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**The Belarusian economic model under pressure of the world crisis (*abstracts*)**

Out of 28 countries, which began to transit to market economy, Belarus was the only country that turned back. After the president Lukashenko, in whose pre-election campaign the word "market" was absent, took power in 1994, he stopped market reforms and strengthened administrative economy control.

By the assessment of World Bank (index of structural reforms) in the year 2000 Belarus was a country with a command economy or - to be precise - a socialist country/

Economist Janos Kornai gave three necessary and sufficient conditions for the attribution of a social system to socialism or capitalism. These are the conditions for socialism:

- 1) the predominance of state ownership over private;
- 2) the dominance of a centralized bureaucracy in the coordination of economic activities;
- 3) political power, the program which is aimed at the destruction of capitalism.

The Belarusian model corresponds to these specified conditions.

In Belarus the private sector produces 25-30% of the GDP only.

Coordination of economic activities is carried out by the bureaucracy. However, as was shown by L. Mises, a detailed regulation of the economy (which was observed in the USSR) in a small country can not be realized. But all in the economy is depending on two main forms of state intervention, which can be seen in today's Belarus: intervention by the way of restrictions and interference by means of regulating prices.

*Planning.* At the beginning of a planned year the government establishes 19 "indicative" or in fact planned indices: growth rates of production volumes, working efficiency, capital investments, etc. Every quarter the prime minister reports before the president about fulfillment of these indices. On hierarchy these indices come to the enterprises, including private ones (except for small enterprises).

For example, Minsk watch factory had no public share in its capital (up to 2008), but nowadays it has to manufacture watches though their stock in warehouses grows. Up to 1 December 2008, this stock equaled 28 months' output. The factory could start to produce another goods but then the district, in which territory the factory is located, would default the «expected» index of "consumer goods" output. This factory became an example of inefficiency of public planning, which was repeatedly described in mass media, but the situation has not changed.

Addition indicator was established so that the enterprises should work not for a warehouse. However, at the end of 2008, when the global crisis was expanding and demand for Belarusian goods was decreasing, enterprises kept on fulfilling the plan and increasing warehouse stocks. It became an additional factor of financial aggravation in the period of the global crisis.

*Prices and taxes.* Market pricing is not compatible with populist view of the justice. That is why several protective lines against market pricing. have been created They also remained after the Decree about liberalization of prices (from 6 February 2009). First of all, the prices of enterprises-monopolists are supervised. But there are too many of such enterprises for the small country (about 640 up to 1 January 2008, without natural monopolies). Especially if to take into account that there is a common customs space with Russia. The retail price of all import goods is limited.

In May of 1999, according to the Presidential Edict □ 285, the limitation of price growth for all kinds of goods and services was established, which refers to private enterprises too.

Every quarter the government should establish the same percent of admissible price growth for all enterprises. If an enterprise cannot keep within the set limit, it should prove the

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reasons to pricing agencies. This Edict braked economy development a lot, therefore the government was by degrees releasing from it more and more commodity groups.

Nevertheless, in 2007-2008, the total limitation of prices functioned again.

State bodies establish prices for the variety of economically significant goods and services: utilities rates, rates for all energy carriers, for urban and interurban transport, for taxi (including private taxi), for the variety of medicines, for all prices in building (except for building at the foreign investment expense), for mineral fertilizers, strong drinks and tobacco and for some other goods.

Belorussian reality satisfy the Kornai third conditions. Belarusian economic model is based on the priority of public benefit over a personal interest, which has been reflected in the Civil code accepted in 1998: '... the direction and coordination of state and private economic life is ensured by the state for social purposes (the principle of a social orientation of economic activity regulation) ... the realisation of the civil law should not contradict public benefit' (Article 2). Such a peculiar interpretation of the principles of the civil society functioning has given a legal ground for unlimited interference of the state into private economic activities.

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Note yet another mechanism for controlling the economy and society as a whole, nearly invisible to the outside observer. We mean well-built hierarchical system of personal dependence. The workers are employed on short-term contracts, nearly a half of the wage of an employee is depended from Chiefs (various bonuses, fringe benefits), undesirable for the authorities company, for example, may be eliminated in some days. The system of the personal dependence brings together the Belarusian model with the model that was in Germany in the 30-ies of the last century.

"Every act and every person needs to be regulated by society. This is called socialism! - Hitler pictured the German economic model, in response to criticisms that he is not fulfilling campaign promises to nationalize large companies,- And all the petty disputes of private ownership of means of production do not have any relation to it. Why talk about it, if I firmly link human by discipline, out of which they can not escape? Let them own land and factories as they want. The most important thing is that the state disposes of them through the party, regardless of whether they are owners or employees. Understand, the property does not mean anything else. Our socialism is much deeper. It does not alter the external order of things, but only shapes people's attitudes to the state, to nationwide community"<sup>1</sup> Ludwig von Mises, one of the ideologists of liberalism, who lived in the 30th of the last century in Germany, identified its social system as a "German model of socialism." Now this model is being formed in Belarus. But it does not refer to fascism as an ideology, and morality (for example, norm "push the weak" are not accepted). Just two models are similar to "Asian" mode of production. (Like socialism Stalin's sample).

Thus, institutions of a market economy and democracy in Belarus are only modern decorations of deeply archaic model, which is forming in Belarus since 1994. There is no private property in the European sense, there is no protection of property, it depends on the holders of power and subjected to arbitrary requisitions. The president controls the economy not only through restrictive measures and price controls, but also through effectively building the chain of the vertical personal dependence.

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Belarus economic model proved to be ineffective. The high-tech industry, the legacy of the Soviet Union, degraded (microelectronics, instrument, machine tools, etc.) and lost competitiveness. Modernization of capital fund is carried out too slowly. At this rate of updating the renewal of fixed capital will require 40-50 years. During the years of independence the structure of foreign trade has changed. Machinery and equipment exports has declined, while growth in the share of commodity exports. In 2007 about 75% of exports to the EU was the export of raw materials (oil, 53%, potassium salts, metals, wood).

GDP per capita in Belarus is lower than in Russia and other neighboring countries (except Ukraine). The average monthly salary in the first quarter of 2009 was about 250 euro, the average pension - approximately 115 euro. But the prices of goods in Belarus is not lower than, for example, in Poland.

Since 2005 economic growth and rising living standards have been supported by external factors. In 1996-2006 the rate of growth of wages was the two-fold higher than the rate of growth of GDP. In general, external support for the economy in 2007 reached an impressive value - 17-19 billion (25-30% of GDP), including the Russian donation - 9-11; increment of net external debt - 5.6; FDI-2.5 billion dollars. (the bulk of FDI proceeds from the sale of state property).

But Russia began to reduce subsidies, starting from 2007. The global financial crisis in 2008 reduced the possibility of borrowing abroad. Belarus is one of the countries to which the global crisis has had the most profound impact.

Belarus now desperately requires loans from international financial organizations. In January 2009 the IMF granted Belarus stabilization loan, subject to the liberalization of the economy. But so far only «cosmetic» liberalization of economy has been done (for example, simplified procedures for registration and liquidation of enterprises, simplified procedure for the control of trade, cancellation of licensing for certain activities)

However, the main conditions which, according to Kornai, determine the type of society - government control of prices and the coordination of economic activity - remain immutable. President Lukashenko is not going to abandon the principles of a command economy. In interview to the chiefs of state mass-media on 18 January 2009 (after signing the agreement with IMF) Lukashenko explained his understanding of economy liberalisation: '... it does not mean that we will dismiss everything, assign to any market from which, as you have told, people refuse today. They are fed up with this market; they have understood that they will not do without such management, without functions the government should carry out, because it is a main function of the state. In addition, economy is the main sphere, how could we do without management in economy? Everybody has understood it, so why should we give it up?'

In early May 2009 IMF mission visited Minsk. The mission was not satisfied with how the program of liberalization of the economy is carried out. The decision to grant a second loan tranche delayed indefinitely

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Liberal values on which the market economy based are alien to the people of other countries with economies in transition. And in other countries, it happens that people again vote for the former communists (current Social Democrats), but they do not stop reforms, softening the social consequences only. Because an educated elite, which is in power in these countries, understand that there is no other way for the development of an efficient economy except the way to market economy.

But thin and weak layer Belarusian intellectual elite could not resist conservatism "ordinary" people in the first presidential election in 1994.

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Now Belarusian elite groups of society have weak influence upon the choice of development's vector. The power of the President is based directly on the "simple people". Bureaucracy, large and medium-sized businesses have adapted to a populist authoritarian regime (as it was demonstrated by the independent sociologic pole most entrepreneurs voted for Lukashenko in the last presidential election, 2006). The real liberalization, i.e. a real transition to a market (capitalist) economy, threatens to the president by losing of his electorate support. It is also not in the interest of the state bureaucracy and the large number of entrepreneurs. Belarus firmly stuck to «trap of unfinished reforms».

Stability of the Belarusian model could be violated in two cases. In - first, as a result of the social crisis, when the standard of living of the population will decline rapidly. More than half the population (more precisely, 58% in the third quarter of 2008) have the disposable income per capita (cash income plus income in kind from the plots) does not exceed 500 thousand rubles a month (no more than 185 euro). Lowering of these, already low, incomes can cause social tensions. And this is likely. Secondly, a strong demand for external loans, which could be met only by Russia.

Negotiations on Russian loan of 5 billion dollars are taking place now. Russia requires to provide collateral in the event of insolvency of Belarus. This means that social problems can be prevented temporarily if still a viable enterprises will be transferred to Russia. But

Russia's property will contribute to the formation of the Russian model of capitalism in Belarus. (The Russian government previously recommended Belarusian government to develop market relations).

An attempt to extend the existence of the Belarusian model, even with a low level of living, could be undertaken. Lukashenko has called Belarus (instead of Russia) as outpost protecting the Slavic civilization from spiritual aggression of the West. In all enterprises with the number of employees over 300 people a post of deputy leader on the ideology was set up; the youth is brought up in a spirit of commitment to spiritual and environmental values and sports; everything possible is done to counter all forms socio - political selforganization

of population; project of actions developed for a case of emergency. In general, there exist the possibility of converting Belarus into some resemblance of N. Korea in Europe.

The command economy is in line with the Lukashenko's values and is also the backbone of his political power. He would never refuse of this model by his own will.