The COURSE towards STATE-REGULATED ECONOMY in LITHUANIA in 1939-1940

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After the loss of the Klaipėda Region (March 1939) and the start of World War II (September 1939), Lithuania was obliged to take measures to meet the newly developing difficult situation. Some organizational measures had already been taken in the spring and summer of 1939 to regulate the economic life of the country - the introduction of stricter control of currency operations, and the establishment of the Board of National Economy and of the Energy Committee. In the autumn of 1939 and the spring of 1940 new tendencies became quite evident in the management of the Lithuanian national economy.

New Directions in Economic Policy

The great powers had introduced administrative forms of centralized economic regulation during World War One. In the '20s and '30s questions concerning the state system, the structure and order of society and the economy were discussed widely in many countries. Attempts were made to look for ways out of economic crises, depressions, class and social contradictions. The world was on the way towards a state-regulated economy.

In Lithuania the economic views of the Nationalist Party acquired their definite shape during the general economic crisis, and the state had to resort to extraordinary measures to save the economy. At that time the idea of active state-participation in the country's economic and social life became firmly established and the concept of the corporative state was actively propagated.

Having learned a lesson concerning the social and economic effectiveness of the regulatory role of the state in the period of a crisis, the Government turned to a more energetic management of the economy. Lithuanian businessmen and economists, who by that time had acquired some experience, began to demand state support in competition with the businessmen of other nationalities. On the part of specialists there was also much dissatisfaction with the inadequate development of Lithuanian industry and other branches of economy and with the insufficient activity of the authorities.

However, by the end of the '30s and the start of World War II,

the Government was engaged in debating the situation (and letting others do the same), rather than in taking practical steps towards strengthening the regulatory function of the state. In short, Lithuanian economists and politicians did not take any great interest in pure economic theory. No doubt, it was impossible to ignore the tendencies of change in world economics and their theoretical background, in particular in neighbouring countries. In pre-war Lithuania the development of economic thought was influenced largely by the German and Austrian economic schools and, to a lesser degree, by theories current in Great Britain. That was understandable taking into account both the geographical proximity of the former countries and a number of salient peculiarities of the Lithuanian economy and political system.

President Smetona and the Nationalists as a party favoured Mussolini's doctrine of corporate economy, advocating the priority of state interests: all the social classes and strata must submit to the state and the interests of the state must be superior to individual and group interests. Nevertheless, in Lithuania there were no attempts to introduce strict control of the economy and its subjects. On the other hand, the corporate order, quite successfully functioning in Italy and to some degree imitated in Lithuania, could be adopted given certain preconditions - a more advanced industry, a more numerous working class and a stronger ruling party.

Therefore, in Lithuania the prevalent view was that rigorous control of economic matters was not necessary and even harmful, despite the attitude of the Nationalists that each branch of economy had to serve the interests of the nation rather than those of the individual capitalist. Even the managers of state enterprises were given quite a free hand in Lithuania. Control of state and especially private enterprises was exercised indirectly, by regulating customs' duties and prices. Later on after World War II began trends of economic centralization and autocracy became more noticeable.

Conservative economic views were shared both by the Nationalists and executives or specialists, belonging to other political parties. All of them were intent on spending less than was gained, on adhering to the course of 'strong currency', on being cautious in respect to innovation, in short, they pursued a prudent and circumspect policy. The estimate of the economic situation was always realistic, its scale being somewhat provincially Lithuanian. Risky and less concrete undertakings were avoided, although given of luck they might have brought succeeded.

In the 1930s, however, the dominant view was that the government had to anticipate and programme the country's economic development, co-ordinate and influence the activities of state, private and mixed enterprises. That kind of perception of the state's role and cor-

responding economic policy definitely made their mark on ownership relations, leading to the increase in the share of the state property.¹

In this context the concrete historical situation should be taken into account. After the re-establishment of independence, Lithuania lacked both capital and capable business managers. Waiting for the private sector to promote economic growth was out of the question. Therefore, according to Kazys Sruoga, 'our country chose two ways. Private initiative and capital were stimulated and fostered. Additionally, public state initiative and capital were channelled into the economy'.²

The view which the minister of finance, Ernestas Galvanauskas expressed emotionally during discussions of the bill 'On Managing National Economy in the Extraordinary Situation' in the Seimas was similar: 'We have established large organizations, they are called co-operatives, but they are not co-operatives, they are large capitalist organizations, let us have no illusions about that. Why did we establish them? Because there were no capitalists. Where were the capitalists in 1918, 1919, 1920, 1921, 1923? We were paupers ... Finances, collected in the form of taxes, were taken from the state treasury, and these organizations were formed. ... I am not saying that this is an ideal case, God forbid, no, we were forced to do that'.³

Between 1938 and 1940 economic centralization was a very topical issue in Lithuania. According to the official viewpoint despite some attempts there was no programme/plan and no body authorized to prepare such a plan. Regrettably priority was given to some spheres of economic activity without any preliminary perspective. The process of centralization was acknowledged, because some state-endorsed centres - *Lietūkis*, *Pienocentras* and *Maistas* - were increasing their turnovers and creating new centralizing structures. Compared with other organizations these three large companies appeared to be more active and more powerful because they enjoyed state support. Eventually their activity started to exert influence on the general economic policy of the state, sometimes even contradicting the interests of the state. In

¹Algimantas Jablonskis states that prior to 1940 the portion of the Lithuanian state and public sector was between 20 and 30%, i.e., approximately corresponding to the situation in many developed Western countries after World War II, when John Maynard Keynes's doctrine was nearly universally adopted. See Algimantas Jablonskis. *Valstybinis ekonomikos reguliavimas. Lietuvos ūkis*, no. 3-4, 1992, 32. Supposedly this assertion is based on *Lietuva. Lietuvių enciklopedija*, 2nd ed., vol. 15, Vilnius, 1990, 222; this publication, however, deals primarily with the role of trade co-operatives. In our opinion, the public sector share was slightly smaller, about 20%, may be 25%, but nevertheless it was very big.

²K. Sruoga. *Lietuvos įmonės, kurios dalyvauja valstybė. Vairas*, no. 15-16, 1938, 917.

³E. Galvanauskas' concluding speech at the Seimas sitting on 5 April 1940, discussing the draft of the law "On Managing National Economy in the Extraordinary Situation," presented by the minister himself. LCVA, f. 923, ap. 1, b. 1114, l. 615.

other countries spontaneous centralization had long been limited and controlled by the state. 'There can be no justification for the practice, so widespread at present with us when anybody can do anything, anybody is allowed to do whatever he thinks fit. In other words, in our country liberalism is extreme at the time when we are surrounded by the states, which are autocratic and control their economies. ... Once and for all the competence and the sphere of activity of each centre must be determined quite clearly and parallelism and clashes must be eliminated'.⁴

According to Galvanauskas, even under normal circumstances life itself makes the state interfere into certain spheres of economy and nobody questions that right and duty of the state. Only the extent of the intervention and the size of state investments into national economy can be discussed.⁵

The member of the Seimas and director of the Chamber of Agriculture, Stasys Jakubauskas (Jokūbauskas), stated that Lithuania had to turn to centralized commerce as other states did in acquiring commodities, which were difficult to obtain. Centralization had already been effected 100 per cent in some fields of export and import. However, there were fields where regulation was still necessary, especially with respect to prices of the domestic market, which should be kept as stable as possible. The centralization of imports and exports would contribute to the stability of prices.⁶

In 1939 and 1940 K. Sruoga, S. Jakubauskas and other adherents of state-regulated economy and its centralized management were supported both by the minister of finances E. Galvanauskas and the prime minister, Antanas Merkys. In the prime minister's opinion, Lithuania needed a kind of general headquarters of economy, and that idea was being put into effect under the guidance of the minister of finances. That meant the start of a new economic phase, 'a phase of direction.' We are surrounded by neighbours, whose economy is directed."⁷

Foreign Trade

After the loss of the Klaipėda Region restrictions were imposed on imports, especially on the so-called luxury goods, and attempts

⁴Ūkiškos centralizacijos problema *Tautos ūkis*, no. 17, 1940, 339. To a great extent the theses can be considered a programme document of Antanas Merkys' government.

⁵The concluding speech of E. Galvanauskas at the Seimas sitting on 5 April 1940, discussing the draft of the law "On Managing National Economy," presented by the minister himself (8th ordinary session, sitting no. 178). LCVA, f. 923, ap. 1, b. 1114, l. 614.

⁶The speech of S. Jakubauskas on 20 April 1940 at the 7th extraordinary session of the Seimas (sitting no. 183/34), discussing the state budget of 1940.

⁷A. Merkys' speech at the sitting of the Seimas on 5 April 1940 (the 8th ordinary session, sitting no. 178). LCVA, f. 923, ap. 1, b. 1114, l. 608.

were made to increase exports. A special export committee was organized. Following the example of other countries, steps were taken to centralize foreign trade. The introduction of centralization and state regulation was motivated by the need to remove the mutual competition of Lithuanian businessmen in foreign markets. In the opinion of officials and economic experts that kind of competition worsened the conditions of trade contracts, and that, in its turn, meant great losses for the state.⁸

Doubtless, the most important thing was the radical change of commerce operations. In 1938 the trade balance of the states, with which accounts were made on a clearing basis (Germany, Latvia, Italy, Finland, Hungary and Greece) made up 28.5 per cent of the total trade turnover (29.7% of exports and 27.3% of imports). Between January and April 1939 their position rose to 31.5% (31% of exports and 32.1% of imports), between May and December of the same year - up to 40.4 per cent (39.6% of exports and 41.3% of imports). During the first four months of 1940 the accounts of clearing made up 57.3 per cent of the total trade turnover (53.4% of exports and even 61.8% of imports). Unwillingly, Germany became Lithuania's main trading partner - its proportion in the general turnover of Lithuanian foreign trade rising from 25.7% in 1938 to 53.1% in January-May 1940 (28.1% in January-April 1939 and 37.7% in May-December 1939).⁹

When hostilities started, the parties at war began imposing blockades on each other and involving other countries in particular due to the pressure of Germany, tacitly supported by the USSR. Until 1939 the main source of foreign currency was trade with Great Britain, whose proportion in the Lithuanian foreign trade was about 34.1 per cent already in 1939 (40.5% in export and 26.4% in import). However in 1939 and 1940 the amount of the turnover and the proportion in the trade with Great Britain were continually decreasing to 0.9 per cent of Lithuanian export into England and 3.0 per cent of import (1.9% of the trade turnover).¹⁰

It is understandable that Lithuania could not resist Germany's demands to decrease or even abandon altogether the trade with Britain. On 24 October 1939 the director of the Economics Department of the Ministry of Foreign Affairs Jonas Norkaitis informed the minister of finances that the secretary of the German Embassy in Kaunas Ungern von Sternberg had visited him and warned that Germany was not going to tolerate the Lithuanian export of food products to Britain

⁸Centralizuota užsienio prekyba. *Tautos ūkis*, no. 59, 1939, 931.

⁹The estimate is based on *Ekonominis biuletenis*, no. 22, 1940. LCVA, f. 923, ap. 1, b. 1081, l. 45; *Ekonominis biuletenis*, no. 23, 1940. LCVA, f. 923, ap. 1, b. 1081, l. 9.

¹⁰The estimate is made on the basis of *Ekonominis biuletenis*, no. 22, 1940. LCVA, f. 923, ap. 1, b. 1081, l. 45-46; *Ekonominis biuletenis*, no. 23, 1940. LCVA, f. 923, ap. 1, b. 1081, l. 9.

and would detain all Lithuanian ships carrying foodstuffs to that country.¹¹

Lithuania was greatly interested in wider economic contacts with Great Britain. The government applied to Moscow asking for advice concerning possible further steps - in actual fact that was a request for Soviet assistance. On 5 December 1939 the representative of the USSR in Lithuania cabled to Moscow that, in the person of a high-ranking official of the German Ministry of Foreign Affairs, Schnurre, Berlin had 'categorically, with a hint of threat', required that Lithuania break off all commercial relations with England. Juozas Urbšys applied to him, Nikolai Pozdniakov, and indicated that the Lithuanian government would have to ask the USSR for advice, 'if Berlin categorically insisted on it'.¹² As it could have been expected, no support came from Moscow. The following day Pozdniakov received Viacheslav Molotov's answer: 'We advise the Lithuanians to take German demands into consideration'.¹³

Lithuania tried to continue the dialogue with the Kremlin on that topic. On 17 December 1939 the Lithuanian envoy in Moscow Ladas Natkevičius informed Molotov that Germany requested Lithuania to sever trade relations with Britain. Natkevičius indicated that Lithuania exported about 40 per cent of all its export to Britain and thus received convertible currency. The German requirement placed Lithuania in very disadvantaged circumstances and therefore she was asking for advice. Molotov again replied that with the war going on it was virtually impossible to trade with Great Britain and again recommended Lithuania 'to take heed'¹⁴ of German demands.

In May 1939 Germany itself offered Lithuania additional quotas to the trade treaty for oats and barley (for 2,000,000 lt.), timber (1,200,000 lt.), pigs (2,000,000 lt.) and flax (600,000 lt.).¹⁵ At the start of the war Germany's domination of Lithuanian foreign trade was quite obvious, and this caused fear among Lithuanian economists and managers. The situation was the more alarming, because of the positive balance of trade, covered by Germany neither with convertible cur-

¹¹J. Norkaitis' report of 22 November 1939 to the minister of finances on the commerce between Lithuania and Germany and between Lithuania and England. LCVA, f. 383, ap. 7, b. 2148, l. 286; Regina Žepkaitė. *Vilniaus istorijos atkarpa: 1939 m. spalio 27 d. - 1940 m. birželio 15 d.* Vilnius, 1990.

¹²The 5 December 1939 telegram of the plenipotentiary representative of the USSR in Lithuania N. Pozdniakov to the People's Commissariat of Foreign Affairs of the USSR. Kaimyno akys ir ausys. *Pasaulis*, no. 6, 1991, 17.

¹³The 6 December 1939 telegram of the People's Commissar of Foreign Affairs V. Molotov to N. Pozdniakov in Lithuania. Kaimyno akys ir ausys. *Pasaulis*, no. 6, 1991, 18.

¹⁴A USSR People's Commissariat of Foreign Affairs official's recording of the talk between L. Natkevičius and V. Molotov on 17 December 1939. Kaimyno akys ir ausys. *Pasaulis*, no. 6, 1991, 18.

¹⁵R. Žepkaitė. *Vilniaus istorijos atkarpa*, 65.

rency nor with merchandise. In December 1939 Lithuanian exports to Germany exceeded imports by 8,600,000 lt. and this imbalance was expected to rise. As Regina Žepkaitė put it, 'there were fears that this imbalance would grow, because Germany, conducting wars, was not in a position to export to other countries, among them to Lithuania, and was not willing to pay her debts. Assets frozen in Germany were of no use and impaired the development of Lithuanian economy'.¹⁶

Žepkaitė is not quite right on this issue. True, the above-mentioned report of the Economics Department of the Ministry of Foreign Affairs referred to alarming tendencies in Lithuanian foreign trade. At the same time, the Department formulated certain principles of trade policy in the newly developing situation and proposed concrete ways for the rational solution of the problem. This document is worth a more detailed analysis, especially as in 1940 it was being put into practice.

According to the document, the forced trade turnover with Germany will be the same as that with England, Germany, Czechoslovakia and Poland taken together in pre-war years. That would constitute about 80 per cent of total foreign trade. Considering the facts that the products hitherto sent to England would go to Germany and that in 1939 the Lithuanian active balance in the trade with England was 37,700,000 lt., a great positive balance in the trade with Germany could be expected in future.

All that can be a starting point for the endeavours to narrow the gap between our export to Germany and the import from there in order to avoid freezing large assets. The contemporary trade treaty with Germany envisages a turn over of 60,000,000 lt. Now an increase of up to 110,000,000-120,000,000 lt. is being planned. Bearing in mind that at present there have been no restrictions for the import from Germany and our import can not equal the export, it is doubtful if practically the import could be doubled. Measures should be taken to force the issue of import.¹⁷

Imports can be divided into a) consumer goods, b) commodities and c) new investments. The import of larger amounts of consumer goods would hardly be feasible, because that is associated with the market receptivity. On the other hand, being at war, Germany could hardly supply the necessary kinds of goods. It would also be not reasonable to increase the import of consumer goods, since that would not raise the economic capacity of the country. It would suffice to make that type of import livelier by allotting 30 mln.-50 mln. lt. as a tem-

¹⁶R. Žepkaitė. *Vilniaus istorijos atkarpa*, 65 (The author's reference to the *pro memoria* of the Economic Department of the Ministry of Foreign Affairs concerning the trade relations with Germany. LCVA, f. 383, ap. 9, b. 192, l. 36-41.)

¹⁷The *pro memoria* of the Economic Department of the Ministry of Foreign Affairs concerning the trade relations with Germany. LCVA, f. 383, ap. 9, b. 192, l. 36.

porary and exclusively commercial credit, extended either by the Bank of Lithuania itself, or by some short-term credit banks. Additionally, the government would have to assume responsibility (at least for 75 per cent should the war end soon), since private capital would not run such risk.

In addition to credits, there must be bodies to organize import in case ordinary trading operations would be insufficient. For that purpose special joint-stock companies should be set up. Existing trade organizations should be encouraged to accumulate stocks of necessary commodities, financed by the above-mentioned credits. One more way would be complete cancellation of import licences for German goods. If import quotas were not promptly fulfilled, appropriate branch companies could start working to deal with the situation. Thus they would perform the function of an economic regulator.¹⁸

The renewal of all the branches of national economy should be given greater attention than it had been done so far in the yearly budgets. For that purpose the interested branches of economy should draw their budgets and be given credits enabling them to make unrestricted orders. The resulting temporary deficit of the state budget could be compensated for by issuing short-term bills of the state treasury.

New investments would be the main type of the import from Germany:

1) Industrialists and craftsmen should be encouraged to develop, reconstruct and modernize their enterprises; these investments would require the minimum of state credits and would soon yield results.

2) A special modernization plan should be prepared (and endorsed by the budget) for the capital investments into national economy and corresponding departments made responsible for its realization.

3) In establishing new enterprises emphasis should be laid on the use of private capital, wherever possible. In the spheres where private initiative would be insufficient, private joint-stock companies could be set up with the help of state capital. This investment plan should envisage the establishment of industrial enterprises, necessary for the whole of Lithuania, so that it could become as soon as possible a country exporting products or at least semi-finished products rather than raw materials. The number of orders should be large enough to exploit fully the possibilities of the trade with Germany, its own export potential and not freeze the assets.¹⁹

For this commerce activity to proceed smoothly it is necessary to set up (a) a special body, responsible for the preparation of orders and (b) a corresponding financing mechanism, acting also as a regula-

¹⁸*Ibid.*, I. 37.

¹⁹*Ibid.*, I. 38.

tor in case of any disproportion between Lithuanian export and its import from Germany. Priority should be given to financing investment orders. There would be no need for foreign credits, because Lithuania would import in conformity with its exports. The state, however, would be faced with the problem of paying the producers for their export products, because the means, derived from the export to Germany, would be invested in industry.²⁰

This type of economic policy would give the country a chance to exploit the war situation to take a big step forward in creating industry to increase its economic capacity and raise the living standards without foreign loans and the danger of economic enslavement. Agricultural capacity could also be more fully exploited.

The report ends with the conclusions, related to the endeavours of avoiding the danger of freezing the assets in Germany. The following measures are recommended:

- 1) enforced purchases of consumer goods and laying up of their supplies;
- 2) increasing urgent state orders, and
- 3) placing large-scale investment orders.

Practically, the increase of Lithuanian exports in the first months of the war should be compensated by importing commodities for keeping in reserve and for state institutions and later - after a year or two - by importing investment values. However, the orders for the production of investment values should be placed in advance, so that they could be shipped without delay. If everything is organized in due time, it could be expected that Lithuanian assets would not be frozen in Germany.²¹

Even if one could describe the attitude of the Economic Department of the Ministry of Foreign Affairs toward the chances of Lithuania as over-optimistic, its staff did not lack sensible reasoning. Certain preliminary steps were made and already in 1939 some departments compiled lists of commodities to be bought in Germany in 1939-1941. The plans for investment orders were quite impressive, the total reaching over 120,000,000 lt.

The list of the Ministry of Communications comprised fuel, machines and equipment for 69,600,000 lt. (locomotives, carriages and stocks, tracks, etc. - 27,300,000 lt., 450,000 tons of coal and 50,000 tons of coke - 30,000,000 lt., preparations for the construction of the seaport of Šventoji - 3,800,000 lt., automatic telephone exchange equipment - 700,000 lt.).²²

²⁰Ibid., I. 39.

²¹Ibid., I. 40.

²²The list of commodities to be bought in Germany in 1939-1941. LCVA, f. 387, ap. 4a, b. 3183, I. 5 (coal and coke were meant not only for the needs of the Ministry of Communications).

Maistas, *Pienocentras* and *Lietūkis* planned to purchase goods for 6,200,000 lt. (fuel tanks, engines, agricultural equipment, materials for barrel production, pipes for artesian wells, an elevator in the sea-port of Šventoji). Additionally provision was made for 2,500,000 lt. for the equipment of the narrow-gauge railway and for various factory equipment.²³

The imports, planned for industrial needs: 20 peat machines (1,000,000 lt.), two cement factories, each with the capacity of 75,000 tons (4,000,000 lt.), 20 brickyards to produce 50,-60,000,000 bricks (1,500,000 lt.), equipment for the extension of a hardware factory (1,000,000 lt.), railway car works (3,200,000 lt.), a factory of agricultural machinery (1,000,000 lt.), two plywood factories with the capacity of 15,000 and 8,000 m² (2,000,000 lt.), a sugar refinery (3,000,000 lt.), dairies (1,400,000 lt.), slaughterhouses, refrigerators and their equipment (1,000,000 lt.), textile mill equipment (5,000,000 lt.), 20 factories of primary flax processing (3,300,000 lt.), factories of superphosphate (100,000 tons) and sulphuric acid (4,000,000 lt.), a factory of synthetic ammonia and soda (1,500,000 lt.), a factory of chlorine and alkali (1,000,000 lt.), an iron and steel foundry (1,000,000 lt.), a factory of industrial machinery (1,000,000 lt.), a cellulose factory, including the equipment for the production of paper (3,500,000 lt.); finally the debt of the power station of Skaruliai (6,000,000 lt.) should be mentioned. All in all, plans were made for purchasing various commodities and equipment (including the construction of factories) for 53,800,000 lt.²⁴

The balance of the Lithuanian-German trade shows the first steps in the realization of these contracts. In May-December 1939 the monthly import from Germany was 5,400,000 lt., whereas in January-April 1940 it was 10,400,000 lt. The former positive balance made up 670,000 lt. a month, while at the beginning of 1940 it became negative and reached 1,200,000 lt. 25

Issues, related to Lithuania's industrialization plans will be discussed below. The materials analyzed so far are important in that they indicate radical changes in the foreign trade of the country, the attempts to minimize their negative effects and the efforts of the state to interfere into economy and to establish centralized control of its foreign trade and economy in general.

Discussions on Cooperation and State Joint-Stock Companies

In 1939-1940 the state sector in the national economy was relatively large in all the Eastern Baltic states, actually, one of the lar-

²³Ibid., I. 5-6.

²⁴Ibid., I. 7-8.

²⁵The estimate is based on *Ekonominis biuletenis*, no. 22, 1940. LCVA, f. 923, ap. 1, b. 1081, l. 45; *Ekonominis biuletenis*, no. 23, 1940. LCVA, f. 923, ap. 1, b. 1081, l. 9.

gest in the world (of course, excepting the Soviet Union). In Lithuania the state share in the total industrial output reached about 15%²⁶ and, in actual fact, the share of the social sector was even greater, because some of the industrial enterprises belonged not to the state, but to local government bodies. In 1937 the commodity turnover of the *Mais-tas* joint-stock company alone was 1.5%; 69.8% of its shares belonged to the state treasury.²⁷ In 1939 Lietūkis controlled 15.5% of the total Lithuanian export, and trade cooperatives, in which a considerable share of the capital belonged to the state, had between 20 to 25% of the total commodity turnover (in 1937 - 15.6%).²⁸ The state also controlled all railways, postal communications, telegraph and radio, etc., and actually all the sea transport belonged to the state as well.

On 1 January 1939 the share of the state made up 88,250,000 lt. in the assets of the 21 joint-stock companies (86.2% of the total capital of 102,300,000 lt. of these companies).²⁹ On 1 January 1940 the capital of 22 joint-stock companies was 105,800,000 lt., and of that sum 78,900,000 lt. (or 74.55%) belonged to the state.³⁰ At that time 137 joint-stock companies functioned in Lithuania and their capital was 205,400,000 lt.³¹ Thus, between the end of 1937 and the beginning of 1939 the proportion of the state capital slightly decreased and made up 38.4% of the total joint-stock capital.³² The major investments of

²⁶The estimate is based on *Lietuvos statistikos metraštis (LSM)*, vol. 12, 1939, 172, 174, 180-182, 185; *Lietuvos pramonė ikisocialistiniu laikotarpiu*. Vilnius, 1976, 394-402; Step. Stankus. Mišrinė įmonė, *Ekonomika*, no. 1(17), 1939, 19-43; *Lietuvos ūkio paskutinis dešimtmetis: Prekybos, pramonės ir amatų rūmų konjunktūrinė ūkio apžvalga*. Kaunas, 1938, 34-56; *Vyriausybės žinios*, no 573 (part 2), 1939, 20; no. 579 (part 2) p. 18; no. 580 (part 2), p. 18; no. 700, 1940 (Priedai), p. 342; no. 706 (Priedai), p. 448.

²⁷*Lietuvos ūkio paskutinis dešimtmetis*, p. 99-105.

²⁸*LSM*, vol. 12, 1939, 283, 285; *Lietuvos ūkio paskutinis dešimtmetis*, p. 105-110; *Mažoji lietuviškoji tarybinė enciklopedija*, vol. 2, p. 911. Sometimes larger figures could be found - 34 per cent of the commodity turnover are attributed to cooperatives and their unions, and together with Maistas and Lietuvos cukrus this turnover is raised to 50 per cent; see A. Martinaitis. Juozas Tūbelis - ūkių organizatorius. *Lietuvos ūkis*, no. 14, 1991, 31.

²⁹S. Stankus. Mišrinė įmonė. *Ekonomika*, no 1(17), 1939, 28-29.

³⁰M. Lipčius. Nepaprastų valstybės išlaidų vaidmuo tautos ūkyje. *Tautos ūkis*, no. 9, 1940, 184.

³¹P. Tamošaitis. Akcinės bendrovės 1939 m. *Tautos ūkis*, no. 21-22, 1940, 419.

³²The data, presented by Pr. Tamošaitis, are slightly different: on 1 January 1940 the state treasury had shares in 21 joint-stock companies (including five Klaipėda companies) and their total value was 78,900,000 lt. In Lithuania (excepting the regions of Vilnius and Klaipėda) the state possessed 36.1 per cent of the capital of all the companies. See: *ibid.* 420.

the state capital were made in the sphere of credit³³ and food processing industry.³⁴

Ideas of cooperation were persistently advocated throughout the entire period of independence of the country between the wars. Cooperation was considered one of the most effective ways for realizing various economic programmes. The Nationalists and their adherents vigorously maintained that namely cooperation would enable the national bourgeoisie to accumulate larger amounts of capital. In the late 1930s hundreds of thousands were members of cooperative societies. This movement changed the character of the country's economy - the development of agriculture from plant-growing to cattle-breeding, the rise of the food-processing industry and a quite effectively functioning export.

The cooperative joint-stock company *Lietūkis* mainly exported grain and other agricultural produce, in which *Maistas*, *Pienocentras* or *Lietuvos cukrus* did not deal. *Lietūkis* imported the majority of the products necessary for agriculture: fertilizers, agricultural machines and equipment, salt, oil products, etc., purchased and sold grain, flax, eggs in the internal and foreign markets, sold fertilizers, agricultural machines and implements, selective seeds and thoroughbred animals; it also organized dairy societies and built grain-elevators, mills, etc.

The union of cooperative societies, *Pienocentras*, organized the production and export of butter and the sale of dairy products in the internal market. It was also engaged in the export of eggs, and in the late thirties - in fruit processing and export. In 1939 *Pienocentras* had 185 dairies, producing cheese and butter. It also bought eggs for export, built a juice factory and several fruit refrigeration store-houses.

Maistas, regulated by cooperative organizations, developed pig-breeding and the production of bacon; it also controlled cattle purchase, meat processing and export.³⁵

³³Three joint-stock banks - Lietuvos bankas, Žemės bankas and Kooperacijos bankas - whose joint-stock capital made up 63.2 per cent of mixed and 29.4% of the capital of all Lithuanian joint-stock companies. On 1 February 1940 the share capital of these banks was 65,000,000 Lt., constituting respectively 61.4 per cent of the capital of the mixed and 31.6 % of all Lithuanian joint-stock companies. See: K. Sruoga. Lietuvos įmonės, kuriose dalyvauja valstybė, p. 919; M. Lipčius. Nepaprastų valstybės išlaidų vaidmuo tautos ūkyje. *Tautos ūkis*, no. 9, 1940, 184.

³⁴Joint-stock companies Maistas and Lietuvos cukrus, whose share capital was 16,750,000 Lt. at the end of 1937 (7.6% of the total share capital in Lithuania in 1937 and as much as 8.15% at the beginning of 1940); see: K. Sruoga. Lietuvos įmonės, kuriose dalyvauja valstybė, p. 919; M. Lipčius. Nepaprastų valstybės išlaidų vaidmuo tautos ūkyje. *Tautos ūkis*, no. 9, 1940, 184).

³⁵V. Pauliukonis. Kooperacijos įaugimas į valstybinio monopolistinio kapitalo sistemą buržuazinėje Lietuvoje. *Ekonomika*, vol. 2, 1962, 108; A. Martinaitis. Juozas Tūbelis - ūkių organizatorius. *Lietuvos ūkis*, no. 14, 1991, 29-31.

Pienocentras, *Lietūkis* and *Maistas* were closely associated with the state structures. Not a single of these three major Lithuanian economic organizations could function without the support and attention of the government. In 1939 the export of *Pienocentras* made up 28% of the entire Lithuanian export; the share of *Lietūkis* was correspondingly 15%. Together with *Maistas* the export of the 'big three' constituted 77% of the total export of the country.³⁶

The formation of such powerful monopolies of production and commerce (in the first place in the sphere of export and import) and the support they received from the government not only caused the resistance of their rivals, but also the doubts of some specialists and government officials about the rationality of such a tendency in the conditions of Lithuania. The critics maintained that the state control of these great economic amalgamations was only fictitious. In due course it became quite obvious that the government itself had to follow their dictate, and in future it could endanger the policy of the state.³⁷

Thus a sort of paradoxical situation developed. In its efforts to effectively control national economy, the government established large economic structures to organize production and commerce. Using government capital and enjoying the support of state institutions, these influential structures successfully developed their activity and looked for new spheres. They coordinated their interests to avoid mutual competition and set up branch structures, thereby increasing their influence in those spheres, which up to that time had been the preserve of private business.³⁸ At the same time, those who considered these tendencies undesirable and even detrimental to the state, continued requiring greater state control and stricter economy management on the part of the government.

³⁶*LSM*, vol. 12, 1939, 281, 285; *Žemės ūkio ministerijos metraštis*. XX, Kaunas, 1938, 11-15, 63-64.

³⁷Ūkiškos centralizacijos problema. *Tautos ūkis*, vol. 17, 1940, 339.

³⁸One of the most evident instances of this tendency was the meeting of 4 January 1939, at which the representatives of *Lietūkis*, *Pienocentras*, *Sodyba* and the Department of Agriculture of the Ministry of Agriculture decided to divide among themselves the spheres of activity and to re-arrange the purchase, processing and export of seeds, berries and fruits (LCVA, f. 1064, ap. 3, b. 54, l. 372-377). Thus the society *Sėklininkas*, actually, was 'swallowed', and *Sodyba* was re-organized into a joint-stock company in spite of the protest of the meeting of its members. See: minister of agriculture Jurgis Kriksčiūnas' letter of 6 July 1939 to the minister of finances Jonas Sutkus concerning centralizing the export of cherries and black currants. LCVA, f. 1064, ap. 3, b. 54, l. 289; the 4 July 1939 letter of the board of the union *Sodyba* of the societies of the Lithuanian agricultural minor branches and special cultures to the minister of finances J. Sutkus concerning the fruit export. LCVA, f. 1064, ap. 3, b. 54, l. 290-291; the 18 April 1939 letter of the general meeting (of 14 April 1939) of the union *Sodyba* of the societies of the Lithuanian agricultural minor branches and special cultures to the minister of agriculture J. Kriksčiūnas to the effect not to change the status of the co-operative society *Sodyba*. LCVA, f. 1064, ap. 3, b. 54, l. 393).

In the period between the two world wars the idea of the society of 'civilized co-operators' was cherished by many Lithuanian specialists, in particular by farmers. Algirdas J. Greimas, maintaining that the progress of national economy was achieved due to the efforts of 'largely socialist' proponents of co-operation, meant Jonas Aleksa, Jurgis Krikščiūnas, Jonas Kriščiūnas, Juozas Tubelis and many other specialists of Lithuanian national economy.³⁹

In 1939-1940, when attention was focused on the centralization of those spheres of foreign trade, which up to that time had been in the hands of private entrepreneurs, and when new monopolistic centres were formed, the competitive rivalry intensified between those who more or less could be considered adherents of cooperation and their enemies, although in actual fact it was a clash of competitors. In this respect the regulation of the flax trade is worth closer examination. Various unexpected turns and the outcome of the struggle vividly reveal the topicalities of the economic policy in the last years of Lithuania's independence.

In independent Lithuania not much attention was paid to flax growing, although in the early twenties flax fibre and seed export was quite vigorously, because prices were rather high. In 1930 and 1931 prices fell and flax crops decreased. At the end of 1934 a law on the control of flax fibre and tow was passed introducing the sorting and control of the exported products. When the competitive ability of Lithuanian flax strengthened, farmers again began to pay greater attention to flax growing. In 1935-1938 the income from the recovering flax production and export was 107,500,00 lt. or 13.71% of the total national export income of 784,300,000 lt.⁴⁰

Flax growing was one of the main branches of agriculture which for a long time had not been covered by any form of co-operation. Greater interest in its re-organization was shown only in the mid-thirties. In February 1939 the Seimas commission for farming affairs stated that in Lithuania the areas under flax were too small, the quality of flax fibre for export was poor and in foreign markets Lithuanian flax was being assigned a low rating. Relatively simple organizational measures could improve the situation and raise the value of Lithuanian flax by 10% to 15% in the international market. Under the aegis of the state a joint-share or co-operative company should be entrusted with a task of flax trade.⁴¹

³⁹A. J. Greimas. Antanas Smetona ir kas toliau. *Kultūros barai*, no. 5, 1989, 57.

⁴⁰The estimate is based on *Žemės ūkio metraštis*. XX, Kaunas, 1938, 11-12; LSM, vol. 11, 1938, 252, 256.

⁴¹The 23 February 1939 letter of the Seimas commission to the Council of Ministers concerning the re-organization of flax production. LCVA, f. 923, ap. 1, b. 1063, l. 21, 23.

On 4 July 1939, the Council of Ministers set up a commission for the restructuring of flax production.⁴² The commission investigated the production and trade aspects and compared them with the situation in the countries of the 'next-door neighbours.' The members were not unanimous in their recommendations. Thus two projects on the reorganization of flax production and trade were proposed: those of the chairman of the commission, J. Tubelis, and of the director of the Agricultural Department of the Ministry of Agriculture, Vladas Tiškus.

According to both projects, flax production was to be organized in the way similar to dairy-farming or pig-breeding, and decisive measures should be taken to develop flax production and export.⁴³ 'Maximum centralization'⁴⁴ should be the objective of flax trade (purchase - processing - export), said the project of the commission.

When the war broke out, the demand for flax as a strategic material increased sharply. On 20 October 1939 the Council of Ministers decided (1) to centralize flax purchase and processing for export, (2) to commission the co-operatives to perform those tasks, (3) to entrust the control of flax export to the Ministry of Agriculture.⁴⁵

After the release of this resolution the Ministry of Agriculture set up to cooperative union, *Linas*, authorizing it to deal with all the problems of flax growing and commerce. On the basis of the 28 November 1939 resolution of the Minister of Finances the Chief Controller of Flax and Tow in January 1940 informed all the private dealers and exporters of flax to end the purchase and export of flax by 1 May 1940.⁴⁶

Flax dealers, however, did not give up. In January 1940, the member of the Seimas Gen. Julius Čaplikas, representing the joint-stock company *Linių eksportas*, handed the prime minister, Merkys, a memorandum to the effect that *Linas* was laying claims to a monopoly in flax trade and on the orders of the Minister of Finances private companies had to cease functioning by May 1 1940. The disappearance

⁴²The 4 July 1939 minutes of the sitting of the Council of Ministers. LCVA, f. 923, ap. 1, b. 1080, l. 122.

⁴³The project of the plan for the reconstruction of flax production, on 11 September 1939 submitted to the Council of Ministers by V. Tiškus, director of the Agricultural Department of the Ministry of Agriculture and a member of the commission of the Council of Ministers on the reorganization of flax growing. LCVA, f. 923, ap. 1, b. 1064, l. 183-186; the plan for the investigation of the re-organization of flax growing in Lithuania, submitted to the Council of Ministers on 30 August 1939 by the commission of the Council of Ministers on the re-organization of flax production. LCVA, f. 923, ap. 1, b. 1064, l. 187-188b.

⁴⁴The plan for the investigation of the re-organization of flax growing in Lithuania, submitted to the Council of Ministers on 30 August 1939 by the commission of the Council of Ministers on the re-organization of flax production. LCVA, f. 923, ap. 1, b. 1064, l. 188.

⁴⁵The 20 October 1939 minutes of the sitting of the Council of Ministers. LCVA, f. 923, ap. 1, b. 1080, l. 195.

⁴⁶The 20 April 1940 letter of the board of the cooperative union *Linas* to the Council of Ministers on the re-organization of flax export. LCVA, f. 923, ap. 1, b. 1550, l. 151.

ce of competition would be detrimental to the economic interests of the state.⁴⁷

In April 1940 private businessmen again applied to A. Merkys, explaining the advantages of competition and the role of *Linų eksportas* in the economy of the country. The prime minister was asked not to deprive private businessmen of the right of flax export and import. The suspension of the company's activity 'at this time would incur great material losses for national economy'.⁴⁸

The démarche was effective. The Ministry of Finances endorsed the charter of *Linų eksportas* and allowed it to continue the flax export after 1 May 1940. During his visit to the minister of finances, E. Galvanauskas, on 16 April, the chairman of the cooperative union, J. Krikščiūnas, learned that there appeared doubts as to the full transfer of purchase and export transactions to *Linas*. The board of *Linas*, in its turn, issued a memorandum, requiring the observation of the Council of Ministers, decision of November 28 1939 which forbade private dealers and their unions purchasing and exporting flax.⁴⁹

The debate in the Seimas was extremely stormy, during discussion of draft of the law 'On Managing National Economy in the Extraordinary Situation.' The member of the Seimas A. Andrašiūnas declared that co-operation was in jeopardy, while the war showed that but for cooperation Lithuania's economy would have suffered much greater losses, because foreign capital was forcing its way into the country 'with the connivance of some government officials.' The foreign capital is threatfully occupying 'our positions, our places. <...>. If the uncontrollable private capital dominated everywhere, life would be hard'.⁵⁰ Jonas Tallat-Kelpša deplored the tendency to restrict the activity of the co-operatives.⁵¹

The advantages of co-operation are ostensible, retorted Gen. J. Čaplikas. Co-operation, often taking the form of bureaucratic state institutions, does not fairly compete with private business. Both bu-

⁴⁷The 28 January 1940 memorandum of J. Čaplikas, representing the joint-stock company *Linų eksportas*, to the prime minister on flax export. LCVA, f. 923, ap. 1, b. 1550, l. 157-158.

⁴⁸The 12 April 1940 memorandum of the joint-stock company *Linų eksportas* to the prime minister on flax export. LCVA, f. 923, ap. 1, b. 1550, l. 154-155.

⁴⁹The 20 April 1940 letter of the board of the co-operative union *Linas* to the Council of Ministers of flax export re-organization. LCVA, f. 923, ap. 1, b. 1550, l. 151-153.

⁵⁰The member of the Seimas A. Andrašiūnas' speech at the Seimas sitting of 5 April 1940 (the 8th ordinary session, sitting no. 178), discussing the draft of the law 'On Managing National Economy in the Extraordinary Situation,' presented by the minister of finances E. Galvanauskas. LCVA, f. 923, ap. 1, b. 1114, l. 583-584.

⁵¹The member of the Seimas and senior director of Maistas J. Tallat-Kelpša's speech on 20 April 1940 at the 6th extraordinary session of the Seimas (sitting no. 183/34), discussing the law of the state budget of 1940. LCVA, f. 923, ap. 1, b. 1114, l. 832.

reaucrats and private businessmen live at the expense of the farmers, who must be satisfied with a lesser share.⁵²

E. Galvanauskas rejected all the criticisms of the alleged intention of the government to suppress the co-operative organizations. Formulating the essence of the economic policy of the government he added that it was his wish that the organizations, financed by the Treasury 'should execute the policy of the government, and not of their own'.⁵³

The Industrialization of Lithuania:

New Aspects of the Old Problem

In the 1930s Lithuania's industrialization was much talked about, and in that connection great attention was also paid to the problem of autarky. Already in the period of the great economic crisis and depression in various Western European countries, a tendency had appeared to support their national economies and to make them less dependent on foreign countries. Autarkic tendencies were overwhelmingly evident in the economic policies of all states. Prohibitive custom duties, introduction of import and export quotas and of the licence system and the restriction of foreign currency transactions meant that 'the principle of the greatest favour in international trade remained only on paper'. Lithuania also had to abandon the liberal policy of commerce and introduce import regulation. The licensing system enabled the government 'not only to keep the import at the necessary level, but also offered a chance in the search for new markets ...'⁵⁴

Thus, there appeared proponents of economic self-sufficiency in Lithuania, too. True, here there were no adherents of absolute autarky.⁵⁵ All discussions mainly dealt with the development of national industry, in other words, with Lithuania's industrialization. There were good reasons to consider that only the country's industrialization could lead to autarkically conditioned economic advantages - the minimal and rational import.

⁵²The member of the Seimas J. Čaplikas' speech at the Seimas sitting of 5 April 1940 (the 8th ordinary session, sitting no. 178), discussing the draft of the law 'On Managing National Economy in the Extraordinary Situation,' presented by the minister of finances E. Galvanauskas. LCVA, f. 923, ap. 1, b. 1114, l. 585-586.

⁵³The concluding speech of the minister of finances E. Galvanauskas at the Seimas sitting of 5 April 1940 (the 8th ordinary session, sitting no. 178), discussing the draft of the law 'On Managing National Economy in the Extraordinary Situation,' presented by the minister himself. *ibid.* l. 610.

⁵⁴V. Mačys. Kaip mūsų vyriausybė kovoja su krize. *Tautos ūkis*, no. 11, 1935, 298.

⁵⁵Valdas Pruskus writes about bitter disputes between J. Krikščiūnas, allegedly categorically supporting the idea of autarky, and Albertas Tarulis, arguing that total autarky was inconceivable in Lithuania. See: V. Pruskus. Tautos ūkio idėjų ir vadybos raiška tarpukario metais (II). *Lietuvos ūkis*, no. 10, 1991, 36. The disputes did take place, however, neither the former maintained that absolute autarky was feasible in Lithuania, nor the latter stated that the country should not strive for greater economic freedom.

The arguments of the adherents of Lithuania's industrialization were the following: (1) industrial investment generates quicker profit than agricultural investment; (2) industrial growth facilitates the purchasing capacity of the population, thus stimulating the development of trade; (3) the rise of the population's income leads to the increase of the budget, capital accumulation and to greater attention to culture, social welfare and the defence of the country.

In the opinion of Galvanauskas and like-minded colleagues, industrialization needed to be tackled without delay because only a very small part of the population was engaged in industry, and extensive agriculture could not offer decent living conditions for such large numbers of the people in the countryside. The annual increase of the population of about 20,000 to 25,000 also presented a problem (they could neither find jobs nor emigrate). There was a surplus of food products, although the consumption level throughout the country was not high. Furthermore, Lithuania to a very great degree depended on industrial countries, which used to buy cheaply Lithuanian agricultural produce and fix high prices for their industrial goods.

The opponents of rapid industrialization argued that previously the priorities given to the development of Lithuanian industry often resulted in the rise of prices and poorer quality of domestic products in comparison with imported ones. In general, the government, the president Antanas Smetona and the majority of the specialists tried to take a middle way, in principle being concerned with the concept of national autarky.⁵⁶

The economist Albertas Tarulis wrote that for Lithuania autarkic policy was its industrialization. In that sphere obvious progress had been made in some spheres of industry, such as textiles, clothing, paper, sugar refining, producing for the home market and dairy and meat processing, producing mainly for export. That led to the increase in the number of people, employed in industrial enterprises, their concentration, and to the changes in the structure of Lithuanian export and import. The obstacles that prevented the development of industrialization were the increasing impecuniosity of the population in the first half of the thirties, the loss of some foreign markets and the fall of the prices of the exported agricultural produce. The basis of further industrialization should have been the rational satisfaction of the internal demand and the increase of agricultural produce, suitable for export. The export of semi-finished products should not be relied upon. In future industrialization should be 'no more spontaneous, but planned, taking into account the power resources, raw materials, the presence of specialists and introducing correctives into the economic policy; ... pursuing the autarkic policy of industrialization, sacrificing ne-

⁵⁶V. Pruskus. Tautos ūkio idėjų ir vadybos raiška tarpukario metais (II). *Lietuvos ūkis*, no. 10, 1991, 36.

ither export, nor import, but properly regulating and developing both aspects'.⁵⁷

The government was aware that Lithuania could not be isolated from the international market and that artificial restriction of foreign trade would not be reasonable. On the other hand, nobody doubted the need of lesser dependence on other countries. Therefore in the thirties serious attempts were made to develop both the food production for export and other branches of (light) industry to meet the internal demand. Their expansion was encouraged by corresponding custom duties, credits and direct investment of the state capital.

In the late 1930s the minister of finance, Julius Indrišiūnas, called for a more energetic regulation of the national industrial development and proposed to set up a special institution to deal with industrialization.⁵⁸ On his initiative the project of setting up the Ministry of Industry and Commerce was launched and the law on industry was being prepared.⁵⁹

Later on, in 1939, the minister of finance, J. Sutkus, arguing in favour of the Department of Industry and Commerce at the Ministry of Finance, indicated that the primary task of that department would be 'to take care of Lithuania's industrialization, which has become the problem of utmost importance of the country's national economy'.⁶⁰

In May 1940 the prime minister, Merkys, said that 'the government is extremely concerned with the expansion of national industry. The task of the new Bank of Industry is to provide the funds, necessary for the development of industry'.⁶¹

Despite Lithuania's tragic international position and grave economic situation the end of 1939 and the beginning of 1940 was the period of substantial constructions and still greater plans. The construction of a sugar refinery (the third in the country) in Panevėžys was finished in 1940. The construction of the sea-port of Šventoji was going on and even its coming into operation was expected.⁶² *Elektra*, a joint-stock company in Rekyva at Šiauliai, nearly completed the

⁵⁷A. Tarulis. Autarkinės tendencijos Lietuvos ūkyje. *Tautos ūkis*, no. 5, 1936, 132.

⁵⁸Aktualieji mūsų ūkio reikalai. A talk with the acting minister of finances J. Indrišiūnas about industrial and other urgent problems of economy. *Tautos ūkis*, no. 1, 1937, 5.

⁵⁹V. Mačys. Steigtina pramonės ir prekybos ministerija. *Tautos ūkis*, no. 46, 1939, 851; A. B. Dėl Finansų ministerijos reorganizacijos. *Tautos ūkis*, no. 49, 1939, 911; Dz. Budrys. Pramonė 1939 metais. *Ekonomika*, no. 2, 1939, 125.

⁶⁰The minister of finances J. Sutkus' explanatory note of (May or April?) 1939 to the Council of Ministers concerning the setting up of the Department of Industry and Commerce at the Ministry of Finances. LCVA, f. 923, ap. 1, b. 1061, l. 443.

⁶¹The prime minister A. Merkys' speech at the 7 May meeting of the Chamber of Commerce, Industry and Handicrafts. *Tautos ūkis*, no. 18, 1940, 360.

⁶²The draft estimate of the Ministry of Communications, presented by its minister K. Germanas to the Council of Ministers on 23 August 1939. LCVA, f. 923, ap. 1, b. 1118, l. 112.

construction of the power plant to supply electricity to the districts of Šiauliai and Panevėžys and a cement factory to be built in Skirsnemūnė.⁶³

There were more large-scale construction plans. A water way, connecting Kaunas, Vilnius, Klaipėda, Kėdainiai and Ukmergė, was proposed.⁶⁴ After the return of Vilnius to Lithuania at the end of 1939 and with the appearance of the common frontier with Russia, the Lithuanian government forecast the Soviet need for transit through Lithuania to the West. After an analysis of the possible transport routes the traffic capacity of the Šiauliai-Kretinga railway was found insufficient. Therefore the construction of a new railway from Kazlų Rūda through Šakiai to the coast of the Baltic Sea was started without delay.⁶⁵

The central issue of that time was electrification of the country along planned lines. This objective was formulated by the government quite comprehensively: (1) to provide the whole country with cheap electricity, accessible to the wider strata of society; (2) to unify the conditions of power supply irrespective of the distance between the locality of the user and the power plant; (3) to use all the resources of the country suitable for the production of electricity; (4) to coordinate power production with the needs of the entire national economy.

A special committee - the Committee of Power - was set up for the preparation of a plan and for the studies related to its further elaboration and realization. The outline of the plan was drawn up by the spring of 1940. *Elektra*, a special company, was established for bringing the plan into effect.⁶⁶ In the first five years (1939-1943) the following major constructions were planned: to finish the construction of the Rekyva complex, to build the power plant of Turniškės and the energy transmission line between Vilnius and Kaunas, to carry out preliminary work for the use of the water power of the river Nemunas, to build the Minija power plant and the transmission lines between Plungė, Kretinga, Palanga and Šventoji. Electrification costs were estimated at about 500,000,000 lt. and foreign loans were planned, as 'so much free capital could not be found in the country'.⁶⁷

⁶³ The minister of communications K. Germanas' letter of 9 October 1939 to the Council of Ministers on the request of *Elektra* to rent a part of the Rekyva peatbog. LCVA, f. 923, ap. 1, b. 1064, l. 18; the minister of communications J. Masiliūnas' answer to a question of a number of the members of the Seimas concerning Lithuania's electrification. The 28 May 1940 sitting (no. 192/33) of the 6th extraordinary session of the Seimas. LCVA, f. 923, ap. 1, b. 1114, l. 771-772.

⁶⁴ Explanatory letter concerning the structure of the Board of Waters of the Ministry of Communications. LCVA, f. 923, ap. 1, b. 1118, l. 115.

⁶⁵ The construction was interrupted in the summer of 1940. See: A. Gulbinskas. *Transporto viečia rinkos sistemoje. Lietuvos ūkis*, no. 15, 1991, 13.

⁶⁶ The answer of the minister of communications J. Masiliūnas to the question of a group of the members of the Seimas concerning Lithuania's electrification. The 6th extraordinary session of the Seimas, the 28 May 1940 sitting no 192/33. LCVA, f. 923, ap. 1, b. 1114, l. 771.

⁶⁷ *Ibid.*, l. 772.

In 1940 attention was focused on the construction of the hydroelectric station of Turniškės. Its building was started by the Poles and work was continued according to their designs. However, the designs had not been finished, and the construction had to be interrupted temporarily until the preparations of the necessary blueprints. A contract was signed with a Swedish firm for the final designs. Eventually the cost of the construction became known.⁶⁸ By the end of 1939, 1,500,000 Lt. had been spent for the construction of the power plant of Turniškės, and preliminarily the total cost was estimated at about 18,000,000-20,000,000 Lt. In the budget of 1940, 4,300,000 Lt. were allotted for that construction.⁶⁹

Industrial investments aroused the concern, even dissatisfaction of some economists, in particular, of the agriculturists. The member of the Seimas A. Andrašiūnas criticised the project of the 1940 budget for its insufficient attention to agriculture (of the total sum of 432,000,000 Lt. only 40,000,000 Lt. were assigned to agriculture).⁷⁰ His standpoint was maintained by the deputy chairman of the Seimas J. Indrišiūnas, indicating possible negative social consequences of the industrial development.⁷¹ S. Jakubauskas voiced his apprehension about the increased purchase of shares to finance industry, transport and other branches of economy.⁷²

Expressing his attitude to those remarks, E. Galvanauskas maintained that in its agricultural policy the government was taking measures to raise agriculture to a higher level - from plant-growing to animal-husbandry and dairy-farming. Attempts were made to intensify agriculture, to organize the manufacture and sale of the produce. The realization of those objectives would be possible if the country had an adequately developed industry.⁷³

State Regulation of Economic Relations

At the beginning of World War II the law 'On Managing National Economy in the Extraordinary Situation' was passed. The fi-

⁶⁸ Ibid.

⁶⁹ Ibid., I. 744; R. Žepkaitė, *Vilniaus istorijos atkarpa*. p. 95

⁷⁰ The speech of the member of the Seimas A. Andrašiūnas on 20 April 1940 at the 6th extraordinary session of the Seimas (sitting no. 183/34), debating the law of the 1940 state budget. LCVA, f. 923, ap. 1, b. 1114, l. 843.

⁷¹ The speech of the first deputy chairman of the Seimas J. Indrišiūnas on 20 April 1940 at the 6th extraordinary session of the Seimas (sitting no. 183/34), discussing the law of 1940 state budget. LCVA f. 923, ap. 1, b. 1114, l. 846-847.

⁷² The speech of S. Jakubauskas, director of the Chamber of Agriculture and member of the Seimas, on 20 April 1940 at the 6th extraordinary session of the Seimas (sitting no. 183/34), discussing the law of the 1940 state budget. LCVA, f. 923, ap. 1, b. 1114, l. 825-826.

⁷³ The concluding speech of the minister of finances E. Galvanauskas on 20 April 1940 at the 6th extraordinary session of the Seimas (sitting no. 183/34), debating the law of the 1940 state budget. LCVA, f. 923, ap. 1, b. 1114, l. 864-865.

nance minister was empowered to regulate exports, imports, production and commerce. The penalties for violating the decisions of the minister could be as severe as 100,000 lt. or a jail term of six months. During a buying panic basic goods and foodstuffs could be sold only at the usual prices to the permanent customers - that was the instruction issued by the Price Controller. Merchants were forbidden to raise prices and pile up goods. The sale of kerosene and petrol was restricted - only the enterprises, offices and their transport were given police permits to acquire fuel.⁷⁴

On 7 October on the basis of the new law, the minister of finance, J. Sutkus, issued a new order, relating to the setting-up of enterprise unions. The order indicated that 'mandatory unions of enterprises shall be established to coordinate the activity of enterprises with the interests of the state.' The aim of the unions was to perform the tasks, imposed by the ministry, of producing, importing, exporting, storing, distributing, selling goods and materials, and fixing prices.⁷⁵ By May 1940, 18 unions of that type were established.⁷⁶

E. Galvanauskas, having replaced J. Sutkus in the post of the finance minister, in the autumn of 1939 paid meticulous attention to the control of foreign trade. He continued his predecessor's policy of centralizing foreign trade and adhered to the opinion that a special centre was necessary for each major item (or a group of items) of export or import. What all that meant in practice was seen in the re-organization of flax trade.

Formally the activity of individual merchants was not forbidden, practically, however, it was severely restricted. E. Galvanauskas and others maintained that the centralized foreign commerce was not only easier to regulate, but also to sponsor. Free competition was to be tolerated only in home trade; the rivalry of Lithuanian businessmen abroad was not only useless, but also harmful.⁷⁷

Several important organizational reforms were carried out in the sphere of industry regulation. The recommended separate ministry of commerce and industry was not set up, however, the Department

⁷⁴ *Vyriausybės žinios*, no. 661, 1939, 578; *Vyriausybė kapitalo tarnyboje: Tautininkų socialinė ekonominė politika Lietuvoje: 1927-1940*. Vilnius, 1984, 41 (further on - *Vyriausybė kapitalo tarnyboje*).

⁷⁵ *Vyriausybė kapitalo tarnyboje*, p. 68-69.

⁷⁶ Posėdžiavo Prck[ybos], pram[onės] ir amatų rūmai. *Lietuvos žinios*, 8 May 1940. (The following were the enterprise unions: of Leather and Footwear, of Fur Industry and Import, of Brickworks, of Breweries, of Solid Fuel, of the Importers of Building Materials, of Commercial Mills, of Distilleries, of Textiles Importers, of Metal Industries and Import, of Paper and Cardboard Factories, of Flax and Cotton Industries and of some other unions).

⁷⁷ Centralizuojama užsienio prekyba: pasikalbėjimas su Finansų ministru inž. E. Galvanausku. *Tautos ūkis*, no. 50, 1939, 931-932.

of Commerce and Industry was established at the Ministry of Finances. Its task was to regulate the issues of industry and home trade.⁷⁸

On 7 May 1940 a new 'Law on Managing National Economy in the Extraordinary Situation,' was passed. This enabled the government to manage the activity of industrial enterprises still more effectively, to plan and control their production and to supervise home and foreign trade. The finance minister was authorized to request the owners of enterprises, no more functioning for certain reasons, to renew or begin manufacture and, in case of disobedience, to sequester them.⁷⁹

At the Seimas sitting on 5 April 1940, E. Galvanauskas stated that all possible steps are taken to protect national economy from external dangers and without delay react to various abnormalities, appearing in the home market in the present complicated economic circumstances. The finance minister was authorized to strengthen and regulate the country's productive forces and ensure that the essential vital demands of the population were satisfied - that was the reason why the minister was given such unrestricted powers.⁸⁰

The finance minister had to establish enterprise organizations, to fix the terms of their functioning, to check and approve the plans of their activity and to control their realization. He had a right (a) to issue import and export licences for particular goods and to fix corresponding taxes, (b) to centralize and control the provision of national economy with essential commodities, (c) to prohibit the import and export of certain goods, (d) to coordinate the activities of foreign firms in the country and the representation of Lithuanian trade interests abroad, and (e) in cases of deficiency to regulate the distribution of locally produced and imported goods.⁸¹

The finance minister was also authorized (a) to fix the quotas of production and sale, (b) to distribute production quotas among factories, (c) to establish the quantity of materials and goods for storage and (d) to oblige the enterprises to have sufficient amounts of raw materials and means of production.⁸²

⁷⁸The minister of finances J. Sutkus' note to the Council of Ministers concerning the establishment of the Department of Industry and Commerce at the Ministry of Finances. LCVA, f. 923, ap. 1, b. 1061, l. 439.

⁷⁹The finance minister E. Galvanauskas' speech at the Seimas sitting of 5 April 1940 (the 8th session, sitting no. 178), presenting the draft of the law 'On Managing National Economy in the Extraordinary Situation.' LCVA, f. 923, ap. 1, b. 1114, l. 568.

⁸⁰The finance minister of E. Galvanauskas' speech at the Seimas sitting of 5 April 1940 (the 8th session, sitting no. 178), presenting the draft of the law 'Managing National Economy in the Extraordinary Situation.' LCVA, f. 923, ap. 1, b. 1114, l. 568.

⁸¹*Ibid.*, p. l. 568-571.

⁸²*Ibid.*, l. 572-573. In E. Galvanauskas words, 'In respect to some means of production, the conditions of clearing are meant as a possibility for our enterprises to acquire more efficient and up-to-date means of production'.

The new law enabled the minister to exert greater influence in regulating the economy of the country.⁸³ Taken all in all, it was evident that at the beginning of the summer of 1940 attempts were being made to radically centralize Lithuanian economy.

⁸³Ibid., I. 573-574. E. Galvanauskas: 'I would not say that all that is an end in itself, nevertheless, everyday affairs have proved that such rights are necessary for the finance minister.'