Privatisation and Prospects for Private Sector Development

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Lithuanian Capital Market and Investment Opportunities Vilnius, Lithuania 15-16 May 1997

Lithuania was the first out of the three Baltic countries to start mass privatisation and establish a functioning capital market. The originated culture of public trading and information disclosure was quick to take root, as were the instruments necessary to fill the needs of pioneer-investors. The capital market in Lithuania was not lagging behind the initiated reform process, as it frequently tends to, but even happened to be leading the economic transformation. When a risk arose that the second stage of privatisation would be conducted outside the capital market, to disregard the functioning infrastructure appeared to be politically impossible. Yet, there is still a need to formalise by law the reliance on the capital market in carrying out the privatisation programme.

Privatisation, just like any other process, is never perfect. Yet, its weaknesses - whatever they might be - must not be such as to jeopardise or halt the whole process. Therefore any attempts to make privatisation rest on sound, transparent rules, ensure its efficiency as well as preclude corruption and forestall public dismay are both timely and welcome.

The privatisation process itself should be made automatic and should be privatised by involving in it private intermediaries. Presently, the discretionary right of founding ministries and municipalities to retain or release property are a major concern. It is crucially important therefore to provide for an automatic release of property for privatisation. This should be accomplished by invalidating the role of founders in decision making and establishing by law explicit criteria for and terms of putting assets out for sale. Involvement of private subjects, which would be materially interested to sell state-owned assets at the best price possible, would privatise the privatisation process itself and ensure its efficiency.

Privatisation in and of itself is not over when a company has been privatised. It is equally important to deregulate the general economic and legal framework, for privatisation without deregulation will fail to bring desired changes. Deregulation issues must be as high on the economic reform agenda as privatisation is. They should not fall short of being dealt with in parallel with the denationalisation process.

Government involvement in economic activity has direct effects on the competitiveness of domestic businesses. Aiming to build a competitive private economy, Lithuania should remove - consciously and continuously - government intervention in economic affairs and minimise public redistribution. This task is not going to be easy, but what is important is that its significance is widely recognised, and there is a political will to undertake it.

The tax system, which is undergoing sweeping changes, is one of such examples. Investments are now fully deductible from taxable profit, a measure regarded as privatisation of the investment process. It implies that those who are responsible for private decision making and generate profits will decide - before any portion of the profits is taken away in taxes - how much, where and when to invest. Government spending for investment purposes must inevitably decline. These steps will accelerate modernisation and growth of Lithuanian companies, many of which managed to demonstrate a pretty good performance even during the hard and turbulent reform period.

The central challenge that would confront Lithuania's economy in the years to come is removing the remaining assets from public ownership and separating the private sector from the government and its finances. Today private entities may well suffer from overregulation and pervasive government interference on the one hand and enjoy governmental and municipal favouritism in the form of special benefits, exemptions and subsidies on the other. The primary task for legislators is, therefore, to safeguard businesses from unfair competition by removing them from the government domain and to create a stable and business-friendly legislation - legislation enforcing rigid rules to protect property and contracts, but without overregulation. An open private economy and limited but strict government are a key to Lithuania's competitiveness and growth. Ideas do matter after all.