

INDEPENDENT BELARUS

Domestic Determinants,
Regional Dynamics, and
Implications for the West



Edited by
Margarita M. Balmaceda
James I. Clem
Lisbeth L. Tarlow

Ukrainian Research Institute
Ukrainian Studies
Harvard University

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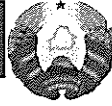
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Leonid Zlotnikov

*Possibilities for the Development of a
Private Economic Sector and a
Middle Class as a Source of
Political Change in Belarus*

Nobel Prize winner Ronald H. Coase (and, still earlier, Marx) defined private property as "a bundle of rights" used in making economic decisions. The essential distinction between a market and a command economy lies in the field of decision-making. Properly speaking, "private property" and "market economy" can be viewed as convertible notions. This is why evaluating the possibilities for private sector development in Belarus is the same as evaluating the possibilities for the formation of a liberal market economy as a whole. This is significant because an analysis of private sector development in Belarus has to begin with an analysis of the "bundle of property rights" that private property involves.¹

Belarus' present economic model is determined by at least six factors. These are: the interaction of the material interests of different groups of the population; cultural values and ideas on how to achieve them; the necessity of solving the main tasks of economic development; the influence of events in Russia; international financial organizations; and, the success of market reforms in neighboring countries. The present evaluation of the possibilities for private sector development in Belarus is based on an analysis of the interaction

¹ I would like to thank an anonymous reviewer for bringing this point to my attention.



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Zlotnikov The Development of a Economic Sector and a Change in Belarus

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model is determined by at least six the material interests of different and ideas on how to achieve the main tasks of economic in Russia; international financial market reforms in neighboring the possibilities for private sector an analysis of the interaction

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among these factors and on the experience of reforms during the first decade of independence, as well as on ideas about the direction of Belarusian society as a whole.

Of all the Central and East European states, it has been Belarus that has moved least in the direction of market reforms. The transformation process was practically stopped after Aliaksandr Lukashenka's election as president in 1994. In the first part of this chapter, I will seek to explain why the transformation process has lagged behind in Belarus. In the second part, I will analyze the attitude of the population and other subjects of politics and economy to private sector development. In the third part, I will examine the influence of various external factors (Russian political and business circles, international financial organizations, and Western investments) on private sector development. The fourth part of this chapter shows that in the years between 1996 and 2000 Lukashenka managed to create an economic model similar to what existed in Nazi Germany. To conclude, I will examine some possible scenarios of economic development in Belarus.

The Conservative Revolution

In 1994, after Lukashenka's election as president, market reforms were at first stopped and then turned backwards. The former elite was discouraged from making strategic decisions on the development of the society. Power, in the person of Lukashenka and his closest associates, passed into the hands of "ordinary" people. The liberal-democratic approach to development was rejected. Similar events had taken place in the twentieth century (in Russia, for example, in 1917, and in Germany in 1933). In all three cases, what Friedrich Hayek calls "harmful conceit," authoritarianism, and a traditional system of values prevailed. All this can be generalized in the notion of "conservative revolution." In the present author's opinion, the roots of the deeper conservatism of Belarusian society should be sought in the peculiarities of Belarus' development.

Two important historical facts should be pointed out: (1) the lower level of industrial development of Belarus before the revolution; and (2) the higher rates of economic growth after it, especially in the post-1945 period. Before 1917, in spite of the fact that Belarus was located near industrial centers, it was no more than one of Russia's backward borderlands. Industry consisted mainly of small peat mines, logging

enterprises, and paper and cement factories. In 1940, towns contained only 21.3 percent of the population (versus 34.4 percent in Russia). Capitalist relations in Belarus were developed to a much lesser extent than in Russia or Ukraine.

The growth rate of industrial production in Belarus for the period between 1960 and 1985 was higher on average than in the USSR; these were 9 and 4.9 times, respectively. This led to a significant growth of the urban population. In the period between 1959 and 1987, the urban population of Belarus increased by 262 percent (Minsk's population tripled). By way of comparison, the figure for Russia during the same period was 173 percent. In that period, in terms of population growth rates among the world's cities, Minsk was outpaced only by Mexico City.

Thus, the peculiarities of Belarus' recent history have caused two developments that are of an economic nature and that influenced, in my opinion, the relative unwillingness of the population to undertake market reforms. First, in comparison with other former Soviet republics, a larger share of the urban population and elite of the society happened to be first-generation immigrants from the villages. This stratum of the population, in a larger degree, preserved feudal-patriarchal values, that is, a negative attitude toward incomes derived from trade and exchange, a weak perception of human rights values and legality, and a tendency to valorize authoritarianism. Second, during the Soviet period, the living standards in Belarus were growing faster than in the other republics of the USSR. (Belarus had a low initial income and the highest rates of national income growth.) This led to a higher degree of satisfaction with the existing system and the absence of a reform wing in the leadership of the Communist Party prior to the beginning of reforms.

During the Soviet period, the Party and state bureaucracy, as collective owners of most of the economy, received certain "dividends" or benefits. Naturally, these privileged groups tried to delay the process of property redistribution on the basis of other principles. At the same time, it was frightened by the failure of socialism in the countries of Central Europe and could not but see that, in 1990-1991, the idea of a market economy had become a myth that seized the imagination of the masses. This is why the bureaucracy had to maneuver. At the 31st and last congress of the Communist Party of Belarus (November 1990), its newly elected leader, Anatolii Malafeiaŭ [Malofeev], declared: "We have to think once more about

1940, towns contained 4 percent in Russia), and a much lesser extent

Belarus for the period was less than in the USSR; it led to a significant decline between 1959 and 1987, 62 percent (Minsk's decline figure for Russia for the same period, in terms of population, Minsk was outpaced

they have caused two problems that influenced, in addition to undertaking their former Soviet Union and elite of the cities from the villages. First, preserved feudal-lord incomes derived from human rights values and authoritarianism. Second, Belarus were growing (Belarus had a low economic growth.) This existing system and the Communist Party

the bureaucracy, as they received certain privileges, tried to maintain the basis of other privileges by the failure of the state. It should not but see that, to become a myth that the bureaucracy had the Communist Party of Belarus leader, Anatolii Lukashenko once more about

how to blend our political platform with market relations, how to fill them with contents that will help to preserve socialist choice."²

To the present, orthodox Communists who have set themselves the task of preserving socialist structures in market forms hold leading posts in the state: for example, Siarhei Linh [Sergei Ling] (former Secretary of the Central Committee of the Communist Party of Belarus) was at the head of the government until February 2000; Malafieiaŭ (former First Secretary of the Central Committee of the Communist Party of Belarus) is at the head of the legislative branch of power; Mikhail Miasnikovich (former head of the department of the Central Committee of the Communist Party of Belarus) is the head of the Presidential Administration.

During the first years of independence, the country's party and bureaucratic elite did everything possible to preserve the system of the command economy. Under the conditions of economic decline and the development of market relations, however, it had to give its enterprises the right to manage those products destined to be exchanged for necessary raw materials and a partial freedom to set prices.

The liberalization of the economic activity of state enterprises, shortages of goods and artificially low prices, the development of black markets in neighboring countries—all this created favorable conditions for corruption. In Minsk, for instance, the price of a "MAZ" truck in 1991 was \$30,000–\$35,000, which was approximately half of what it was in the other republics of the USSR. Bribes for the right to buy one truck at the state price reached \$15,000–20,000. The plant was surrounded by middlemen. According to our estimates, middlemen pumped about \$1.5 billion out of the state sector from "MAZ" alone. During periods of goods shortages, the story was repeated at other plants as well.

Around the time of the election of the first president of Belarus in July 1994, the country's economic situation continued to worsen. The government's populist policies caused rapid inflation. In 1993–1994, prices increased 432 times, while the GDP volume declined by 20 percent. Corruption flourished. Property and power were concentrated in the hands of the state bureaucracy, and an economic model of oligarchic capitalism similar to that prevalent in Russia was formed.

² *Sovetskaia Belorussia* 29 November 1990.

Between 1990 and 1994, the standard of living was cut by at least half (by two-thirds in some cases) and social stratification was noticeably exacerbated. The income differential between the top 10 percent of the population and the poorest 10 percent increased to 1,300 percent (versus 1,500 percent in Russia in 1995, up from 450 percent in 1991). This difference surpassed the threshold at which authoritarian regimes instead of democracies tend to be established. Communist and populist propaganda of various sorts skillfully channeled people's dissatisfaction with their position and the unfair (in their opinion) enriching of entrepreneurs into a rejection of market reforms and democracy.³

It should be noted that it was the Left that achieved the mass rejection of market reforms. If, in December 1994, there had been a referendum, according to the results of a national sociological poll conducted by the Independent Institute of Socioeconomic and Political Studies (IISEPS), 30.3 percent of those polled would have voted for a "market economy" (against 62.6 percent at the end of 1990). Thus, the readiness of the population to accept market reforms, unknown to it at the end of 1990, had dissipated by the time of the presidential elections. The "window of opportunity" for the establishment of a private sector in Belarus was closed.

Lukashenka's election as president cannot be explained only by his populist economic slogans. It became the expression of protest by the masses who did not get anything in the course of property transformation. Lukashenka's ascent to power can be explained using the conceptual scheme of the "revolution of the masses" formulated by the Spanish philosopher José Ortega y Gasset. People who did not belong to either the political, economic, or cultural elite of the society and who did not have the necessary education or experience to govern the state entered the top tiers of power. Now these people govern the Belarusian economy, acting according to the notions of "ordinary" people by favoring simple and quick solutions to complex social problems. The "fatal conceit" of "ordinary" people's intellect does not leave any place for the market as a mechanism of self-regulation of the economy, replacing it instead with a command system. A similar process took place in the Germany of the 1930s and in Bolshevik Russia. At the same time, however, the new leaders, unlike the Bolsheviks, rely in their activities upon a system of traditional, pre-

³ *Belorusskaia niva* 9 September 1992

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bourgeois values that appear to be preserved in Belarusian society to a greater extent than in neighboring countries. From this springs President Lukashenka's negative attitude towards intermediaries and financiers and his ideas of a "natural" hierarchical system of individual power and the organic unity of the society.

In general terms, a conservative revolution (a regular "revolution of the masses") has taken place in Belarus. By this I mean the conservatism that sprang up in reaction to the French revolution and the Enlightenment and that is organically incompatible with a well-developed system of market relations.

Various Political Actors' Attitudes to the Private Sector

The Electorate

The readiness of the population to accept a market economy can be estimated by gauging its attitude toward the values of capitalist society. In a national poll (IISEPS, June 1997),⁴ those polled were asked questions designed to reveal their attitudes toward separate elements of market relations. If, as a whole, 30.4 percent of the respondents spoke for "market economy with insignificant state regulation" (the same number spoke in favor of a "planned economy" as well), the answers to more precise questions testify to the fact that people who really support the values of a market economy constitute less than 30 percent.

Later opinion polls showed that the number of those who prefer a market economy is increasing gradually. This can be seen from a number of national polls carried out by IISEPS (1999, see Table 2.1).⁵

⁴ Aleksandr Feduta, "Bol'shaia zhratva," *Belorusskaia delovaia gazeta* 2 August 1999.

⁵ "Molodezh i grazhdanskoe obshchestvo. Belorusskii variant," ed. Oleg Manaev, IISEPS, Minsk, 1999. In the nation-wide polls conducted by IISEPS from which the results are used in this chapter, 1490–1500 people over the age of 16 were polled. The margin of error is less than 3 percent.

Table 1
Distribution of respondents' preferences in relation to the type of economy (percent)

Issue	Nov. 1994	June 1995	Nov. 1997	Sept. 1998	June 1999
Market economy	51.0	52.1	69.0	74.6	72.1
With slight state regulation	—	—	32.8	35.2	36.8
With considerable state regulation	—	—	36.2	39.4	35.3
Planned economy	46.3	45.1	25.7	22.8	24.7

The question "How, in your view, should the price of a product be determined?" reveals more precisely the attitude to the market. Only 23.1 percent of those polled in November 1997 answered that it should be determined by supply and demand. The number of those who felt disposed to socialism was much larger, with 31.6 percent answering that it should be determined "by production costs" or "by the state proceeding from the interests of the population" (27.2 percent). Only 9.6 percent responded positively to the direct question "Must the prices be free?" (the state must regulate the prices of all goods and services—43.8 percent; of some of them—37.1 percent).

The population's views on the role of the state in price-formation have remained stable over time. A nationwide poll conducted in March 2000 produced approximately the same results as the 1997 poll, with 45.5 percent agreeing that the state must control the prices of all goods and services and 37.2 percent "some goods and services."⁴

The values revealed for the population reflect a low tolerance for risk and to taking personal responsibility for one's own destiny, and a relatively high acceptance of social inequality. A considerable portion of those polled thought that the director of an enterprise must have a salary not more than two times larger than the average (56.7 percent). Two-thirds considered the resale of goods as "dishonest" or "rather dishonest." Not more than 28.3 percent considered incomes from the lease of apartments, resale of goods, shares, or entrepreneurial activity to come from honest sources.

⁴ "Belarus i mir. Rezul'taty sotsiologicheskogo oprosa," 2–10 March 2000. "Novak" Laboratory, Report.

ation to the type of

	Sept. 1998	June 1999
7	74.6	72.1
0	35.2	36.8
8	39.4	35.3
2	22.8	24.7

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According to Belarusian poll data, the same social phenomenon that researchers have already noted in Russia is also seen in Belarus. This is what could be called a "transition state of economic mentality." Both "the spirit of socialism" and "the spirit of capitalism" are present simultaneously in people's needs and orientational behavioral motives.

The mass mentality retains the ideology of equality and justice, accepts the necessity of considerable state regulation of the economy, and underestimates the significance of ideas and the art of governing in the creation of a country's wealth. As a result, only 3.7 percent of the polled think that the leaders create the wealth of the country (workers, peasants—55.5 percent). Income accrued from trade and financial lending-based activity (usury) is still looked upon negatively, and the tendency to take risks is slight (65 percent of those polled are ready to receive a salary that is not necessarily high, but that is guaranteed).

Yet this is a paradoxical situation: at the same time, the population is "for" having a wide choice of high-quality goods at free prices (77.9 percent), thinks that private enterprises work more effectively (48.3 percent) than state ones (44 percent), and is in favor of allowing the purchase and sale of land (with limitations). Twenty-eight percent of those polled are ready to work at private enterprises, 14 percent have dealt with the resale of goods, and 12.8 percent were engaged in individual labor activities.

Thus, the population is ready to support the market, but without capitalism and without businessmen. According to a poll conducted in 1996 in Russia, 69 percent wanted the nation to return to pre-1985 conditions; only 25 percent favored the development of Russia along a capitalist path. It can be supposed that similar answers would have been given in Belarus as well.

The ratio of those who support market values changes considerably depending on the place of residence and level of education. This can be seen in Tables S2 and S3 (supplementary tables follow the end of the chapter). The more educated the people and the closer they live to the capital, the more they accept the capitalist model.

The results of a 1997 national poll conducted by ISEPS⁶ also show that Lukashenka's electorate is composed of those people who reject market values (see Table 1 and Table S4).

," 2-10 March 2000.

⁶ Oleg Manaev, "Po tonkomu l'du. Sotsiologicheskii portret elektorata Aleksandra

Table 2
Social and demographic portrait of Lukashenka's supporters

Social and demographic characteristics	Would vote for Lukashenka tomorrow	
	Yes	No
<i>Gender</i>		
Female	50.2	49.8
Male	39.8	60.2
<i>Age</i>		
16-19 years old	31.7	68.3
20-24	30.8	69.2
25-30	19.7	80.3
30-39	29.3	70.7
40-49	40.1	59.9
50-59	48.6	51.4
60 and older	81.7	18.3
<i>Education</i>		
Up to 4 years	88.2	11.8
Up to 8 years	54.3	45.7
Secondary school, specialized school	35.6	64.4
Secondary specialized	34.3	65.7
Unfinished higher and higher	24.6	75.4
<i>Social Status</i>		
Leader	21.6	78.4
Specialist	29.4	70.6
Employee	31.4	68.6
Skilled worker	32.6	67.4
Unskilled worker	46.7	53.3
Retired	77.9	22.1
Housewife	46.1	53.9
Pupil	32.9	67.1
Unemployed	30.3	69.7
<i>Place of Residence</i>		
Minsk	17.5	82.5
Regional centers	35.8	64.2
Large cities	38.0	62.0
Small towns	40.2	59.8
Village	69.9	30.1
Minsk region	50.0	50.0
Brest region	46.5	53.5

Lukashenko," *Belorusskaia delovaia gazeta* 1 September 1997: 4-5.

Table 2 (con't)

Social and demographic characteristics	Would vote for Lukashenka tomorrow	
	Yes	No
Hrodna region	36.1	63.9
Vitebsk region	52.8	47.2
Mahilioŭ region	64.1	35.9
Homel region	54.0	46.0

The social and demographic portrait of the president's supporters is very characteristic. These are, first of all, relatively uneducated and elderly rural dwellers, mainly retirees, among whom there are more women than men, and inhabitants of the eastern regions of Belarus. Also characteristic is the economic status of the president's supporters, which fully coincides with their social and demographic status—mostly the poor part of the population that has difficulty making ends meet.

Lukashenka's adherents reject economic reforms in principle, because such reforms benefit only "swindlers and rascals" and draw the country still farther away from what it was like in the USSR. In short, the majority of the electorate represents the personification of classical anti-market stereotypes colored by nostalgia for the past.

But it would be wrong to limit the present analysis to such characteristics, which describe the dominant social type of presidential supporters. From the data produced by the above-mentioned poll, it follows that there is still another type of presidential supporter characterized by social dynamism and by having a quite market-oriented, democratic, and tolerant mentality. One-fifth of such individuals sympathize with the opposition; one-fourth prefer a U.S.-type economy; one-fourth have higher or incomplete higher education; one-third have a good economic position; almost one-third are young men; almost half are proponents of Belarusian sovereignty, etc. This second type of Lukashenka supporter will be called the "socially dynamic type." The first type outnumbers the second approximately 2:1. Obviously, these groups are antagonists having different life prospects and, therefore, it is impossible to develop a state policy based on their combined support. Probably, the "socially dynamic" type continues to support the president only because they have not found a leader capable of realizing their actual social interests.

s supporters

ould vote for
kashenka tomorrow

Yes	No
50.2	49.8
39.8	60.2

31.7	68.3
30.8	69.2
19.7	80.3
29.3	70.7
40.1	59.9
48.6	51.4
31.7	18.3

18.2	11.8
14.3	45.7
5.6	64.4
4.3	65.7
4.6	75.4

1.6	78.4
9.4	70.6
1.4	68.6
2.6	67.4
1.7	53.3
7.9	22.1
1.1	53.9
7.9	67.1
3	69.7

5	82.5
8	64.2
0	62.0
2	59.8
9	30.1
0	50.0
5	53.5

7: 4-5.

The President

Today, Aliaksandr Lukashenka is the country's most influential political actor. His decisions are determined by many factors, most importantly by his convictions and world-view, his desire to preserve power, and by the necessity to find a solution to the current problems faced by Belarusian society.

Lukashenka's views, as can be surmised from numerous interviews, are deeply conservative. Here is a short summary of his opinions 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, 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 and all 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 society. "The spirit of gain" is incompatible, in his opinion, with the spiritual values of the Slavic-Orthodox peoples. Lukashenka has an especially negative view of financial and trade enterprises. He has said repeatedly that society must rid itself of such enterprises as it would rid itself of "louse-infested fleas." At a conference on the new system of registration for enterprises held on 12 March 1999, he decreed that enterprises that dealt with the purchase and sale of goods would not be allowed to register. Further, if regional leaders believe there is a need for trade firms, then they must register them on their own responsibility. As a result, in the year starting in the autumn of 1998, only several dozen such enterprises were registered.⁷ In the city of Minsk as of 1 April 2000, not more than 2 percent of enterprises and private entrepreneurs were re-registered.

The president prizes the values of justice and equal distribution. He has repeatedly declared that Belarus looks for its own model of economic development different from both capitalism and socialism.

⁷ S. Balykin, "Problemy predprinimatelei nachinaiutsia s registratsii," *Narodnaya volia* 20 August 1999.

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.

Beginning in 1997, the president, through his decrees, has determined the monthly limits for price growth. In 1998, for example, the monthly increase of prices for every product was not to exceed 2 percent (4–5 percent per month in 1999 and 2000, which is much lower than the inflation rates). In order to increase a price over the determined percent, an enterprise has to appeal to local executive committees and substantiate the necessity for such a change. The punishment of enterprise directors for violating price-formation decrees has become a mass phenomenon. Lukashenka has repeatedly affirmed that the former socialist economic system justified itself and that Belarus' economic crisis was caused 50 percent by the disintegration of the USSR and 50 percent by the decline of executive discipline.⁸ This is why it is necessary not to reform, but to perfect, the former system. In his opinion, with a good director, a state enterprise can work as effectively as a private one.

Yet Lukashenka has severely limited the freedom of maneuver of state enterprise directors. Every year, by decree, he affirms the "forecast" of the growth of production volumes in the national economy for enterprises of all ownership forms. At the end of 1998, for example, eight directors of private enterprises were called to the executive power bodies and asked to explain why they had not increased production volume.

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 analyzes the people's moods and reflects them in his words and actions. This, in turn, reinforces even more marginal moods among "ordinary people."

It is now difficult for the president to change his negative attitude toward the private sector, not only because it contradicts his convictions, but also because it could lead to a loss of electorate.

8

Gomel'skie novosti 1 December 1994.

Having become president, Lukashenka revealed his archaic notions about his role in the state and on the ways of governing the country. A presidential fund, equal in size to the state budget was created.⁹ No one has the right to control Lukashenka's expenditures. (This right of uncontrolled expenditure was approved by the people in the November 1996 referendum in which they also approved a new constitution that authorized the introduction of an authoritarian regime.) A number of profitable enterprises were put under the authority of the management of affairs of the Presidential Administration (*Upravlenie Delami Administratsii Prezidenta*). Incomes from the lease of different kinds of state property also flow there.

The largest source of income to the presidential fund flows from different privileges that were given by the president, mainly to Russian private enterprises, for the import of goods into the Customs Union area shared with Russia.¹⁰ In this way, large sums of unaccounted money came into this fund.¹¹ It is common knowledge that Lukashenka paid additional salaries to high-ranking officials in cash dollars or paid expenses for holding large events from this fund. At the legal proceedings involving former Agriculture Minister Vasil Liavonaŭ [Leonov], for example, Liavonaŭ revealed that the dollars that had been found in his office by preliminary investigators had been given to him personally by Lukashenka.¹²

Managing this virtual second budget of the country by himself and without oversight, Lukashenka satisfies his personal "needs" at the expense of this fund. Among other things, he built a new house for his mother, repaired his wife's house, buys many expensive suits for himself, and gives presents.¹³

For Lukashenka, all other principles are subordinate to the principle of the preservation of power. This is why he is not tolerant of

⁹ According to an assertion of ex-premier Mikhail Chyhir [Chigir], made by him in the letter to Lukashenka from prison. See *Narodnaia volia* 12 August 1999.

¹⁰ On this topic, see also Chapter 7 of this volume, "Lukashenka's Role in Russian Politics," by Arkady Moshes.

¹¹ Aleksandr Feduta, "Zavkhoz respubliki," *Belorusskaia delovaia gazeta* 12 August 1999.

¹² *Belorusskaia delovaia gazeta* 28 August 1999.

¹³ See interview with Iu. Chyhir, wife of the arrested ex-premier Mykhail Chyhir, *Belorusskaia delovaia gazeta* 2 April 1999.

revealed his archaic ways of governing the state budget was Lukashenka's expenditures, approved by the people in 1995 also approved a new constitution of an authoritarian state. The courts were put under the control of the Presidential Administration (*nistratsii Prezidenta*). State property also flows

entire fund flows from the president, mainly through the Customs Service. Large sums of unaccounted money, known knowledge that the officials in cash; from this fund. At the Culture Minister Vasil revealed that the dollars investigators had been

country by himself and personal "needs" at the time he built a new house for his family. He spent expensive suits for

the subordinate to the president, by which he is not tolerant of

Chir [Chigir], made by him in 1999, 2 August 1999.

Lukashenka's Role in Russian

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ex-premier Mykhail Chyhir.

people in his circle who appear to have the potential to become rivals. In a letter from prison, for example, ex-premier Mikhail Chyhir [Chigir] recalls that, at the time of his appointment to the post of prime minister, Lukashenka asked him not to appear on TV without a pressing reason. In order to discredit Chyhir, his children were repeatedly arrested and beaten by the militia. In addition, different "witnesses" were made to give false evidence that Chyhir's children had committed economic crimes.¹⁴

The rough and tumble style of communication that the president has with his subordinates, which can be seen at every press conference broadcast on radio or TV, should also be noted. The head of administration of Mahilioŭ [Mogilev] region, A. Kulichkoŭ [Kulichkov], for example, was dismissed from his post right in front of the TV cameras during a press conference broadcast by Belarusian TV. He was immediately removed by guards from the conference hall. The decree announcing his dismissal appeared only afterwards.

The realization of the president's economic worldview in his actions does not contribute to the development of a private sector. A. Patupa, vice-chairman of the Belarusian Union of Entrepreneurs, speaking at the Congress of the Union in February 1998, summarized the situation very well: "We have returned to a command-administrative system. Market structures existing at the present moment are, in fact, decorative and can be destroyed at any time."¹⁵

The Presidential Administration and "Nomenklatura Entrepreneurs"

The Presidential Administration is composed of Lukashenka's closest and most trusted advisors. All main decisions are made here. Other power bodies (the Council of Ministers, the National Chamber) are only passive players. But even in the Administration, there are few people who really influence the president's decisions. It is known, for example, that the economic department of the Presidential Administration suggested that the dollar exchange rate be established on the basis of supply and demand. But these suggestions were constantly rejected.

The small circle of people who, in fact, govern the country and who were shown in the series of articles in the *Belorusskaia delovaia*

¹⁴ M. Chigir, "Otkrytoe pis'mo gr. Lukashenko," *Narodnaia volia* 12 August 1999.

¹⁵ *Belorusskaia delovaia gazeta* 23 February 1998.

gazeta (Belarusian Business Newspaper),¹⁶ comprise only half a dozen or so men. Almost all of them come from the middle ranks of the Army, the Ministry of Internal Affairs, and the KGB (with the exception of Mikhail Miasnikovich, head of the administration) and have had no prior experience in governing a country. The representatives of the intellectuals who helped Lukashenka come to power either left the administration on their own or were dismissed. Orthodox Communists who once headed the government and held legislative power are not in this influential circle.

Within the Presidential Administration, two groups of people who make money for the president's fund have taken shape. One of them deals with the arms trade (Secretary of the Security Council V. Sheiman) and the second with other kinds of commercial activity (manager of the affairs of the Presidential Administration Ivan Tsitsiankoŭ [Titenkov]). Under the umbrella of the administration, several groups of commercial enterprises that captured the most profitable business spheres have been created.¹⁷

People doing business under the protection of the Presidential Administration do not forget about their own interests. An interesting example was given by a Belarusian newspaper. Entrepreneurs working under the protection of the administration were buying up cars that had been confiscated from other entrepreneurs at prices ranging from one hundred to one thousand times lower than the normal ones.¹⁸ The heads of state organizations who created obstacles to the actions of "nomenklatura" entrepreneurs were dismissed. Thus, Tamara Vinikava [Vinnikova], former head of the National Bank, asserts that the reason for her arrest was the actions of those people close to the president whom she prevented from earning millions of dollars through dubious deals.¹⁹

Enterprises founded by the Presidential Administration ("Beltorgvneshinvest," for example) are formally state enterprises. From the political and economic point of view, however, they are the private property of small group of individuals who have real power in

¹⁶ *Belorusskaia delovaia gazeta*. Series of articles "Bol'shaia zhratva," spring-summer 1999.

¹⁷ Aleksandr Feduta, "Bol'shaia zhratva," 2 August 1999.

¹⁸ "Baza deshevoi rasprodazhi," *Belorusskaia delovaia gazeta* 27 August 1999.

¹⁹ Interview of Tamara Vinikava, *Belorusskaia delovaia gazeta* 2 April 1999.

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the country, as the profits of these enterprises remain at their disposal. These people are interested in some kind of freedom for entrepreneurship because the return to a strict Soviet-style planned economy would mean the expansion of the circle of owners of these enterprises at the expense of other groups of state bureaucracy.

The Bureaucracy

After gaining independence and after the dissolution of the Communist party (and especially during the Kebich government of 1991–1994), the state bureaucracy became the country's absolute master. The attempts made by the country's higher leadership to maintain the course of Belarus' development in accordance with socialist principles only created conditions for corruption and appropriation of state property. Ideological directives were quickly dissolved. The bureaucracy itself began privatization according to the decision and rules drawn up by the Council of Ministers (1991) two years before the adoption of the "Law on Privatization" by the Supreme Soviet.

In Belarus as well as in Russia, bribery, as the primitive form of "participation" of the bureaucracy in the appropriation of incomes of the private sector, grew into cooperation with private business groups that needed its support. During Kebich's tenure as prime minister, directors of large enterprises founded the Economic Council. Belarusian scientific and industrial associations and leaders of unions of entrepreneurs had direct telephone access to the Prime Minister and accompanied him on foreign trips. After Lukashenka came to power, these communication lines were cut.

The model of oligarchic capitalism and corporative-bureaucratic organization began to form in Belarus between 1991 and 1994. This was slower than in Russia, because of cultural and historical differences. The agrarian lobby headed by Minister Liavonaŭ, for example, suggested a mechanism for the privatization of the agrarian-industrial complex that would transfer the enterprises of the complex (production, processing and sale of agricultural products, financing, and insurance) into the private property of a small financial group.¹⁹ Liavonaŭ later was arrested.

¹⁹ L. Zlotnikov, "Korporatsiia 'Agrokredit'—sovokupnyi zemlevladelets," *Belorusskii rynok* 19 (1994).

Lukashenka's ascent to power temporarily interrupted the development of private sector and market relations in the direction of a Russian-model form of oligarchic capitalism. All previously created bureaucratic clan groups lost their influence over decisions made by the president. At the same time, having no other candidates, he had to form his executive "vertical line" from the same immortal bureaucracy. Only Lukashenka's closest advisors, concentrated in the Presidential Administration, accommodated new people. The main economic policy decisions are made by this group. These decisions reflect the preference of "ordinary" people for simple and quick solutions to complex economic problems.

Immediately after Lukashenka came to power, an original project to introduce subsidiary (full) responsibility of the founders of economic entities took shape in his administration. In accordance with this project, for instance, the shareholders would have to be able to respond with their private property for debts incurred by their joint-stock companies. This project, however, does not correspond to the interests of other groups of the bureaucracy. The project of subsidiary responsibility met strong resistance from the bureaucracy and was rejected.

The idea of expansion of responsibility of individuals for the liabilities of enterprises, however, found its reflection in some recent presidential decrees. The official who registers a new enterprise, for example, will have to pay a fine if, in the future, this enterprise does not pay taxes or debts to other creditors. Similarly, if an enterprise engaged in exports does not receive payment for the goods exported within two months, the employee of the enterprise who made the decision on the export must pay a large fine. Some decrees are directed simply at the appropriation of the means of enterprises. The decree of 16 February 1999, for example, took money from those legal entities that had currency in their accounts in the form of a peculiar tax on the growth of the currency rate.

The incompetence reflected by decisions made in the Presidential Administration can be seen in the new Civil Code and other documents.²⁰ These decisions are made, as Lukashenka has declared repeatedly, in the interests of "ordinary people." They do not correspond to the bureaucracy's own interests, nor to its ideas on ways

²⁰ V. Demidov, "Osnovnyi kol v grazhdanskii kodeks," *Belorusskaia delovaiia gazeta* 2 November 1998.

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out of the crisis. Many specialists in state control bodies during the period between 1992 and 1994 had received training either abroad or in Belarus with the participation of foreign experts. This is why the president's populist decisions do not resonate with them. Adherents of market reform either left the government on their own or were dismissed from their posts. The new people who have entered the government are less competent. The posts of vice-premier for economic issues and then the chairman of the national bank, for example, were occupied by individuals with no training in economics.

Tension is increasing between the top (Presidential Administration) and lower levels of the power structure. This is conditioned by the fact that the negative consequences of incompetent economic decisions at the highest level are blamed by Lukashenka and the mass media on ministers, local authorities, and enterprise directors. In the course of Lukashenka's regime, the bureaucracy, except for the president's closest advisors, has lost confidence in its future.

In summary, above the state bureaucracy a new power center has appeared that is trying to turn the bureaucracy, which has already tasted power, again into an instrument to satisfy the interests of the president's electorate, that is Lukashenka's "ordinary people."

The Entrepreneurs

The majority of those employed in the non-state sector (650 mainly medium-sized enterprises) work in so-called "collective" enterprises formed when their labor staff bought out the company. At these enterprises, the workers do not feel that they are either owners or entrepreneurs. Employees of state enterprises that became joint-stock companies also do not feel that they are either owners or entrepreneurs. Neither do the shareowners who received shares in exchange for privatization vouchers see themselves as entrepreneurs. As of the end of 1998, 70 percent of the population had received their privatization vouchers. Only 12 percent of them exchanged them for shares. And, of those who did so, practically none received any dividends. The vouchers depreciated quickly to the point where a citizen could sell all of them for only \$3 to \$5.

A considerable portion of the population is involved in the shadow economy ("shuttle trading" of goods brought from Poland and Russia, repair and building of private houses, country cottages, etc.).

Employment statistics testify to this fact: from 1991 through 1998, the number of people employed in the national economy was reduced by 760,000, yet the number of officially unemployed at the end of 1998 totaled only 105,000.²¹

Small and medium-sized enterprises (SME) in Belarus function under hard conditions. A poll of leaders of such businesses carried out by IISEPS in May 1997 showed that the state organs treat SME "negatively rather than positively" (63.2 percent) or "negatively" (23.2 percent). Nearly three-quarters (73.7 percent) of those polled claimed that corruption prevents their activity; 82.1 percent blamed high taxes, and 86.3 percent unstable legislation.

The leaders of small and medium-sized businesses are the most influential force behind democracy and the development of the private sector of the economy. More than half of them (56.8 percent) support development of a free market economy, while only 1.1 percent favor a planned economy.

The results of other polls show that people who participate in the non-state sector of the economy are approximately twice as likely to support market economy values (they have a higher tolerance for risk, a higher opinion of the efficiency of private enterprises, freedom of prices, etc.). They are also more likely to have a favorable attitude toward democratic values.²²

The hard conditions of economic survival encourage small businesses to unite. A trade union of small entrepreneurs and "shuttle traders" now numbers 70,000 members and has already organized several strikes calling for the protection of the rights of small traders. At their congress, the two main unions of Belarusian entrepreneurs were sharply critical of the state's economic policy and demanded more freedom for entrepreneurship.²³

In agriculture, small and medium-sized private businesses are only marginally developed at the moment. As of 1 January 1999, there were 2,640 private farms (versus 3,034 in 1996) in Belarus. Less than one percent of the nation's agricultural land is in the hands of private farmers. It was mainly the head specialists of collective and state

²¹ *Statistical Yearbook of the Republic of Belarus, 1998.*

²² Pelipas, "Uspekhi v biznese izmeniaet mirovozzrenie," *Belorusskii rynok* 46 (1997).

²³ See, for example, A. Makhovskii, "Druz'ia, pechalen vash soiuz," *Belorusskaia delovaia gazeta* 23 February 1998.

farms who became farmers. State support of farmers is practically nonexistent. Farmers receive lifetime use of land with the right to transfer it through inheritance, but not to sell it. When the farmer ceases working his land, it is returned to the state.

Belarusian statistics classify all joint-stock companies as belonging to the non-state sector, even if 100 percent of the shares belong to the state. There are no statistics on the number of truly private enterprises formed as a result of privatization. During the entire period of reforms (1991–1998), 3,112 enterprises (16 percent of the total), including 1,496 involved in trade and services moved into the non-state sector. These enterprises employ 656,000 people. In 1999, the growth of the non-state sector practically stopped.

During the years of reforms, 57,000 new small enterprises appeared, and 160,000 private entrepreneurs were registered without the formation of a legal entity. The non-state sector accounts for 15 percent of all employees in Belarus.²⁴

It can be roughly estimated that those involved in entrepreneurial activities or owning private property make up no more than 5 percent of the employed in the national economy, or no more than 2.5 percent of the population of Belarus. It is widely agreed that these people comprise the nation's "middle class." Thus, Belarus' middle class is too small to influence the development of the society. Moreover, the economic system that has taken shape in Belarus does not assist the development of the private sector or the growth of the middle class' influence.

State Enterprise Directors: The Directorate

Directors of large enterprises that are still state-owned lost their privileged position in society after Lukashenka came to power. Their monthly salary (\$70–100) is only double or triple the average worker's and is one-tenth to one-twentieth that of Russian directors. They are ordered by the state, in a summary manner, to improve their companies' indicators. Laws and regulations are constantly changing and are often contradictory. Enterprises are submitted to continuous inspections. One poll of directors of such companies showed that, on average, each enterprise is subjected to twelve inspections per year.²⁵

²⁴ Statistical Yearbook of the Republic of Belarus, 1998.

²⁵ *Belorusskaia delovaia gazeta* no. 20 (1998). [Note that *Belorusskaia delovaia*

Punishment of directors is commonplace. In 1997, for example, fifteen heads of enterprises were dismissed and thirty-one were under investigation (about 15 percent of the total number).²⁶ Political activity by directors has declined in recent years. Their political party (the Belarusian Scientific and Industrial Congress) ceased to exist in 1999. Their attitude toward the regime was put into sharp relief by Vasil Shlyndzikaŭ, one of the former leaders of a large machine-building concern and now an opposition leader, who said: "Society must be protected from tramps and demagogues coming to power."²⁷

The decline in the social status of directors of large enterprises after 1994 does not yet mean that they will assist in the transformation of the Belarusian economy into a liberal market economy. In the mentality of this kind of elite, as noted by Russian political scientist G. Diligensky, the idea of a command-administrative political power as higher value has taken root.²⁸ Hence, the elite's tendency towards nostalgia for a planned economy. In market relations, they strive to enter the system of power and use it as an instrument of private appropriation. It was through their assistance that the "oligarchic" model of the economy took shape in Russia in 1991–1994. A similar model was formed in Belarus as well.

Until recently, the social and psychological profiles of upper-level managers in Russia and Belarus were practically the same. This is why Diligensky's conclusion regarding the tendency of the directorate of large enterprises towards the formation of an oligarchic model of capitalism holds true for Belarus as well. The history of the development of goods stock exchanges in Belarus before Lukashenka's ascent to power confirms this conclusion. In 1992–1993, goods stock exchanges became rivals to state enterprises. This is why the latter lobbied for raising the requirements for allowing stock exchanges to operate. As a result, from almost forty goods stock

gazeta changed its numeration system in 1998, thus the different forms of citation for that year.]

²⁶ *Belorusskaia delovaia gazeta* 9 March 1998.

²⁷ V. Shlyndikov, "Direktorat ustal, vlasti bezialostnyi v bor'be s nim," *Belorusskaia delovaia gazeta* no. 59 (1997).

²⁸ G. Diligenskii, "Politicheskaia institutsionalizatsiia v Rossii: Sotsialnyi, kul'turnyi i psikhologicheskii aspekty," *Mirovaia ekonomika i mezhdunarodnye otnosheniia* 8 (1997).

exchanges, by 1995, only eleven remained and only one of them was fully functional.

Influence of External Factors on the Development of Market Reforms in Belarus

Influence of Russian Political and Business Circles

The geopolitical strategy of almost all Russian political forces assigns a key role to Russian-Belarusian integration. This leads to the economic support of Belarus by Russian politicians. Gas, for example, is supplied to Belarus at prices some 30–40 percent lower than to neighboring Ukraine and Lithuania. Furthermore, Belarus has never paid for part of the gas supplied, and, in 1996, a debt in the amount of \$1.4 billion was written off. In the opinion of Russian experts, the Belarusian side is intentionally dragging out the adoption of unified customs and tax legislation. Such customs policy caused damage to Russia in the amount of about \$1.5 billion.²⁹

Russian business circles did not have a great influence on the development of Belarus' private sector. This is, first of all, because the investment climate in Belarus turned unfavorable for entrepreneurs. Even in those rare cases in which Russian entrepreneurs bought up control packages of shares of Belarusian enterprises, they soon became convinced that it would be better to sell them.³⁰

It should be taken into consideration that, as a whole, direct foreign investments in the Belarusian economy are very small: \$270 million for the entire 1992–1998 period or \$27 per capita. By way of comparison, the corresponding figure in Poland was \$532 per capita; in Estonia, it was \$527. Direct investments, together with credits for the above-mentioned period totaled \$2.2 billion. As a result, the collective investment fund of all foreign enterprises and joint ventures (including Russian) in 1993 totaled \$100.4 million; in 1996, this was reduced to \$50 million. Russian gas (Gazprom) and oil companies have repeatedly tried to obtain shares of property in pipelines, in oil-processing plants, in production of mineral fertilizers ("Azot," Hrodna) and some other enterprises. In spite of prolonged negotiations

²⁹ "Politicheskoe i ekonomicheskoe razvitie respublik Belarus. Perspektivy rossiisko-belorusskoi integratsii." Institute of CIS (Moscow, February 1997).

³⁰ T. Manenok, "Kooperatsiia ne poluchilas'," *Belorusskii rynok* 41 (1997).

with Gazprom and promises by the Belarusian government to make Beltransgas (Belarus' gas transportation monopoly) a joint-stock company with the aim of transferring a part of the shares in exchange for the gas debts, these efforts have not borne fruit.³¹

Russian oil companies are interested in acquiring the property of Belarusian oil-processing plants, oil pipelines, and oil product sales systems. In 1993, before Lukashenka came to power, the oil-processing plant in Mazyr [Mozryr] was converted into a joint-stock company. Now, 43 percent of the shares of this plant belong to the Russian-Belarusian joint venture Slavneft. As for another oil-processing plant (Navapolatsk [Novopolostk]), in spite of its being in dire need of reconstruction (the state does not have the necessary funds for this purpose), it has not been privatized.³²

The only Russian company that has managed to acquire and create its own objects on Belarusian territory is the oil company LukOIL. This company has invested about \$30 million, mainly into the Mazyr oil-processing plant and refueling stations (most notably into the creation of its own network of service stations).

The presence of private enterprises, including Belarusian ones, in the oil product distribution network has favorably influenced the oil product market. In winter of 1998–1999, with shortages of gasoline and diesel fuel and long lines at state refueling stations, these products could be bought at private stations at higher prices.

In short, it can be said that with Lukashenka's rise to power the influence of Russian capital on the formation of a private sector in Belarus has become minimal. The influence of those Russian political circles who reject the values of a market economy and democracy is much stronger. The strengthening of Belarus' trade relations with Moscow can be mentioned as an example. In 1998, Moscow's share in the total volume of Belarusian exports to Russia totaled 29 percent; by 1999, this had risen to 34 percent. Moscow buys a great deal of equipment for communal services (trolleys, buses, elevators, etc.) from Belarus. It is reasonable to suppose that this process has been assisted by Moscow's mayor Yuri Luzhkov, whom Lukashenka considers to be a friend. The Moscow press charges that Luzhkov has equipped the city's communal services to the detriment of its budget

³¹ V. Mahovsky, "Beltransgas' trebuet den'gi," *Belorusskaia delovaia gazeta* 7 September 1998.

³² This topic is discussed in length in Chapter 7 of this volume.

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enka's rise to power the formation of a private sector in Belarus. In those Russian political economy and democracy is not possible, is' trade relations with Russia. In 1998, Moscow's share in Belarus's trade totaled 29 percent; by 2000, it had grown to 40 percent. Belarus buys a great deal of Russian goods (buses, elevators, etc.) and at this process has been helped by Russia. However, whom Lukashenka accuses that Luzhkov has acted to the detriment of its budget.

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(Belarusian equipment is more expensive than Western products of similar quality). From this point of view as well, Lukashenka encourages the suppression of the private sector in Russia itself, because he reinforces the influence of Leftist political forces there.

Influence of the West

The influence of the West on the formation of a market economy in Belarus has been felt mainly via three channels. First, via the inflow of direct investments and credits to the private sector; second, via the influence of international financial organizations; and, third, via the training and retraining of personnel.

The role of foreign direct investments in the development of small and medium-sized private enterprises in Belarus has been limited. In 1996, for example, per capita direct investment in Belarus was only \$2 (vs. \$68 in Latvia, \$60 in Poland, and \$117 in the Czech Republic). The climate for foreign investments as a whole is unfavorable. According to the investment ratings published by the journal *Institutional Investor* in 1997, Belarus was in 118th place among the 135 countries under consideration. Researchers also note the capital flight from Belarus and the outflow of foreign capital.³³ The number of joint ventures in Belarus, for example, declined from 455 in 1994 to 147 in 1996, while the number of foreign enterprises more than halved from 262 to 126.

Due to the unfavorable investment climate, of all the credit lines intended to foster the development of the private sector, only one has remained open for Belarus—that of the European Bank for Reconstruction and Development (EBRD). Its attempts to encourage the development of small private enterprises by way of giving small hard currency credits have yielded practically nothing. In 1994, a sum of only \$30 million was allocated for these purposes. But by the end of 1998, this money had not been expended. First of all, under the government's populist currency policies, exports are unprofitable and there are practically no hard currency-repaying projects. Besides, about 60 percent of the enterprises involved cannot fulfill requirements to fulfill the pledges they make.

³³ "Development of the non-state sector of economy and investment climate of the Republic of Belarus," UN Development Program. Project RER/95/03c. Informational analytical report (Minsk, 1997).

Within the framework of the UN development program, there is at present a project for the creation of business incubators for small enterprises. This undertaking is small, however, and cannot be expected to have a noticeable influence on the development of the private sector in the foreseeable future.

After Lukashenka's ascent to power, international financial organizations lost their influence on Belarus' economic development. Neither the IMF nor the World Bank has allocated any credits since 1996. The IMF mission and the World Bank's representative have left Belarus.

Now that the period of the growth of the Belarusian economy (1996–1998) at the expense of short-term resources is over, the government is in dire need of foreign credits. Under these conditions, the government can agree to partial fulfillment of foreign requirements in order to obtain these credits (liberalization of currency rate and prices, privatization of individual objects).

One of the few positive results of the influence of international organizations has been the improvement of the education of managers who have undergone training or participated in internships abroad. These specialists are now adherents of market reforms. It is desirable to continue the training of the government staff. This is the future elite of the country.

The credits provided by the IMF, the World Bank, and other organizations have had few positive results in terms of the development of the private sector. These monies were used for solving current problems in the state sector. For example, from \$100 million in System Transformation Funds (STF) credits, \$20 million was used to cover the losses of only one facility—the Minsk Tractor Factory.

In many experts' opinions, the most desirable form of support for private enterprises, instead of credits to the government, would be the creation of a private fund for the support of entrepreneurship, with the participation of Western partners interested in private sector development in Belarus. In addition, it should be taken into account that there are few private enterprises in Belarus and that those that have been newly created cannot provide the required level of pledge liabilities. The reduction of pledge liabilities is one of the main conditions of private sector development.

Formation of the "German" Model of Socialism

Once in power, Lukashenka could not immediately change the flow of economic processes according to the demands of "ordinary" people. This was because he had to rely on the former state bureaucracy and had to take into account their understanding of market reforms. When he invited Chyhir to become his Prime Minister, for example, Lukashenka promised him the freedom to make economic decisions on his own.³⁴ The program to extricate the nation from the crisis that arose from Lukashenka's instructions in 1996 reflected the lobbying interests of different groups of the nomenklatura (industrialists, agrarians, bureaucracy). At the same time, it contained a number of measures on economic liberalization and financial stabilization. In 1994–1995, the National Bank managed to stabilize the Belarusian ruble exchange rate and even to accumulate hard currency resources. This helped to draw in foreign investments.

In 1996, however, the situation changed. Three lobbying groups formed around the Presidential Administration: the construction lobby (represented by Piotr Prakapovich, now chairman of the National Bank); the industrial (represented by Mikhail Miasnikov, head of the Administration); and the agrarian lobby (represented by the president himself). These lobbies reflect the interests of large state enterprise directors and chairmen of collective farms and oppose market reforms as possibly leading to a redistribution of power and property. Under their influence, a "Program of Socio-Economic Development for Belarus up to the Year 2000" was adopted, the main priorities of which became the interests of the main lobbying groups (food, residential construction, export-oriented industry).

In 1995–1996, a considerable number of heads of state institutions, including the army, the KGB, and the Ministry of Internal Affairs, were changed. Having strengthened his position, Lukashenka began to limit the freedom of entrepreneurship more decisively. As early as 1996, privatization had practically been stopped (except for a small number of objects of trade and services). By one of his decrees, for example, the president united a joint-stock company with a state bank (Presidential Decree No. 340 of 30 August 1995). Another presidential decree reduced the share of private shareholders in the authorization fund of commercial banks (Presidential Decree No. 209

³⁴ M. Chyhir. "Otkrytoe pis'mo gr. Lukashenko," *Narodnaia volia* 28 August 1999.

of 24 June 1996) by several times. Beginning in 1997, the president has determined the "forecast" indices of economic development that are interpreted by the executive power as directive tasks. Since 1998, these decrees have determined the limits of monthly growth of prices as well. Both state and non-state enterprises are obliged to follow these indices.

Lukashenka has gradually created unfavorable conditions for entrepreneurship. Regulations constantly change. In addition, changes are often introduced with retroactive force or enter into force the very day of their (often unexpected) announcement, creating chaos that leads to the bankruptcy of many firms. One of the recent hard blows to the private sector was the president's telegram to regional executive committees directing them not to register private enterprises if, in their charters, there is no subsidiary responsibility for the founders, that is, if the charters do not spell out the founders' legal responsibility to cover the debts of the enterprise with their own personal capital.

Those leaders of private enterprises who tend to be obstinate are thoroughly inspected by the tax authorities; sometimes they are arrested and held in prison without formal charge for prolonged periods. Under these conditions, directors of private enterprises are likely to obey all government orders, without particular regard to their legality. In the autumn of 1998, for example, when the rates of growth of industrial production volumes became lower than those that had been established by the presidential decree at the beginning of the year, directors of private enterprises along with the leaders of state enterprises were called to the local executive bodies to explain the reasons for the reduction.

Besides the payment of taxes, private enterprises are continuously subjected to extortion: for the building of sports facilities, for food purchases, for the spring sewing campaign,³⁵ etc. Directors of private enterprises cannot refuse to make such "donations" without the risk of getting into difficulty. In January–March 1999, commercial banks found themselves in such a situation when they were obliged to allocate large credits to collective farms, at negative interest rates. It was known beforehand that most of these credits would never be returned.

³⁵ This is the period during the spring when Belarusian farmers undertake their sewing chores. This work requires fuel for tractors and, thus, large sums of money.

As a rule, entrepreneurs cannot find protection in the courts since, according to the Constitution of 1996, the president appoints all judges in the country. Thus, since 1996, Lukashenka has created what could practically be called an "ochlocratic" economic model, similar to that existing in Nazi Germany in the 1930s. The economist Ludwig von Mises called it the "German type" model of socialism. In this model, the notions of "ordinary" people on the functioning of the economy are realized.

*The Private Sector in Belarus:
Possible Scenarios of Economic Development*

The possibilities of private sector development depend, to a decisive degree, upon the choice of the economic model of development.

An analysis of systems of values and material interests of different groups of Belarusian society, of Belarus' experience in the years since independence, and of the experience of economic reforms in Russia shows that development of the Belarusian economy could take place according to three possible scenarios or models (according to Tatiana Zaslavskaja's classification).³⁶

- 1) The "ochlocratic" model, that is, a model that corresponds to the ideas of "ordinary" people on the functioning of the economy. ("Ochlocracy" literally means "mob rule.") If the control of the economy falls into the hands of such "ordinary" people who are not cognizant of the great complexity of the economy and who try to govern with the help of "ordinary" methods (which is what happened in Belarus), then the "ochlocratic" economic model is formed. Cuba or North Korea are examples of this.

In Belarus, Lukashenka, his electorate, and the key figures of his team making strategic decisions in the name of the interests of "ordinary" people are the force that is dragging Belarusian society to an "ochlocratic" model of development. With this model, there can be no real development of the private sector.

³⁶ Tatiana Zaslavskaja, "Real'na li demokraticheskaia pereorientatsiia nashei ekonomiki?" *EKO (Ekonomika i organizatsiia promyshlennogo proizvodstva)* 1997 (11): 25.

- 2) The "oligarchic" model. Belarus (as well as Russia) developed according to this model before Lukashenka's election in 1994. Development according to this model corresponds to the interests of the bureaucracy, directorate, and nomenklatura entrepreneurs. In this model, the private sector is developed, but competition is suppressed, the economy is inefficient, the polarization of incomes is large, and the political system is unstable.
- 3) The "democratic" model. Similar models function in developed capitalist countries. The adherents of this model are representatives of small and medium-sized business, skilled workers, and the most educated strata of society. From the point of view of the efficiency of the economy and of raising the level of social development, this is the most attractive model.

If economic decisions were made only by "ordinary" people, the Belarusian economy would develop according to the Cuban model. As things stand today, however, Lukashenka cannot restore a command economy. He has to rely, although only partially, upon the bureaucracy that was formed before he came to power. This group of people is interested in the preservation of the private sector that was formed earlier as the source of its illegal income. Nomenklatura entrepreneurs are interested in the preservation of market economic forms as well. This is why the president has to tolerate the existence of a private sector. In Belarus, as a result, an economic model similar to the "German model" of the 1930s has taken shape. In this model, private property exists formally, but in its functioning it is, in reality, subject to commands from the political center. The fact that Belarus is a country with a small, open economy and is surrounded by countries with market economies also is important. This is why it is simply impossible to restore the command-administrative system in its previous form in Belarus.

The model existing in Belarus is unstable. If Lukashenka were to remain in power for a rather long time and if the Left were to come to power in Russia, the private sector would be suppressed as, for example, Stalin suppressed the private sector in the USSR at the end of the 1920s. Another possibility would be that the bureaucracy, which is currently suppressed, will find a way to replace a president who does not please it.

Will economic necessity force the president to liberalize the economy, as occurred during the Kebich government in 1992–1994? Most likely, no. This is because the values of Lukashenka himself, as well as those of his closest associates, are deeply conservative and are based on emotions more than on analysis. These values are more stable than those of communism. It is possible that, with the aim of getting credits, the government will implement some of the IMF's recommendations for at least a while. But it is unlikely that Lukashenka will reject his populist economic policy together with his convictions and his electorate.

Will the impoverished population get out into the streets to demand market reforms? Most likely, no. This is because the preferences of the population are rather anti-market. Besides, Lukashenka's policies have achieved equality—in poverty. As is well known, any reduction of income differentials diminishes the probability of revolution.³⁷

In Belarus, however, there is still the high probability of a transition to a market economy through democratic means. An analysis of the Belarusian electorate carried out by Professor Oleg Manaev, director of the Independent Institute of Social, Economic and Political Studies (IISEPS) on the basis of 1994–1999 national polls gives reason for such hopes.³⁸ Sociological polls show that since 1994 the number of supporters of market reforms has been growing gradually. In June 1994, for example, those who were for a “market economy with slight state regulation” made up 30.4 percent of those polled; by November 1999, this had risen to 40.5 percent. Faithful Lukashenka disciples, that is, those who share his system of values and views, made up 20 to 25 percent of the electorate in 1999. The rest of Lukashenka's electorate are either people with a mixed system of values or the “socially dynamic type” who have yet to find their leader (about 20 percent). The number of people of this type is declining in Lukashenka's electorate and is being replaced by adherents with an anti-market and egalitarian mentality who for some reason did not vote for Lukashenka earlier.

³⁷ Cf. the ideas expressed in Pitirim Sorokin “Hunger and Ideology of the Society” (in Russian: “Golod i ideologiya obshchestva,” in his *Obshchedostupnyi uchebnik sotsiologii. Stat'i raznykh let* [Moscow, 1994]).

³⁸ Oleg Manaev, “Po tonkomu l'du,” p. 5; idem, “Belorusskii elektorat: Za i protiv presidenta,” *IISEPS NEWS* 1998 (1). See also *IISEPS NEWS* December 1999 (4).

Lukashenka can become, as Manaev notes, "a hostage of his black and white electorate and can preserve his influence only by satisfying more and more primitive and aggressive expectations." Along with such a development, social polarization will increase.

Hard-core adherents of a liberal market economy (the "democratic" model) make up about 20 percent of today's electorate. This is the most active and educated part of the society.

The mentality of approximately 50 percent of the electorate represents a conflicting system of views and expectations. Their behavior is unpredictable. This part of the electorate is not interested in a renaissance of Belarusian culture, nor do they express any aspirations for a return to the socialist past. This part of the society is mostly interested in future stability, and this is why economic education and the propagandizing of market values can influence its position. Support of market reforms by this hesitant part of the electorate can also be reinforced by propaganda pointing to the positive changes in the life of the residents of countries that neighbor Belarus and that are going along the path of reforms (the Baltic countries and Poland, for instance). This part of the electorate can become a resource for redirecting society, through democratic means, toward private property, a market economy, and democracy.

Moving in the direction of the "ochlocratic" economic model, Lukashenka is acting not only against the interests of adherents to the "democratic" model. He also has impinged upon the interests of adherents to the "oligarchic" model and even against the interests of the "nomenklatura" entrepreneurs. The June 1999 arrests of the well-known director of a metallurgical plant and a leading "nomenklatura" entrepreneur showed once again that, in Belarus, nobody is protected against the tyranny of the dictator.

A widening rupture is emerging in Lukashenka's relationship with the leaders of agricultural enterprises who supported him earlier. The arrest of well-known agrarian reformers meant the end of those agricultural leaders' hope for beneficial (for them) change in that sector. As a result of the deepening economic crisis, state allocations to agriculture have been reduced. More than 50 percent of the nation's agricultural enterprises are unprofitable and are continuing to fall into even more dire straits. At the same time, they have to comply with unrealistic and increasingly rough commands from the president, and this, of course, only exacerbates their situation. This is why farms ignore commands from above. At a September 1999 meeting of the

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Ministry of Agriculture and Food, for instance, it was noted that
"governmental directives and even Presidential Decrees in some
places are simply being ignored."³⁹

There are growing contradictions between business and state
elites, on the one hand, and the narrow circle of people around
Lukashenka who govern the country, on the other. As an example, the
conclusion that was reached at a meeting of the Council of Ministers
at the end of August 1999 should be noted. At this meeting, it was
claimed that the policy of currency regulation carried out by the
National Bank lies at the root of the economic crisis. In addition, it is
widely acknowledged that the present incompetent currency policy is
personally dictated by the president and that the chairman of the
National Bank, Prakapovich (by the way, a construction engineer by
education and work experience), is not at fault. But the very fact that
this "protest" took place, and its form, is very telling of the growing
contradiction between business and state elites.⁴⁰

Even Lukashenka's cultural differences with the elite of the
society and his closest advisors (inability to speak, roughness and
boorishness in addressing subordinates, etc.), while strengthening the
president's unity with "the people," nonetheless create tension in
relations between him and the elites and subordinates around him.

Generalizing, it could be said that it is highly probable that the
current authoritarian regime in Belarus will change. The decline in the
standard of living will reduce Lukashenka's electorate. Because
tensions already exist between the president and business interests, the
political and cultural elite can influence matters so that, once an
election is held, the election commission may decide against
manipulating the results in Lukashenka's favor.

There will be real prospects for the development of the private
sector only if there is a change of the established regime. The most
likely possibility is that, after such a change, Belarus will go along the
path of "oligarchic" capitalism and a movement for the formation of a
"democratic" model will grow within the society.

³⁹ "Resoliutsii pravitel'stva ne osuzhdaiut'sia, a vypolniaiut'sia," *Belorusskaia niva* 7
September 1999.

⁴⁰ "Strasti vokrug koshel'ka," *Sovetskaia Belorussia* 28 August 1999.

Supplementary Tables⁴¹**Table S1.** Differences in views of respondents depending on place of residence (in percent)

	Hrodna region	Mahilioŭ region	Belarus
<i>For market economy with small state regulation:</i>	40.5	19.3	30.4
<i>For planned economy:</i>	17.9	43.8	30.3
<i>Hopes for emerging from the crisis are connected:</i>			
With the president of the republic	40.2	61.8	50.7
With Belarusian entrepreneurs	14.2	7.7	15.8
With heads of state enterprises			
With state farms, collective farms	11.2	27.6	19.6
With the help of the West	28.2	10.4	16.6
<i>Must not be in private property:</i>			
Large enterprises	17.6	44.5	32.1
Banks	19.9	49.1	30.4
Agricultural lands	16.4	39.6	32.5
Transport, communication, power engineering	29.5	49.6	35.3
Medical establishments	31.2	54.4	41.1
Schools	37.8	52.2	39.4
<i>Economically more effective property:</i>			
State	39.7	60.5	44.0
Private	53.8	33.1	48.3
<i>Responsibility for worsening of the economic situation lies with:</i>			
President of the republic	70.0	34.5	49.3
Local authorities	23.5	13.3	25.2
Mafia	16.0	51.0	35.6

⁴¹ All data from IISEPS. In the nation-wide polls conducted by IISEPS from which the results are used in this chapter, 1490–1500 people over the age of 16 were polled. See Oleg Manaev, "Po tonkomu y'du."

Depending on place of		Hrodna region	Mahilioŭ region	Belarus
Mahilioŭ region	Belarus			
		<i>Inhabitants of Belarus live worse than the people in the West because they are less industrious:</i>		
		2.2	11.2	6.2
		<i>The following type of economy is preferable:</i>		
19.3	30.4	15.8	27.6	27.5
43.8	30.3	19.2	2.2	6.9
		0.0	0.9	0.9
		4.1	5.8	4.2
		13.9	18.1	19.5
		10.2	10.6	10.3
		<i>Integration with Russia can improve economic situation in Belarus:</i>		
61.8	50.7	40.2	59.3	53.6
7.7	15.8	19.8	3.4	11.6
27.6	19.6			
10.4	16.6			
		<i>Choice of social services (education, health care, etc.):</i>		
44.5	32.1			
49.1	30.4			
39.6	32.5	53.9	62.6	51.4
49.6	35.3	44.5	28.9	46.5
		<i>Differences in moral values</i>		
54.4	41.1			
52.2	39.4			
		<i>What do you feel is needed for a happy life:</i>		
60.5	44.0	66.6	50.0	60.3
33.1	48.3	48.5	34.5	42.6
		31.0	37.7	43.2
		39.9	47.1	47.7
34.5	49.3	31.5	17.5	27.9
13.3	25.2	13.3	20.8	21.2
51.0	35.6	0.9	17.8	10.1
		0.1	6.2	3.9
		8.4	2.3	4.8

1 by IISEPS from which
the age of 16 were polled.

	Hrodna region	Mahilioŭ region	Belarus
<i>Usury is:</i>			
Normal useful activity	35.4	19.6	32.6
Dishonest, parasitic kind of earning	35.4	47.4	38.6
<i>Honest sources of income are:</i>			
Salary	68.8	79.5	74.0
Unemployment allowance	17.0	26.3	20.1
Interest on money kept in the bank	24.3	43.4	29.4
Income on shares			17.7
Money received from the lease of flat	16.1	19.3	15.8
Entrepreneurial profit	14.7	14.8	16.4
All above-mentioned incomes are honest	35.0	19.5	28.3
<i>The following characteristics in people are valued the most:</i>			
Ability to take into account views and convictions of others	40.6	20.9	39.0
Faith in God	61.6	18.5	30.6
Tolerance	34.3	17.8	27.2
Charity	11.4	7.2	12.1
Ability to fight difficulties	39.2	29.2	35.9
<i>State must help:</i>			
Young people	30.9	19.9	30.8
Families with many children	67.2	30.3	46.1
All who have low income (invalids, the elderly)	46.5	28.6	42.1 75.1
<i>In social life what is valued the most:</i>			
Guarantees of human social rights (access to Education, health care, etc.)	53.1	69.2	64.9
Equality of all citizens under the law	51.1	63.9	61.3
Freedom of choice of convictions and behavior	30.1	21.3	27.1

a 1	Mahilioŭ region	Belarus		Hrodna region	Mahilioŭ region	Belarus
	19.6	32.6	<i>In social life what is valued the most</i>			
	47.4	38.6	<i>(con't):</i>			
			Non-interference of the state with the	12.8	21.2	23.0
			private life of citizens	38.5	51.0	38.0
	79.5	74.0	Legality of power	30.1	19.9	19.0
	26.3	20.1	Righteousness of power	13.9	14.3	16.9
	43.4	29.4	Wealth			
		17.7	Attitude to political life			
	19.3	15.8	<i>If elections were held tomorrow, Luka-</i>			
	14.8	16.4	<i>shenka would be elected president.</i>	36.3	64.1	45.4
	19.5	28.3				
			<i>Expansion of NATO to the East</i>			
			<i>represents a threat:</i>			
			Yes	15.7	33.7	31.2
			No	21.4	9.6	20.1
	20.9	39.0	<i>Belarus and Russia must unite into one</i>			
	18.5	30.6	<i>state.</i>	12.5	22.7	16.3
	17.8	27.2				
	7.2	12.1	<i>In reality, integration of Russia and</i>			
	29.2	35.9	<i>Belarus must include:</i>			
			Absence of border between countries	65.7	65.7	65.5
	19.9	30.8	A common outer border guarded			
	30.3	46.1	together	28.5	56.3	36.7
	28.6	42.1	A common president	8.6	26.1	12.6
		75.1	A common currency	30.2	51.0	41.9
			Common laws	14.9	36.9	29.3
			<i>Would like to live:</i>			
			In Belarus	62.5	59.0	
	69.2	64.9	In Poland	11.6	0.0	
			In the former USSR	2.2	6.7	
	63.9	61.3	<i>Belarus must be a sovereign state.</i>	88.5	82.0	85.4
	21.3	27.1				

Table S2. Differences in respondents' views depending on their education (percent)

	Up to 4 years	Up to 8 years	Secondary school	Secondary specialized school	Higher educational establishment
<i>How much, in your opinion, should the head of an enterprise get in comparison with other employees:</i>					
At the level of average salary of employees	25.5	24.9	15.4	13.5	6.2
2 times higher than on average	34.7	41.8	41.3	42.3	34.1
3-5 times higher than on average	14.3	13.4	19.3	18.5	29.4
6-10 times higher than on average	4.6	5.1	4.9	4.0	9.1
<i>What must, in your opinion, the price of a product be determined by:</i>					
Expenditures on its production	25.2	24.2	34.0	33.8	38.0
Supply and demand	4.6	16.6	25.8	30.0	36.9
Established by the state pro- ceeding from the interests of the population	26.6	39.0	27.1	26.1	16.1

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Up to 4 years	Up to 8 years	Secondary school	Secondary specialized school	Higher educational establishment
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*What is your
attitude to
usury—lending
money at
interest:*

It is a normal
useful activity

17.4	25.9	35.7	36.6	45.0
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It is a dishonest,
parasitic way of
earning money

44.0	49.4	35.6	35.8	28.3
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*How do you
explain the
growth of prices:*

The state does
not exert control

39.4	45.3	40.1	36.2	33.2
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Enterprises
increase prices

36.3	24.6	18.3	20.5	19.5
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The state prints
excessive money

10.4	12.7	26.2	22.6	35.0
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Enterprises'
expenditures

—	17.8	24.5	22.3	28.6
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increase

High taxes

17.4	37.3	36.9	46.3	53.3
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6.2

34.1

29.4

9.1

38.0

36.9

16.1

Table S3. Differences in respondents' views depending on the type of populated area (percent)

	Minsk	Regional cities	Large cities	Small towns	Villages
<i>How much, in your opinion, should the head of an enterprise earn in comparison with other employees:</i>					
At the level of average salary of employees	13.4	10.6	9.2	17.9	23.5
2 times higher than on average	31.8	34.8	45.9	39.7	43.5
3-5 times higher than on average	25.9	29.6	18.0	14.7	13.0
6-10 times higher than on average	5.4	7.8	5.8	3.7	4.8
<i>What must, in your opinion, the price of a product be determined by:</i>					
Expenditures on its production	29.7	31.6	30.7	28.1	35.2
Supply and demand	32.3	35.0	29.7	20.6	12.5
Established by the state proceeding from the interests of the population	20.0	19.6	19.1	34.7	31.9
<i>What is your attitude to usury—lending money at interest:</i>					
It is a normal useful activity	41.9	30.2	39.0	36.1	24.5
It is a dishonest, parasitic way of earning money	33.6	37.0	39	29.5	47.7
<i>How do you explain the growth of prices:</i>					
The state does not exert control	31.7	34.7	32.5	42.1	44.9
Enterprises increase prices	18.4	22.9	21.9	17.8	28.7
The state prints excessive money	32.5	27.6	40.6	12.5	10.0
Enterprises' expenditures grow	25.4	29.3	16.9	15.7	15.5
High taxes	59.8	39.3	34.0	34.6	29.6

Table S4. Electoral Support for Lukashenka

Small towns	Villages	Socio-Economic Status	Would vote for Lukashenka tomorrow	
			Yes	No
		<i>Level of Income:</i>		
		Poverty	52.2	47.8
		Below average	44.0	56.0
		Average	43.2	56.8
		Above average and high level	34.5	65.6
		<i>Do present-day incomes allow you to eat normally:</i>		
		Do not allow	50.5	49.5
		Hardly allow	48.6	51.4
		Quite allow	34.5	65.5
		<i>Do present-day incomes allow you to purchase necessary clothes and footwear:</i>		
		Do not allow	54.4	45.6
		Hardly allow	42.7	57.3
		Quite allow	27.4	72.6
		<i>Do You Have Property (Land Area, Sales Equipment, Car, Tractor, Etc.) used for Earning Money:</i>		
		No	48.3	51.7
		Yes	38.0	62.0
		<i>Change in Material Circumstances:</i>		
		Worsened	46.9	53.1
		Improved	58.9	41.1
		<i>Change Of Economic Situation in the Country During the Past Year:</i>		
		Worsened	37.8	62.2
		Did not change	43.9	56.1
		Improved	58.3	41.7