

## Reality of Life Makes New Rulers Pause for Thought

Interview with Elena Leontjeva, LFMI President  
"The Baltic Times", July 12-18, 2001

Elena LEONTJEVA, President of the Lithuanian Free Market Institute, a private think tank, gives a fresh glimpse on the economic ideas of Lithuania's new Social Democrat government. Being a founder of the institute in 1990, she is the most sincere advocate of free market and deregulation. The institute takes an active part designing economic reforms of the country. Interviewed by Virgilijus Savickas in Vilnius.

**Is it the same programme that was presented as an alternative when Social Democrats were in opposition?**

Not exactly the same. Although it is based on the Social Democratic party programme officially presented half a year ago, there are some changes which take into account realities of life - market forces and limited resources.

**What are these changes in particular?**

If we look closer at the text, we'll find out that Social Democrats do not speak about introducing progressive income tax. They only mention decreasing the tax burden, especially for those who earn less. They will almost certainly raise the tax-exempt minimum and I doubt they will put a smaller tax on low-income earners, as the program says. Of course it would have the same effect as a progressive tax. Still, it is quite a change compared to the aggressive rhetoric about higher taxes for the rich.

**What effect will this tax reduction have on the budget?**

The program contains a lot of stipulations. They take an obligation to do this and that only if "proper economic conditions are in place." As all others in power, they will care about the budget first, especially since a lot of social promises have been made. Changes in the corporate profit tax are important. The party intends to improve the zero-tax regime for reinvested profits so that it is not used for investments "that are not beneficial for the country's economic development." I am afraid this could lead to overregulation. On the other hand, the need to make the profit tax taxpayer-friendlier may force the government to take other decisions.

**What about the promised reduction of unemployment?**

It is feasible, but first of all there is a need to reduce the tax burden, social insurance contributions and personal income tax in particular. According to our research, these taxes are the biggest barriers to employment and job creation. Social Democrats will have to face the reality and to liberalize the labour market.

They intend to ease the tax burden only for those who don't earn much. However, the importance of tax reduction for qualified people is also obvious. As there is no ceiling on social insurance contributions, it does not matter how much you earn, a thousand litas or ten thousand. You have to pay thirty four per cent for social security, and that is a huge burden preventing job creation in knowledge-based economy.

**What investment policy is likely to be promoted, western or eastern?**

They do not mention East or West in the text. They rather speak of equal treatment of all natural and legal persons, especially domestic and foreign capital. There is even a statement regarding equal rights to land acquisition. This is quite a change!

There are also ideas about promoting investment in regions with higher unemployment through special privileges. I doubt this will happen, since such favours, besides being economically unsound, are vulnerable to corruption and hard to administer.

**Is the programme in line with the EU integration process?**

In general yes. All the parties have signed an agreement to promote Lithuania's integration into EU and NATO. You can't see any risk in the programme. Risks may evolve in the process of privatisation when the government has to choose among specific investors. Social Democrats have spoken strongly in support of transparent privatisation. Prime Minister Brazauskas has mentioned on several occasions that it does not matter for him who the winner will be. In action it should translate into a shift from political privatisation to privatisation on the market, with price being the only judge. This is what would benefit Lithuania and prevent corruption and scandals.

**What about the E.S. energy company Williams International then?**

This name is not in the programme.

**Dalia Grybauskaite is an interesting choice as the new finance minister. She is considered to be far from the left.**

I think it is an excellent acquisition of this cabinet. She is well educated, very open and strict. This will do good for budget policy, since, I hope, Ms Grybauskaite will be able to handle leftist temptations towards excessive subsidies, both corporate and social.

**Don't you think that soon she'll get into conflict with the parliamentary leftists?**

Some conflicts are possible but, having gained executive power, Social Democrats are demonstrating changes in their stand. The new Finance Minister may well serve as a good excuse for them not to get bogged down in social and corporate welfare.

**What awaits the Sunset and Sunrise commissions set by previous governments to loosen bureaucratic constraints on enterprise?**

New Economic Minister Romualdas Cesna is very dedicated to deregulation. He has proven to know very well how to administrate sunrise for enterprise.

**Do you think he will succeed?**

If he manages to organise a good mechanism to draft and push solutions through the government and the parliament, he will succeed.

**Will this government be helpful for Lithuania's economic development?**

I don't think we should question facts that are already history. Party colours do not matter very much. Recently we saw a huge difference between two conservative cabinets, Vagnorius' and Kubilius'. The reality and the market forces as well as the international community will strongly affect the attitudes of the new cabinet and push them to the right, in all respects. If they withstand a temptation of overregulating and size down bureaucracy, then they will do a good job for the Lithuanian people.

**Could we call this Cabinet a technocratic government?**

Yes. Politicians have again demonstrated unreadiness to form a political cabinet. Some of the very good cabinet acquisitions are still accidental.

**Who will have more weight in decision making, the Prime Minister himself or the rest of the Cabinet?**

I think the cabinet will mean much more than the prime minister. Algirdas Brazauskas admits that his role is to be a guide and lead younger people. He assumes a role of moral authority.