

## Economics - Lithuania

Čekanavičius, Linas

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*Linus Čekanavičius*

## **Economics – Lithuania**

*Discussant: Alf Vanags*

### **1. Analysis of the pre-1989 situation**

There is little to be said about Lithuanian pre-war economists' input to the world's history of economic thought. Even the keenest researcher would hardly be able to track down any names of Lithuanian economists, let alone schools of economic thought originating in Lithuania and mentioned in some world encyclopaedia or reference book on "who is who in pre-war world economics". Pre-war Lithuania was a provincial part of Europe, in the eyes of the mainstream of world economics development. This comes as no surprise if one considers that Lithuania regained independence in 1918 after some 120 years of annexation by the Russian Empire, marked by the forced closure of Vilnius University, then the only university in Lithuania, and the official prohibition of Lithuanian script for about 40 years. Thus, studies of economics in Lithuania in the 1920s had to start virtually from scratch; there was a marked absence of Lithuanian terminology and textbooks on the subject, as well as of training of economists at the university level. (Vytautas Magnus University in Kaunas did not launch studies of economics until 1924). Nevertheless, Lithuania had its own prominent economists (even if their prominence was merely local) who managed to establish their schools of disciples and to pave the way for what can be called pre-war Lithuanian traditions in economics. The most visible names were Vladas Jurgutis (finance), Albinas Rimka (statistics), and Domas Cesevičius (macroeconomics). Their ideas were greatly influenced by German economic thought – probably because they were the product of German universities. For instance, Jurgutis studied economics in Munich in 1910 and became the follower of Luji Brentano and the German historical school. Rimka was a pupil of the German statistician Georg Mayer from 1923-1924, and Cesevičius studied in Germany from 1928-1934. But in the later years of the pre-war period, this dominance of the German school in Lithuanian economic thought was diluted by Anglo-American ideas, brought to the country by some Lithuanian economists who obtained their education at American universities or went to the London School of Economics (LSE). Dzidas Budrys, who studied at LSE and was influenced by the ideas of Irving Fischer, and Feliksas Kemėžis, who graduated in U.S. and adhered to the school of institutionalism, deserve mention.

Jurgutis, Rimka, Cesevičius, and their followers performed a crucial task in bringing modern economic ideas to Lithuanian academia and practice (e.g. they took the leading role in establishing the system of finances, statistics, and monetary policy in the newly independent Lithuania in the mid-1920s and early 1930s), as well as "Lithuanizing" economic terms and concepts. They also initiated the first Lithuanian economic journals – *Tautos ūkis* (National Economy), published from 1930-1940, and *Ekonomika* (Economics), published from 1935-1940. While the bulk of the work done was educational and applied, rather than theoretically innovative, the growing numbers of studies in finances and statistics were probably approaching the "critical mass" to spill over the borders of merely national impact.

However, these developments ceased with World War II and the subsequent Soviet occupation. The latter forced radical changes in the paradigms: Marxism-Leninism became the sole legal way of doing economics in Lithuania. There was virtually no continuation of the pre-war traditions *sensu stricto* – they were publicly labeled "bourgeois science" and referred to mostly in various "critiques". However, it is interesting that these "critiques of economics in the bourgeois period" were sometimes used as an excuse to revive and describe the traditions of pre-war

Lithuanian economic thought, and this “shadow promotion” grew in strength toward the end of Soviet rule.

During the whole Soviet period, the straitjacket of Marxism-Leninism severely constrained the development of Lithuanian economic thought. It is no overstatement that this “general line” ideology was *omnipresent*, in that all economists had to pay some tribute to Karl Marx, Friedrich Engels, or Vladimir Lenin, plus – quite often – to the latest documents of the Communist Party or its leaders’ speeches. However, this compulsory reflection did not actually mean *uniformity* in incorporating Marxism-Leninism in economic writings. One can distinguish at least three different levels of presence of Marxism-Leninism in Lithuanian economic thought of the Soviet period:

1. The dogmatic trend. The characteristic feature of this direction was its explicit treatment of the writings of Marx, Engels and Lenin as a kind of “Holy Scripture” of economics against which all theoretical ideas and practical steps had to be checked and verified for compatibility. Dogmatic writings and discussions on “what (Marx or Engels or Lenin) said and what he meant” are a subdivision of this direction. Obviously, most of the ideological constraints of Marxism-Leninism on economics were formed and established within this trend, making it the most counterproductive. However, there is a “silver lining” even in this darkest cloud: in order to scourge and tear apart “modern bourgeois economic theories” as deviating from the path prescribed by Marxism-Leninism, ideology-driven critics were compelled to reveal what those theories are about – and this provided the rare opportunity for the curious to learn “what’s cooking” in Western economic thought.
2. *Constraints* on the science of economics – which manifested themselves both in the necessity to carefully avoid violating basic taboos of Marxism-Leninism (e.g. private enterprise, capital, market pricing, etc.) and in the specifics of the economic terminology used (e.g. the marked absence of the concepts of opportunity costs, consumer surplus, and the like). These Procrustean constraints seriously impeded the development of economic thought and its chances to keep pace with the advance of economics elsewhere in the world.
3. *Lip service* paid to Marxism-Leninism and to Party documents. It was almost a must to pay tribute to the official ideology in one’s publications on economics, whether book, dissertation, or article, but in principle it was possible to get away with just a brief reference to Marx, Engels, or Lenin in, for instance, a foreword or introductory remarks. This reference could take the form of some obscure but relevant quotation from the “Holy Scriptures” of these “classics of Marxism-Leninism” – and if none was readily available, then even the general statement that they “deemed the following problem an important one” would usually do.

These ideological constraints were complemented by the jealous protection of the “purity” of Soviet economic thought against the “spoiling” influence of Western theories. In practice, this resulted in what could be called “compound” economics, one mainly “stewing in its own juices”. The following seriously inhibited the impact of Western theories on Lithuanian economics:

- *Lack of access to Western economic publications.* Only a very limited number of Western economic journals (e.g. *Econometrica*, *Operations Research*, *Quarterly Journal of Economics*, and some individual volumes of other periodicals) were available in Lithuanian libraries, and recently published Western economics books were even rarer. If a Lithuanian economist was keen to keep in touch with Western developments in his profession, he had to visit Moscow libraries, e.g. the library of INION (the Russian abbreviation for the Institute of Scientific Research of Social Sciences). However, access to the stocks of these libraries was restricted; one had to obtain permission to use them. In the last decade of the Soviet regime, the highest-ranking Lithuanian economists were able to order copies of selected papers and articles from the Western journals to be mailed to the aforementioned Institute.
- *Lack of interest in Western theories.* The two key prerequisites for a successful career as an economist in the Soviet Union were official adherence to the “mainstream” doctrines and the applied analysis of the Soviet economy. Since Western theories were hardly compatible with the first and hardly relevant to the second, many Lithuanian economists clearly lacked

incentives to keep in touch with developments in Western economics. This shortage of incentives was amplified by the fact that, during the Soviet period, Lithuanian economists did not have to compete with Western colleagues to earn recognition – all the competition took place this side of the iron curtain. Therefore, one had no reason to feel inferior as an economist if one was ignorant of the advances of Western economic thought. Furthermore, even the inside publications required an official “act of expertise” stating that they did not reveal any secrets that “could be harmful to the interests of the Soviet Union”. This and the predictable difficulties of getting your paper published beyond the iron curtain acted as a strong disincentive against entering the world market in economic ideas.

- *Lack of ability to follow the developments of Western economics.* The lack of both possibilities and incentives to keep in touch with Western theories was exacerbated by (and partly led to) many Lithuanian economists’ manifest lack of ability to acquaint themselves with Western economic ideas. There were three main reasons for this. First, since the primary language of science in the Soviet Union was Russian, learning other foreign languages was neglected. This resulted in a severe lack of ability to operate in the English language – which is by default the “*lingua franca*” of contemporary economics – thus rendering even those scarce Western publications available in Lithuanian libraries useless to many local economists. Second, since most local economists who received their education in the Soviet period were raised in a “descriptive/instructive” and emphatically non-mathematical tradition, they found it very difficult to understand Western economic articles, most of which included a fair amount of mathematics. Third, as mentioned above, Soviet-type economics had its own vocabulary that differed from that of the West. This was yet another obstacle for the Lithuanian economist trying to grasp the content of Western economic publications.

However, these impediments do not mean that the impact of Western theories on Lithuanian economics before 1989 was absolutely insignificant or, indeed, nonexistent. First, the iron curtain in economics was never completely impenetrable; some books and articles by Western economists were occasionally translated into Russian and published, for example under the label of “foreign economic thought”. Second, the aforementioned “critiques of contemporary bourgeois economic thought” also shed some light on what was going on in Western economics, and a skilled reader could easily separate the wheat from the chaff. Third, many Western ideas found their way into Lithuanian economic science via mathematical economics, which was considered ideologically relatively harmless. The reason for such treatment was probably twofold: first, mathematical economics had an established tradition in Soviet economics, developed by quite a few prominent Soviet economists (e.g. Leonid Kantorovich, Viktor Novozhilov, Vasily Nemchinov, Nikolai Petrakov); second, mathematical models and quantitative analysis veiled Western economic ideas’ ideological contradiction of official Soviet doctrines.

Still, in the Soviet period, mainstream Lithuanian economics was mostly out of direct touch with Western academic thought; closer contact was sporadic and mostly restricted to the somewhat marginal branch of mathematical economics. This is reflected both in the system of education in economics and in research publications.

*The education* of economists in the Soviet period rested on the two core courses of Political Economy: one course on the capitalist mode of production, another on the socialist (i.e., command-and-control) economic system. Both were basic indoctrination in Marxism-Leninism, establishing invisible but inviolable ideological fences<sup>1</sup>. Many other economic disciplines were descriptive and even instructional, lacking firmer theoretical backbone. The education of economists was based on the needs of the existing command-and-control system of economy, emphasizing mainly *what* (e.g. what sets of indicators are to be used in the planning of a specific sector) and *how* (e.g. how are they to be constructed and approved), rather than *why*. Analysis of the existing system was shallow as well – probably because going deeper could uproot the shaky theoretical foundations of the official doctrines. Economists’ training was too specialized. For instance, in the period of 1969-1991, there were no less than three faculties of economics (the

Faculty of Economic Cybernetics and Finance, the Faculty of Trade, and the Faculty of Industrial Planning) at Vilnius University, which taken together had about a dozen separate study programs. While this mostly instruction-oriented approach was consistent with the demands of the existing system and admittedly sometimes provided students with professional skills that were universal regardless of ideology (e.g. accounting), this lack of analytical orientation in training the economic cadre was reflected in the quality of scientific research.

The situation would have been even worse if not for the school of mathematical economics, which had materialized in education as Economic Cybernetics, its Eastern European alias. While many of the universally compulsory, ideologically colored subjects were inevitably present also in the Economic Cybernetics study program, the “umbrella” of mathematical modeling gave much broader opportunities to acquaint students with Western economic thought. Sometimes this required disguising the original subjects by giving them a different name, e.g. Theory of Growth was taught at Vilnius University under the title “Modeling Economic Dynamics”.

*Research* publications of the Soviet period accurately reflect the state of university education. Even a perfunctory glance at the lists of publications of Lithuanian economists in that period (Laškovas, 1981; Laškovas, 1986) reveals that the great majority were either descriptive or of a “down-to-earth” practical nature. Along with entirely scholastic works on “how to understand Marx and/or Lenin”, studies of a historical experience or descriptions of practice in some particular field proliferated. Many publications were devoted to the descriptive analysis of some industry or enterprise – to be followed by some feebly argued advice on “how to improve” that practice. Descriptive or comparative statistics were often employed, but many of the publications clearly lacked any deeper causal (let alone quantitative) analysis.

Browsing through the lists of publications of Lithuanian economists in the Soviet period easily provides evidence of the aforementioned thesis of “stewing in its own juices”: perhaps only one percent of all publications were published in Western journals or collections of papers. Characteristically, the great majority of these publications outside the borders of the “ideological compound” belong to the school of mathematical economics. This calls for closer attention to this subset of Lithuanian economists.

As indicated by its very name, mathematical economics comprises both mathematics and economics, i.e., it applies mathematical methods to model economic systems. Two separate schools of mathematical economics emerged in Lithuania, their accents on mathematics or on its economic applications respectively.

One of them, led by Eduardas Vilkas (a mathematician by background), was mainly concerned with developing mathematical modeling *methodology* and analysis techniques suitable for economics. Vilkas and his school produced some important and internationally recognized works in the fields of game theory and general equilibrium.

Another Lithuanian school of mathematical economics, led by Raimundas Rayatskas, has produced some worthy results in the methodology of mathematical modeling (e.g. on how to overcome the switching problem in macroeconomic optimization), but has been mostly concerned with the *application* of known mathematical methods and models to the solution of economic problems. This school widely employed input-output analysis techniques, econometrics, and various optimization models to model the economy on the national, regional, and enterprise levels.

Many prominent economists in both of these schools were actually graduates in mathematics rather than economics. Taking into account that these two schools produced the majority of publications that found their way to Western economic journals, the aforementioned “peculiarity” of their background is eloquent testimony to the general level of education of economists in Soviet-period Lithuania.

Three institutions played leading roles in Lithuanian economics in the Soviet period:

- The Institute of Economics of the Lithuanian Academy of Sciences (Lietuvos Mokslų akademijos Ekonomikos institutas).

- the Institute of Economic Planning and Research (Liaudies ūkio planavimo ir ekonomikos mokslinio tyrimo institutas, LŪPEMTI) of the State Planning Committee of Lithuania. This institute served as a think tank to the State Planning Committee and at the same time was a stronghold of the aforementioned Rayatskas school of mathematical economists. This lucky combination meant that a substantial share of their applied research had an actual influence on the analysis and formation of economic policy in Lithuania,
- Vilnius University (Vilniaus universitetas) – at that time, the only institute of higher education in Lithuania where “pure” economists were trained,
- a fair share of economic publications is to be credited to the Vilnius Institute of Engineering and Building (Vilniaus inžinierinis statybos institutas), the Research Institute of Agriculture (Žemės ūkio mokslinių tyrimų institutas), the Lithuanian Academy of Agriculture (Lietuvos žemės ūkio akademija), and others.

The principal outlets for economics publications in Lithuania were:

- *Ekonomika* (Economics), a journal published jointly by the institutions of higher education,
- *Modelirovanije ekonomicheskych system* (Modeling of Economic Systems) – a collection of papers, regularly published in Russian by the Lithuanian Institute of the Economic Planning and Research.

These regular local outlets were supplemented by numerous occasionally published collections of papers at various academic institutions. Popular or propagandistic publications on economic issues were welcome in the monthly Lithuanian magazine *Liaudies ūkis* (People’s Economy).

More ambitious Lithuanian economists sought ways to get published on the “all-Union” level, which was considered more prestigious and more likely to put one in the limelight. Papers by Lithuanian economists used to appear in such journals as *Voprosy ekonomik* (Questions of Economics), *Izvestija AN SSSR* (News of the Academic of Sciences of the USSR), and *Ekonomika i matematicheskyje metody* (Economics and Mathematical Methods). The latter bimonthly journal in particular was considered prestigious, at least among mathematical economists. Its status was exemplified by the fact that some of its publications were selected by Western research institutions for publication in English (in *Matekon*, a journal of translations of Russian and Eastern European mathematical economics published in New York) or in German (in *Zentralblatt für Mathematik*, published in West Berlin).

Another notable feature of the time was the “reiterative reproduction” of publication in slightly modified versions (either in Russian or Lithuanian) in various journals, collections of papers, or – an especially popular method – collections of conference theses. What counted (and, actually, still does) for one’s academic career was mainly the *number* of publications – and the result was huge numbers and volumes of “science” produced each year. The overwhelming majority (it is safe to say at least 96%) of it was “indigenous publications” published within the Soviet Union, some of the rest in the COMECON countries, and probably just about one percent in Western journals and collections of papers.

## 2. Redefinition of the discipline since 1990

The crumbling of the Soviet system and regained independence brought radical changes to both the paradigms and the environment of economic thought. The disappearance of ideological constraints was welcome, and many Lithuanian economists hastened to disavow their allegiance to Marxism<sup>2</sup>, but it was quite a different issue to decide exactly *what* economic paradigm to adhere to now.

This uncertainty was quite understandable: most Lithuanian economists had only a vague idea of the paradigms dominating in Western economics. Furthermore, being raised on Soviet-style “political economy”, they usually had no prior knowledge of the fundamentals of Western economics: microeconomics and macroeconomics.

From the very beginning of the change of paradigms, one of the visible trends in post-Soviet Lithuanian economics was ultra-liberalism in the style of Friedrich Hayek and Ludwig von Mises, or rather liberal rhetoric. This complete negation of any positive role of the state in the market economy accompanied the first wave of vigorous development of private business in Lithuania. While later business practice and libertarian economic ideas both settled down, the legacy of this ultra-liberal thinking is still a distinct subdivision in Lithuanian economics.

However, these gaps gradually started to fill in. The universities abolished the teaching of “political economy”, which was initially substituted by somewhat hazily defined courses like “Basics of Economic Theory” (generally in the tradition of Paul Samuelson’s textbook of the 1970s), later to be transformed into two separate courses: Microeconomics and Macroeconomics. Selected Western books on the latter subjects were translated into Lithuanian. In the light of the limited or nonexistent ability of many Lithuanian academics to read English texts, the importance of these translations for the change in economic mentality in Lithuania cannot be overestimated. With the fall of the iron curtain, many possibilities for contacts, academic exchanges, and cooperation with the international research community opened up and rapidly multiplied. Various Western assistance programs contributed to this, *inter alia*: EC, PHARE, and TEMPUS programs, the Soros Foundation (Open Society Fund – Lithuania), the Civic Education Project, the long-term pan-Baltic EuroFaculty project, the Baltic Economic Management Training Project (financed by CIDA – Canadian International Development Agency), and others.

Thanks to these programs, many Lithuanian economists of various ages and research interests – those who spoke English, German, or French – were able to go to Western universities and research centers and to acquaint themselves *in situ* with the developments of Western economic thought. A number of younger researchers got the chance to enter and complete Masters or PhD courses in economics or business administration in American or European universities.

One of the most visible changes in the structure of the economic sciences in Lithuania during the last decade has been the formation of a distinct business administration and management trend that soon set itself apart from economics *sensu stricto*. The huge demand for entrepreneurs and economists that arose in the transition period caused the mushrooming of study programs in Business Administration and Economics at Lithuanian universities. By now, virtually every institution of higher education in Lithuania offers some program in Business Administration, and a number of them have also established programs of studies in Economics up to the Masters or even PhD level. In many cases, the curriculum design and establishment of these study programs were direct outputs of Western assistance via the projects mentioned above (e.g. TEMPUS).

These developments were accompanied by the gradual Westernization of the core curricula of studies offered in both Economics and Business Administration. The titles of many subjects offered in these study programs match those taught at Western universities. Sadly enough, these reforms swept away the program of studies in mathematical economics (the same one that had to be titled “economic cybernetics” under the Soviets). Paradoxically, this happened when the importance of mathematics for economics had dawned on many local economists (one didn’t have to go far in reading any Western economic journal to encounter at least *some* mathematics, e.g. first-order derivatives). The reason given for abolishing mathematical economics as a separate study program was quite plausible: from now on *all* economics had to be mathematized to the respectively appropriate degree. Unfortunately, that never happened, because many local teachers were unable to do mathematics.

However, these positive reforms were neither as deep nor as comprehensive as one would wish. In many cases, changes in the study programs were of a cosmetic nature, Western titles masking the low-quality contents of the course. The “new” economics is still done, but the new programs of economic studies are still served mostly by the same old staff. It is a sad truth that, in post-Soviet Lithuanian faculties and other academic institutions, formal academic titles and seniority are often regarded as superior to scholarly achievement. Thus the change of elites in economics was insignificant, since the old-timers firmly held their privileged positions by virtue of

degrees and titles secured in the past<sup>3</sup>, while the emerging new generation of economists (often educated in the West), faced with too thorny a path in academia and too succulent career temptations outside it, did not particularly aspire to overtake them.

On the other hand, faculties of academic institutions themselves suffered many painful losses of bright minds both to the government and to the private business sector. This internal brain drain was caused by new, previously unknown career opportunities in politics, the diplomatic corps, or business and was strongly stimulated by the obvious disparity of salaries between these sectors and academia. The clear insufficiency of academic salaries to provide a decent living forced many faculty members who still remained in academia to have second and sometimes even third full-time jobs elsewhere. These demanding occupations effectively deprive many university teachers and researchers of both time and verve to keep up with developments in their field of economics, let alone to carry out intensive research or expand their knowledge into entirely new fields. Thus, many of them became a kind of hangers-on who rush into their classes, deliver outdated material to the students, occasionally write some shallow paper, and collect their meager pay (which many regard as merely a job security payment).

This does not mean that economics in Lithuania is completely stagnating and no changes whatsoever took place in the elite ranks of Lithuanian economists. Luckily, Lithuania had its share of talented and ambitious young economists, some of them with MA, M.S.C., or PhD degrees obtained at Western universities, who not only opted to return to Lithuania but also decided to make their way in the world of Lithuanian economics. Some of them joined local universities, and others managed to find relatively well-paid jobs as analysts in local think tanks (some of the latter are referred to below).

Political and economic changes and new winds in the economic paradigms brought about new institutional structures as well. Departments of economics or business administration were established at nearly every Lithuanian university. The Lithuanian Institute of Economic Planning and Research was disbanded, together with its mother institution, the State Planning Committee. A new research institution was created in its place – the Institute of Economics and Privatization (which was closed in 2000).

The following institutions in Lithuania offer university degrees in economics and/or business administration:

- the Faculty of Economics (Ekonomikos fakultetas), Vilnius University, Vilnius,
- the International Business School (Tarptautinio verslo mokykla), Vilnius University, Vilnius,
- the Faculty of Business Management, Vilnius Gediminas Technical University (Vilniaus Gedimino technikos universiteto Verslo vadybos fakultetas), Vilnius,
- the Faculty of Economics and Management, Vytautas Magnus University (Vytauto Didžiojo universiteto Ekonomikos ir vadybos fakultetas), Kaunas,
- the Faculty of Social Sciences, Kaunas University of Technology (Kauno technologijos universiteto Socialinių mokslų fakultetas), Kaunas,
- the Faculty of Economics and Management, Kaunas University of Technology (Kauno technologijos universiteto Ekonomikos ir administravimo fakultetas), Kaunas,
- the International School of Management, Kaunas (established jointly with the Norwegian School of Management, Oslo),
- the Kaunas Faculty of Humanities of Vilnius University (Vilniaus universiteto Kauno humanitarinis fakultetas), Kaunas,
- the Faculty of Social Sciences, Klaipėda University (Klaipėdos universiteto Socialinių mokslų fakultetas), Klaipėda,
- the Faculty of Social Sciences, University of Šiauliai (Šiaulių universiteto Socialinių mokslų fakultetas), Šiauliai.

Outside the universities, the following institutions are actively involved in economic research:

- the Institute of Economics (Ekonomikos institutas), located in Vilnius,



- the Lithuanian Institute of Agrarian Economics (Lietuvos žemės ūkio ekonomikos institutas), Vilnius,
- the Monetary Policy Department of the Bank of Lithuania (Lietuvos banko Pinigų politikos departamentas), especially its divisions of macroeconomics and forecasting, statistics, and the analysis of money. The ambitious and well-educated leaders of this analytic think tank have managed to assemble what is probably the most qualified and productive team of economic researchers in Lithuania. The main bulk of their research concentrates on compatible general equilibrium (CGE) modeling and econometric analysis of macroeconomic processes,
- the Lithuanian Department of Statistics (Lietuvos statistikos departamentas) – Statistics Lithuania,
- the Economic Research Team of Vilnius Bank (Vilniaus banko analitikų grupė), which regularly produces the excellent analytical survey of the Lithuanian macroeconomic situation and trends,
- the Lithuanian Banking, Insurance and Finance Institute (Lietuvos bankininkystės, draudimo ir finansų institutas), Vilnius,
- the Lithuanian Institute of the Free Market Economy (Lietuvos laisvosios rinkos institutas), a private nonprofit institution with a strictly liberal style of economic thinking.

There are also a number of private consulting firms that conduct-contracted studies of economic development and various issues related to economic policy. The Economic Research Center (Ekonominių tyrimų centras) can be considered their progenitor.

### 3. Core theoretical and methodological orientations

The restoration of independent statehood in the 1990s inspired an upsurge of interest in pre-war traditions of economic thought, which had been deemed politically incorrect under the Soviet regime. Despite enthusiastic calls from some Lithuanian economists to follow in the footsteps of prominent pre-war Lithuanian economists like Jurgutis, Rimka, Cesevičius, and others, the revival of pre-war traditions never took place. There were several reasons for this. First, as stated above, Lithuanian pre-war economists could hardly claim to have established their own schools of thought. Most of their academic work was the training of the first generations of Lithuanian economists, and they also took a leading role in building up the economic system of the newly emerged state of Lithuania. While there were some similarities between regaining independence at the beginning of the 20th century and at the end of it, nevertheless these situations were too different to justify copying and applying the recipes of the pre-war economists in modern Lithuania. Second, world economics has advanced tremendously as a science in the 50 years that elapsed since the Soviets forcibly arrested the traditions developing in the profession in Lithuania, and it would have been irrational to take up the thread of Lithuanian pre-war economists as if time had stood still. Thus, the revival of pre-war traditions is basically confined to reflections on the historical developments of economic thought in Lithuania.

East-West asymmetries are still clearly visible in several areas. First, the level of schooling of economists at Lithuanian universities is still below international academic standards. Second, freedom of academic thought did not bring an immediate jump in the quality of economic research.

The main obstacle to more rapid and positive changes in the quality of economics research in Lithuania is the lack of knowledge of the fundamental subjects of Western economics: microeconomics, macroeconomics, and at least basic econometrics. Furthermore, browsing economic publications of the last few years rouses a strong suspicion that economics is still not understood as an empirical social science that requires formulation and empirical testing of hypotheses, rather than engagement in abstract or descriptive talks about the object of study. This apparently widespread misconception of economics is mainly responsible for the obvious fact that, despite a decade of open access to Western academic outlets, very few papers by Lithuanian

economists have made their way to acknowledged Western journals (see Table 1 and the selected bibliography). And of those that did, the majority were authored by the faculty of mathematics and statistics, rather than by academics working in departments of economics or social sciences.

The following factors contribute to the persistence of this *status quo* in Lithuanian economics:

- Woefully inadequate remuneration for academic work forces academic economists to look for an additional job as a source of supplementary income and effectively discourages promising potential researchers from joining academia.
- Academic reform is slow because faculties are reluctant to adopt major changes that might affect their vested interests.
- Poor library facilities lack access to the world's databases on economics, recently published books, and subscriptions to the major economic journals.
- The majority of Lithuanian economists lack quantitative analysis skills and a considerable number lack English language skills.

So it is no wonder that, in official annual reports on scientific achievements, faculties of economics and business administration (and, indeed, faculties of social sciences in general) take particular pride in textbooks and monographs<sup>4</sup> published in Lithuanian<sup>5</sup>. While the majority of these books are far from being the product of first-rate research work, they should nevertheless be regarded with approval – as a kind of bricks in the pavement on which the new generation of Lithuanian economists will walk. The numerous local textbooks for various fields of economics are complemented by translations of internationally acclaimed works, such as Hal Varian's text on intermediate microeconomics (translated and published in 1999).

The bulk of publications on economics in local scientific journals are of the *survey type* – expounding some particular problem, defining the tasks that must be performed for its solution and, (sometimes) describing methods that could be used for the latter purpose. Such publications are easily recognized by their titles, which contain such keywords as “role of...”, “problems of...”, “methods of...”, “review of...”, and the like. If statistics is part of such papers, it is generally used for illustrative or comparative purposes as evidence of “what” and “how”, and attempts at deeper quantitative analysis are extremely rare<sup>6</sup>.

This does not mean that no economics research meeting Western standards is done in Lithuania. A certain number of works published in the local scientific journals (e.g. *Ekonomika, Pinigų studijos* (Monetary studies) or in the outlets of the Lithuanian Department of Statistics fully conform to the core requirement of contemporary economic research, i.e., the formulation and empirical testing of hypotheses. Many of these publications employ econometrics or other methods of quantitative analysis and modeling.

#### 4. Thematic orientation and funding

The list of topics that are researched by academic institutions is quite broad, ranging from research on historical developments in economic science in Lithuania to the application of up-to-date IT methods in business. Naturally enough, various aspects of the transition process, mostly in the context of Lithuania's experience, are major objects of study, as can be easily deduced from the titles of the main research areas given in the annual reports of the universities, e.g.: “The Lithuanian Road to the Market Economy”, “Lithuanian Economic Policy in the Process of Integration in the European Economic System”, “Social and Economic Problems of Lithuania”, “Economic Problems of Lithuania's Integration in the EU”, “Socio-Economic Consequences of Lithuanian Integration in the EU”, “Supply-Side Strategy for Productivity, Competitiveness, and Convergence Between the CEECs and the EU”, “The Impact of Lithuanian Integration in the EU: analysis of five industrial sectors”, and the like. Most of the research carried out in the framework of these rather broad topics is descriptive, trend-revealing (based on the available statistics), or comparative (Lithuanian experience versus that of other countries).

Other research themes include management improvement problems, the state's role in the economy, the development of the Lithuanian finance system, marketing theory and practice, econometric modeling of stock exchange markets in the Baltics, the economics of social security, environmental economics and policy, the strategy and tactics of enterprises, and regional economics and policy, to name but a few. The diversity of research is evidenced by the fact that many of the books containing original research results now published in Lithuania, as well as journals on economic issues, tend to be eclectic collections of papers.

This also explains why it is hard to discern any impact of thematic orientations on institutional structures. So far, most research institutions deliberately avoid distinct specialization to maintain flexibility and adaptability to the needs of the research market.

Most economic research carried out at academic institutions is funded from the state budget as part of the state subsidy to public universities and state institutes. Currently, 1/3 of the total state subsidy to science and studies is earmarked for scientific research. It is allocated to public research institutions in accordance with their academic merit – as assessed by the s.c. “coefficient of scientific productivity level”, which considers the institution's level of scientific output as well as the number of researchers it employs. State funding is often supplemented by research grants from the EU (in the framework of ACE, PHARE, and EC Fifth Framework programs), USAID, UNDP, and other sources. The Bank of Lithuania and Vilnius Bank pay their respective research teams. As an independent, privately funded think tank, the Lithuanian Institute of the Free Market Economy lives from the money earned from private clients and international research grants. The same applies to the various economic consulting firms.

## 5. Public space and academic debates

It is hardly surprising that the main theme of academic debates during the last decade has been the transition process – the predominant topic being *what* economic reforms should be performed *when* and *how*. The themes debated thus varied in accordance with the issue at hand: at the beginning of the decade, there were some discussions of the pace of reforms (the gradual vs. the shock therapy approach), later succeeded by issues of the privatization model, monetary policy (e.g. the currency board approach), and macroeconomic stability. The turn of the century was marked by the debate on the expediency of private pension funds. Most of these debates were politically tinged and not substantiated by research results, which is probably why they were conducted mostly in daily or weekly newspapers (not necessarily of an economic nature), as well as on TV and radio. As it happened, these public media debates procreated a particular breed of local economists – the limelight or talk show economists. Because they seem to have “tenure” as experts on TV and radio talk shows and because they regularly “preach” on current economic issues in the press, precisely *these* economists comprise the profession's elite in the eyes of the general public.

Debates on theoretical approaches and research methods are almost completely absent in Lithuania's academic press. This is probably because of the small size of the scientific community in economics: nearly everyone can find his own comfortable niche. Hence the probability of stepping on someone's toes, which might lead to heated debate, is rather low.

The principal Lithuanian academic journals on economic issues are the following:

- *Pinigų Studijos* (Monetary Studies), a quarterly published by the Bank of Lithuania. Short summaries of papers published in the latest issue are found on the website <http://www.lbank.lt/ps983.htm>,
- *Ekonomika* (Economics), published twice a year by Vilnius University,
- *Ekonomika ir vadyba* (Economics and Management), published by the Kaunas Faculty of Humanities of Vilnius University,
- *Inžinierinė ekonomika* (Engineering Economics), a quarterly published by Kaunas Technological University,

- *Lietuvos makroekonomikos apžvalga* (Lithuanian Macroeconomic Review), published regularly in both English and Lithuanian by the economic research team of the commercial Vilnius Bank (Vilniaus bankas). An Internet copy of this publication can be found at <http://www.vb.lt>,
- *Lietuvos ekonomikos apžvalga* (Survey of the Lithuanian Economy). Published twice a year jointly by the Ministry of Economy and Department of Statistics.

In addition to these academic journals, the two other regular publications of economic research results are:

- *Lietuvos makroekonomikos apžvalga* (Lithuanian Macroeconomic Review), regularly published in both English and Lithuanian by the economic research team of the commercial Vilnius Bank (Vilniaus bankas). Shaped along the lines of the publications of the Economist Intelligence Unit, this review provides a thorough and detailed analysis of current economic and political developments in Lithuania, including short-term forecasts. An Internet copy can be found at the Vilnius Bank website <http://www.vb.lt>,
- *Lietuvos ekonomikos apžvalga* (Survey of the Lithuanian Economy) – a collection of papers on the issues of the Lithuanian economy, reform, and EU integration developments published twice a year jointly by the Ministry of Economy and Department of Statistics,
- The *Baltic Journal of Economics*, published irregularly since 1997 under the auspices of the EuroFaculty international project of social science reforms in the Baltics, is another outlet for publications by local economists.

The principal database on Lithuanian economic development is found at the Department of Statistics, which publishes a bilingual Lithuanian-English quarterly statistical report titled *Lietuvos ekonominė ir socialinė plėtra* (Economic and Social Development in Lithuania). A short selection of publications by Lithuanian economists in world languages is given in the selected bibliography.<sup>7</sup>

## 6. Views on further development

The Lithuanian economy and Lithuanian economics are both on the path of transition and European integration. The two processes are closely related: the development of economic sciences is the obvious prerequisite to the development of economic policy-making and management skills. Two main directions in the development of economics in Lithuania can be distinguished: education and research. The first concerns the reform of study curricula in economics and business administration, and the second refers to the quality of research and Lithuanian economists' potential to perform it.

In both directions, Lithuania has received substantial assistance from the West. This support includes the conveyance of know-how in teaching and research, the development of local library facilities, and IT technologies. Participation in common research projects with Western and Eastern partners under the auspices of ACE, PHARE, and the EC Fifth Framework programs provides a significant opportunity for Lithuanian academics to learn and to share knowledge.

The main vehicle of education reform is the long-term project of EuroFaculty, created by the Council of the Baltic Sea States. EuroFaculty aims to reform the curriculum in social sciences at the three leading Baltic universities – Vilnius University Technical University of Vilnius Gediminas, Tartu University, and the University of Latvia – on the undergraduate and graduate level, upgrading it to internationally accepted standards. The end of the project is envisaged for the year 2005, and there is good reason to believe that EuroFaculty targets in economics will be achieved.

EuroFaculty also gave birth to a unique project of East-East cooperation in economics, the *Journal of Baltic Economics*, mentioned above as an example of pan-Baltic collaboration among economists. Another example of such collaboration is the Baltic International Center for Economic

Policy Studies (BICEPS), a small network of Baltic economists with a coordinating center based in Riga. BICEPS recently started publishing a quarterly survey called *Baltic Economic Trends*.

But the ultimate success of these positive developments in education and research and, equally important, the *sustainability* of achievements greatly depend on the following factors:

- the prevention or slowing of the brain drain from local academic institutions and research think tanks to the private and government sector (internal brain drain) and abroad (external brain drain). This depends primarily on the amount of state funding to science and education, on salary policies, and on the overall economic situation in Lithuania,
- finding a solution to the problem of aging social science faculties at the academic institutions. This demands the creation of some scheme of both financial and moral incentives for promising young graduates in economics to stay in academia, i.e., the stimulation of “brain influx”.

Internal efforts could be assisted by support from outside, i.e., from the European economics profession. As the situation now stands, economists from Lithuania and the Baltic states in general are virtually absent at any of the major European economic conferences, e.g. the annual meetings of the European Economic Association. This is not the case with participants from the other CEE countries, who have been encouraged by the special terms for attendance for economists from transition countries. Perhaps there is a need for a special “infant industry” status for the economics profession in the Baltics.

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- <sup>1</sup> The so-called “Political Economy of Socialism” was actually a fairy tale, presenting a purely utopian model of socialism that had very little to do with or was completely at odds with reality.
  - <sup>2</sup> In some cases, this process took on ironic features: in their zeal as fresh converts, some local professors even went so far as to publicly brand Karl Marx’s economic theories “unscientific”.
  - <sup>3</sup> Nostrification of academic degrees and titles obtained in the Soviet period was rather formal, and all but a very few manifestly ideological degrees were approved by the academic authorities.
  - <sup>4</sup> Actually, the line between these two categories in Lithuanian economics is rather vague: some of the books that were published as monographs could be justly assigned to the class of textbooks. Many of the latter publications are merely creative adaptations of Western textbooks on economics and business administration.
  - <sup>5</sup> Results of the survey conducted by the Informationszentrum Sozialwissenschaften (IZ) attest to this observation as well.
  - <sup>6</sup> Thus, although in their responses to the IZ questionnaire many economic departments of Lithuanian academic institutions indicate that the quantitative approaches (such as mathematical economics, econometrics) are among the ones they mainly use, surveying their staff publications refutes this claim. Historical approaches, business administration, and international economics are without a doubt much more common theoretical approaches in Lithuania.
  - <sup>7</sup> Selection of publications was done bearing in mind the twofold criteria: to represent those publications of Lithuanian economists that found their way into outside outlets, as well as to reflect the variety of the fields of research.

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Table 1 Scientific productivity of faculties of economics and business management of Lithuanian universities\*in 1995-1997, 1999

Year	Academic staff (number of professors and researchers)	Scientific production (number of publications)				Scientific productivity (production per capita of academic staff)		
		Books	ISI rated publications	Other international publications	Publications in Lithuanian journals	ISI rated publications	Other international publications	Publications in Lithuanian journals
1995-1997	551.53	18.75	0.50	49.75	168.50	0.00091	0.0902	0.30552
1999	649.33	7.99	0.00	42.67	439.57	0.00	0.0657	0.67696

\* Calculations table were based on the available data that in some cases was not precise. Therefore figures in this table are to be regarded as approximate estimations with margin of error in the range of about 10%.