No. 8.

Antanavicius, K. 1988. Nauji keliai, seni kliuviniai. Vilnius: Mintis.

Antanavicius, K. 1993. "Fatalizmo ar valingos kaitos keliu". Politika, January 18.

Antanavicius, K. 1995. Personal communication with Prof. Kazimieras Antanavicius, former Chairman, Economic Committee, The Parliament of Lithuania, University of Toronto, Canada, January 31.

"As the oil stops flowing". 1990. The Economist, April 21.

Background Study of the Economy of Lithuania. 1994. Vilnius: Economic Research Centre.

Baczynski, J. 1993. "Raport o stanie panstwa: w pol drogi". Polityka, No. 45

Balcerowicz, L. 1994a. "Laboratorium historii". Wprost, No. 21.

Balcerowicz, L. 1994b. "An Analytical Note on Exit". Warsaw: The Center for Social and Economic Research.

Balcerowicz, L. 1995. "'Transition Problems Are Not the Monopoly of Transition Economies'. An Interview with Prof. Leszek Balcerowicz, the chief architect of Poland's radical postcommunist transformation strategy". Journal of East-West Business, No. 5.

Baldisis, V. and V. Terleckas. 1989. "Ar reikia Lietuvai lito?"

Gimtasis Krastas, June 29.

Bareisis, M. 1994. "Kainu dinamika: pamazu didejanti infliacija". Naujasis Kapitalas, No. 14.

Bennett, A. 1993. "The Operation of the Estonian Currency Board". IMF Staff Papers, No. 2.

"Beyond perestroika". 1990. The Economist, June 9.

Bienkowski, W. 1988. "The Applicability of Western Measurement Methods to Assess East European Competitiveness". Comparative Economic Studies, No. 3.

The Center for Economic Research. 1994. Materials supplied by The Center for Economic Research, Vilnius, Lithuania.

Dabrowski, M. 1995. "The Role of the International Agencies and the West in the Post-Communist Transition: Some Selected Aspects". Paper prepared for the American Economic Association Convention 1995, Washington, DC, January 7, 1995.

"Del ekonomikos valstybinio reguliavimo istatymo".1990. Atgimimas, No.12.

"Dvi nuomones". 1993. Savininkas, No. 27.

"Ed Hewett on Reforming Soviet Socialism". 1990. Meeting Report. New York: Institute for East-West Security Studies.

"Ekonomikos ministerijoje". 1990. Atgimimas, No. 23.

"From the Executive Board...". 1994. IMF Survey, November 14.

Grazin, I. and Miljan, T. 1990. "The Kremlin's illegal power play". The Globe and Mail, June 6.

Gineitis, A. 1993. "Politikai dar tik be liemeniu, o pramonininkai - jau be kelniu". Litas, No. 43.

Grennes, T. 1994. "Inflation and Monetary Policy During Two Periods of Lithuanian Independence". Raleigh: North Carolina State University.

Guide for Foreign Investors in the Republic of Lithuania. Vilnius: Lithuanian Information Institute, 1993.

Hammer, D.P. 1990. "Why Do the Russians Complain?". Paper presented to the conference on "The 'National Question' in the Soviet Union", Waterloo-Laurier Centre for Soviet Studies, University of Waterloo, May 5.

ELTA 1993. ELTA News Service of October 22, 1993.

Hanke, St. 1994a /and Schuler, K./. Letter to the Editor "Currency Board-like Systems Are Not Currency Boards". Transition, No. 6.

Hanke, St. 1994b. "Lithuanian Currency Litas Pegged to US Dollar". The Voice of America broadcast prepared by Mr. Romas Kasparas based on Prof. Stephen Hanke's presentation at the Lithuanian Embassy in Washington, DC on March 31, 1994.

Hanke, St. 1994c. "An Annotated Chronology of Selected "High" Points of My Involvement with Currency Boards". Baltimore: The Johns Hopkins University.

Hanke, St., Jonung, L., and Schuler, K. 1993. Russian Currency and Finance: A Currency Board Approach. London: Routledge.

Hansson, A. 1994. "The Impact of Recent Developments in Russia on the Economic Transformation of the Baltic States", in: The Little Country That Could. Washington, DC: Embassy of Estonia.

Havrylyshyn, O. 1993. "On the Change in the Ukrainian Economy". Paper presented at the Symposium on Two Years of Ukrainian Independence, York University, Toronto, Canada, on October 8, 1993.

Havrylyshyn, O. and Williamson, J. 1991. From Soviet Disunion to Eastern Economic Community?. Washington: Institute for International Economics.

"How Will an Independent Lithuania's Economy Function?" 1990. The Lithuanian Review, No. 2.

IMF 1993,1994. Lithuania. Washington, DC: IMF Economic Reviews, No. 7, 6.

"Infliacija Lietuvoje priklauso nuo ukiniu subjektu nuotaiku". 1995. Naujasis Kapitalas, No. 2.

Janecki, St. and Zybala, A. 1995. "Bilans traconych szans". Wprost, No. 5.

Jaskelevicius, K. 1990. "Liudnojo vaizdo dispeceriai, arba kiek dar ilgai smilks ekonomikos lauzas". Atgimimas, No. 23.

Kaminskas, V. 1990. "Blokados zuti pasitinkant". Atgimimas, No. 23.

Kaminskas, V. and Parulskis, V. 1990. "Viens, du, trys! Plytine parduota!". Atgimimas, No. 24.

Kizas, V. 1994. "Lito devalvavimo gresme". Naujasis Kapitalas, No. 14.

Kolodko, G. 1993. Kwadratura pieciokata: Od zalamania gospodarczego do trwalego wzrostu. Warszawa: Poltext.

Kniuksta, G. 1995. "Verslininku ir valdzios santykiai turi buti grindziami kolegialiai". Naujasis Kapitalas, No. 1.

Konopliovas, G. 1993. "Reforma ir nuosavybe". Litas, February 9.

Krueger, A. 1990. Perspectives on Trade and Development. New York: Harvester Wheatsheaf.

Kulesza, M. 1994. "Apetyt na wladze". Wprost, No. 22.

Lainela, S. 1993. "Currency Reforms in the Baltic States". Communist Economies and Economic Transformation, No. 4.

Lainela, S. and Sutela, P. 1994. The Baltic Economies in Transition. Helsinki: Bank of Finland.

"Law allows Baltics increased autonomy". 1989. The Globe and Mail, November 28.

Laws and Standard Acts Regulating the Activities of the Banks of Lithuania. 1994. Vilnius: The Bank of Lithuania.

Lietuva skaiciais 1993. 1994. Vilnius: Statistikos Departamentas prie Lietuvos Respublikos Vyriausybes.

Lietuvos ekonomine ir socialine raida 1994 m. sausio-gruodzio men. 1995. Vilnius: Statistikos departamentas prie Lietuvos Respublikos Vyriausybes.

Lietuvos ekonominio savarankiskumo koncepcija. 1988. Vilnius: Zinija.

"Lithuania's 'Indebtedness' to USSR Refuted". 1990. Report on the Soviet Union, Foreign Broadcast Information Service, May 1.

The Little Country That Could. 1994. Washington, DC: Embassy of Estonia.

Maldeikis, E. 1994. Materials supplied by Dr. Eugenijus Maldeikis, Senior Economic Adviser to the President of Lithuania, Vilnius.

Materials of the case "The Chief Prosecutor of the City of Vilnius vs. Romualdas Visokavicius, The Governor, The Bank of Lithuania". Vilnius, Lithuania, various dates in 1993.

Miljan, T. 1990. Perestroika in the Baltic Republics. Toronto: Canadian Institute of International Affairs, Behind The Headlines Series.

Misiunas, R. and Taagepera, R. 1983. The Baltic States: Years of Dependence 1940-1980. Berkeley: University of California Press.

Nauseda, G. 1995. "Valstybe tempia i save striuka finansu antklode". Lietuvos Rytas, No. 30.

Navikas, P. 1995. "Mokesciai Lietuvoje ir kitose valstybese". Litas, No. 11.

"Nowy plan trzyletni". 1994. Wprost, No. 22.

"Nuo-iki". 1994. Naujasis Kapitalas, November 3.

Peleckis, L. 1993. "Suplanuotas zemes ukio zlugdymas". Lietuvos Aidas, October 19.

"Out in the Cold, Feeling Heat". 1990. Time, May 7.

OMRI 1995. A Note on Privatization in Lithuania. Prague: Open Media Research Institute Daily Digest, No. 25, Part II, February 3.

Peel, Q. 1990. "An ill-matched bout of shadow boxing". Financial Times, March 28.

Personal communication with Prof. Kazimiera Prunskiene, former Prime Minister of Lithuania, Toronto, Canada, Fall 1989.

Porter, M. 1990. The Competitive Advantage of Nations. New York: The Free Press.

"Pripazintas neteisetas privatizavimas". 1994. Teviskes Ziburiai, November 9.

Rainys, G. 1994. Materials supplied by Mr. Gediminas Rainys, Senior Economist, The Center for Economic Research, Vilnius, Lithuania.

Rugieniene, L. 1990. "Lietuvos ekonomistai Detroite". Draugas, May 15.

"Sajudis senas ir naujas". 1990. Atgimimas, No. 22.

Samonis, V. 1985. "Lithuania's Economic Development in the Years 1940-1985: A Look from the Comparative Perspective". Paper for the Fifth Symposium on Arts and Sciences, The Lithuanian World Community, Inc., Chicago, Illinois, November 24-27.

Samonis, V. 1990a. "The Blueprint for Lithuania's Economic Independence: A Systemic Perspective". The European Journal of Political Economy, No. 6.

Samonis, V. 1990b. "Lietuvos ekonomine blokada - Maskvai antras Cernobilis: Pasikalbejimas su Prof. E. Vilku, LMA Ekonomikos instituto direktoriumi". Teviskes Ziburiai, July 3.

Samonis, V. 1991a. "Who Subsidized Whom? The Distorted World of Baltic-Soviet Economic Relations". Current Politics and Economics of Russia, No. 3.

Samonis, V. 1991b. From Dependence to Interdependence: Transforming Baltic Foreign Economic Relations. Indianapolis: Hudson Institute.

Samonis, V. 1991c. Presentation on Privatization in Lithuania and other Postcommunist Countries, The Seventh Symposium on Arts and Sciences, The Lithuanian World Community, Inc. and The Government of Lithuania. Vilnius: Lithuanian Institute of Agrarian Economics, May 26, 1991.

Samonis, V. 1992. State, Market, and the Postcommunist Economic Transformation: A Macroanalytical Framework. Brussels: The International Institute of Administrative Sciences.

Samonis, V. 1993a. "Economic Reforms in the Baltics: The Case of Lithuania", in: Krzysztof Tor, Editor, Privatization and Socioeconomic Policy in Central and Eastern Europe. Krakow: Krakow Academy of Economics.

Samonis, V. 1993b. "Lietuvos Ekonomika, Quo Vadis?". Litas, No. 9.

Samonis, V. 1993c. "Gospodarki krajow postkomunistycznych: najpierw upadek, potem wzrost". Rzeczpospolita /Warsaw, Poland/, No. 133.

Samonis, V. 1993d, 1991. "One Step Forward and Two Steps Back: The Impact of Sovietization on the Lithuanian Economy". Toronto: University of Toronto.

Samonis, V. 1993e. "From Interrepublican to International: Transforming Economic Relations in the Former Soviet Union". Toronto: University of Toronto.

Samonis, 1994a. "Ar Lietuvoje jau Amerika? Kaip tvarkyti monetarine politika bei kiti pasiulymai". Lietuvos Aidas, July 6.

Samonis, V. 1994b. "Enterprise Exit in the Former USSR: Country Studies, Solutions". Paper prepared for the Conference on "Enterprise Exit in Transition Economies", The Central European University, Prague, Czechia, October 14-16, 1994.

Samonis, V. 1995a. "Monetary Transformations in Postcommunist Economies: Theory and Evidence". Paper presented at the International Convention of the Allied Social Science Associations, Washington, DC, January 6-8, 1995.

Samonis, V. 1995b. "The Blueprint for Lithuania's Future: Main Issues". Toronto: University of Toronto.

Samonis, V. 1995c. "Fundamentals for Doing Business with the Baltic States". Toronto: The Baltic Business Council.

Samonis, V. and Hunyadi, Cs. 1993. Big Bang and Acceleration: Models for the Postcommunist Economic Transformation. New York: Nova Science Publishers, Inc.

Semeta, A. 1994. Personal communication with Mr. Algirdas Semeta, President, Securities and Exchange Commission of Lithuania, Vilnius, October 5, 1994.

"Siemet Lietuvoje savo atstovybes isteigs pirmieji uzsienio bankai". Naujasis Kapitalas, No. 2.

Simenas, A. 1993,1994. Personal communication with Dr. Albertas

Simenas, the first Prime Minister of independent Lithuania, Vilnius, June and October of 1993 and 1994.

Simutis, A. 1942. The Economic Reconstruction of Lithuania After 1918. New York: Columbia University Press.

"Slyshat' drug druga". 1989. Kommunist, No. 6.

"Something has to give". 1993. The Economist, March 13.

Summers, L. 1990. "Gorbachev Should Pay Lithuania". The New York Times, March 14.

"Szanowny Panie Premierze". 1994. Polityka, No. 22.

Talocka, R. 1995. "Lietuvos pramones eksportas 1994 metais ir tendencijos ateityje". Naujasis Kapitalas, No. 1.

Tanzi, V. 1977. "Inflation, Lags in Collection, and the Real Value of Tax Revenue". IMF Staff Papers, Vol. 24 /March/.

Tarnowski, P. 1993. "Po lewej stronie drogi". Polityka, No. 43.

Uosis, St. 1988. "Del sajunginiu respubliku ukiskaitos". Gimtasis Krastas, No. 32.

USSR: Russian roulette". 1988. East Europe Newsletter, No. 17.

Vainauskiene, B. 1990. "Lietuvos bankas - karalius be karunos". Gimtasis krastas, No. 10.

Valatka, R. 1993. "Seimo rudens sesija pradejo saltaji sezona". Lietuvos Rytas, No. 178.

"Vyriausybe isleidzia desimtaja obligaciju emisija". 1994. Litas, October 27.

Vysniauskas, V. 1990. "Isminciu taryba". Atgimimas, No. 21.

Wadekin, K. 1985. Agriculture in Inter-System Comparison: Communist and Non-Communist Cases. Berlin: In Kommission Bei Duncker und Humboldt.

Williamson, J. /Editor/. The Political Economy of Policy Reform. Washington, DC: Institute for International Economics.

Williamson, O. 1975. Markets and Hierarchies: Analysis and Anti-trust Implications. New York: Free Press.

Wolf, T. 1994. "Currency Arrangements in Countries of the Former Ruble Area and Conditions for Sound Monetary Policy". Washington, DC: IMF Paper on Policy Analysis and Assessment.

The World Bank 1993. Lithuania: The Transition to a Market Economy. Washington, DC: A World Bank Country Study.

Table 1: Lithuania's Development in 1989-1994

	1989	1990	1991	1992	1993	1994
GDP at current prices	12265 m roubles[1]	12897 m roubles[1]	42282 m roubles[4]	247648 m talonas[1] or 3383 m litas[2]	11075 m litas[2]	16540 m litas[2]
GDP real		-5%[5]	-13%[5]	-38%[5]	-16%[5]	+3%[1]
Inflation rate, CPI		9%[1]	380%[1]	1160%[1]	410%[5]	45-50%[2]
Unemployment rate			0.3%[5]	1.3%[5]	1.6%[5]	3.7%[6]
M1	8087 m roubles[3]	11471m roubles[3]	17641 m roubles[3]	688 m litas[4]	1776 m litas[4]	1300 m litas[4]
M2	10228 m roubles[3]	15891 m roubles[3]	38611 m roubles[3]	1333 m litas[4]	2721 m litas[4]	5000 m litas[4]

Sources:

1. The Statistical Yearbook of Lithuania. Vilnius: The Lithuanian Department of Statistics, 1993
2. Based on data obtained from The Lithuanian Department of Statistics, December 1994
3. Lithuania: The Transition to a Market Economy. Washington, DC: The World Bank, 1993
4. Based on The Monthly Bulletin. Vilnius: The Bank of Lithuania, December 1994
5. Lithuania. Washington, DC: The International Monetary Fund, 1994
6. Based on data obtained from The Lithuanian Labor Exchange, January 1995
7. Based on the communication of The President of Lithuania to The World Bank, January 1995

Table 2: Lithuania: Consolidated General Government Operations 1989-1994 million litas

Year	1989	1990	1991	1992	1993	1994 Budget
Revenue	61	58	168	1090	3342	4300
Expenditure	66	63	140	1083	3314	
Financial + or -	-5	-6	27	6	115	-200
Net lending			8	10	729	
Fiscal+ or -	-5	-6	19	-4	-614	
Financing	4	5	-20	3	614	
domestic	4	5	-20	-21	-227	
- net bank credit	4	5	-21	-48	-326	
-privatization			1	27	99	
foreign				24	841	
-grants				24		
-net borrowing					841	
In % GDP:						
Financial balance	-3.8	-4.5	7.2	0.2	0.9	-1.2
Fiscal balance	-3.8	-4.5	5	-0.1	-4.6	

Source: Author's calculations based on data from the Government of Lithuania and the IMF

Table 3: Lithuania's Balance of Payments in 1992-1994 million USD

Year	1992[1]	1993[1]	1994[2]
Trade balance	61	-267	-190
Exports	1145	1877	2035
Imports	1084	2144	2225
Services (net)	-9	63	-63
Current account balance	62	-192	-148
Capital account balance	195	313	313
Foreign direct investment	10	83	37
Medium- and long-term loans	39	137	175
Memorandum items:			
Current account balance, % GDP	3	-6	-4
Total external debt	99	345	600
Total external debt, % GDP	5	11	15
Total debt service	2	15	30[3]

Sources:

1. Lithuania. Washington, DC: The International Monetary Fund, 1994
2. Author's calculations based on 9 months data from the Lithuanian Ministry of Economics
3. Author's estimate

Table 4: Privatization in Lithuania 1991-1994

	For privatization	Privatized	% privatized
Total			
No. of enterprises	6610	5150	78
Capital /m litas/	3850	3100	81
Vouchers /m litas, nominal/	10000	8200	82
of which for:			
Productive assets		4430	54
Housing		1640	20
Other		2130	26

Source: Authors calculations based on data from the Lithuanian Ministry of Economics

Table of Contents