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The Political Economy of Transition in Post-Socialist Systems: The Case of the Baltic States

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The nature of the failed socialist systems calls for a transition which is as comprehensive in its objectives as were the systems themselves before they failed. Hence, the transition to democracy in the post-socialist systems cannot be treated as separate from the transition to a market economy and national independence. The critical part of the transition is the economic reforms inasmuch as the institutions of the planned economy are the major power base for the conservative elites. To be successful, the economic transition must be able – in both the short and the long term – to command political support, to achieve social acceptance of the distributional consequences involved and to be compatible with democratic institutions. Analysis reveals that in the case of the Baltic states widespread support for the transition to a market economy can be detected and that the democratically elected governments have so far been fairly active in establishing a legal framework for transition, but appear unable to implement the necessary stabilization policy. The reforms have produced strong social protests, and the governments have been under pressure to maintain social guarantees during the period of transition. The non-Baltic minorities in particular defend previous social privileges and are distressed by their uncertain status after independence. The ultimate outcome of political and economic transition in the Baltic states, therefore, remains in doubt.

In 1989 the global drive towards democracy crossed what was left of the Iron Curtain in Europe. In countries like Poland and Hungary it was a process which had been under way for at least a decade. Other countries, like Czechoslovakia, Rumania, the GDR and Bulgaria experienced structural political changes overnight, without almost any previous softening of the orthodox Marxist–Leninist regimes. And further to the East, in the republics that used to be the Soviet Union, the prospects for democracy are still uncertain.

When the appeal of pluralist democracy crossed the Iron Curtain and found fertile ground among broad sections of the populations of Eastern Europe and the Soviet Union, it signified not only a geographical expansion of a global trend which had been under way since the 1970s; it added, in addition, entirely new dimensions to the difficulties associated with the transition to democracy. Thus, with but a few exceptions, for example, the post-Stalinist societies represented cases of democratization rather than redemocratization. The transition towards democracy in these countries,

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moreover, has been taking place simultaneously with two other transitions, namely (1) the transition from centrally planned and managed economies towards a market economy, and (2) in the case of Eastern Europe and the Soviet Union republics, the transition from Soviet hegemony towards national independence. Each of these transitions has a dynamic in its own right, but they are also linked through a number of complex mechanisms.

The purpose of this article is to discuss the theoretical foundations for transition to democracy in post-socialist systems – in particular the relation between economic and political reforms. In doing so, special attention is paid to the Baltic states. Whereas all post-Stalinist systems represent specific cases of democratization, the Baltic republics represent extreme cases within this category. The key assumption of the article, as argued in the following section, is that economic reforms play a crucial role in the entire process of transition. The principal focus of the article is therefore on the politics of economic reform and the interconnection between this and other dimensions of transition. In light of the fundamental assumption involved, a preliminary examination of the politics of economic reform in the Baltic states is undertaken. Then in the final section of the article the politics of economic reform in the Baltic states are examined in conjunction with the general transition to democracy and independence.

The Legacy of Authoritarian Socialism

It is a trivial observation that no democracy which is built on the ruins of a bankrupt dictatorship can design the future according to its own visions and ideals alone. Any non-democratic system, which has existed for some period of time, creates its own pattern of political and social interests in which power and/or privileges are dependent on the institutions of the regime. To recognize this political legacy of the ancient regime, and to design an appropriate strategy to cope with this legacy without betraying the basic principles of democracy, is one of the main challenges which confront any newly installed democratic government.

The Political Anatomy of Authoritarian Socialism

If we want to determine the nature of the legacy left behind by the now collapsed regimes of authoritarian socialism, it is important to determine the precise character and basic qualities of these regimes. This task is complicated by the absence of any generally accepted paradigm from where we can begin the description of these systems. An examination of the major schools in the study of the socialist systems reveals that they focus on different aspects of the systems, and thereby provide different answers with respect to what constitutes the principal legacy of these systems.

Despite this fact, it would be a mistake to consider the three paradigms which have dominated the study of socialist societies as mutually exclusive. Rather they reflect and stress complementary aspects pertaining to the complex process of transition. The totalitarian paradigm put forward by Friedrich & Brzezinski (1956), for example, focuses on a number of barriers which have been identified as universal in the transition from non-democratic to democratic regimes (cf. Linz 1975; Nørgaard 1989). These barriers include the political elite, the official ideology internalized by a smaller or larger part of the population, and the mass support which the ancient regime is able to mobilize among broader social groups. Modernization and pluralist paradigms (cf. Johnson 1970; Field 1976; Skilling & Griffith 1971), by comparison, have concentrated on the tension which exists between traditional and modernizing elites in most non-democratic systems. In this particular regard, the totalitarian and modernization paradigms both tend to consider the obstacles which exist in the transition towards democracy in post-socialist societies as similar to those which exist in other non-democratic systems.

The emphasis which these latter two approaches place on the political system and technological development, however, overlooks the institutional processes which make it possible for authoritarian socialist systems to reproduce their basic structural features over an extensive period (cf. Stark & Nee 1989). An alternative institutional approach, therefore, has focused on the close functional affinity which exists between the authoritarian (or totalitarian) political system, the institutions of the centrally planned and managed economic system, the social values of the population, and the vested interests of conservative elites. The intrinsic systemic logic of state-socialism can in this sense be depicted as a closed circle (see Figure 1) based on several phenomena. First, the experience of 30 years of experiments with economic reforms has proved that collective (state) control of the means of production is a precondition for the consistency of a planned economy (Korbonski 1989; Kornai 1990a, 1990b). Second, a centrally planned and managed economy is imperative in order to pay homage to egalitarian social values (and anti-market sentiments) found within the population, nourished by 40 years of socialist propaganda (Bobinska 1988; Morawska 1988). Third, the institutions of the centrally planned and managed economy are the principal power base of conservative elites with vested interests in the authoritarian (totalitarian) regime (Korbonski 1989; Winiecki 1990).

The outcome of this situation is a closed system in which the separate components are mutually dependent, and where the transition to democracy is not solely contingent upon the political preferences of the population. If the pattern, sustained by the logic of the closed circle, is to be broken, it is not sufficient to abolish the authoritarian political system, remove the

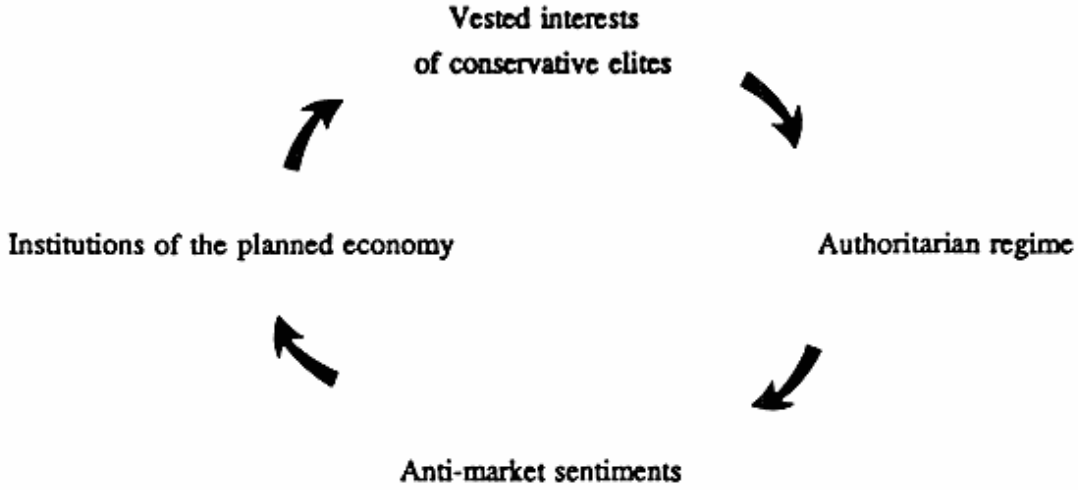

Fig. 1. The Self-reproducing Structure of Authoritarian Socialism.

old elite or change the mass political culture. A prerequisite for a successful transition to and consolidation of democracy involves a pluralization of economic ownership structures and an analogous change in the social values and expectations in society (Marody 1991). It is this all-encompassing character of the transition which distinguishes the transition to democracy in post-socialist systems from transitions in other systems.

A Strategy for Transition

The quintessence of the argument to this point, in short, is the all-encompassing nature of the socialist system. Correspondingly, the transition of the post-socialist systems must therefore be of an equally comprehensive nature. Within Eastern Europe and the Soviet Union it now appears to be widely accepted that the market economy must be based on a transition to private or rather mixed ownership (Nørgaard 1991b). Given an idea of structural affinity of ownership forms and coordination mechanisms (Kornai 1990a), the basis of this notion seems to be partly economic. But the argument is also based on an acknowledgment of the crucial role which economic assets play as a major political resource and hence as a precondition for genuine political pluralism and a political guarantee for the irreversibility of the reforms (Lipton & Sachs 1990; Bush 1991).

Yet to define the market (or mixed) economy as a precondition for a successful transition is obviously only the first step. Another task is to design an appropriate strategy for the transition to the designated final state. In a recent article, Hermann-Pillath has listed four minimum features for a successful economic transition: (1) the path chosen should not be self-obstructive; (2) the transition should involve elements of irreversibility; (3)

the transition should work towards a permanent change of the endogenous framework conditions, even though it is not characterized by linear progression; and (4) the strategy should minimize transformation costs (Hermann-Pillath 1991, 174). These preconditions for a successful economic transition emphasize the close interconnection between successful economic and political reforms, as is also clear from the illustrations given by Hermann-Pillath.

The line of argument followed by Hermann-Pillath is basically that of political feasibility. The absence of a 'benevolent dictator', which is often the implicit assumption of economists (Majone 1975, 226), makes it improbable that the desired state will be reached rapidly and smoothly. A feasible policy, it has been suggested, is one which 'satisfies all the constraints of the problems which it tries to solve, where "constraints" means any feature of the environment that (a) can effect policy results, and (b) is not under control of the policy maker' (Majone 1975, 226). It follows from this that political constraints are those political factors that may effect the implementation of a policy but are not under control of the government. Hence, an understanding of political constraints on the reforms involved is equally important if the economic transition is to succeed.

Although political constraints carry the same weight in the logic of decision-making as the more usual technical and economic constraints, they cannot be specified with the same degree of precision. But, as phrased by Buchanan, '. . . to refuse to examine the political possible is incomplete scholarship' (1962, 18). From this perspective Majone's attempt to classify types of political constraints and interpret political feasibility seems helpful. Majone has distinguished three types of constraints tacitly related to various aspects of the political system:

> (1) The availability of *political support*. This constraint is related to the input side of the political system. It is seen as analogous with economic constraints which arise, for example, given a scarcity of financial, technical, and organizational means. In the political context what is important is the availability of political support among relevant groups and actors commanding sufficient resources (Underdal 1991).
> (2) *Distributional constraints*. These constraints have to do with the outcome of the political process and the extent to which this outcome is acceptable to major political and social groups within society.
> (3) *Institutional constraints*. These constraints reflect the fact that 'the freedom of choice of the policy-maker is always restricted by a set of political institutions and decision-making rules which, for the time horizon relevant to a specific policy, must be taken as given' (Buchanan 1962, 269). If the prevailing institutions are not able to contain and resolve political conflict, the outcome is likely to be institutional decay and eventually collapse and the emergence of new institutional structures.

In considering strategies for transition, these three categories of political feasibility (or lack of political constraints) can be combined with Hermann-Pillath's attempt to define the major features of a successful economic transition. For this purpose I choose to concentrate on Hermann-Pillath's

call for non-obstructiveness and for irreversibility. These particular features seem to reflect various time horizons and can be compared to the distinction between transition and consolidation in political transition theory (Rustow 1970; Pridam 1991). Viewed in terms of non-obstructiveness, for instance, support, distributional and institutional capabilities may all be seen as *constants* which have to be realized if the reforms are not to stall. The call for irreversibility, on the other hand, implies viewing the political system from a dynamic long-term perspective, and suggests that the three political constraints are all *variables* which must themselves be transformed if the reforms are to become permanent. In this latter instance the question is one of long-term strategy and not short-term political considerations.

Combining these considerations, we end up with six categories, each addressing various political preconditions for successful economic reforms (see Table 1). The six categories serve as a guide for further examination of concrete cases. In *the short-run* it would seem that political factors, and political leadership in particular, are crucial. In this context the first problem is to mobilize voters behind the idea of transition to a market economy. The acceptance of economic reforms, however, will for the most part take place under conditions of incomplete or total lack of knowledge about what constitutes a market economy. Hence, the second challenge for reformers is to make their constituency accept the social and distributional consequences of the economic transition once the reforms take effect. Finally, a third condition for success in the short-run is that the economic transition is compatible with survival of the democratic institutions. The recently established democratic regimes must prove themselves efficient in the sense that they are able 'to find solutions to the basic problems [–] that are perceived as more satisfactory than unsatisfactory by aware citizens' (Linz 1964, 20). And they must be effective in 'having the capacity actually to implement the policies formulated, with the desired results' (Linz 1978, 21). Democratic institutions, in other words, should not obstruct adoption or implementation of economic reforms. Neither should they degenerate into new versions of autocracy, which implement the economic reforms by non-democratic means – the Chilean solution.

In the *long-term*, by comparison, it is possible to suggest that politics loses its importance and is rather replaced by structural factors produced by the transition of the economic system towards a market economy based on private or mixed ownership. The decisive factor is the emergence of new social groups with a vested interest in the social and political institutions of the new society. This change must be reflected on the political level by a transition in social and political values compatible with the new economic and political order. In the economic sphere, on the other hand, collectivistic attitudes should gradually be replaced by individualistic orientations. And people must come to accept 'dangers and profits as something that is socially

Table 1. Linkage of Economic and Political Transition in Post-Socialist Society.

Requirement	Support	Distribution	Institutions
Short term: Non-self-obstructiveness	Support among aware citizens	Acceptance of social consequences by aware citizens	Efficiency, effectiveness, survival
Long term: Irreversibility	Development of new social groups with a vested interest in the institutions of a market/mixed economy and pluralist democracy	Transformation of social values – from collectivistic to individualistic attitudes	Development of a democratic political culture, and diffuse support for democratic institutions

differentiated, and that is inherent in the social system . . .' (Marody 1991, 39). Finally, on the institutional level, democracy must gradually obtain legitimacy in its own right, what Easton called 'diffuse support' (1964, 249), through the development of a democratic political culture.

In what follows, the conceptual framework elaborated in this section will be applied to the obstacles to transition faced by the Baltic states. The transition will first be approached from a short-term perspective with emphasis placed on the decisive economic reforms. As argued previously, economic transition is the critical part of the transition in its first phase, and if it does not succeed, the prospects for consolidation of democratic rule will be dim as well. In order to gain insight into this consideration, the call for non-self-obstructiveness (political support and the distributional constraints) will be examined on the basis of available data regarding elite perceptions and mass attitudes towards economic reform. The efficiency and effectiveness of political institutions with respect to economic policy-making up to the time of independence will also be briefly analyzed. Following this, the prospects for transition will be analyzed in a long-term perspective – i.e. in light of the requirement for irreversibility. In this context, problems pertaining to the transformation of the social structure and social and political values will be briefly summarized. Before turning to this analysis, however, a few remarks regarding the Baltic states are in order.

The Case of the Baltic States

In the Baltic states we find all the typical problems related to the transition process in post-socialist states. But on all of the dimensions of transition,

the obstacles confronted by the Baltic states manifest themselves in a more radical variant than is the case, for example, in Eastern Europe. For one thing, the Baltic states have only recently, after the failed coup d'etat in Moscow, been internationally recognized as independent states. The road to independence for these countries has, over a longer period, been hampered by the reticence of the western countries to jeopardize the position of Gorbachev (Nørgaard 1991a, 1992). The Baltic states have, in addition, a large group of immigrants (especially native Russians) who have been more reluctant in their attitudes toward independence than the indigenous population and who are therefore politically less inclined to provide support for the transition process.

The barriers in the economic sphere are also more extreme in the Baltic states than in other countries (Hanson 1990a; Sandstöm 1990; Reiljan, undated). The transition to a market economy is complicated by the same type of domestic and external factors which delay the transition in the other post-socialist countries – serious imbalances in the economy, open or hidden inflation, large monetary overhangs, a deteriorated infrastructure and lack of international competitiveness. But on an external dimension the Baltic economy is integrated into the Soviet economic system to a much larger extent than any of the East European countries. Until 1990 up to roughly 80 to 90 percent of all industrial output was controlled by the Moscow-based union ministries. The Baltic countries have had, furthermore, the same currency as the Soviet Union and hence are still unable to control monetary policy and inflation. They are also dependent on the Soviet Union both for import of raw materials and (for Latvia and Lithuania) energy and as an export market for industrial goods. Last, but not least, the Baltic economies, which at least in the case of Estonia and Latvia in the late 1930s were on a level comparable to that of Finland, have deteriorated to such an extent under the socialist economic system that they will in the short-run be unable to compete on the capitalist world market. Hence, economic independence of the Baltic states is contingent upon reasonable transition agreement with Moscow and, like Eastern Europe, economic assistance from the West.

Domestically, the Baltic states face the same obstacles in the transition to a market economy as are well known in other systems: problems of timing and sequencing of the reform measures, political obstructions from the party- and state apparatus, and social resistance from broad social strata who are anxious about the social consequences of the market economy. In a comparative perspective, however, the three previously independent republics have been exposed to a much stricter ideological control, forced integration and isolation from the surrounding world than was possible in any of the East European countries. In the Baltic republics these problems are further complicated by the large segments of Russian immigrants,

whose social values are distinctly different from those of the native Baltic population. In 1989 the percentage of indigenous nationality groups within the respective populations was 61.2 in Estonia, 51.8 in Latvia and 79.2 in Lithuania (Hanson 1990b, 5).[1]

Perhaps the least problematic part of the the transition process in the Baltic states, at least in the short-term perspective, is the transition to democracy. As in Eastern Europe there has been broad support behind the transition to democratic institutions as a symbol of the break with the authoritarian past (Nørgaard 1991b; Miller et al. 1991).

Transition in the Baltic States: The Level of Non-Self-obstructiveness

The domestic aspect of the economic transition cannot be solved by the achievement of political independence alone. For one thing, the conceptual problems related to timing and sequencing of the reform have to be solved. But these problems cannot be treated independent of the political sphere. To be successful, the economic transition to a market economy must be able to muster sufficient political support, and distributional effects of the reforms must achieve social acceptance. And the newly established democratic institutions must be able to produce necessary decisions without losing their democratic character. From this perspective it is appropriate to examine data available on the politics of economic reforms in the Baltic states.

Support and Distribution

In no system, least of all post-socialist systems in the midst of a rapid transition, is there an inevitable correspondence between the attitudes of political actors and attitudes of the mass public. But it should be clear that if the gap between elite and mass attitudes becomes too great, it will cause problems in the implementation of policies.[2]

Just as in Eastern Europe, *independent political organizations* in the Baltic states had their origin in the umbrella organizations, covering a wide spectrum of interests and attitudes in joint opposition to the established regime. In Estonia and Latvia these were the People's Front organizations, and in Lithuania it was Sajudis. These organizations forced the resignation of the communist governments, and the communist parties split into Moscow loyalists and locally based parties. Between and partly from within these major political organizations, a huge number of minor parties have sprung up in each of the three republics. As a reaction to the People's Front organizations striving for independence, various organizations claiming to

defend the interests of the national minorities, especially the large group of Russian immigrants, were also established in all three republics. In Estonia the major organization of this type was the 'Intermovement', in Latvia the 'Interfront' and in Lithuania 'Unity'.

An examination of the economic policies of the major parties in the Baltic republics supports two notions.[3] First, a general consensus has materialized behind the transition to a market economy. The division today is not between the supporters of the traditional system and a market economy. Rather it is between different versions of the market economy: a market economy based on predominantly private ownership as favored by the People's Front organizations on the one hand and a 'regulated' market economy based on some form of collective ownership as favored by the various organizations representing the Russian minorities on the other. The latter alternative reflects the so-called 'third way' which, at an earlier point, also had its supporters in Eastern Europe and the Soviet Union (Hanson 1990a). Second, all versions of economic reforms in the Baltic states contain strong guarantees against the distributional effects of the transition to a market economy. The guarantees are most pronounced in the programs of organizations supporting the Russian minorities, but play an important role in the programs of all parties. Hence, what the Baltic states are aiming at is not a 'pure' market economy, but rather a system based on various property forms and a strong redistributive state sector.

The emphasis on social guarantees reflects the worry and anxiety among broad groups of the population over the social consequences of market reforms. This scepticism is reflected in a number of surveys conducted by the reinvigorated independent social science institutes in the Baltic states and by anxious governments afraid to inflame public discontent. Regarding *public attitudes towards economic reforms*, for example, one of the most telling results was found in a survey conducted by the statistical office of the Lithuanian government in late 1990 (*Lietuvos Rytas* 1990). The survey showed that of the 1200 respondents, only 72 percent were able to define the concept of state property, 56 percent understood the concept of private ownership, 51 percent collective ownership and 53 percent knew the concept of a stock holding company. A similar picture emerges in a survey of 896 respondents in 10 regions across Latvia in November 1990 where between 60 and 70 percent of those interviewed declared that they still had many unanswered questions about the expected economic reforms (Latvia Information Center 1990).[4]

Bearing this situation in mind, an examination of available data reveals the following picture of popular attitudes towards economic reforms in the Baltic states: In *Latvia*, general support for the introduction of market economy and privatization has been observed (*Privatizacijas Problemas*

1990; Institute of Politology 1990). At the more specific level, however, when concrete sectors of the economy are mentioned, the support declines. Yet, within this overall picture, there is some variation. First, support is markedly less in the over 60 age group than in all other age groups. Second, the ethnic Russian population in Latvia is significantly less enthusiastic in their support for privatization than is the Latvian population. Third, Russians are less likely, in their own opinion, to engage in private enterprise than are their Latvian counterparts. Fourth, more Russians than Latvians want a privileged position for workers in the privatization process, either by an opportunity to buy shares at a discount price or through the free distribution of shares to all employed.

The Russian population in Latvia, furthermore, shows much less optimism and much more pessimism about the consequences of the economic reform than does the indigenous Latvian population (cf. *Privatizacijas Problemas* 1990; *Awakening* 1990; *Diena* 1991). On what may be termed the positive side, these attitudes relate to the expectation of greater fairness in distribution and industrial development. On the negative side, the attitudes have to do with fears of unemployment, deficits of consumer goods, and increase in poverty. The price increases which have recently taken place are also felt by the Russians to affect daily life much more seriously than they are by the Latvians.

These attitudes are reflected in the willingness to tolerate the social costs of transition to a market economy. One survey showed that people were only willing to accept price increases on bread and alcohol, while a majority of 60 percent to 80 percent was opposed to price increases on other consumer goods (*Delo Darbs* 1990). But here also there are significant differences between the Russians and the Latvian population. One survey, for example, showed that 69 percent of the Russian population wanted the government either to withdraw (16 percent) or compensate for (53 percent) the price increases introduced early in 1991. The corresponding figures for Latvians were 48 percent, of which 5 percent wanted the price increases canceled while 43 percent wanted compensation (*Diena* 1991).

For *Lithuania* there is only sketchy evidence on attitudes towards economic reform. One survey conducted in October 1990, and including 1200 respondents from the whole country (*Lietuvos Rytas* 1990), reveals a situation comparable to conditions found in Latvia. Thirty-six percent of employees in state enterprises (where the Russian Lithuanians are concentrated), for example, supported a continuation of the socialist form of ownership in industry, 17 percent preferred a conversion into a stock holding company, whereas only 11 percent preferred enterprises owned by the employees. Only a minority (37 percent) wanted to start their own business. For persons up to the age of 30 the corresponding figure is 47 percent. Of these, however, only 29 percent expect that they will succeed

in the short or medium perspective. Regarding large scale privatization, only 2 percent wanted shares if industry is denationalized and privatized. Instead, the majority wanted their share of the national property in more tangible forms, such as cars or tractors (20 percent), land (16 percent) or cash or a flat (31 percent).

The reluctance among part of the population to accept the price of a market reform was further demonstrated in the political strikes against an attempted stabilization policy which took place at the beginning of 1991. The strikes forced the government to withdraw the announced price increases temporarily and proved the necessity of cultivating political support before unpopular decisions are implemented (Kleinberg 1991). That 78 percent in a survey conducted at the same time (*Lietuvos Aidas* 1991b)[5] declared that they were prepared to endure any hardship which might follow from a new Soviet blockade proves the thorough politicization of attitudes towards the economic question in Lithuania.

In *Estonia* attitudes of the native Estonian population are indirectly revealed in the decision of the Estonian Congress (to which only native Latvians can vote) to support the transition to a market economy and privatization (*Molodezh Estonii* 1991). An indirect indication of the economic schism in Estonia, however, is found in the strong reaction by the Russians, who in Estonia have a majority in the north-eastern part of the country. In January the Russian dominated city council in Narva, the main city in the region, organized a political strike against price increases (*Sovetskaja Estonija* 1991a).

Institutions

To resolve the implicit contradiction between social values produced in the old system and the demands of market economy, the institutional network must be able to produce a trade-off between what is required in order to proceed with the economic transition and what is politically feasible. They must, as stated previously, be efficient and effective, without losing their democratic character. Have the newly established democratic institutions of the Baltic republics been able to strike such a balance?

At this stage, an answer to this question must be very preliminary. Many of the economic laws passed before independence carried mainly symbolic value. They were part of the so-called 'war of laws' where, according to Soviet legislation, the local parliaments passed legal acts concerning subjects over which they had no jurisdiction. Hence, most of the laws merely remained on paper because local authorities had neither the time nor the resources to force through their implementation. In the present context the laws have more value as evidence of what was politically feasible within the existing parliaments than as reflections of actions undertaken in the

real world. Even so, the legislation does provide some insight into the transition processes.

Regarding structural reforms, a number of laws on privatization were adopted in late 1990 and early 1991.[6] In addition, other laws intended to create the institutions of a market economy were passed before independence; laws on banking, on property, income tax, land taxation, etc. Hence, despite heated debates, especially in the field of privatization, the Baltic governments proved fairly efficient in their efforts to establish the basic institutions of a market economy. But, as already noted, the effectiveness of the governments as indicated by these measures was largely limited to the period up to independence. To what extent the political institutions in the independent republics will be able to implement structural economic reforms within stable democratic institutions still remains to be seen.

The Future of Transition in the Baltic States: The Question of Irreversibility

Although there is intense resistance to the distributional effects of the market reforms, the support for the concept of a market economy appears to have been sufficient to produce a start toward the legal framework necessary for transition. In that sense, the transition in the three Baltic states has so far met the requirement of non-self-obstructiveness. To make the long-term transition to a stable market economy, however, they need to generate strong social and political groups with a vested interest in the transition. At this point, therefore, it is appropriate to look more closely at the requirements for irreversibility in support, distribution and institutions.

Support and Distribution

As things stand today, most people obviously focus on the short-term costs rather than the potential long-term benefits of a market economy. These sentiments produce fertile ground for conservative elites situated in various branches of the party-state bureaucracy to cultivate popular dissatisfaction for their own political purposes. Some authors have argued that it might be necessary to accept a conversion of power, whereby the old elite is permitted to find a place in the new order – for example as the new capitalists – and thereby giving them a vested interest in the transition (Hankiss 1990; Winiecki 1990; Staniskis 1991).

Such a strategy is likely to produce popular discontent in most systems, but it will presumably be even less politically feasible in the Baltic states where it would mobilize ethnic sentiments. In the discussion about pri-

vatization laws in Latvia, for instance, it has been argued that there should be restrictions on the rights of foreigners (read Russians) to buy Latvian property (*Sovetskij Molodezh* 1991; *Sovetskaja Estonia* 1991d). Even in the case of the Baltic states, however, it would reduce the political obstacles to the economic transition if at least part of the old elite could see their own interest in promoting the changes.

At the popular level, nationalism can also be a major force behind the economic transitions in the Baltic states. Surveys show clearly that the native population is prepared to endure economic hardship if this is the price of independence (*Awakening* 1990). But this is not the case for the Russian population, which is apparently uncertain whether it will benefit from independence (*Awakening* 1990). In this way the economic reforms have also been linked to the struggle for independence. The apprehension of the native Russians in the Baltic republics is further expressed in their general distrust of the political institutions of the Baltic republics (*Lietuvus Aidas* 1991a; *Awakening* 1991; Gorokhov 1991), a lack of trust which was also expressed by low participation in the referenda on independence in February and March of 1991.[7] The same surveys, however, indicate that the trust of the Baltic Russians in Soviet political institutions is also very low (Miller et al. 1991). Hence, up to the time of independence, the Russian population could be described as politically alienated, without any definite loyalties.

In the attempted coup in August 1991 most of the organizations representing Russian interests in the Baltic states played an ambiguous role. For this reason many of these organizations were suspended in the aftermath of the failed coup. Discussions concerning citizenship in the independent Baltic states demonstrate, moreover, that a large segment of the Russian population could face the loss of full political rights. The draft law on citizenship in Latvia published in late October 1991, for example, contains a 16-year residency requirement for 'immigrants', followed by a Latvian language aptitude test.[8]

At the same time, the Russian population in the Baltic states is likely to be disproportionately exposed to the consequences of economic reforms. A majority is employed in the huge former union enterprises, which are likely to face the greatest problems in a transition to a market economy. Data summarized previously indicate that the Russians are less enthusiastic about market reforms and 'have a more socialist interpretation of democracy'[9] than does the native population. Hence, the political context of the economic transition in the independent Baltic states could produce intense and non-institutional conflicts.

Institutions

This brings us to the long-term institutional dimension of transition in the

Baltic states. Are there any signs of a developing democratic political culture and diffuse support for the institutions of democracy? As proved by the prewar experiences, democratic institutions in the independent Baltic states were fragile and not able to cope with the intense social conflicts of the time (Rauch 1970). Under the present conditions there obviously also exists a danger that the Baltic states might slip back into some new version of authoritarianism. The cost associated with the economic transition can play a crucial role here. The most serious feature of the transition to market conditions is, as described by Dahrendorf (1990) that it 'requires a period of deferred gratification'. The question is why people should put up with this. As noted previously, strong reactions to the distributional consequences of the market economy indicate a potential incompatibility between economic transition and democratic institutions. And in Estonia, for example, price adjustments have been smaller and wage compensations higher than in the neighboring and democratically less developed Soviet republics (Kuddo 1990).

In the transition to market economy in Western Europe people were persuaded to defer consumption through the Calvinist ethic of predestination and the Lutheran ethic of duty and vocation. In the Baltic states no such ideology of deferrence exists. On the contrary, there seems to exist mounting expectation of immediate and tangible benefits from the transition. If this social resistance should lead to a perpetuation of the old economic and administrative apparatus, the republics could be locked into the vicious circle outlined in Figure 1. The local conservative elites could in this case use their strongholds in the administrative apparatus to cultivate popular sentiments and maintain their political and administrative power, as was their intention in the attempted coup in August 1991. Whether this scenario actually will come true also depends on political factors: to what extent democratic values have actually become an ingrained part of the political culture, to what extent the political system has been pluralized, and to what extent the population has been mobilized behind the new regimes.[10] In his pioneering work on multipartism in the Baltic states, Jan Dellenbrant (1991, 29) concludes that 'the Baltic states now have moved far from the earlier authoritarian rule', that the single ideology systems 'have been replaced by societies where different political ideas exist', that a 'multi-party system' has developed and 'political participation has increased'. Dellenbrant is right in stating that the existing systems have moved far in the direction towards democracy. It would, however, be premature to conclude that democracy has been consolidated and that a return to previous patterns has been excluded.

As for mass ideology or prevailing political culture, available data indicate strong support behind democratic institutions and procedures (Klingermann 1991; Miller et al. 1991). Yet, it is too early to tell to what extent

this support for democracy is more than a negative reaction to the previous system and an identification of democracy with the welfare of Western pluralist systems. Further research is definitely needed on this point.

With respect to pluralism, the constitutional preconditions for political pluralism would appear to have been established as a growing number of parties have appeared. Yet most of those parties have a very limited (if any) social base. This is reflected in the degree of political identification with parties in the population. Here again, however, available data reveal significant differences between the republics. Polls conducted in Estonia show that all but 21 percent were able to identify with a party in early 1991 (40 percent of the non-Estonians) (Heidmets 1991). In Lithuania, by comparison, in a poll conducted in December 1990, only 49 percent were able to identify with a party (*Lietuvos Aidas* 1991a).[11] In a comparative analysis of political developments in Eastern Europe, Wesolowski (1991) concludes that a danger of a new form of authoritarian rule exists if a political movement predominates over political parties. In this perspective it is hardly an accident that there has been some talk of the political dictatorship by Sajudis in Lithuania (Reiljan, undated).

Dellenbrant (1991) has argued that the democratic transition in the Baltic states is sustained by the high level of mobilization of citizens, manifested in the high turn-out at recent elections and referenda. Other surveys also show a high level of political activism on other dimensions (Miller et al. 1991). Yet recent reports also tell about a certain fatigue in large parts of the populations, which is also apparent in, for example, the falling support for Sajudis in Lithuania.

Conclusions

The purpose of this article has been to examine the relationship between economic and political reforms in post-socialist transitional systems using the now independent Baltic states as empirical cases. The point of depature was the comprehensiveness of transitional processes in post-socialist systems. It was claimed that the economic transition is critical in the short-term perspective and that the main barriers against the transition to market conditions are political. From this perspective a reform strategy should be non-self-obstructive, in the sense that the economic transition should be compatible with democratic institutions. In the long-term perspective structural changes become essential, inasmuch as they should produce new groups with a vested interest in the new social and political order, and with new social and political values underpinning this order. Should this occur, it may be argued that political and economic transition will achieve irreversibility.

In the case of the recently independent Baltic states the critical economic transition is still in a very early stage. The laws adopted on economic reform remain mainly on paper, and symbolize only the consensus reached so far among political elites. And the broad popular support is limited to the general concept of a market economy, whereas strong reservations can be observed against the ensuing distributional consequences of these reforms, an opposition which is even stronger in the case of the Russian minorities.

This picture alludes to some of the dangers which might jeopardize the future of transition in the Baltic states. The egalitarian values in the broad population can halt attempts to implement any economic reforms with substantial distributional consequences. And if such reforms are pushed through by zealous elites it could be at the expense of democracy, if democratic elites turn undemocratic to implement what they see as critical reforms or if popular discontent is exploited by populist movements. A different, and perhaps even more serious danger to the transition, however, could come from the Russian minorities in the Baltic states. If the new laws on citizenship should deprive a substantial number of this group of their political and economic rights, internal political turmoil could even produce a new threat to the independence of the Baltic states were Russia to assert its guarantees to the Russian minorities abroad.

NOTES

1. The percentage of the indigenous population has been decreasing since the Soviet occupation (Schlau 1990).
2. In this section the political visions of the economic future within the Baltic states as expressed in party programs and in public opinion polls are examined. In both cases legitimate criticism can be raised against the type of source material which has been used. Are party programs really valid expressions of elite perceptions? And is the concept of public opinion as we use it in Western societies valid for post-socialist societies, where civil society just recently was linked to the sphere of policy-making (Obsjahikov 1991; *Socialism* 1991). These are legitimate methodological questions which have to be dealt with. However, on the present stage of research it seems legitimate to use the kind of insight provided by written programs and data on public opinion, at least as a basis for developing hypotheses which may guide future research.
3. To take into account the attitudes of all of these parties is out of the question here. For present purposes it will suffice to consider attitudes toward the economic policies of a few of the most significant parties in each republic. The economic parts of the following programs have been examined: Lithuanian Economic Reform, Undated; Lithuanian Economic Reform. Draft principles, undated print; The Democratic Labour Party of Lithuania 1991. *Programme*. Vilnius; Programma Narodnogo Fronta Latvii. Baltiskoe Vremja, 8 January 1991; *Latvias Demokratiska Darba Partija* 1990. 'II. Effectiva ekonomika – realu socialo garantiju pamats'. Riga; *Litva Sovetskaja*, 1 April 1991. 'Zajavlenie Agrarnoj kommissii central'nogo komiteta litvy ot 20 marta 1991 godu'; *Dekleracija Internacional'nogo Fronta Trudjashchikhsja Latvijskoj SSR* (Prinjata na I s'ezde, izmenenija i dopolnenija vneseny na II i III s'ezdakh Internacional'nogo Fronta Trudjashchikhsja Latvijskoj SSR); Liberal'naja Partija Latvia Osnovana 1990 Godu; *Konseptsia IME 1989*; *Molodezh Estonii*, 8 January 1991. 'Rezoljucija konferencija Kommunisticheskoj Partij Estonij'; The Estonian Social Democratic

Party 1990. *Programme*. Tallin. 'Gumamizm, demokratija, ravnopravie, Trud. Programma dejstvij mezhregional'nogo Soveta narodnykh deputatov i delegatov trudjashchikhsja Estonii na perekhodnyj period'. *Molodezh Estonii*, 27 November 1990.

4. This lack of knowledge about the basic features of a market economy proves the caution with which all data related to public attitudes towards privatization and marketization must be treated.
5. The survey covered 600 respondents (51 percent Latvians and 21 percent Russians) and took place on 23–25 December 1990.
6. *Zakon Latvijskoj Respubliki o Predprinimatel'skoj dejatel'nosti*, Vedemosti Verchovnogo Soveta i Pravitel'stva Latvijskoj Respubliki (VVSPLR), 1990, 42, 18 October; *Zakon Latvijskoj Respubliki o Zemel'noj Reforme v sel'skoj mestnosti Latvijskoj Respubliki*, VVSPLR, 1990, 49, 6 December; *Zakon Litovskoj Respubliki o pervichnoj privatizacii gosudarstvennogo imushchestva*, published in *Echo Litvy*, 30 March 1990. *Postanovlenie Verchovnogo Soveta Estonskoj Respubliki o Zemel'noj reforme*. Vedemosti Verchovnoga Soveta Estonskoj Respubliki (VVSER), 2–34, 28 June 1990; *Zakon Estonskoj Respubliki o privatizacii gosudarstvennykh predprijatij bytovogo obsluzhivanija i obshchestvennogo pitanija*, VVSER, 13 December 1990; *Postanovlenie pravitel'stva Estonskoj Respubliki o perevode prinadlezhashchikh predprijatij na novye organizacionnye formy*. Vedemosti Verkhovnogo Soveta Estonskoj Respubliki, 2–21, 29 December, 1990.
7. Data posted in Balt-L, 13 February 1991, 5 and 6 March 1991.
8. Posted in BALT-L, 1 November 1991.
9. This is one of the conclusions in a survey in Latvia conducted by The Public Opinion Research Centre in Latvia and Baltic Connections 1990.
10. I am using here the same typology as Dellenbrant (1991), previously developed by Linz (1975) and Nørgaard (1989).
11. Party identification was as follows. Estonia: (respondent's closest political identification, non-Estonian percentage in parentheses) Social Democrat 28 percent (27 percent), Green 19 (8), Liberals 15 (4), Christian Democrat 12 (8), Conservative 4 (1), Communist 1 (1). Lithuania (What political forces do you support?): none 51 percent; Sajudis 16 percent; Social Democrats 7 percent; The Democratic Labour Party 6 percent; The Independence Party 4 percent, CPSU 2 percent; 'Unity' 2 percent.

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