



# THE BALTIC SEA REGION

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# 24 The state: economic policy and democracy

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## 1. Economics and democracy: a conceptual framework

Economics is concerned with institutions for the coordination of decisions for resource allocation. Given individual preferences, technological possibilities and initial resources, the basic theoretical problem in economics is to analyse how the problem of optimal allocation is solved or not solved, when decisions are governed by incentives inherent in various types of institutions, i.e. patterns of behaviour regulated by formal and informal rules. By far the most extensively investigated economic institution is the market, but there are many others, including enterprises, planned economies, corporations, labour unions, labour-managed firms, the family, the feudal economy, slavery.

As in economic theory, the point of departure for democracy is individual preferences – and conflicts between them. Generally speaking democracy means that the individual is able to influence his own life as well as social life and that institutions exist through which conflicts of interest can be confronted and mediated in equal terms. This simple definition requires a few remarks. Firstly, it does not imply admiration for narrow selfishness, let alone the repudiation of morality or altruism, but it disregards a social interest above the individual as found in traditional societies. Secondly, any suppression of individual freedom of action requires justification which is, however, often obvious as most actions influence the freedom of action for fellow members of society. Thus minority rights are essential for democracy as opposed to mob rule. Thirdly, there is a close affinity between democracy and equality, the degree of which is a distinguishing feature of various democratic institutions.

One very potent mechanism of democracy is the market, where preferences are expressed in terms of money. The demonstration of the optimality of individual market decisions under certain conditions is a major achievement of economics. As in principle nothing but quantity and price is bargained this leaves much freedom for the individual.

Concerning equality of influence, another democratic institution takes the lead, namely voting in the political process. Whenever the very strict conditions for market optimality are not met, the market will need the help of a visible, collective government hand.

Other mechanisms than rule by money and rule by people could be considered as well. A third type is self-management, which distributes power according to active participation, energy and talent. An important example is labour-managed enterprises, which exist in small numbers in western market economies and have had a more prominent role in some transition economies, e.g. in Poland. It is essential in libertarian socialism and anarchism, in the former Yugoslav social theory of participatory market socialism, and in various contemporary proposals for economic democracy.

Finally, it is remarkable that democratic institutions sometimes renounce their power, not only concerning purely technical matters, but also in relation to decisions that involve political preferences. Instead, power is entrusted to independent bodies which enjoy confidence and are subject to strict regulations. This professionalisation typically happens when short-sighted political decision-makers are tempted to abuse their power and neglect long-term harmful effects or when decisions are so painful that compromise is excluded. Examples are independent courts of justice and the power of the medical profession when deciding the allocation of scarce resources. In the economic sphere the paramount example is the independence of monetary authorities.

The characteristics of these four democratic institutions can be summarised as follows (cf. Aage, 1998):

<b>Market</b>	Individual influence according to economic capacity;
<b>Government</b>	Collective influence mediated by politicians through the political process and voting;
<b>Self-management</b>	Influence depending upon active participation;
<b>Professionalisation</b>	Legitimacy depends entirely upon confidence in the judgement and honesty of the body entrusted with decision making power.

## 2. The basic dilemma

Any economic system faces the problem of striking a balance between market democracy and government democracy, between public sector involvement and private activity, or to put it in more tangible terms: the problem is how to collect taxes. The policies of marketisation, privatisation and liberalisation of foreign trade inflict a serious dilemma upon economic policy options in transition economies. On the one hand it is the only way forward towards wealth and democracy, or at least the only one perceived and the only one accepted by foreign creditors and the IMF (The International Monetary Fund). On the other hand these policies by necessity impose severe strains upon public finances and impair the government budget balance in two ways: the demands on public expenditure increase, and public revenues decrease.

The recession of 1990-1993, with GDPs collapsing cumulatively by 18% in Poland, 36% in Estonia, 49% in Latvia, 46% in Lithuania, 44% in Russia and 37% in Belarus, bottomed out, and positive real growth rates resumed in Poland in 1992 and in Russia in 1999, but especially in Russia, Latvia and Lithuania GDP (Gross Domestic Product, a measure for total production in the economy) is still considerably below the 1989 level, cf. Table 9. This creates an urgent need for a governmental social policy including unemployment allowances, although rates of registered unemployment are not extreme by Western European standards, in 1999 between 7% in Estonia and 13% in Poland where it has subsequently decreased, and in Belarus only 2% (ECE, 2000:160, 165).

The closing down of unprofitable production hopefully means that workers are laid off. Progress in this direction has been slow, but new and tighter bankruptcy laws have given some improvement. Privatised firms lay off redundant workers, and they no longer fulfill their former social policy functions, like providing workers with cheap meals, housing, health care, leisure activities, holidays and income, and this also applies for non-productive workers. The

government must carry out some of these activities or establish separate insurance schemes for social security.

The recession furthermore erodes the tax base. Tax payments from remaining state owned enterprises decline; although this decline is partly offset by the elimination of government subsidies – in some Eastern European countries they are more than offset, so that net profit taxes have increased after 1990 computed as a percentage of GDP – the sharp drop in output levels nevertheless reduces the tax-paying ability of state-owned enterprises. Privatised firms deliberately avoid paying taxes, especially if the private sector is an unrecorded cash-economy, and success in privatisation means further erosion of the tax base.

The old system had one important advantage, which is understood now that it is gone: it could collect taxes efficiently. Unfortunately, it did so by means of wage and price controls and the blocking of enterprise “account money“ so that there was little codification of tax rules or administrations which could be carried over into the new system. The former socialist states were owner states rather than tax states, and in 1989 the bulk of tax revenues, 70-85%, was appropriated from state enterprises as residual profits, turnover taxes with a multitude of rates, in addition to some social security taxes and modest taxes on land and capital assets, cf. Table 8. The state bank was the only intermediary between enterprises and the state budget, which made tax collection a relatively simple task. Personal income taxes were small; in the USSR the maximum marginal tax rate was 13% for ordinary wage income, although certain private incomes and foreign income were taxed at much higher, even extreme, rates exceeding 80%. Total government revenues amounted to about 50% of GDP, 5-10% higher than the OECD average.

Table 8. Composition of central government tax revenue 1998 in various countries (per cent of GDP)

	Total	Personal and Corporate	VAT excises	Trade taxes	Social security	Property
Russia	19	2	8	2	8	–
Belarus	31	3	12	2	11	–
Estonia	32	6	13	0	11	0
Latvia	34	4	14	1	11	0
Lithuania	27	4	13	1	8	0
Poland	35	9	12	1	11	–
Finland	32	9	14	0	3	–
Sweden	38	5	11	0	13	–
Denmark	39	14	16	0	2	–
USSR, 1989	45	22	12	6	4	0
USA, 1987	18	11	1	0	7	0
Developing countries	18	5	5	5	1	1
Industrial countries	31	11	9	1	6	1

Notes: The data differ from those of Table 9 because of the exclusion of local government budgets.

Sources: World Bank: World Development Indicators 2001; Comparative data for USSR, USA, developing countries and industrial countries are from Hussain & Stern, 1993:68–69; Aage, 1997:97.

Expenditures in the planned economies until 1989 can be roughly divided into purchases of goods and services (on average 35%), subsidies to state enterprises (25%), transfers to households (20%) and other items. During the 1980s the share of enterprise subsidies declined in several countries, whereas social expenditures, including health care and education, increased.

Budget deficits should be avoidable or manageable in a planned economy given the vast political powers of government to control prices, wages and enterprise payments. But for political reasons there was a tendency for real income to increase more than output, creating moderate deficits of 2-3% of GDP. In the USSR budgetary problems were aggravated during Gorbachev's perestroika; one example was the anti-alcohol campaign where a 50% cut in alcohol production in 1985-1987 caused a significant drop in government turnover tax revenues; the impending budgetary dangers were, however, largely neglected, not only by the Gorbachev government, but also by western observers. Only later, when the deficit reached 9% of GDP in 1989, was it recognised that automatic inflationary financing of deficits was easy through the printing of more money, but contributed seriously to the acute economic crisis.

Thus, the depression inflicted severe limitations upon government expenditures, and the economic transition necessitated a radical reconstruction of taxation and expenditure. On the other hand, budgetary cuts also contributed to the recession because of macroeconomic effects and the need to curb inflation (Kołodko, 2000:256-269).

### **3. Reconsidering the role of the state**

In relation to taxation, the contrast between public and private ownership could easily be too sharp and simplified. Ownership of capital goods is composed of different property rights which can be separated, principally into the following three: 1) the right to manage and utilise property, 2) the right of access to income and profits originating from capital, and 3) the right to trade and disposition of capital value (Gregory & Stuart, 1992:20-21).

Confidence in the right to future incomes from capital is essential for private investment and a well-functioning market economy. Taxation and regulation are related to these ownership rights and to the mix of government and market democracy. Thus, a 50% profit tax with full loss offset corresponds to 50% state ownership concerning the right to income. A tax on capital gains is similarly the equivalent of state ownership of part of the right to the capital value (cf. Hussain & Stern, 1993:65-66).

Private ownership can be restricted in a number of ways, and different types of state interference in economic activity constitute a spectrum of forms of regulation, from one extreme of complete state ownership and disposition to various intermediate forms like specific regulations of branches and enterprises through laws, franchises and leases as well as specific taxes and subsidies. At the other end of the spectrum are the very general types of civil and criminal law, common taxes and macroeconomic policies.

Table 9. General government revenue and expenditure 1999 (per cent of GDP)

	Government revenue	Government expenditure	Government balance	Government debt	Expenditure on health and education	GDP 1999 1989=100
Russia	35	36	-1.0	13	7	57
Belarus	42	48	-5.6	5	11	80
Estonia	37	42	-4.6	7	12	77
Latvia	43	47	-4.2	14	11	60
Lithuania	32	41	-8.6	28	8	62
Poland	41	45	-3.3	43	10	122
Finland	49	47	2.3	57	13	117
Sweden	58	56	1.7	66	15	115
Denmark	58	55	2.9	46	15	123

Notes: General government includes central and local government and some extra-budget funds, but definitions may differ between countries.

Sources: EBRD, 2000:65, 126-229; EIU country reports and country profiles; ECE, 2000:149, 160; World Bank: World Development Indicators 2001; OECD: Economic Surveys, Finland (July 2000).

Restoring government activity, particularly in relation to taxation and public expenditure, and establishing an efficient mix of various forms of government instruments, is crucial for future economic development in general, not only concerning the public deficit and macroeconomic stabilisation. The basic functions, which must be performed by the state because private institutions, including the market, are unable to do it, include the provision of the following prerequisites for the market economy: legal foundations, macroeconomic policy, investments in human capital and infrastructure, a social safety net, and environmental policy (World Bank, 1997).

Although this does not mean detailed state interference in economic activity, there are in fact increasingly strong reasons for emphasising the role of active government policy for fostering economic growth, the ultimate aim of transition; and because this involves expenditures, as state activities usually do, it will also put additional strain on public budgets.

#### 4. Government revenue

The long-term goal of establishing a western type tax system implies the substitution of the former taxation of enterprise residual income with a system of personal and corporate income taxes, social insurance contributions, VAT and excises, trade taxes and property taxes. Industrial countries typically have a larger tax share of GDP and a lower share of import and export duties than developing countries, but the variability is also large among industrial countries, cf. Table 8.

New tax systems were introduced in the Baltic countries in 1991 after the decline of the volume transferred to the USSR in 1990. Before the transition, most revenues were transferred to Moscow and allocated under an all-Union plan. Following the economic reform the ties with Moscow were severed, and the economic activities of enterprises were gradually separated from the government budget, whereas social expenditures and other expenditures

like defence and security formerly financed from Moscow had to be financed from national revenues. Initially, the discontinuation of payments to the central budget in Moscow contributed to the fiscal surpluses in 1991 of 3-6%, but this does not necessarily imply that the Baltic countries were net contributors to the all-Union budget; if subsidies are taken into account, the Baltic countries, like almost all other Soviet republics probably received positive net transfers from Russia, mainly in the form of cheap energy. However, the total economic impact of fifty years of Soviet rule is of course a much more complicated question.

A sharp drop in the absolute size of government budgets occurred after 1991. Total revenue as a per cent of GDP declined slightly in Estonia and in Latvia and considerably in Lithuania. Taking into account the dramatic decline in real GDP, this means that government revenue in constant prices decreased from 1991 to 1994 by some 40-50% in Estonia and Latvia and by 75% in Lithuania. Even if the figures overestimate the declines in real GDP, they do not overestimate the decline of real government revenue (Aage, 1997:105-107). The shares of government budgets have increased, cf. Table 9, and this also applies in Russia. The highest levels of government expenditure are in Poland, Latvia and Belarus.

The composition of government revenue has changed. There has been a decrease in the share of corporate taxes, an increase in payroll and social security taxes, and an increase in taxes on goods and services. In the Baltic states turnover taxes or VAT were introduced in the early 1990s, and now all three countries have 18% VAT, with some exemptions, together with a flat personal income tax rate of 25% (Latvia), 26% (Estonia) and 33% (Lithuania) for income above a certain threshold. Besides, there are payroll social insurance contributions. Taxation of corporate profits has been reduced, and in Estonia they were eliminated in 2000.

Similar tax reforms were introduced in Poland in the early 1990s, also including very high tax rates on wage increases exceeding allowed levels, the so-called *popiwek*, which was also introduced in Latvia. A major tax reform in 2000 will gradually reduce corporate income tax rates from 34% to 22% and extend VAT to agricultural products at a reduced 3% rate. Belarus also introduced a VAT, like Russia, but as 80% of GDP is still produced in the public sector, it is possible to rely on traditional methods of tax collection. In Russia privatisation requires new methods of taxation which have proved very difficult to implement, but recently tax collection has improved considerably. A tax reform in 2000 introduced a flat 13% personal income tax rate (the same as the old Soviet maximum tax rate), reduced and unified the social security contributions and reduced turnover taxes.

## 5. Tax collection during transition

The new tax systems are ambitious attempts at the fast introduction of western type systems, and they compare reasonably well with generally accepted principles of optimal taxation, which can be briefly summarised as follows (Hussain & Stern, 1993:72-76):

Indirect taxes should not be levied on intermediate goods (a VAT fulfils this requirement); high rates should be applied to goods generating negative externalities (like environmental damage) and goods with a high degree of complementarity with leisure; tax rates should be for imported and domestic goods.

Direct taxes should have a global tax base; marginal rates should first rise and then fall (this is not observed in western tax systems); corporate income should only be taxed as it accrues to persons, apart from the case of monopoly rents, foreign recipients, and, probably, capital gains.

Property taxes are normally of limited importance in western countries, cf. Table 8, although they have attractive properties with respect to distribution, efficiency, potential revenue and collection, as supply elasticities of property are low, tax evasion difficult, and the tax base fairly easy to measure as it is related to wealth.

The main problem is to avoid distortionary effects of taxes. A poll tax or lump-sum tax, i.e. that every taxpayer pays the same absolute amount of tax, fulfils this requirement, but is unacceptable for evident reasons. But full taxation of pure resource rents also fulfils it, and appropriation of revenue from resource extraction is a convenient type of taxation often recommended in developing countries.

However, during the period of transition when government revenue is desperately needed and the possibility of collecting takes on an overwhelming priority, there can well be reasons for deviating from these general principles. Also, adverse changes in the distribution of income may imply that deviations from the rules of optimal taxation are warranted. Considerable tariffs may well be justified for reasons of collection, distributional effects as well as the protection of domestic producers.

In accordance with these rules it is very important to widen the tax base, and there are strong arguments for the payroll tax. A tax on profits is difficult to collect, and adverse incentive effects is an argument for abolishing them altogether. Property taxes, on the other hand, could be an important source of revenue, and the most efficient way to collect these taxes is that government retains ownership rights and leases e.g. land, buildings and housing to the public. Giving property away for free and thus sacrificing future incomes seems to be very problematic from a taxation point of view (Hussain & Stern, 1993:76-80).

Establishing efficient systems of tax collection from the private sector poses serious problems in all transition countries. Tax administration and control mechanisms are not effective in preventing tax avoidance, especially with respect to new enterprises in the private sector where payments are often made as unrecorded cash payments, partly because efficient payment systems are still lacking in some countries. The black economy is estimated to have increased to about 20% of GDP or more. Tax arrears are substantial, and according to some estimates they amount to 2-3% of GDP and in some cases even more, thus in Latvia nearly 5% in February 2000.

## **6. Government expenditure**

Generally, the level of expenditure has decreased dramatically due to the recession and the structure has changed, as subsidies were more or less eliminated as part of the introduction of the new systems of taxation. Information available is not very detailed and not readily comparable between countries, and for the former Soviet republics detailed comparisons with expenditure structures before 1990 are even more difficult because of the complex transactions with the all-Union budget in Moscow. Thus, social expenditures as well as all-Union enterprises were financed largely by the central budget.

All countries except Poland are experiencing severe pressure because of the shrinking real value of budgets. A major source of pressure is social expenditures needed for health care, unemployment allowances and old-age pensions for the increasing number of retired people, who already constitute about one quarter of the population.

The Baltic countries and Poland are all reforming their pension systems in similar directions. The present tax-funded systems will be partly and gradually replaced by funded pension insurance schemes, and in most cases this will be followed by increases in the retirement age, typically from very low levels of 55-60 years towards 62 years. In Poland a pension reform along these lines in 1999 was broadly accepted, but an attempt at health care reform also in 1999, which partly replaced taxation by insurance, generated great concern and bitter pro-

tests. In Russia the health care system has suffered from budgetary cuts similar to other public services; government expenditure on health care as a share of GDP has increased from 2.5% in 1992 to 4% in 1999, which is not sufficient to prevent deterioration of quality. Private health care payments, also known in the Soviet era, have probably increased to 10-15% of the total.

Another source of pressure on government expenditure is the demand for subsidies, from state enterprises where employees press for wage increases, and from farmers who have been able to obtain some protection against competition, even in very liberalistic Estonia. Still, heavier pressure on expenditure can be expected in the future, because the stimulation of economic growth requires that the state spends vast sums on improving infrastructure and human capital. Expenditure on environmental policy has been small, but is also likely to increase, especially in countries applying for EU membership.

One way of relieving the pressure on public expenditure is to privatise public enterprises and public utilities and to introduce payment for public services, especially health care. Estonia has the most comprehensive privatisation programme, including the selling of public utilities, telecommunications, the Tallinn Port, oil shale mining companies, and railways. Privatisation may provide an immediate revenue; it could save future expenditures, but it could also entail the foregoing of future budgetary incomes.

Payment for health care may be unavoidable, given the scarcity of public revenues, but it is a last resort to have to use a tax on diseases. Of course it broadens the tax base, and it overcomes problems of the willingness, although not necessarily the ability, to pay. Private health care is not necessarily more efficient than public health care. Thus in Denmark health care, mainly public, accounts for about 7% of GDP, as compared to about 14% in the USA, where health care is mainly private, and an important part of the explanation is huge administration costs in the USA (cf. Aage, 1997).

## 7. Macroeconomic policy

In Russia and Belarus, annual inflation rates were still very high in 1999, 86% and 294% respectively, although they have decreased considerably since 1999. But Poland and the Baltic states have achieved impressive stabilisation, with inflation rates about 5% or even lower. This is the result of restrictive fiscal policies and the repeated pruning of budgets, as well as non-inflationary financing of deficits including successful treasury bill programmes, supported by tight institutional arrangements. In Estonia and Lithuania, currency board systems prohibit deficit financing by the central bank, as the issue of money must be fully backed by foreign currency reserves, and in Estonia a budget balance requirement is written into the constitution.

Policies of external and internal liberalisation restrict the use of monetary policy and exchange rate policy, so that a major burden of macroeconomic stabilisation must be carried by budgetary policy. And external imbalances with significant trade balance and current account deficits require tight fiscal policies in a situation with large demand for government expenditure from the citizens in terms of pensions and other social payments and from the outside, as EU memberships presupposes infrastructure investments, including environmental policy outlays, amounting to perhaps 5-10% of GDP annually.

The scope for taxation is limited, because of a lack of administrative capability and because of attempts at stimulating new activity with generous tax rules. Therefore, demand has been

restricted by expenditure cuts, including very low real wages for state sector employees and low real values of government transfers.

The lessons from reform policies so far are that they have turned out very differently, with Poland as an exception from some general lessons, namely that reform policies are difficult to implement, that they take time, that long-term beneficial effects are uncertain, and that they cause severe short-term hardships. There is a danger that this may pave the way for social disintegration, the withering away of the state, the privatisation of tax collection by organised criminals extorting protection money, the impoverishment of large segments of the population, and the disappearance of any confidence in the institutions of society.

## 8. The state and the market

The theory of transition raises the difficult issue of the interrelations between transition, economic growth, and the various mechanisms of democracy. Historically, there are no examples of planned economies with political democracy, and democracy is not a precondition for economic growth.

But efficient decision-making is inescapable and preferably it should be democratic. There is a great danger that transition, particularly of the Russian type, may spoil the potential for *government* collective decisions without creating the necessary conditions for individual decisions in the *market*.

Transition and liberalisation in Russia have reduced the decision-making power of government by creating strong, politically and criminally infected ownership interests. And without the reconstruction of government the necessary conditions for individual decisions in the market cannot be created, in particular price stability and contract enforcement by law.

Privatisation alleviates the incentive problems of the planned economy related to the ratchet effect and the soft budget constraints. But this advantage is obtained at a cost, namely that the government also becomes incapable of fulfilling its contract enforcement functions.

Liberalisation and smaller government is often regarded as an important precondition for economic growth. This trend is just another expression of a widespread view of society as driven by economic incentives which are considered the only possible ones, even the only ones permissible. This theoretical predilection for narrow, particularly economic incentives has had a growing impact upon the social sciences, even outside economics.

“The government must stop restricting and directly controlling private commercial activity” was the message of the World Development Report in 1996 (World Bank, 1996:110), but the report of 1997 had a much more balanced view and recommended “matching the state’s role to its capability”, together with efforts to “raise state capability by reinvigorating public institutions” (World Bank, 1997:3). The very simplistic recommendations of the early 1990s are now changing.

Creating some form of *self-management* democracy was among the intentions of insider-privatisation in many transition countries, besides the obvious purpose of buying the support of economic reforms from employees and directors. But self-management did not materialise, and it would most likely not have contributed positively to the transition due to well-known, empirically and theoretically documented problems related to self-management. On the contrary, the wide and partly spontaneous diffusion of employee ownership rights in several Eastern European countries during the 1980s was mainly a source of obstacles for restructuring and commercialisation.

Privatisation has effectively eliminated political control from central planning, and at the same time it endangers market control, because it threatens the collection of taxes and therefore also the necessary functions of government. If the simple solution of just cutting public expenditure to match dwindling tax revenues is not possible, the most important task for stabilisation and for successful reform as well, is to establish effective taxation for the private sector, even if this brings with it adverse incentive effects for entrepreneurial activity.

An efficient type of taxation, which could be more fully utilised, is the taxation of income from the ownership of natural resources. Thus the Russian gas monopoly, Gazprom, which is among the largest concentrations of wealth in the world, with reserves of natural gas worth an estimated 700 billion dollars in the mid 1990s, is partly privatised, and political control has been partly lifted, so that it has proved difficult to collect taxes from Gazprom.

Natural resources and the environment are areas where democracy cannot rely on the market. Maybe it cannot rely on government either because of the danger of short-sighted abuses at the expense of future generations. Thus, as in monetary policy, there is a case for delegating power by means of *professionalisation*. The extreme form for independence of monetary authorities is the system of “currency boards” which are more independent of the government than central banks, but subject to very strict rules; it was first introduced in a number of former British colonies, and now used in a number of countries, including Estonia and Lithuania. A similar system could be necessary to manage resources and the environment, and various forms of “fisheries boards” and “environment boards” have been proposed. Recently, similar institutions have been proposed for financial policy as well (cf. *The Economist*, 27 November 1999, p 100; Aage, 1998).

It is repeated again and again that “there is no middle way between capitalism and communism” (*The Economist*, 28 October 1995, p 15). The obvious truth is that there exists nothing but third ways. The relationship between individual decisions in the market and collective decisions in the political process is complicated. Often, the metaphor of a referee in a football game is invoked to describe the proper role of government in the economy, but maybe another metaphor would be more incisive. In a lecture in 1992 on transition in Russia and Eastern Europe the late Wassily Leontief described the economy as a sailing-ship; the wind is the incentives of the market, and it gives the speed without which it is impossible to steer the ship. If the crew sets all sails, and then goes down to the cabin for drinks, the ship will certainly go fast, but in unknown direction. However, a clever government at the rudder could exploit the wind and the powers of the market to beat up against the wind and advance in the opposite and desired direction.



Fig. 98. Symbols of transition. One of the streets in Rzeszów, Poland. Photo: Alfred F. Majewicz

## How to falsify an election?

### A short instruction for dictators, based on field work done by B.

*The following text is a pastiche, composed by Witold Maciejewski of real reports from some countries in the Baltic Sea region*

1. If you obtained your power in accordance with any democratic constitution of your country, **violate the constitution**. In order to sanction your power, give out a lot of ukazes and decrees. For instance, a decree “*On indispensable means of fighting against terrorism and other particularly dangerous crimes with the use of violence*” can be very useful. This decree can include any kind of oppositional activity, any activity of an unwanted citizen. Treat the term “terrorism” very widely with all its aspects.
2. Do not forget to **modify the constitution** as the next step. Introduce desirable laws and call them “Changes and complements” instead of dictating a new constitution.
3. **Encourage denunciators**.
4. **Create special sub-units** meant to fight against the people who think in another way. As the next step, strengthen the position of military structures. They would obey you.
5. Your special units have to take care on democratic opposition. It is recommendable and efficient to **get some of your opponents to disappear** and others to leave your country. The western countries are used to swallowing the disappearance of 3 – 4 people at one time quite easily.
6. Put mass media under your control. It’s easy, you do know how to do that. But, please, do not exaggerate and leave 3 or 4 newspapers relatively independent.
7. **Prepare all elections** right down to the smallest details. Let the administrative organs do the preparatory job. Let them order all key managers of enterprises, institutions, education and others to recommend the composition of the regional electoral committee. These should be made exclusively of people who are loyal to you and ready to do anything to give the percentage needed in the general results of the elections. Special attention shall be paid to the choice of reliable presidents of committees. If the presidents have not fulfilled the requirements, they could immediately be dismissed and fired from their jobs. Afterwards, in order to prevent members of various parties taking part in the proceedings, introduce your people to the regional electoral committees. This is how to create the base of electing only this person, whose candidacy was agreed upon by your top personnel advisers.
8. In order to secure the election of the people needed, introduce a so-called “**voting ahead of time**”. Its aim is to assure that the electors attend in great numbers (even though it may appear as a violation of rights). Force the people to attend the elections, put pressure on the presence of the inhabitants of the electoral district, workers, students, people living in boarding schools, etc. Bring pressure on the administration of enterprises, which in turn shall be pressured by the regional administration. In practice, various governmental organs have to assemble leaders of a lower level and threaten them continuously. Talks “**between you and me**” are recommendable, they are proved to be efficient. As result, a great deal of the population would give their votes. Put particular pressure on students.
9. Then a new moment to demonstrate responsibility arises for your lackeys. Call in representatives of regional electoral committees to the regional administration once more. They have to take the **properly-filled-in voting cards** and put them into the ballot boxes late on Saturday night, that is before the last day of the elections – Sunday. Police or militiamen on duty are to be asked to leave the rooms where the ballot boxes are located. Then the committee members (cf. 7 above) have to quickly throw out all the cards that have been filled in by the voters and put in the cards filled in by the regional administration. Though the rest of the electors would vote on the Sunday, the task is fulfilled. The victory of the proper candidate is guaranteed. The major part of the electoral committee members and observers from other countries would not even suspect what had happened on the previous day. And on the next day reporters, commentators, leaders of different levels, including yourself, should talk with pride about the will of the nation.
10. Do not forget to **be proud** of your country when you announce the results. Stress that democracy is the only way for your people.

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