

## Free Marketeers to Seimas: Reform, Now

LFMI President Elena Leontjeva interviewed  
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With the autumn Parliament in session and promises of market liberalization flowing like autumn rain, the time is ripe for the Lithuanian government to make real reforms for the people - and not just because the European Union or Williams International wants them made, says Elena Leontjeva, president of the Lithuanian Free Market Institute and an economic advisor to President Valdas Adamkus. Last week, Leontjeva published an article in the Lithuanian daily *Respublika* urging the government to push through promised economic reforms on the people's behalf. She questioned the government's willingness to make reform without the influence of "outside pressures" to do so. "There are so many changes that the Lithuanian people need for their own sake - order in the tax system and customs, deregulation and improvement of an overall economic climate" Leontjeva told TBT. "The government should implement reforms that are in the best interests of people in Lithuania, and it is much more important than the Williams agreement, both for the economy and morals." One promise on which the government has been dragging its heels is the abolishment of the corporate profit tax, "which would really give a rise to private investment," said Leontjeva, who has spoken for the reform since 1991.

"If the corporate profit tax was scrapped a major amount of bureaucracy related to the calculation and control of this tax would be abolished too and companies would be able to freely make decisions on what new technologies, constructions or renovations are needed. I think that what we need most today is sound private investments and economic advancement for growing incomes and new jobs." Lithuania, she maintains, should look towards reform-minded Estonia, where the abolishment of corporate tax laws appears imminent. "Even if the budget loses a few percent of the proceeds it will be paid off later by economic growth. Economic downfall, which is only reflected in the shrinking budget, shows that it is the right time to remove a tax on productive activity, on initiative, on success. It's time to liberalise the overall economic climate," Leontjeva said.

Leontjeva hopes that tax rules in Lithuania can be improved in one fell swoop before the end of the year. "The investors community indicates where the problems stem from. Some drafts have already been prepared on how to remove basic tax vices. What the government needs to do is put all of amendments together, and submit them to the Parliament along with the budget law. Then we would start the new year not only with a new budget - which is crucial for the public sector - but also having new tax rules. Those are really vital for the private sector and, eventually, for everybody. The new order would probably give birth to stable tax rules, something the investors are dreaming about". Leontjeva also called for removal of the legal code that says current bad loans cannot be written off for tax purposes.

"For example if you exported some products to Russia and your buyer never paid you, you have to pay taxes on the debt as if it were your income," she said. Another priority for reform is deregulation and reduction of the state bureaucracy, which is as adversarial to economic health as overtaxation.

"People in the private sector have to spend much of their time fulfilling all of the requirements requested by the bureaucracy," said Leontjeva. "If we deregulate the economy, on the one hand, it will help release private initiative and, on the other, it will save public money because the bureaucracy will cost less" But the biggest obstacle for deregulation will come from the bureaucracy itself, Leontjeva predicts. "It's time to switch from the declaration of an idea to real action, and here we encounter the resistance of the bureaucracy. People who work in bureaucracy are used to the rules they are creating so they cannot really decide how to rationalise them. And they are not really interested in doing so," Leontjeva explained. "For a stranger it's difficult to figure out how vague, long regulations should be changed. Still, there is no other way but to form a taskforce that would perform a regulatory surgery without any sentiments for the old system."

What is working in favour of budget reduction right now is the lack of funds, Leontjeva reports. "It's easier to cut bureaucracy now. If you have to abolish one or another institution that is useless it will be easier under current conditions to do so, so it's a good time to clean the house. After all, it's not only business

people who suffer from regulations."

The leader of The Free Market Institute is confident that at least some of these ideas will be accepted by the government eventually.

"Of course we do not expect them to support every idea, but it's very important that we show the right course of the reform. And it frequently happens that the first time they don't understand you at all , and by the second year they start partly understanding you, and in three or four years, your line becomes their official agenda. Free marketeers have to be consistent, relentless and patient."