

Work and Production in Post-Soviet Belarus

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Unlike many other countries of the Commonwealth of Independent States (CIS), the Republic of Belarus has seen, for an extended time period, high rates of economic growth, a low unemployment rate, along with limited social stratification within society, as well as achieving a number of other goals through socio-economic policy. As there is no universally recognized theory of a transition economy, disputes among policymakers and economists continue regarding which countries of the former socialist camp have followed a better path than others through the transition period. Belarus has opted for the creation of a socially-oriented market economy where the state takes a leading role, and has achieved a number of successes on this path. However, any success has its cost, which we here attempt to determine, having examined the tendencies within the socio-economic transformation of Belarusian society.¹

Some general tendencies in the transformation of the Belarusian economy

Being a part of the united economic complex of the USSR, the economy of Belarus was characterized by all the features of the soviet economy: domination by government, militarization, a monopolized economy, a high level of concentration in production, a general deficit, hidden inflation and unemployment, along with a communally-oriented and paternalist psychology among the people.

At the same time, Belarus had a well-qualified population, as well as an economically-favourable geographic position, a great deal of labour, land, water, wood and some mineral resources. Occupying 0.9% of the territory of the USSR, Belarus in 1990 had a share of 3.6% of its total population and 3.4% by value of its fixed assets, while it produced 4% of its GNP, 4.5% of its industrial output and 5.6% of its agricultural production (1, 2). Within the frameworks of the division of labour among the members of the Union, Belarus achieved the following production shares in its areas of specialization: mineral

fertilizers – 18.9% (of which potash – 55.5%), chemical fibres and threads – 30.7%, tractors – 20.3%, metal-cutting machines – 9.8%, trucks – 5.4%, TV sets – 12.3%, bicycles – 14.4%, woven flax and silk fabrics – 10.3%, meat – 5.9%, milk – 6.9%, potatoes – 13.5%, flax fibre – 21.2%. Export of light industrial goods outside the republic accounted for about 40% of production, though in the case of tractors, trucks, forging and pressing machines, as well as computers, this figure rose to about 80%.

Belarus was one of the most developed republics of the Soviet Union, since much manufacturing industry had been situated on its territory. This allowed it to achieve one of the highest levels of GNP per capita in the USSR; in 1990, it exceeded the average by 13.8%. The republic has a surplus in its budget of 2.6% of GNP (2, 8-9).

The rupture in territorial and economic relations after the disintegration of the USSR in 1991 was especially difficult for the economy of Belarus, in which a significant decline in production was registered from 1991 to 1995.

Since 1996, the situation started to stabilize as a result of government measures aimed at recovering control of the economy, and major macroeconomic indicators improved considerably. This has served as a basis for the continuation and reinforcement of policies founded on significant intervention by the government in the economy.

At the same time, some basic problems with production indicators should be noted. For instance, according to official measures, the growth in industry output in comparable prices in 2003 as contrasted to 1990 was 119%. However, in many branches there had been a decline in output quantity. In the chemical and petrochemical industry, for instance, there had been a significant decline in the production of all significant products, excepting glass-fibre-reinforced plastics and articles thereof. The same situation had occurred in the machinery sector, for although new kinds of goods

had appeared - trolleybuses, personal computers, mini-tractors and electric vacuum-cleaners - only the production of excavators, refrigerators and freezers, washing machines and electric irons had increased. In logging, woodworking, pulp and paper industries, there were production increases only in wood, chip board and pulp; in the building materials industry, only the production of cement, enamelled wall tiles and ceramic sanitary articles was increased; in light and food industries, increases only took place in the production of dried fruit, granulated sugar, mineral water and alcoholic beverages was increased. From production indicators on more than 118 basic goods tracked statistically, only in 22 cases have new kinds of goods been introduced.

The utilization of production capacity has also decreased, which, on selected industrial products (forging machines and presses, anti-friction bearings, prefabricated ferroconcrete structures and units, TV sets, motorcycles, woollen and cotton fabrics, footwear, knitwear articles and meat) fell between 24% to 50% of 1990 levels.

One of the basic characteristics of the economic situation in Belarus over the last 14 years has been a high level of inflation. At the beginning of this period this was largely caused by processes of adjustment in internal and world prices, but by the second half of the 1990s, it was due more to an expansionary monetary policy and to excessive emission of credit, especially for house construction and agriculture. Since 1996, government-administered price controls have been reinforced, the basic idea of which is to limit prices to a "fair" level from the government point of view, according to the social significance of the goods and the profitability of enterprises. Despite this, the inflation level remains one of the highest among countries of Eastern Europe and the CIS.

Conditions of operation and the state of enterprises in Belarus

Here we should note the importance of defining the factors needed for attaining stability

and growth. It is possible to consider the increase of government control over the economy as a resource, but at the same time its efficiency is rather bounded. There are also other factors which could affect the operation of enterprises both positively and negatively. In other words, there is a question about the price or cost of the growth model adopted and its consequences for particular enterprises.

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As a result of demands made by the government administration on enterprises to show annual increases in output over and beyond those possible objectively from sales, the financial performance of a significant number of them throughout the whole period of transformation has remained difficult.

The share of business profit in GDP since 1995 has decreased, so that by 2005 it was about 1/3 of its early 1990 share. This means that businesses have fewer possibilities for development and growth using their own resources. A tendency towards significant growth in the number of unprofitable enterprises is observable; in the first half of 2003, they exceeded 50% of all enterprises. The reliability of the recent significant decrease in this indicator has been questioned, with doubts raised about methods used to obtain the result (The Ministry of Finance allowed enterprises to use funds from the revaluation of fixed assets against losses sustained on January 1 2004, with the resulting balance showing up in 2003. Meanwhile, in 2005, the government gave the task of decreasing the number of loss-making enterprises to all ministries). Significant improvement in the structure of the balance sheets of enterprises, and thus the formal improvement of this indicator of the economic state of the country, has been achieved by the simple movement of digits from one balance sheet to another, under pressure from the administration.

If one looks at the variation in share value for loss-making enterprises, the especially difficult situation in agriculture becomes clear (despite huge support of this sector - about \$1.2 billion annually, meaning about 20% of the government budget excluding the Population Social Security Fund,

rendered at significant cost to other branches of the economy and to consumers), as well as in housing and communal services. The situation in industry and transport has also become worse. The high share of loss-making enterprises in trade and catering would seem especially surprising, unless one was aware of the special attention that government regulation gives to this sphere.

Overall, then, profitability is stably low, at about 10% of the economy as a whole and at similar levels in industry and construction (in agriculture, housing, communal services and personal services profitability in recent years has been in single figures or negative). As already mentioned, such levels of profitability, in the conditions of inflation and of the durable production cycle in Belarus, testifies to the absence of possibilities to use even nominal profit for development. Real profitability, corrected according to the consumer price index and the duration of the turnaround in current assets, has been negative in recent years, not only at the level of the national economy, but also within all sectors (3, 6).

Serious problems can be observed with regard to the solvency of enterprises. Growth rates of their credit liabilities and debts over more than 10 years has surpassed the growth rates of sales and profit, i.e. there has been an accumulation of indebtedness, a decrease in the likelihood of debt collection, and thus a worsening of the problem of non-payment. The share of overdue credit liabilities and debt receivables as a percentage of total liabilities is too high. Credit liabilities constantly exceed debt receivables by 1.2-1.5 times. More than 60% of enterprises have overdue credit liabilities (4, 21).

Procurement in some sectors using current assets is consistently lower than would normally be expected. From 1998 to 2005 there was a decrease in the current liquidity ratio of 9.2 points. This means that, for current expenditure, enterprises are increasingly obliged to use not only profit and loans, but also a part of the funds intended for the replenishment of current assets. One poll of industrial enterprises shows that about 46% allocate less than 10% for depreciation on capital investments, about 16% allocate from 10 to 30% and only 22% allocate more than 80% for depreciation. Furthermore, the same poll found that

100% of agricultural enterprises, 56% in light industry, and about 50% in fuel, chemical and petrochemical, logging, wood-working, pulp and paper industry, machinery and metalworking allocate practically nothing towards depreciation on capital investments (5, 19-20).

As a result, the wear rate on fixed assets constantly grows, undermining the basis not only for development but even for the normal operation of the enterprises hereafter. Wear rates of fixed assets in the national economy as a whole increased from 1991 by 17 points and at the present time exceed 50%. In industry, the wear rate of fixed assets has increased between 1990 and 2005 from 46.9% to 63.4%. Meanwhile, the replacement rate has fallen from 6.5% to 3.1%. Degradation of industrial potential is characterized also by wear of an active part of basic production assets, which is more than 80% and is increased annually on average by 3-5%. More than 50% of the technologies in use are more than 15 years old; 80% are referred to as "traditional" and only 10% are deemed to be high technologies (6, 11).

It is also possible to observe the decrease in economic efficiency through the growth of the share of productive consumption in real GDP. From 1990 to 2005, this increased by 5 percentage points to 58.1%.

The resource base of 32 Belarusian commercial banks at the beginning of 2007 was \$11.9 billion. The banking system is practically completely under the control of the government (both by means of the possession of a significant share of property in the majority of the largest banks - the government share in the charter capital of banks in the system as a whole is about 88% - and by the direction that the government administration gives to banks to service particular programmes or enterprises). In practice, the banks do not tender significant resources on long terms. In general, the potential of the banking system is not sufficient to handle the country's industrial potential. On international measures, the banks can be seen at best to be middle-sized, while many enterprises are large. The resources of the largest bank in the country are little more than \$2 billion, and that of the following five banks ranges from \$0.3 billion to \$1 billion (7, 10).

The analysis of exported and imported

goods shows a stable decrease in the competitiveness of Belarusian enterprises on the world market and its relatively stable position within the markets of the CIS (basically, with regard to Russia's market, since the latter accounts for about 90% of Belarusian trade with the CIS). A decrease in the share of high technology products among the imports from countries outside the CIS can also be observed. At the same time, on this classification, the structure of imports from countries of the CIS remains relatively stable. Belarus actually has maintained the basic export and import markets of the former USSR, which are now CIS and, first of all, Russia. This has meant the non-alternative binding of its economy to Russia's and the impossibility of ensuring development by investment or imports from other countries, as well as from export of its goods to these countries.

Accumulated foreign capital in the Belarusian economy stands at \$2.4 billion (about \$243 per capita - almost 7 times lower than the average of the world economy). The share of Belarus in total worldwide direct foreign investment is about 0.03%. As regards the efficiency of direct foreign investment, Belarus occupies 87th place, and on the index of potential for attracting such investment, it lies at the 63rd place in world, though in the early 1990s it was at 28th place. A poll of foreign investors working in Belarus shows that about 80% of them do not find the existing investment climate suitable, while 20% consider the investment climate as very bad. As to the basic problems encountered, they mention unstable and complicated legislation; absence of sufficient guarantees for property rights; an excessively complex system of taxation and customs registration; frequent inspections; problems of the country in its mutual relations with international organizations, and the negative attitude of the government towards private business (8, 11).

Therefore it is likely that decisions about investment will be made largely using internal sources of funds, not least because of government reluctance to share property. As a result the amount

invested in fixed capital has decreased and its share in GDP is low. But for all that, the investment structure over a number of years has remained relatively stable. About 26% of funds are invested by government, about 46% by the enterprises, about 15% by the banks, about 7,9% by the general population, about 1.4% by foreign investors and 3,5% by other investors.

Meanwhile, discrepancies between various pieces legislation, the resolution of which is always made in favour of the government, result in the majority of enterprises being caught for infringing financial discipline. According to the data of the Ministry for Taxes and Dues, in the first 10 months of 2004, 72% of legal persons and 60% of entrepreneurs who were audited were found to have breached tax laws.

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After 15 years of economic reform, up to 80% of all assets in the economy continue to remain in government hands. Water, wood, assignation of agricultural terrain and other natural resources remain in the hands of the government. The share of "reformed" enterprises, as a proportion of the total number of state enterprises that are subject to privatization, is 48.2%. We may distinguish processes of "corporatisation" (transformation of the enterprises into public joint-stock companies) and privatization (sale of enterprises, shares, other objects of a state property).

While corporatisation still goes on, it would be possible to say that privatization has been dying since 1997. Between 1991 to 2005, 4054 state enterprises were transformed: 48.2% became joint-stock companies, 17.7% were redeemed by the workers and 34.1% were sold or auctioned. In many joint-stock companies the government remains the main holder of shares. The situation regarding government regulation of economic activity means that there is little motivation in state organizations to move towards corporatisation and subsequent privatization.

The development of small and medium enterprises (SMEs) has been closely linked with the processes of privatization, since the latter were

carried out predominantly in relation to small state enterprises. SMEs can be described as undeveloped: they account for 2.8 of every 1000 enterprises, while their shares of aggregate employment and of GDP are 9%, and about 6% respectively. Basic reasons for the weakness of SMEs include unstable legislation, heavy-handed government intervention in the activity of enterprises, administrative barriers, difficulties with obtaining credit, complexity and unpredictability of the tax system, and the weakness of legal defences for SMEs.

The processes of privatization, restructuring and SME development should have resulted in the "demonopolization" of the economy and in the growth of competitiveness, but that has still not taken place in major branches of the economy. The industry of Belarus is characterized by a high level of concentration: 90% of GDP is created by 350 enterprises, the majority of which were set up to service the needs of the economy of the former USSR. Even after years of reforms, the production concentration ratio has increased in the electric power industry, fuel industry, machinery and metalworking industry, industry of building materials, glass, porcelain and faience, light and even food industries; it has decreased by a very small amount in ferrous and non-ferrous metallurgy, in the chemical and petrochemical industry, and also in the logging, woodworking, pulp and paper industries.

The growth of GDP and in the cost indicators of production is achieved in many respects by means of administrative pressure by the government on enterprises. This clashes with market approaches to planning and organization of their activity. Thus, the meaning of some concepts changes. For instance, the forecasting of socio-economic development in practice is transformed into directive planning of enterprise activity without dependence on demand for their goods, nor on the need for them or the possibility of growth in their production. Indicators of forecast socio-economic development for the country, which are approved annually by the decrees of the President of the Republic of Belarus, are detailed by sector, while ministries and departments at regional and local levels bring these targets to bear on particular enterprises.

The scale of government intervention in the economy is reflected in its share of final

consumption expenditures in GDP, which from 1990 to 2005 decreased slightly from 23.8% to 20.4%, and also by the share of net taxes on goods and services in GDP, which for this period has increased from 2.6% to 18.8%. The greatest part of tax collections is in indirect taxes, the share of which in budget income was increased from 41.7% in 1993 to 56.0% in 2005; the share of direct taxes for this period has decreased from 38.9% to 25.7%.

Employment and incomes; attitudes toward business and work

The unemployment rate (as a percentage of the economically active population) has increased from 0.05% in 1991 to 3.1% in 2003, though recently it has been reduced to 1.5%. At the same time, the low unemployment rate is achieved by maintaining inefficient employment and by accumulating hidden unemployment, which was 7% of the monthly average number of workers in 2005, and appears in short working days (or weeks), or periods of vacation organised on the initiative of the administration. Excess employment in a particular industry may reach 25% - 30%, while at the level of particular enterprises it may even be 50% (9, 13). Besides, more than 1.7 million people, or 28% of the aggregate labour force, are officially not considered now as involved in economic activity or unemployed, and their share constantly grows. This is evidence of a widely developed shadow economy, as well as the migration of members of the working population abroad.

In order to satisfy the paternalistic expectations of the population, large social transfers are made, in total, 18.1% of GDP in 2004 (in 1990 - 16.2%). At the same time, the share of property income decreased (1.4% in 2004 as against 2.4% in 1990), having remained level since 1985, the year when "perestroika" began. The share of entrepreneurial and other income has grown considerably, although this jump took place in the early 1990s, and from 1997 the share of this income is stable at 28% - 34%.

In conditions of transformation of the socio-economic system, the problem of effective management within enterprises is aggravated. The practice of managing in a market system produces a number of instruments of internal and external control that corporate management can use to facilitate system operation. However, in Belarus

these instruments cannot be applied in practice, due to the limited development of corporations, the continued control of the overwhelming part of property by the government, and complications associated with striving for social equality. The government, having not allowed a system of corporate management to develop, takes upon itself the functions of management control, and, hence, responsibility for the results of enterprises.. The order and conditions of the wage of the officials of state is established and controlled by the government, and their earnings can not exceed, as a rule, more than in 3.5 times the enterprise average wage.

In such conditions, many officials are more concerned to minimize the effort required of them to manage a business, or they aim to obtain illegal advantages by criminal means. As a result, although the powerful government machinery officially controls enterprises, there is no internal motivation for managers to increase the efficiency of enterprises.

After more than ten years of transformation, the Belarusian economy continues to be based on inefficient enterprises with a high likelihood of bankruptcy, thanks to the excessively large size of many enterprises, their technological, technical and organizational backwardness, that significant cutting of expenditures on defence, negative relations between government and business, the freezing of privatizations and the stock market, poor management traditions, as well as the education, mentality and working conditions of many people where they are seen workers hired to serve the government.

The transition to a market economy which began after the disintegration of the USSR presupposed both a disavowal of the government monopoly on property and the appearance of many property owners who could set up their own

businesses, being personally liable for their results. In this regard, privatization and bankruptcy should have played a major role in the creation of a market infrastructure. However, since the mid 1990s, other priorities and directions for socio-economic development have been established in Belarus. Many features form a pattern that is reminiscent of a socialist system, and can be characterised as follows:

1. dominant role for the government sector in the economy;
2. strict government regulation of the economic activity of enterprises, including administrative demands for annual increases in output;
3. conservation of the majority of enterprises existing in 1990;
4. lack of development and sometimes the absence of particular elements of market infrastructure;
5. low profitability and lack of profitability on the part of a significant share of enterprises;
6. shortage of internal resources and unfavorable conditions for attracting external investment into the economy;
7. degradation of technical and technological potential, decrease of efficiency and competitiveness in the economy;
8. a high level of shadow unemployment and informal employment;
9. continuing paternalistic expectations among the general population and the enforcement of social equality.

The authors maintain that the price being paid for current rates of economic growth in Belarus is excessively high. These rates are possible by using up capital accumulated before the changes, coupled with a revival of socialist approaches to the management of the economy and the conservation of patriarchal and communal patterns of societal organization. These decisions shift the issue of dealing with the currently increasing problems onto the shoulders of future generations.

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NOTES

¹ In article the data of Ministry of Statistics and Analysis of the Republic of Belarus used (if other isn't indicated) as a basis reference for calculations of (Краткий статистический ежегодник "Республика Беларусь в цифрах, 2005". – Мн.: Министерство статистики и

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