Transition in the Baltic States: economical and political
Part II

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Spring 2009

Currency reforms

- Why Baltic States more successful than CIS? One reason - they introduced their own currency and escaped from hyperinflation of the Rouble Zone.
- **Estonia** – introduced “*kroon*” in June 1992. Pegged with DEM.
- **Lithuania**:
  - At first introduced transition currency *Talonas*. Had very serious problems with inflation
  - “*Litas*” was introduced in 1993. Pegged with USD.
- **Latvia:**
  - Introduced Latvian Rouble.
  - Because high inflation replaced it with “*Lat*”in 1993.
  - Pegged with USD, 0,5 lats = 1 USD. The strongest and over-valuated currency in Baltic States.
- Estonia was the fastest. But all three currencies have been stable – so generally successful currency reforms.

Tax reforms and free trade

- **Tax reforms**: Estonia 1993, Latvia 1994, Lithuania 1995.
- **Price liberalization and free trade**:
  – Estonia 1991 and 1993,
  – Latvia 1992 and 1993,
  – Lithuania 1995 (administrative control over prices in transport, energy; very protective regime for agriculture products)

Economic policy – Privatization I

- General:
  - At first small-scale enterprises auctioned off,
  - large and middle-scale enterprises later.
  - Vouchers not widely used (difference from Visegrad countries)
  - Russian minority excluded from process
- Estonia:
  - Special institution: Privatization Agency was leading the process,
  - Preferred owners with business plans and management skills.
  - Scandinavian investors played leading role.
  - Main privatization 1992-1995.
  - Restitution of lands/property slower.

Economic policy – Privatization I

- Latvia:
  - Small enterprises were auctioned off quite quickly.
  - Large-scale enterprises not privatized before 1996.
  - Less transparent and more corruptive than in Estonia
  - Vouchers distributed to population → mixed ownership.
  - In 1997 2/3 of enterprises were privatized.
  - Less foreign investments.
- Lithuania:
  - Started with land restitution.
  - Vouchers distributed to the employees of enterprises
  - In 1995 direct privatization was started and 8 leading domestic investment companies were dominating.
  - Vouchers + domestic investment companies = minimal large scale foreign investments
- Estonia: institutionalized, quicker, foreign investments

Success of Estonia - why?

- **Initial conditions**:
  - Estonia and Latvia more industrialized than Lithuania.
  - Estonia and Latvia – ports.
  - So initial position of Estonia and Latvia was better.
- Estonia:
  - Quicker and more *elaborated* reforms
  - Punitive trade tariffs with Russia since 1993 → forced to orientate to the Western market very quickly.
  - Scandinavian investors more interested in
- Latvia:
  - High corruption and interests of Russian-orientated transit businessmen – didn’t allow to orientate to the West so quickly and hindered efficient quick reforms
- Lithuania
  - Strong lobby of owners of the state enterprises.

Democratization and consolidation

- Baltic states transition from post-totalitarian/totalitarian → democracy.
- Iberia in the 1970’s: authoritarian → democracy.

- Characteristics of consolidated democracies:
  - Behaviorally – no significant social group interested in creating non-democratic regime
  - Attitudinally – majority of public is holding belief that democracy is better governmental system than alternatives
  - Constitutionally – all political forces are accepting democratic procedures and laws. Democracy - only game in town.

Consolidated democracies?

- **Other features of consolidated democracies**:
  - quite developed civil society,
  - political society (elections, parties),
  - legal framework,
  - functioning public sector,
  - mixed economy.
- **Latvia and Estonia** – due their ethnic policy sometimes not considered to be consolidated democracies.

Why more successful than CIS?

- <u>National consensus</u> that old structures should be dismantled and wide support for reform policy
- Economic crisis was temporary
- General <u>level of social and economic development</u>
- <u>Interwar democratic traditions</u>
- <u>Traditions of Western-style civil society</u>
- Ethnic conflicts didn’t escalate to violence
- Communists transformed to social democrats
- <u>Strong presidency was avoided</u>
- <u>Western political culture</u>.
- Fragmented, but working party system.
- Soviet West – <u>better initial position</u>, more liberties
- International dimension

International dimension

- International dimension:
- Geography – close to Scandinavia
- Mutual interest:
  - Baltic States – “Back to Europe”;
  - West – tried to prevent political instability, ethnic conflicts, authoritarian tendencies – afraid asylum seekers
- Western structures more capable to support democratization (EU, OSCE, IMF, etc). Supported also substantial democratization (civil society, etc.).

- Baltic States and Visegrad (VC) countries
  - Initial position of VC better (communist regime milder)
  - West more interested in VC
  - Reform period was longer in Baltic States than in VC.

Exercises

- Compare the economic transition and the market reforms in three Baltic countries! What were the main similarities and differences between the countries? Why Estonia turned to be more successful than Latvia and Lithuania?
- Search for additional literature about Hungary and Poland and compare the market reforms in the 1990s in above mentioned countries with the Baltic States!
- Discuss the question: How consolidated are the Baltic democracies today?
- Search for additional literature about Russia and compare the market reforms and the process of democratization in the I half of 1990’s in Russia and in the Baltic countries! What were the main similarities and differences? Why Baltic countries ultimately turned to be more successful?

References

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