

In the noose of populism

Or ten years of belorussian economic model (1992-2001)

In the late 80-ies Belarus was considered to be an economically developed country within the USSR structure. Before the Union dissolution it had the highest growth rates of industrial production and labour productivity, on a level with the Baltic republics it had one of the highest GDP indices – USD 6,500 – 7,000 per capita (in parity prices). In 1991, the last year of the USSR existence, the products export volume into other republics exceeded the import volume from them by 2.5 milliards USD annually. Out of this fact politicians drew conclusions that Belarus subsidized other USSR republics.

By the beginning of the 21st century Belarus had appeared to be one of the countries with the least reformed and the most backward economy of all the former USSR republics. The situation would have been even worse but for Russia's subsidies to the Belarusian economy. Why did it happen so? What objective processes in the economy and what miscalculations in the economic policy became the cause of the present situation? The author tries to give answer to these questions in the present article.

Belarus is the only post-socialist country where the launched market reforms, though slowed-up, were stopped after A.Lukashenko had been elected the President in 1994. That was the beginning of a new stage in the country's development that was characterized by its own regularities. The indicated periodization has found its reflection in the structure of the article. The first part considers the first period of development of the economy and the attempt has been made to explain the causes of the "conservative revolution" of the year 1994. In the second and third parts the formation of the economic mechanism and the economic processes after the election of the country's first president have been analysed.

1. 1991-1994: slow movement towards oligarchic capitalism

The village gains the upper hand of the town

The roots of the deeper conservatism of the Belarusian society should be looked for, first of all, in the peculiarities of the economic development of the country. One should note the lower level of its industrial development before the 1917 revolution and higher economic growth rates in the following years, especially after 1945.

In spite of the fact that Belarus was situated close to industrial centers it was the backward borderlands of the Russian empire. There were mainly small peat mining and logging enterprises, paper and cement productions. In 1940 only 21.3% of the population lived in towns (in Russia – 34.4%). Capitalist relations here were much less developed than in Russia or the Ukraine.

Then in years 1960-1985 the industrial output increased nine times, whereas on average in the USSR – 4.9 times. This caused quicker growth of urban population: from 1959 till 1987 – 2.62 times as against 1.73 times in Russia. In particular, within that period Minsk became three times bigger and in the growth rates of the population was second only to the capital of Mexico.

Thus, the peculiarities of the recent history caused two factors that were of economic nature and influenced, in our opinion, negatively the readiness of the population to the market reforms.

First, greater than in other republics share of urban population and the elite of the society formed the natives of the village in the first generation. This stratum to a considerable extent preserved feudal-patriarchal values, in particular, negative attitude to the incomes received from the sphere of circulation and trade, weak apprehension of the value of human rights and rule of law, disposition to the authoritarian regime of government.

Second, in the Soviet period the growth rates of the Belarusians' welfare were higher as compared to other USSR republics (the highest national income growth rates, low initial level) that caused greater degree of satisfaction with the existing regime and absence of the reformist wing in the communist party leadership before the beginning of the reforms.

Opinion polls conducted during the last years of the USSR existence showed that the population of Belarus was ready for adoption of the market economy values in the smaller degree than the population of other regions.

For example, in 1989-1990 the population of Belarus appeared to be the least disposed to privatization of enterprises by making them joint-stock companies: only 19% of the polled were ready to buy shares (in Georgia – 44%, in Estonia – 40%). The greatest part of those who wished to be landowners was registered in Moldova, Middle Asia (57%) and the smallest – in Belarus (23%).

The end of effective economy myth

Belarus is poor in natural resources. The exceptions are mainly potassium salts and raw materials for production of building materials. The own oil production covers 10-12% of its need. The rest of the energy resources are imported from Russia. In year 2001, for example, 75% of the country's power balance was covered by the Russian gas deliveries.

Within the USSR the manufacturing industry was developed. The specialized branches were production of tractors, trucks, machinery, agricultural machines, production of electronics and radio products, oil chemistry. More than 65-70% of the products of these branches were exported from the country. The considerable part (20-30%) of the goods of the light and food industry was also exported to other USSR republics.

Let us note that Belarus developed the production of those goods that stood at the end of technological chains of turning the initial raw materials into a product. This means that the quality of these goods in the course of processing of the normal raw materials was worsening but the expenses of the resources per unit of the goods were growing quickly.

Let us explain this important for analysis fact on the basis of an example. In Belarus the yield of cereals is approximately 3 times lower than in the European Union. That is why in order to receive 1 ton of cereals in Belarus it is necessary to cultivate the area three times as large. Let us take into consideration that a tractor of local production expends by 20-30% more fuel. Hence, the production of a ton of cereals takes 3.5-4 times more fuel than in the EU countries. In cattle breeding where the cattle productivity is rather low (for example, average milk yield per cow in 1999 made up 3,058 l and 2,400 l in 2001, pig daily gain in weight in 2001 made up 399 g) the quantity of cereals expended per unit of production is almost two times greater than in the developed countries. Losses of cereals at storage (up to 15%, and potatoes – 30-40%), greater power expenditures in food industry (up to 30%), etc. should be also taken into account.

As a result, we get an astonishing fact – resources expenditures (in natural measurement) per unit of the final product, i.e., the product that came out of the sphere of production, were in the former USSR 8-10 times higher than in the developed countries. That is why 1.5 times more different raw materials per capita were produced, 3 times more lands were cultivated and in the end the GDP per capita was 6-8 times smaller. 10 years later in Belarus and Russia with whom Belarus has close production ties small changes have occurred.

The pricing methods that existed in the socialist period were hiding high expenditures of the Belarusian economy because the prices for power resources, metals and other raw material resources imported from Russia were 2.7 times lower than the world ones and the prices for light industry and food products exported to Russia – three times higher than the world ones.

In 1991-1995 the structure of foreign trade prices became close to the structure of the world market prices, i.e., not in favour of Belarus. And this worsened considerably the economic situation in Belarus. Russian subsidies reduced within that period, by our estimate, by one milliard USD.

The second negative consequence of the advantageous development of the manufacturing industry became non-competitiveness of the Belarusian products after liberalization of foreign trade. Because the technical level, quality and price of communications facilities, TV sets, computers and many other goods produced in Belarus appeared to be only rough imitation of the foreign analogs.

Thus, the economic situation of the republic before the dissolution of the USSR was not so good as it followed from the statistics. In such a situation the country poor in natural resources needs reforms more than anyone else. But namely in Belarus these reforms appeared to be promoted in the smallest degree.

Liberalization whether one likes it or not

Continuous discussions in the 80-ies about the ways out of the crisis formed in mass consciousness the notion that state property generated thoughtless execution, embezzlement of public funds, retardation of scientific and technical progress, low production efficiency. Wide strata of the society received an access to the information on barbarian exhaustion of natural resources, on militarization of the country, on generous beyond measure help to other countries, on trashy expensive projects, on abominable crimes of communists.

On the other hand, mass media showed façade side of life in capitalist countries. All that created psychological basis for realization of market reforms. At the end of 1999 62.6% of the polled during one of the sociological research spoke up for transfer to market economy and only 17.2% - against.

At the same time positive orientation of the population for market reforms was determined partly by spontaneous reaction, without distinct notion of market relations. Liberalism values were not perceived in full measure.

“Velvet” revolution in the countries of Central Europe led the Belarusian nomenclature to the state of shock and it could not speak up openly against the myth of market economy and democracy that overcome the majority of the population. In October 1990 the parliament adopted the program of transition to market economy that envisaged the formation of market structures by the end of 1991. During the first year of reforms privatization of 30% of industrial enterprises and 60% of building enterprises was envisaged. Simultaneously there were adopted laws permitting private property on means of production, creation of joint-stock companies and private enterprises of other kinds, farms. Farmers were given land for permanent use, without the right for sale or pledge.

However, the nomenclature left at power did not hurry to part with property or power. The program of transition to market was forgotten soon. "When economy cracks, relations are broken, ruble does not work...then government must take everything into their hands, ... regulate everything, govern everywhere" – justified the absence of reforms vice-premier M.Miasnikovich in August 1991. Economic recession that followed the disintegration of socialism was used by nomenclature to discredit the market system as a whole and to develop the country in compliance with their interests.

The privatization plans were upset. By the middle of 1996 less than 10% of state property was privatized. These enterprises employed 10.3% of economically active population. All large enterprises remained state ones. Their employees bought out the majority of the privatized enterprises, i.e., the enterprises turned into collective ones.

Originally Belarusian leaders tried to reconstruct the similarity of command economy; first of all, the system of centralized supply instead of dissolved USSR Gosplan (State Planning Committee). On the initiative of the Belarusian leaders contracts on delivery of material resources were signed with almost all the republics of the former USSR. For example, in October 1990 a contract was signed with Kazakhstan according to which Belarus was to deliver a definite number of tractors, automobiles and other machines to Kazakhstan for established prices and was to receive back cereals, metals, chemical products, etc. At the end of 1991 70% of the need of enterprises for resources was satisfied through centralized supply. Correspondingly, state bodies in the same volume distributed the produced goods.

Regulation of the goods flows was followed by rigid control of prices for all products and services. The government was proud that it did not allow the prices grow. Such price policy led to mass export of goods from Belarus. The shop shelves became empty. The government and the parliament had to take measures within several years in order "to protect the domestic market". In October 1990 the Criminal Code was supplemented with an article on speculation. Rig of goods with the aim of their re-sale for higher prices could be punished by imprisonment for the term of up to three years. (This article is still active in Belarus: it is forbidden to purchase products at state enterprises with that aim).

The preserved command system malfunctioned. Inter-government agreements failed to be fulfilled. In order to fill empty shops they had to give permission to trade for higher prices (at the beginning for imported goods). From the beginning of 1992 when Russia liberalized prices the Belarusian government had to make a similar step. Prices for some of food products, communal services tariffs, transport services remained fixed. (Besides, prices of almost all enterprises remained pressed to expenses in accordance with antimonopoly legislation introduced in 1992). By the year 1994 when due to the reduction of demand the enterprises faced the problem of sale, they had to give enterprises the freedom of disposal of their material resources. The year 1994 had the highest rates of privatization of state property.

Thus, the circumstances forced the Belarusian nomenclature to carry out partial liberalization of the economy. But this forced retreat was not considerable.ⁱ According to the economy liberalization level in 1995 Belarus took 25th place in the group of 28 countries with transition economy leaving behind only Azerbaijan, Tajikistan and Turkmenistan.

The dead drown the alive

The Belarusian leaders did not admit that inefficiency of the command economy was the cause of crisis of socialism and dissolution of the USSR. They continued to consider Belarusian economy to be high effective. They explained the crisis phenomena in economy by wrong policy of the Union center. For example, explaining the reasons of failures in 1991

ⁱ From plan to market. Report on world development-1996. World Bank, Washington. 1996

vice-premier M.Miasnikovich said: “We did not manage to protect our economy in a maximum degree from the All-Union disorganization”.ⁱⁱ That is why the leaders of Belarus did not see grounds for refusal from the socialist model.

The basis of the command system was large state enterprises in industry and collective enterprises in agriculture (kolkhozes). Since the first years of independence till now the Belarusian nomenclature has tried to keep this basis.

In the Baltic countries unprofitable enterprises were closed up decisively. In Latvia and Estonia, for example, in 1991-1994, the average annual rates of the industrial production decrease made up 35.7% and 19.4% respectively. Estonia refused fully from the state support of agriculture. As opposed to its neighbours Belarus made everything possible to preserve large enterprises, the majority of which were operating at a loss. That is why the rates of industrial recession were much smaller (5.3% per year).

The investment policy was directed to the development of the branches that, in the opinion of the government, could give quick effect – to agriculture and light industry. The considerable part of the financial support in the years 1992-1994 was allocated for the agriculture of the republic. The share of credits to agriculture, for example, increased in the course of 1992-1994 from 7% to 28% of their total volume. Up to 25%-28% of the budget within this period was directed to the subsidies to agriculture as well.

Liberalization of foreign trade and reduction in Russian military orders led to the reduction of demand for the Belarusian products in the CIS countries. Under these conditions it was necessary to reduce the standard of living of the population, carry out the liberalization of the economy and start restructuring production. This was done in the neighbouring Baltic countries (in Lithuania, for example, the citizens of Vilnius lived without heating during one winter). But nothing of the kind was to be done in Belarus.

As a result of objective and subjective factors the economic sequences of the crisis of socialism for Belarus were deeper than in the other republics of the former USSR. Within 1991-1994 prices grew 17,680 times and inflation depreciated the savings of the population that had been accumulated for the decades, the investments reduced twice, the external debt grew from zero (at the USSR dissolution Russia took up all external debts) to 1.27 milliard USD. All those resources were directed to the maintenance of the current volumes of production and consumption, without any use for solution of the problems the country faced.

As opposed to the Baltic countries or Poland leaders of Belarus continued to support the operation of unprofitable enterprises and direct investments into productions standing at the end of technological chains of processing of standard raw materials into expensive and bad-quality goods that appeared to be the additional factor of reduction in the consumption of the population. That is why, in spite of the smaller reduction in production volumes the level of wages and social protection of the population by 1995 appeared to be lower than in the abovementioned countries. The policy of the Belarusian leaders gave results opposite to the anticipated ones.

Transformation of power into property

In 1991 the Communist party was dissolved, there was no division of powers and civil society. That is why the economic – administrative nomenclature remained uncontrolled and had large authorities in the sphere of making economic decisions at the same time. This created favourable conditions for corruption and pumping the state financial resources into the newly born private sector, personal incomes of the managers of enterprises and officials. And the process began.

ⁱⁱ Sovetskaya Byelorussia, May 23, 1991

The beginning of the 90-ies became the time of the “gold fever” for the domestic business. The currency exchange rate at that time was so high that the purchasing value of dollar was ten times higher than today. The foreign trade transactions on export of oil, for example, with simultaneous import of computers or perfumery for the received currency gave tremendous profits.

Even greater opportunities for primary accumulation of the capital were created by the price-freeze policy (that supported the goods deficit in Belarus) at the time when they were increasing fast in the other republics of the former USSR. That created favourable conditions for corruption and contributed to pumping the state financial resources to the private sector and personal incomes of managers of enterprises and officials.

Here is an example. The price of the Minsk truck MAZ established by the state in 1991 (30-35 thousand USD) was approximately two times lower than its market cost in the other regions of the Union. The bribes for the right to buy one truck at the state price reached 15-20 thousand USD. Firms-intermediaries surrounded the plant. By our estimate only through the Minsk automobile plant the intermediaries pumped 1.5 milliards USD approximately from the state sector in 1990-1993. The analogous situation was formed in the time of the total deficit around other plants as well.

The privatisation of finances made possible privatisation of state property as well. However, the conservative Supreme Soviet did not adopt the necessary law. That is why the privatisation began according to the temporary norms approved by the government. The evaluation of the purchased property was carried out not at market prices but according to the socialist mentality – according to the depreciated cost of the balance sheet. That led to the fact that part of the objects was purchased in fact dirt-cheap. For example, the ICF experts carried out research at the two of the privatised enterprises and established that their purchasing price was understated 10 times.

The accumulation of capital in the hands of the state and economic bureaucracy and privatisation went slower in Belarus than in Russia. But the vector of development was the same as at the richer neighbour: the country was moving in the direction of oligarchic capitalism.

“Rebellion of masses”

By the moment of electing the first President of Belarus in July 1994 the economic situation in the country continued to worsen. The real incomes of the population for 1990-1994 reduced almost twice. The social stratification increased considerably. The difference in incomes of the 10% of the richest and 10% of the poorest families increased 13 times. This difference exceeded the level after which, according to the laws of sociology, the establishment of the authoritarian regime instead of democracy occurs.

The communist and populist propaganda of different kinds canalised skilfully dissatisfaction of people with their position and with unjust, in their opinion, enrichment of entrepreneurs to the denial of market reforms and democracy. And the left achieved the turn in the mass consciousness. If in December 1994 there had been the referendum, then according to the results of the national sociological poll, 30.3% of the polled would have voted for the market instead of 62.6% at the end of 1990.

Thus, the readiness of the population at the end of 1990 to accept the unknown market reforms had been lost by the moment of presidential elections. “The window of opportunities” for creation of private sector in Belarus appeared to be closed.

In July 1994 A.Lukashenko who became famous as the fighter with corruption was elected the President. He promised that the development of the country would obey the interests of “ordinary” people; there was no word “market” in his pre-election program. He promised to “restore the controllability of the economy”, state control over prices with the aim to exclude the growth of profit at the expense of the growth of prices”. It was promised that all increase in profit at the expense of the groundless increase in prices would be confiscated into the budget”, and the directors, in this case, would be called to account including criminal liability.

Generalizing, it can be asserted that in 1994 in Belarus there occurred “the conservative revolution” (regular “rebellion of masses”, according to Ortega-I-Gasset). We mean that conservatism that appeared, as a reaction to the French revolution and Enlightenment and that is organically incompatible with the developed system of market relations. People who did not belong to the political, economic or cultural elite of the society and had no necessary education and experience in the sphere of the state government occupied the top of the power pyramid. They are trying now as well to govern the Belarusian economy proceeding from ideas of “ordinary” people about simple and quick solutions of complicated social problems.

2. German model of socialism

Lukashenko’s views, as can be surmised from numerous interviews, are deeply conservative. Here is a short summary of his views regarding private sector development. All the processes in the society must be under the control of one leader. The division of powers in Western democracies, in his opinion, is more an illusion than a reality. In fact, in his view, even in the United States as well as in Belarus, only one man controls everything. The Belarusian president must have the right to make any decisions concerning the governing of the society, for example, to dismiss not only the Chairman of the Constitutional Court or the Chairman of the National Bank, but the director of any enterprise or school in the most remote district of the country as well.

The main motive for an entrepreneur, according to the president, should not be the desire for profit, but the desire to benefit the society. “The spirit of gain” is incompatible, in his opinion, with the spiritual values of the Slavonic-Orthodox peoples. Lukashenko has an especially negative view of financial and trade enterprises.

The president prizes the values of justice and equal distribution. He has declared repeatedly that Belarus looks for its own model of economic development different from both capitalism and socialism. The main characteristic of this new society must become, in his opinion, justice that results, first of all, in distribution according to labor. This is why the market principle of price formation based on supply and demand in Belarus is being replaced mainly by that of price making.

In the name of power preservation, the president must act in accordance with the expectations of his electorate (“ordinary people”) by suppressing private trade, intermediaries, financiers and bankers, establishing “just prices”, etc. And he does it. A durable system has taken shape: the president scans the people’s moods and reflects them in his words and actions, which reinforces even more marginal moods among “ordinary people”. Now it is difficult for the president to change his negative attitude to the private sector, not only because it contradicts his convictions, but also because it could lead to the loss of electorate.

Lukashenko came to power in defiance of the will of economic and political elite of that time. Neither he himself (his highest previous position – director of a state farm –sovkhoze), nor his closest surrounding had any experience in state governing. That is why he could not change

immediately the economic processes' flow in accordance with the demands of "masses" and at the beginning of his rule had to rely upon the former state bureaucracy and take its interests into account.

The anti-crisis program worked out on the instructions of the President in October 1994 reflected lobby interests of different groups of nomenclature (industrialists, agrarians, bureaucracy). At the same time it contained a number of progressive measures on reforming the economy. In 1995-1996 the National Bank managed to reduce considerably the inflation and even accumulate currency reserves that assisted to attraction of foreign investments.

However the situation was gradually becoming different. In 1995-1996 a considerable part of heads of state bodies, including army, KGB, Ministry for internal affairs changed. Having strengthened his positions A. Lukashenko began to restore more decisively the command methods of governing.

Crawling nationalization

In Belarus the official statistics divides the economy in two sectors – state and non-state. Though "non-state" does not mean "private" at all as the Western reader may suppose it. Because every joint-stock company is considered to be "non-state", even in case the state has 100% of its shares. What share of GDP is produced by the "non-state" sector is known – about 40%. But only experts can estimate the contribution of really private sector, i.e., enterprises where there is no share of state or it is below 50%. After 1994 it increased by 2-3% and now it makes up 10-12%.

Two waves of privatization can be marked. The first ("romantic") wave occurred in 1990 – beginning of 1991, and not on the basis of laws but on the basis of temporary normative acts of the government. Then to begin the process of privatization the decision of the labour collective was enough. In so doing, usually 30% of shares had the state, 40% - labour collective, 40% - was directed to free sale. But there were no stock exchanges or investment funds, so one could speak about free sale only symbolically.

At that time a number of profitable enterprises of light and woodworking industry, building industry were privatised and turned into collective ones. There aroused the wave of indignation in the society against the unjust privatisation. For example, A.Lukashenko, a deputy of the Parliament at that time asserted that private sector must appear at the expense of its own accumulations and credits and not at the expense of privatisation of state property. (He underlined the same position several times in the following years as well). In February 1991 the Parliament stopped the privatisation until the adoption of the corresponding legislation of the "just" distribution of the property.

By the beginning of 1994 the entire necessary normative base and the privatisation program were created. It was supposed to privatise 2/3 of the state property, in so doing, half of the property was supposed to be privatised for checks (vouchers) that were given to all adult citizens prior to July 1, 1994. The number of issued checks depended on age and work experience term. About 70% of the population received their vouchers. The nominal value of checks corresponded to the balance cost of privatised enterprises. The market formation of prices of shares was not then envisaged.

Primarily the interest to privatisation was great. However with A.Lukashenko coming to power (July 1994) the process was braked sharply. At first just by the decree of the President some of the privatised enterprises were returned to the state. Everybody knew that within the President administration there was prepared a decree that cancelled privatisation and envisaged punishment for all those who was guilty for giving out the state property. Besides,

a considerable part of the state nomenclature was dissatisfied with voucher privatisation, whose demands for property could not be satisfied with the issued checks.

The decree on stopping the privatisation was not issued but different measures followed directed to close privatisation temporarily. For example, in 1995 mass media informed that the president signed the program of privatisation for 1995. But nobody saw the decree after that and the law forbade carrying out privatisation without the program. It was forbidden to take credits for purchase of shares (it had been allowed in 1990-1991), the citizens were forbidden to sell their vouchers. The investment funds created by 1995 either changed the sphere of their activity or were liquidated after having returned the citizens the checks they had previously bought.

Only shares of unprofitable enterprises were given for sale. In so doing A.Lukashenko threatened their directors: first the managing team that failed to provide effective operation of the enterprise should be dismissed and only after that the enterprises could be privatised.

At last, the state officials do not conceal the division of enterprises into their own and alien. The state ones are "own ones". They receive a lot of privileges. The non-state enterprises are deprived of such a support. That is why directors do not strive for independence. Moreover, already in autumn 1994 a number of enterprises preferred to become state ones again (the shoe factory in Grodno, for example).

Instead of 20% of property that was to be privatised according to the 1994 program only 5% were privatised by inertia (the largest percent for all the years of independence). Then privatisation transformed into slack process. And though check privatisation finishes on July 1, 2002 and the savings banks have shares of weak enterprises whose shares can be exchanged for checks, nobody in mass media reminds of that and population has lost interest to voucher privatisation. The half of the checks remains in the hands of the citizens.

The nationalization of banks has taken place. For example, by one of his decrees in August 1995 the President without the knowledge of the shareholders and in defiance of the acting legislation united one of the joint-stock banks with the state bank having reduced the share of private capital in the new bank up to 1%. By another revolutionary decree in June 1996 he reduced several times the share of private stockholders in the authorized fund of all the commercial banks. In so doing, the share of the state in these banks became prevalent.

As a result of the economic policy carried out by the president many industrial enterprises appear in a difficult situation. In this case for non-payment of taxes or power resources the state sometimes takes away shares from them. Besides, beginning from 1994 there are cases in the court to revise the results of privatisation for the past years. In so doing, the conformity to the normative acts of the following years has been checked. For example, in year 2000 after many trials it was "found" that the cost of fixed capital was understated at privatisation of machine building concern "Amkodor" in 1990-1991. On this basis 15% of the shares of the concern were returned to the state.

At last since January 1998 "a golden share" has been introduced with great powers for the state representative. For example, he has the right of veto for dismissal or appointment of the director of the enterprise. The latter in fact means total control of the state over the enterprise even in case when the share makes up, for example, 0.1%.

The adopted strategy of the development of Belarus envisages keeping the command heights by the state: "At the development of economy with diversified modes of production in the country the state keeps system-forming enterprises, the state participates actively in economic

reforms”ⁱ. The “participation” of the state is understood in the following way: “the key role of the state as the subject of the economic activity will be preserved”ⁱⁱ.

“To control with all our might”

This is how Lukashenko determined the essence of the economic policy during one of his appearances.

Price formation

On the way to the freedom of prices in Belarus several protective lines have been built. First, fixed prices are established for socially significant products (medicines, bread, meat and milk products, tariffs for transport and communal services). The second contour of price control is provided by anti-monopoly legislation. There is the register of enterprises that are considered to be monopolists. In all about 2,000 enterprises are considered to be monopolists, i.e., prices of the majority of goods and services are regulated on the basis of the anti-monopoly legislation.

Practically this legislation still serves as a masked tool of price control, because after the creation of the common customs area with Russia all the Belarusian enterprises, except natural “monopolists” (sewage, water supply, etc.) have ceased to be monopolists. Even milk and cream, for example, can be delivered to a small town from Russia.

Third, in May 1999 total limiting of prices for all the goods “produced on the territory of the republic of Belarus” was introduced. On the basis of this decree each quarter limit price indices are established for goods of different branches. The decree of the President allowed the government to take away the goods and services from under the action of the given decree. But the exception made by the government is valid only within three months.

There also exist many other forms of price control. For example, the purchase prices for agricultural products, power resources are regulated, so are the mercantile additions to the price and limit norms of profitability. The degree of the price control can be judged upon according to the Council of Ministers decree “On after-estimation of tare of the Belarusian-Lithuanian JV “J-St. Co “Rechitsabeer” (summer 2001).

Controlling material flows

First, at the beginning of each year beginning from 1997 the President issues the decree that approves “the forecast indices” of the development of the national economy for the year. In so doing, the growth rates of production volumes of separate branches are established. Practically “the forecast” indices become the planned ones. For directors of state enterprises they become the directive ones. In contracts made with them a bonus is established for the growth of production volumes as compared to the level of the previous year: 5% of the additional growth equals to bonus of 10% of his salary. Directors of private enterprises are also called to the power bodies and they are asked for the growth of production volumes.

Second, since April 2000 acts “Decree on establishment of quotas for goods intended for realization to population”. Practically the procedure of planning adopted earlier by the State Planning Committee has been restored for the wide range of consumer goods. In so doing, the system of planning includes even individual entrepreneurs. Half a year prior to the

ⁱ From the speech of A.Lukashenko at the second All-Belarusian people’ assembly, “Sovetskaya Byelorussia” 22.05.2001

ⁱⁱ Program of social and economic development of the Republic of Belarus for 2001-2005, “Sovetskaya Byelorussia”, 16.05.2001

beginning of the planned year the regional executive committees must present to the Ministry of Trade “the estimates of the demand in quoted goods” for the next (planned) year. The Ministry of Trade “generalizes” the volumes of quotas and directs them to the Ministry of Economics. The latter divides the quotas between the executives and sends for approval to the Council of Ministers.

The result of such quoting can be shown on the example given recently in newspaper “Sovetskaya Byelorussia” (A net for carp”, October 31, 2001). Belarusian fish hatcheries received quotas for carp delivery to the trading network. However due to different reasons the demand for it sharply subsided. The carp caught in autumn was in the net losing its weight and marketable state. The fishermen could have given fish not to the trading network but to the fish factories for processing. But until the plan of deliveries for quotas is fulfilled, the enterprises do not have the right to use the produced goods at their own discretion.

Third, the system of deliveries for state needs has been saved. “Act on formation and placing orders for delivery of goods for republican state needs” indicates that deliveries are made on a competitive basis. But it is said further that enterprises-monopolists cannot evade the agreements “groundlessly”. As the register of such enterprises includes almost all middle and large enterprises, this is the system of obligatory deliveries at the prices dictated by the state. The enterprises that have accepted the state order are given different privileges, including “priority supply with centralized controlled material resources”.

For deliveries of agricultural products there are no even formal provisos on the freedom of enterprises at making contracts: they are simply informed about the assortment and volume of deliveries. Simultaneously they are also informed about the purchase prices. For agricultural products there are also other limits for their movement. For instance, after the fulfilment of the plan for state deliveries the enterprise can put the rest of the products for processing or sale to only those enterprises that have licence for the corresponding type of activity. In its turn, licences became the instrument of the planned control of the flow of goods and services. When, for example, the government decided to eliminate small commercial enterprises on meat processing, it introduced licences for that kind of activity. When the flour of local production became more expensive than the Russian one licence was introduced on its import in 2000 in order to force bread factories and macaroni factories to purchase more expensive flour.

Fourth, there exist different normative acts regulating flows of separate goods. Mainly this is material and technical provision of agro-industrial complex. Enterprises are forced to supply mineral fertilizers to the agricultural enterprises at prices below cost, they are “supplied” with oil products and electric power at lower prices. The state bodies decide where and how much to produce or to purchase harvesters, etc.

Taxes

Now the level of taxation is 33-37% of the GDP. In the countries with the similar level of development the level of taxation is lower than in Belarus: for example, in Lithuania – 26.4%, Peru – 16%, Columbia – 12.3%. However the payments of the enterprises are not limited by the taxes. 10% more are paid to the social protection fund. Enterprises on demand of the government give approximately 3%-4% of GDP to the population and agro-industrial complex in the form of increased tariffs on electric power, 4% is kept by the state due to the difference in prices for gas (the state buys from Russia at 30 USD per 1000 m³ and sells to enterprises at a price twice higher). In 1999-2000 the obligatory sale of currency at the rate 2-3 times lower than the market one meant factually 15%-tax on currency earnings. There are also numerous exactions for different state events. Let us also take into account that taxes for juridical persons can be introduced in retrospect...)

With consideration of these and other factors it can be asserted that the real level of taxation in Belarus is not less than 50% of GDP. That is why enterprises have no resources for investments. The renewal of capital funds has low rates: 2.1% per year – in industry, 1.7% in agriculture. One cannot speak of the long-term prospects of the development of the country under these conditions.

The system of taxation (about 30%) is complicated. Taxes are laid one upon other, are included into self-cost. The fines for violations are immense. Large and the most qualified resources of the society are spent on “correct registration”, record-keeping, audit. The violations of the legislation have become of mass character.

For example, at the meeting of the collegiums of the Ministry for entrepreneurship and investments on January 19, 2001 vice-minister A.Shwets informed that only 0.5% of enterprises checked in 2000 had no violations.

Other elements of economy are bureaucratised and mixed up as well. It is difficult to find the kind of activity that is not licensed and that does not require different certificates. “Help in self-education”, haircut, production of tombs, etc. are licensed. For example, the firm that works in the sphere of truck haulage has to have three licences – for city, intercity and international haulage. At detecting the activity without the licence the income for the whole period of such activity is exacted. In Belarus 4 times more kinds of activity are licensed than in the Ukraine famous for its bureaucrats.

The authorities deal with private firms that have even unintended violations. If, for instance, in the customs declaration there is only one mistake in one sign even into the favour of the state, the cargo is confiscated. Higher officials of the state defend such position of the authorities cynically. Here is, for example, the statement of the vice-chairman of the Higher Economic court E.Smirnov: “I frankly admit, we decide: whether to ruin the enterprise or restrict the bank in something... A state enterprise needs help, people there live only on their salary.... We press such a debtor (the talk is about a businessman who got into the court vices – L.Z.) without variants; especially if his business is with a mix of swindle, desire to snatch a piece at any price. I think it is just”ⁱⁱⁱ

In the result of the activity of the administration of the president the huge command economic system has been created: according to the American “Heritage foundation” Belarus takes one of the last places in the world in the degree of economic freedom (among 161 countries of the world – 141st place in year 2000 and 146th place – in 2001). The investment rating of the country is rather low. In 2001 the share of direct foreign investments made up less than 1% in their total volume.

At the same time there are attributes of capitalism: private shops, cafes, and production enterprises with limited liability, joint-stock companies. There are 2.7 such enterprises per 1000 inhabitants (for comparison in Great Britain – 46, Italy – 68, Russia – 5.6); the private sector employs about 10% of the working people.

In hard Belarusian conditions entrepreneurs survive mainly thanks to bribes (as it follows from one recent sociological poll only 20% of entrepreneurs do without bribes) and work in “shade”. At the president elections in September 2001 75% of owners of private enterprises voted for Lukashenko. It means that they do not want to destroy the established contacts with bureaucracy and the existing situation satisfies the majority of entrepreneurs.

ⁱⁱⁱ “On behalf of the first person”, Bulletin of normative-legal information #2, 2002

The economic model formed in Belarus is similar to that formed in Germany in 30-40ies of the past century. Well-known economist L. von Mises determined it as the “German model of socialism”.

3. Miracles happen only in fairy tales

The most surprising period in the development of the Belarusian economy were the years 1997-1998 when the economic growth rates appeared suddenly the highest in Europe – about 10% annually. Newspapers were interspersed with headlines “Belarusian miracle”. Really, this growth was caused neither by the development of the private sector at the expense of which the growth began in all the post-communist area nor by investments and modernization of production, or increase in its efficiency.

At the expense of what then?

We can single out factors external for economy, i.e., use of resources that are not created by the national economy of the republic and internal factors caused by the economic policy in that period.

External factors

Power resources debts charge-off. Stopping the fall in volumes of production and some stabilization of the Belarusian economy was marked in June 1996, 3 months later after Russia’s charge-off of Belarusian debt for power resources in the amount 1.3 milliards USD (this corresponded approximately to 40% of the country’s budget in those years). Liberation of Belarus from payment for half a year consumption of power resources served as the initial stimulus for the economic growth. But after the charge-off Belarus did not hurry to pay for current deliveries. Debts for power resources to the end of 1996 grew again up to 300 milliards USD.

Creation of Customs Union with Russia. Entry of Belarus to the Customs union undoubtedly became the stimulus to the growth of volumes of production. After the entry to the Customs union Belarus increased duties on import up to the Russia’s level, due to that fact import of products from foreign countries reduced, the production of some of the goods in the republic itself increased sharply and their export into Russia grew. For example, import of tires for cars and trucks reduced in 1995-1997 from 114.6 to 22 thousand units. Export of Belarusian tires to Russia only for 9 months of 1997 in comparison with the same period of the previous year increased 2.6 times (from 635 to 1650 thousand units). Introduction of import taxes on TV sets reduced their import only within one year from 104.1 to 0.6 thousand. Production of Belarusian colour TV sets increased for the nine months of 1997 by 60% and their export to Russia grew by 27.3%. As a whole, export to Russia increased by 38% in 1998.

The Belarusian leadership all the time used the Customs Union in order to receive additional income at the expense of Russia. One of the first scandal exposures relates to illegal export to Russia a large shipment of alcohol that the Belarusian President allowed to export duty-free. The last (as for terms) loophole was closed at the beginning of 2002 when Russia abolished export tax for gold. Before that the Russian industrialists had sold gold mainly to the National Bank of Belarus because export from Belarus and import to Belarus are duty-free. At the expense of profitable mediation the Belarusian bank could accumulate some amount of gold in 2001.

The difference in foreign trade prices. The additional contribution of Russia to the support of the Belarusian economy through foreign trade turnover is not so obvious. Half of import of the republic from Russia is made of power resources. Besides, the price for gas supplied to Belarus (gas covers now 75% of the power balance of the country) is twice lower than the price of Russia's deliveries to other countries. And the prices for the products exported by Belarus to Russia are higher than those at which they could be exported to foreign countries. For example, in 1997 (data for 9 months) Russia imported sugar from Belarus at a price of 513 USD per ton and from other countries – at 304-324 USD, threads complex synthetic at 3182 and 2324 USD per ton correspondingly. By experts' estimation, at the expense of Russia's refusal from purchasing cheaper products from other countries Belarus has 200-300 mln USD.

As a whole, by the estimates of the Institute for economic analysis (A.Illarionov, Moscow) Russia's subsidies to Belarus made up 1.5-2 milliard USD (without charged-off debt taken into account). By our estimation, 1.3-1.7 milliard.

One should also note rather large incomes for the past years from the sales of armament that had been accumulated on the territory of the republic before the dissolution of the USSR (according to the known data – 400 mln USD in 1996).

Thus, the accounted amount of external resources that supports the national economy of the country makes up approximately 1.5-1.7 milliard USD annually. The indicated value of the external factors influence is rather significant for Belarus.

Internal factors

For non-professionals the situation in the Belarusian economy in 1995-1996 seemed paradox. Really, on one side, storehouses filled with products and enterprises stopped due to the absence of sale for their products, on the other – great need in these products at other enterprises and among the population. But the latter have little money.

The shortage of money in circulation, they asserted, is caused artificially by too rigid monetary policy. In other countries the amount of cash and money on account in circulation in relation to GDP is much higher than in Russia or Belarus (there 80% on average). In the USA, for example, this ratio (monetization coefficient) makes up 120%. In Russia – 10-12% as of October 1, 1996; in Belarus - 13-14% as of August 1997.

The active adherent of soft monetary policy became P.Prokopovich, builder by education and work experience, appointed in 1996 the head of the National Bank of the Republic of Belarus. (Under authoritarian regimes faithful people but not professionals are appointed to the leading posts. Belarus is not an exception). He promised to increase quickly the level of incomes of the population at the expense of credit emission. The President gave his approval.

From 1996 (autumn) to 1999 the money supply in circulation grew 2-3 times annually. The prices grew correspondingly. Hyperinflation together with the external factors transferred the economy to the point of artificial balance with higher level of production and consumption. In 1996-1998 the purchasing power of salary increased by 25%, at the expense of considerable growth of housing construction the share of investments in GDP increased. (It was supposed that housing construction would become the locomotive that would pull the economy out of the crisis).

In the period of growth 1997-1998 and till now the production at unprofitable enterprises has been supported with the help of different subsidies and privileges. Inflation, taxes and subsidies have taken resources off the effective enterprises and moved them to the unprofitable ones. In all groups of enterprises the inflation led to exhaustion of their current

assets at a speed of 8%-10% per year. The enterprises stopped practically the renewal of fixed assets: in 1997-2000 the wear of machines and equipment in industry increased from 74.6% to 80.3%, in agriculture – from 58.2% - to 80.6%, etc.

Thus, the highly publicized “Belarusian miracle” was the consequence of Russia’s subsidies and eating out of nation’s resources accumulated earlier. Already in the second quarter of 1998 there appeared the first signs of stagnation of the economy (the volumes of industrial production reduced, there occurred the steep fall in the Belarusian ruble exchange).

It is curious to note that huge, on developed countries scale, credit emission did not lead to increase but to the reduction of the monetization coefficient of the economy. The enterprises even more than before had need in money. The non-payments of enterprises to each other increased, barter relations developed (deliveries of products in exchange to deliveries of other goods). Belarus once more confirmed to the world the truth of monetary theory and showed the world the wrong way of control over the economy.

Everything comes to its end...sooner or later

The government tried to overcome slowing down the growth rates by accelerating the operation of the printing machine. Correspondingly prices grew 3.5 times (in 1998 – 2.8 times). Besides, Russia helped once again by reducing in 1999 the prices for gas from 50 to 30 USD per 1000m³ (reduction in annual expenses by 320 mln USD). But the growth of GDP this year has not been significant. And if we take peculiarities of the Belarusian statistics into account, it can be asserted that beginning from this year the economic growth in Belarus has stopped.

In 1999-2000 the government continued to live by one day and look for all possible reserves for supporting current production and incomes of the population. Beginning from 1999 there has been steady reduction in investments (from 23.4% of GDP to 15.4% in 2001); Belarusian enterprises have more often been retaining payments to their suppliers. For example, their net debt to enterprises of other countries increased in 2000 by 350-400 mln USD, in 2001 – by 150 mln more. The debt of Belarusian enterprises to each other in 1999-2001 increased almost twice and made up 4 milliards USD. The provision of enterprises with current assets reduced: in 2000 it was lower than in 1998 by 41% in the national economy as a whole, and by 51% - in industry.

The state support for housing construction has reduced considerably. If in 1999 all types of state subsidies provided 70% of the cost of housing, in 2000 it made up 30%. As a result in 2001 the commissioning of living space decreased (by 14.5%).

The culmination moment in eliminating the rest of the economy reserves became president elections in September 2001. Real wages from January to August of the year grew by 34.1%(!). Real monthly wages reached the level of 100USD promised by the President.

Some growth in the volumes of production and money income of the population was accompanied by considerable worsening of financial state of enterprises and banks. The artificial support of the Belarusian ruble rate and high volume of currency sale (with the aim of sterilizing the money supply) have led to reduction in currency resources of enterprises and banks two times. The real profit of all enterprises reduced by 23%. The profitability of production fell down from 13.4% (2000) to 8.6%. The plan for incomes to the budget was under fulfilled by 10%. The share of unprofitable enterprises increased from 21.8% in 2000 to 35.5% in 2001.

It seems that increase in volumes of production and incomes of the population in 2001 was the last heroic deed of the Belarusian economy. From September 2001 till January 2002

wages and pensions reduced by 12.7% and by 17.5%. Inflation that in summer 2001 was the smallest for all the years of independence (all the economic entities were forbidden to increase prices) exceeded 6% in December 2001 and in January 2002 because the government again started the printing machine. More than 1/4 of the emission fell on the last month of the year, i.e., the problem of price growth was transferred to the beginning of 2002.

In 2001 money deposits of the population in banks increased because they were attracted by the positive percent rate. As of beginning of 2002 the share of the population in the total money supply made up 63%. This is hot money and if the deposit real interest rate becomes negative, the population will begin to convert rubles into dollars. This will mean the crisis of the financial system. If the real interest rate is positive, the credits for enterprises of real sector will appear too expensive. At least, half of the enterprises will have to close.

The third scenario of the possible development is unwinding of inflation spiral. But as the resources of enterprises have been already exhausted, the inflation will not stop the recession and will turn into stagflation (stagnation + inflation).

No matter what scenario of the three above indicated is realized, probably, there will occur the considerable fall in the standard of living of the population and the country will have to harmonize social load and incomes of the population with the fading production potential.

Let us be fed with spirit – the power offers to people

Lukashenko's regime even in the existing hard situation refuses from carrying out market reforms. The deputy Minister for economics N.Zaichenko declared in February 2002 that the main resource of the government would remain "the administrative resource". The talks about liberalization of the economy caused by some pre-election declarations of Lukashenko stopped.

Instead of reforms the authorities again try to find external resources. Belarus demands from Moscow the next reduction in prices for gas up to 18 USD (as in Smolensk region of Russia). The largest enterprises of chemistry and oil chemistry are becoming joint-stock companies in order to begin selling their shares in March 2002. However the government supposes to keep control shares for itself. Ministries have got the plan to attract foreign investments in the amount of 500 mln USD.

But attraction of external resources, even if it happens, will move away the transition of the economy to balance on the lower level. Such a transition is happening already now.

At the beginning of 2002 the average wages pushed for a short period of time to the 100USD mark have begun to lower down (it should be taken into account that 60% of its money incomes the population spends on food products, the prices for which are higher than in the neighbouring countries). There is a sharp need in funds for keeping the budget sphere. For example, in Minsk the library of the Academy of Sciences stopped working in the evenings in order to save electric power and the heating was off in a number of the Academy institutes in February. In hospitals planned operations are put off due to the absence of medicines. The situation in the economic sphere is not better as well. For example, workers of the largest in the country Minsk tractor works only by the end of February received 50% of their salary for December. Many kolхозes and sovkхозes are falling apart, etc.

The leaders that led their country to bankruptcy are trying to switch the people's attention to other problems. They understand: when people are overcome by myths (communist, religious, messianic, nationalist, racial, etc.) they can endure any poverty. We can see it on the example of Iraq or N. Korea.

Now mass media actively propagate spiritual values and contrast them with material ones. All the same, they say, all cannot enter the “gold milliard”. And specialists in information wars think hard how to stop the dangerous virus of consumption. It is dangerous because aspiration of people to material welfare threatens the very existence of the regime. The messianic role of Belarus as an outpost of opposition to the aggressive civilization of the West and so on is being developed.

The Belarusian leaders are convinced today that the wrong pro-market and pro-western policy of Putin will be buried, after all, and that Russia in future will borrow from the Belarusian experience of economic renaissance. That is why, most probably, the tactics of expectancy of the moment when Russia finishes “its march into nowhere” will be continued. And until the left return in Russia to power, A.Lukashenko will strive to fight for the sovereignty of Belarus and its economic model.

Ludwig von Mises, famous liberal economist, while watching the archaization of social life in Germany of the 30-ies, came to the conclusion that the only means against the populist regimes of any kind – economic enlightenment. “Only the man who has a good understanding of the questions of economic theory, - asserted Mises, - is able to elaborate independent opinion on the problems under consideration. All the rest simply repeat the things they have heard by accident. They are an easy prey for demagogical smugglers and idiotic charlatans. Their credulity represents the most serious threat for preserving democracy and western civilization”.

Today in Belarus yet small part of the population understands that their poverty is the consequence of that strategy of development that Lukashenko has forced upon the country (from 22% to 30%). If the amount of such people becomes at least by 10% greater, the return to the reforms in a democratic way is quite possible.

Some indicators of development of Belarus in 1990-2001

Indices	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Total population, mln	10.21	10.21	10.23	10.30	10.32	10.30	10.26	10.24	10.23	10.05	10.02	
GDP, in percent to previous year	-	98.8	90.4	92.4	87.4	89.6	102.8	111.4	108.4	103.4	105.8	104.1
Capital investments, % to previous year	109	104	71	85	89	69	95	120	125	92	102.1	93.9

Dwellings put in place, in % to previous year	93	102	82	86	89	57	135	128	108	81	121	85.7
Depreciation of machines and equipment (end of year, per cent) :												
In Industry						70.4	74.6	77.9	70.8	79.1	80/3	
In Agriculture						58.2	66.8	73.5	73.8	80.6	80.6	
Yield capacity, centners per hectare:												
Grains and legumes	26.6	24.2	26.8	27.7	22.4	20.4	21.7	23.6	18.3	14.5	19.3	19.9
Potatoes	135	137	115	155	118	131	151	99	109	113	133	123
Consumer price index, December to December of previous year, %	-	246	1660	2097	2060	344	139	163	281	351	208	146
Consumer expenditures on foodstuffs and alcoholic beverages (percent of total)	34.2	35.3	44	52.7	61.4	65.4	61.9			62.6		