

ASSISTING ECONOMIC FREEDOM: THE LESSONS LEARNED

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Is it really a good idea to look back for somebody unwilling to rewrite history or present claims to the past? Could we today single out the key reasons for events to have happened in that particular way and help our compatriots reconcile with their fate? While peace in one's soul is rare luxury and while many souls, including Russian, cannot rest in peace, there seems to be a point in thinking about where and how they may seek salvation.

Freedom was the only alternative when the empire had come to collapse, just in the same way as there was no substitute for free market, free trade and private property. People were rushing to freedom in its all manifestations. Market was the only thing the former Socialist states could rely on to provide people with bread, let alone sausage and bananas. Had someone tried to measure the degree of freedom, the value would have been highest at the outset of reforms. The obsolete socialist setting enjoyed support neither with rulers or population. You could trade without limitations, do unregulated business, cross borders without restraint and generate wealth free of unbearable taxes. It was the time when the initial capital was accumulated. And, more importantly, the time when people came to know the laws untaught in any socialist school.

Creation of new institutional basics went on track much later. Undoubtedly, it was helpful since new rules of the game emerged, although sometimes these were excessively rigid. Frequently, interventionist instructions popped up even before basic rules were set. Why did it happen that way? Could we have organized making the market institutions work for public good without excesses? The Lithuanian experience of forming the stock market could shed some light in this area.

Albeit it might seem inconsistent, for many launching the market did not necessarily mean that private property had no alternative. The only thing to come to

our rescue was the fact that every possible form of *an independent socialist enterprise*, every self-financing formula had been tried out in every dimension, leaving no illusions for success. And the ruling elite was well aware that the sooner property flows to private hands the better. At the same time, privatization has brought so many problems that doubters rushed to proliferate, their number reaching dangerous limits. Experts know that privatization is never faultless and each model contains defects. However, such explanations cannot appease the public. And the notion of *injustice* in privatization keeps outweighing the universally recognized gains of the new market order.

The public is wondering if the so-called check-type privatization is justified and isn't it the cause of all problems? Actually, the check-type privatization is one of the few ways for those who really seek to transfer the state property to private ownership, but not to convert material property into cash and then back into material belonging to the same state (back to square one, isn't it?). Of course, the privatization proceeds could have been given out to the public. But practice shows that as soon as the state receives such assets, a host of needs appear to exploit use the funds. So, it turns almost impossible to hand them out irrevocably. Lithuania boasts to have unique experience in solving this problem: following a heated nation-wide debate, part of the privatization proceeds was channeled to compensate the depreciated deposits in the state savings bank.

Note that the check-type privatization features another characteristic that is more important. It incorporates the answer to widespread public lament that "the property had been created by our sweat and blood, by our entire life, and cannot be given away to anyone but us". The check-type privatization responds to this adage by its intrinsic essence. (In fact, in practice the answer is never of fundamental

significance, as there is no country where state property has ever been given out on the check basis). The check-type privatization model has given everyone a chance to rightfully demand his share. And even if the person for some reason lost his share later or failed to properly assess the opportunity, the important thing is that the person had been given the opportunity on equal footings with others.

This is just the time to point out that privatization of social insurance systems normally lags behind privatization of state property. There are a lot of reasonable explanations why things go that way. But the fact is that whenever the state needs to compensate for the shed blood and tears (at least in savings for future pensions!), the treasury has neither cash nor property to repay the debt. Poland comes up as a unique instance of a country where relationship has been set between privatized state property and personal pension accounts. Since certain Western states may have to privatize their excessive government property and seek ways to finance the dilapidated pension systems, the matter is not just of historical interest.

One may suppose that combining the check-type privatization scheme with privatization of the pension system will not only resolve the burning social issue but also make possible operation of two essential gains, although I cannot assert it would be inevitable. Primarily, the public would entertain a more responsible and sober attitude to using the received checks. Agents and market players would also be more responsible and have greater impetus to keep away from losses and wrongdoing. I do not mean inarticulate government interference but the institutional basis that, as we know, was frequently too weak. Instead, there would surface private enterprises with contradicting and dissimilar interests to create a streamlined and disciplined market. When joint-stock companies, pension funds, depositaries, trusts, insurance and rating

companies operate simultaneously and to their own pinpointed interests, the market becomes survivable and protects the consumer from pervasive government meddling.

Timely appearance of such private enterprises could have diminished the scale of the currently popular belief that “the losses had been excessive and there surely was a way to avoid the damage”. Surely, many losses and even closed factories were essentially inevitable since the enterprises and their output were wanted only within a centralized planning system, whereas now the public does without them. Some of the blame for losses rests with unprofessional management. However, the very notion of professionalism has been changing with economic transformation advance. It actually was hands-on training, when people learned by their own mistakes. In many cases outright crime prevailed. As a result, there is still no answer whether the blunders were unavoidable.

Let us analyze the choices that faced the authorities. In a nutshell, the layout was as follows:

- (1) to privatize privatization, i.e. to rely on private market actors whose conflicting interests could install the market discipline, and refrain from interfering in distribution of property; or
- (2) to strictly control privatization via the government apparatus.

No matter how sorrowful it may seem, but any knowledgeable authority on human nature would say that in terms of public support version #2 would easily overpower version #1. Hence, version #1 remained mostly unused. Politicians, statesmen, bureaucrats and even fellow economists have been prone to sincerely believe that transfer of state property “into good and wisely selected hands” via “wisely formulated contracts” would prevent machinations and errors in restructuring of enterprises. However, this belief is disputable.

Firstly, *fine reputable companies* could be found mostly abroad but not at home where everyone is equally inexperienced. Secondly, such privatization opens way to political favoritism and requires too much everyday effort from the government, distracting it from other deeds (as a rule, the most important unattended area is deregulation and creation of competitive environment for the private sector). Thirdly, this approach will not prevent failures and even add some, which means not serving the set task. And Lithuania was doomed to experience all these trials. But in countries where the government role in privatization was high enough to handle even banking (by lending the property and taking up the risk), the consequences were much worse. One may say that politicized privatization was a key factor to institutionalize corruption, in which case it is hardly beatable. Politicized privatization also helped the spread of regretful common belief that worthy authorities are able to select the best man for future management and envisage contract clauses to ensure smooth operation. In other words, the belief that events do not only develop in an anticipated manner but also are built up under absolute control of the actors.

After several years of trust in spontaneous order and understanding that decentralized activity of the millions may bring huge wealth and organization, many came to thinking that market development could be anticipated. Hence, instead of waiting for the market to bring desirable results, the government may intervene and attain the same faster and free of losses and risks that accompany the market. If you try to disprove this statement using clear-cut practicable arguments, there would come many fine and logically immaculate theses. The problem is that they will be adopted only by those who do not really need them, those who accept the reality in a similar manner. But the unbelievers will remain frightened by the indefinite future and intuitively follow anyone who promises to subjugate the future and save the public

from the fearful unknown. It is the church that could help people realize and accept the spontaneous nature of life. However, the appeal to rely on Providence and yield to Supreme Permanent Order is too often mixed with calls for solidarity, stability and guarantees for everyone. Naturally, many get inclined to choose the easier way.

If the people are not ready to accept spontaneity of life (economic life included), freedom has little chance. In absence of profound acceptance of spontaneity, people will eternally strive for instituting definiteness and stability, which in practice are sure to become instituted central planning and distribution.

The need for a streamlined free market normally rests on human nature and its intrinsic drive to cooperation and exchange. But human nature also has something else, seemingly common knowledge, but still mostly neglected by reformers. I mean the human disposition to rule, subjugate and impose things deemed proper and helpful. Everyone will agree that bureaucrats and the state machine do not drastically change only due to the reason that the revolution had smashed previous injustice and created a new independent state. The government keeps living by its own laws. Meanwhile, the euphoria of initial years of freedom does not prompt the need to limit the freedom (rather, willfulness) of the government structures and transfer all possible functions to individuals, their enterprises and communities. At the same time, the authorities also refrain from excessive control. As a result, in several past years they have been frenziedly spawning, penetrating into every sphere of life and making the people dependent on their goodwill. Worst of all, the society has in fact no force able to cleanse the state apparatus and make it work for real good of the public. As far as the rulers are concerned, their vital interests are in holding and strengthening the machine. The Lithuanian initiative aimed to minimize and optimize the government structures, as well as the initiative's service to the taxpayers, indicate how much this

work depends on those who perform these functions and how difficult it is to make order in your own home, even if you have approval of the top authority. All that is quite understandable and once again reminds you that only a wide and effective coalition of civil and government structures may inject the idea of freedom into the corridors of power. And the think tanks may play a decisive role in uniting the society, making up a practicable and universal action plan, and even policing the long-awaited government reform.

A lot of help could have come from international institutions, which rarely set out such priorities. Bad luck, as a national government usually shows more respect to international rather than electoral promises. A future EC member, Lithuania has had a lot of bitter experience watching the remnant Soviet administrative structures still in place and avoid radical change. Simultaneously with new structures built above them, as prescribed by the EC rules and instructions. Double functions, treated as absolutely intolerable at that time (in top government circles too), have again become commonplace. “You can’t contradict the EC”, - they say. An overall review and purge of every government activity – promised to the electorate and formally included into the EC integration plans – have never come to existence. This is why people say that freedom belongs not to them but to bureaucrats. This is why they lose faith in order and justice. But still the experience of the nationwide initiative to liberate people from willful governors helps to retain optimism in this hard but useful effort.

Many show great interest to the role of international institutions in Lithuanian reforms; hence many are inclined to see a conspiracy theory to this end. Actually, some people may easily imagine a worldwide conspiracy, and others may as well make up plans and try to stage one. However, the modern world brims with

uncountable players and is still ruled by spontaneity, although broadly disliked. So, the conspirators will find it practically impossible to attain the desirable goals.

The role of international organizations, as well as many other phenomena of life, has dual nature. They frequently keep new democracies from driving leftwards. Although it seems questionable that freedom acquired without a share of violence may be that good and survivable. In Lithuania international institutions helped to prevent stalling and revision of privatization, made the authorities open the gateway to foreign banks and competition in banking. They supported introduction of the Currency Ruling that has on several occasions saved our money from depreciation (frankly, it happened after a revolution of ideas in the 19th Street in Washington, DC). At the same time, international institutions often blocked our decisions that were too liberal to Western approaches. Decisions that better match our needs and development level, which could have worked better than Western models. Best remembered are the following cases – a united front of Western organizations against our plan to give up the profit tax; aversion to voluntary insurance of bank deposits, check-type privatization and handing out of privatization proceeds; dislike of depoliticized privatization via selling shares at the stock-exchange. Their assistance also had some funny episodes, their results not funny at all. Quite often donors tried hard to introduce rather trivial and familiar to them methods of regulation while the essential fundamental institutions were absent. As plans of national authorities were to a great extent dictated by donors' schemes, important projects just fell out. For example, there were bank supervision rules full of sophisms implemented with great hullabaloo to save us from crisis. But few gave a thought that we had no reliable credit and mortgaging system, so credits could easily fade away.

Farming is another example where the West made a real mess of the market both by word and deed. Of course, one may not disregard the way the West lives, and its lessons should not be skipped. But in many cases decisions matching market principles and our understanding, which could have worked better and be welcomed by the society, were made just impossible, as there were no such decisions in the West. And we were not the only ones to be damaged. Time will come when the Western society may need alternatives for their slipping systems of government intervention. Then they will also get in trouble, since the world is very similar.

Among decisions that could be vital (and not only for us) I could name the initiative limiting the scope of legislators and administration, its idea being to have all natural and legal entities lined equal before the law, so that no privileges or limitations could be applied to them by any echelon of power (legislature included). Besides, no government function could be set up and held for goals attainable by market forces and civil society. We have to these seemingly definitions through hardships. Distribution of government assets and all-out assistance to private and state enterprises, laws custom-made for certain subjects and foreign investors breaking all competition principles, petty and irrational regulation – I am sure that every country has gone through similar experience to a certain extent. A lot had to be done before the society came to understand that the business environment should be improved for everyone and not for the elite. Although the proposal to lay constitutional limitations on the rulers has failed to become a law, it has played an important educational role letting the public know what kind of reforms could put an end to excessive regulation, favoritism and corruption in order to create a basis for a genuinely free market.

Despite attempts to restrain economic freedom and submit its spontaneous nature to the rulers, freedom keeps bringing deserved fruits. The future of liberty

hinges on the public's attitude to the recent past and the ideology that will prevail tomorrow. The question facing a lot of people is whether freedom is just something to provide them food or it transports some other substantial and irreplaceable value. When you come to think about this, you find more and more signs proving that freedom is essential to live a life and make deliberate choices at its every stretch. So that one could arrive to understanding fundamental laws, the laws standing behind the events of recent years.