Features of the Belarusian economic model

Abstract: At the beginning of the XXI century Belarus is still proceeding to suffer from the consequences of a social experiment, that had been put a hundred years ago in the Russian Empire, that later transformed into the Soviet Union. Due to some objective and subjective reasons, Belarus uses a rare economic model, which is not similar to the economic models of the neighboring countries. The official representatives of the Economics call it «the Belarusian economic model that has proved it effectiveness». Meanwhile, there is no one self-consistent explanation of the model. Neither in the official documents and special researches, nor in any university textbooks exact features and principles of the model functioning, can be found. The term is used by default. The model is functioning like “terra incognita” - according to the not finally understood laws.

Keywords: Belarusian economy, gross domestic products, corporate systems, modernization

Introduction

So what does the Belarusian economic model look like, how does it determined, how does it function, and how do it’s comparative characteristics, potential, development perspectives look like? We will try to answer to all of the questions in this article. Because of the scope of the it is impossible to make an all-round analysis of the existing economic model, we will consider the basic of its essential characteristics.

Common definition

Its characteristic as "socially oriented" became a platitude among adherents of the Belarusian economic model. Thus social orientation most often is meant as realization of a principle of social justice: prevention of big differentiation of the income between various groups of the population, support by the state of needy segments of the population, the budgetary support of the enterprises of the state form of ownership. Social orientation is reached by means of direct administrative team management. In turn command management is based on prevailing state ownership: about 75 - 80% of gross domestic products (further – GDP) in the country are made at the enterprises of the state form of ownership. The supporting part is assigned to the market which was in embryo: administrative decisions are made not on the basis of market indicators, and on a basis of "corporate
expediency”. The management purpose at macroeconomic level is preservation of stability of existing system. As the proof of correctness of the chosen model of development long time high growth rates of GDP – about 8-10% a year were shown by the Belarusian economy till 2011.

Prevalence state form of ownership

Noted above the characteristic of the Belarusian economy have descriptive character and don’t give an idea of the mechanism of its functioning. Simple ascertaining of that fact that state ownership is prevailing, is insufficient for understanding of an essence of the events. It is important to open how this factor is used. Prevalence of the state form of ownership allows managers of the state property – to managers of different level to supervise the main financial streams in economy, formally without owning the enterprises, without being owners in legal sense. The Belarusian economy represents such system in which a prevailing source of the income is the state, and it is a question not only of a salary, but also enterprise profit. Development of the competitive market with independent subjects of managing contradicts the state economy, and the structural reforms directed on creation of the market, are perceived as threat to the existing status quo of managers of state ownership, the Belarusian economic model as a whole. The operating economic model allows civil servants of a high rank to carry out initial accumulation of the capital, directing part of cash flows of the state enterprises through affiliated business structures. Therefore a temporary framework of its existence is defined by financial readiness of the state managers for carrying out large-scale privatization.

Two-sector device of the Belarusian economy

Besides prevalence of the state form of ownership other major characteristics of the Belarusian economy are its two-sector (two-part) device and corporate character of the organization. Let's stop on them in more detail.

Two-sector device of the Belarusian economy means that in it except public sector the private sector functions also, and these two sectors function under different economic laws. For them different financing terms work: for public sector – a soft monetary policy, for private – tight. Goods prices and services (including the prices of money – credit resources) also aren't identical to the state and private enterprises. Compensating an inefficiency public sector, the monetary authorities pursue super tough policy concerning the private sector.

The two-sector model has consequences for stability of all economic system. As a result of a soft monetary policy in relation to public sector there is a continuous violation of monetary proportions of the reproduction, periodically bringing to financial (currency) crises.
Corporate character of the Belarusian economy

Distinctive feature of the Belarusian economic model is that it functions as corporate economic system – as complete economic structure, in which results of the economic activity are formed not at the level of the separate institutions, but at macroeconomic level – a national economy as a whole. Also as well as in classical corporation in the Belarusian economic system are provided both the centers of formation arrived, and creating conditions for extraction arrived planned and unprofitable divisions – the organizations and the whole branches.

In relation to an agro-industrial complex such planned and unprofitable organizations are dairy and commodity farms, pig farms as a part of the agricultural production cooperatives – a local link of "a food technological chain", and the centers of creation of profit – the processing enterprises: meat-processing plants, milk-processing plants. Such system is created artificially and is supported by means of a peculiar price and investment policy: on the one hand, the agricultural organizations owing to unfairly low purchase prices receive less essential part of the income put by it, can't carry out normal process of reproduction by means of self-financing, on the other hand – to them there is the stream of gratuitous budgetary financing comparable in size to volumes of their production (expressed in cut prices). Permanent budgetary financing, doesn't lead "a food chain" to improvement of a financial position of primary links, focuses them on a social and economic dependence.

The corporate system of the organization of economy isn't something self-evident, it was formed artificially and is urged to create for inefficiently working organizations of the state form of ownership such conditions, which would do impossible their bankruptcy. For this purpose it consults – the low-profitable organizations work, but at the same time the corporate model of the economy preserves the economic insolvency of such entities, spending public wealth. The share of the organizations with profitability to 5% in the Belarusian economy doesn't change eventually and makes about 50% from total number of the organizations. It means that the half of the Belarusian economy, is functioning with the normal efficiency level, works for maintenance of the second half of the economy, which is destroying the public wealth.

If to use the terminology of Thorstein Veblen, in the Belarusian economy was formed the class of managers, whose activity is directed not on creation but on destruction of public wealth – the leisure class\(^1\). Their activity consists in parasitizing at successfully working enterprises by means of assignment of part of their surplus product via any instruments of

preferences (for example, the lowered interest rate for the credit), the state grants, the budgetary financing. Such managers working both at the state enterprises, and in state administration authorities of various level – from regional to national, don't own skills of adoption of administrative decisions "at one's own risk" in the conditions of limitation of resources and for maximizing their effective use – that is skills of management in the market environment. Their activity mainly directed on receiving preferences, finally worsens an economic situation of the country owing to what and their definition as an leisure class is pertinent.

**Pricing in the Belarusian economy: disparity of the prices and cross subsidizing**

Corporate building of the Belarusian economy is based on a peculiar system of pricing. Its distinctive sign is that on considerable part of so-called socially significant goods and services of the price are regulated administratively. Pricing is built from positions of corporate expediency: it is subordinated to a problem of implementation of corporate macroeconomic balance – preservations of all working subjects of managing by means of so-called cross subsidizing.

For the Belarusian system of pricing the phenomenon of so-called disparity of the prices is characteristic: the prices are artificially underestimated by one types of goods and services and respectively overestimated by others. First of all, understating of goods prices and service of a consumer basket takes place. It is carried out by means of state regulation of the prices of socially significant goods – some types of foodstuff, domestic drugs, housing and communal services, transport. Besides social function (and political bonuses following from this) understating of goods prices and service of a consumer basket (especially on housing and communal services – in 2012 Belarusians compensated about 15% of expenses) has also other function – subsidizing of the Belarusian non-oil and gas exports as allows to establish lower level of salaries, lowering thereby expenses of exporters. At the same time the gas and electricity prices for economic entities are artificially overestimated.

The considerable part of the Belarusian production is on sale in the local market more expensively, than by delivery to export. Meat, milk, cheese, refrigerators – production examples from this list. Such prices serve the developed system of division of labor. In the Belarusian economic model the intra-branch prices are formed randomly: as a result profitability of primary link of a technological chain is artificially underestimated, and profitability of the closing links (processors) working for export – respectively, artificially overestimated. Thus, structural reforms are necessary and to liquidate disparity of the prices.

Cross subsidizing of subjects of managing and house farms, is carried out by means of the budgetary redistribution of the income and expenses. Carrying out policy of cross subsidizing supports an acceptable standard of
living for considerable part of the Belarusian labor force, which is engaged in inefficient industries and receiving, in essence, the social benefits, and not the salaries, receiving on – to a being social benefits, instead of a salary. High energy costs for the Belarusian economic entities reduce competitiveness of the Belarusian economy. Refusal of cross subsidizing of prices of electricity according to experts of JSC «Belenergo» would allow lowering them for industrial sector by 40% that would increase the investment potential of the economy2.

Features of the Belarusian pricing together with features of policy of an exchange rate policies – maintenance of the overestimated Belarusian ruble exchange rate in relation to hard currencies long time (till September, 2012 – transition to a market exchange rate formation) have created the mechanism of an earning of additional foreign currency. The Belarusian importers bought it cheaper, than if it occurred at a market rate of Belarusian ruble to hard currencies. Besides, at the overestimated Belarusian ruble exchange rate the size of an average salary expressed in hard currency that created illusion of relative wellbeing artificially increased.

Such a system of pricing has the distorted character, doesn't reflect a real condition of efficiency of business, doesn't estimate its contribution in increase of level of public welfare. In the Belarusian economy prices don't play a role of market indicators, benchmarks for adoption of investment and operational production decisions. From here can see impossibility to estimate real efficiency of activity of economic entities. From here low appeal of the Belarusian economy to the private conscientious foreign investor.

Low efficiency of the Belarusian economy

Described above the characteristic of the Belarusian economy predetermine its low efficiency of functioning, need of the appeal to external sources of financing.

Owing to low efficiency (irrational use of available limited resources) the Belarusian economy isn't able to generate profit sufficient to equip the enterprises at the level of requirements of the world markets. The considerable part of the Belarusian organizations at application to them the international standards of efficiency doesn't maintain comparison with the enterprises of the countries with the developed market economy. For production of unit of gross domestic product in Belarus it is spent resources 3 times bigger, than in Germany and 2,5 times more, than in Poland. Power consumption of the Belarusian GDP in 2012 grew on 5,3%3.

Weak competitive mechanisms of suppression of unproductive expenses, high level of a resources consumption, lack of sufficient financial means for achievement of acceptable rates of economic growth is

a consequence of existing model of managing in which a half of economy doesn't increase, and destroys social wealth.

**Prevalence of external sources of economic growth**

Consequence of low efficiency of functioning of the Belarusian enterprises is that at the expense of internal sources the economy can provide only about 2 - 3 percent of growth of GDP a year. As a specific internal source till 2013 issue financing was used. More than a half of the credits of commercial banks represent the veiled quasi-budgetary financing. Besides, in the Belarusian economic model of an investment are half formed at the expense of investments to the housing construction sphere, instead of in fixed capital. It means that a half of investments in the subsequent doesn't participate in GDP creation.

In the conditions of insufficiency of internal accumulation for achievement of higher growth rates of gross domestic product external loans are attracted. For preservation of acceptable level of competitiveness the annual need for investments into fixed capital makes about 15 billion dollars of the USA while the Belarusian economy generates profit at a rate of 7 – 8 billion U.S. dollars a year.

The Belarusian economic model is arranged so that the main financial resource of economic growth are external borrowing. Belarus, trying to protect the enterprises from the competition with Western producers, and allowed foreign capital into its territory exclusively in the form of credit borrowings. A peculiar option of policy "support on own forces" was carried out and carried out. Until, while the external debt wasn't burdensome, and the Russian raw material energy resources are rather cheap, the Belarusian economy to some extent coped with time calls, showing rather high growth rates. That can't be told about quality of growth – insufficiently reformed Belarusian enterprises honor on all commodity positions (except for oil processing products) gradually and consistently lost positions in foreign markets: the number of the countries to which the Belarusian goods are exported decreased, the share of the Belarusian goods in the markets of these countries (including the Russian Federation) decreased too.

Degradation of the investment potential of the Belarusian economy is shown in decrease in efficiency of the public investments. The profit of joint-stock companies with a controlling stake at the state is minimum and below, than at the private sector. Efficiency of investments into production decreases. For example, the value added gain for 1 dollar of investments into the industry made 88 cents in 2002-2006 and 22 cents during 2007-2011.

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5 Д.Ю. Хамчуков, Е.М. Бородинская, Развитие промышленности Республики Беларусь: основные задачи и сдерживающие факторы. Экономический бюллетень НИЭИ, №10, Минск 2012, С. 6.
Periodic financial (currency) crises

One of the main lines of the Belarusian economic model are periodic financial (currency) crises (March, 1996, January, 2009, March-September, 2011). The reasons of financial crises in economy of Belarus are connected with policy of artificial stimulation of internal demand in the conditions of a fixed rate of national currency – namely stimulations of internal demand by building of investments into fixed capital by means of the mechanism of directive budgetary and quasi-budgetary crediting within state programs of development.

Excess of internal investments over internal savings creates a situation of chronic negative balance of a current account of the balance of payments that in turn results in need of sharp correction of a Belarusian ruble exchange rate – to devaluation. And the only mechanism of fight against these to crises and further their overcomings is: first, transition to a market exchange rate formation mechanism – from fixed rate policy to policy of a floating rate and, secondly, consistent moderately rigid monetary policy. However when carrying out a moderate and rigid monetary policy imaginary advantage of the Belarusian economic model – rather high growth rates of GDP disappears.

Modernization instead of economy restructuring

To correct a situation, the Government considers necessary to invest in economy of Belarus within the next five years about 90 billion U.S. dollars. A half of this sum has to be attracted at the expense of direct foreign investments. Thus any significant actions for reduction of investment climate to level of the international standards it isn’t provided. The unsatisfactory investment climate leads to that plans on attraction of direct foreign investments aren’t carried out from year to year. So, direct foreign investments on a pure basis in economy of Belarus in 9 months 2012 made 27% to low level 2011 year6.

As the organizational and economic instrument of increase of efficiency of the economy, urged to replace real restructuring, the Government offers creation of so-called holdings. Thus the Belarusian holdings join the enterprises which haven’t been connected among themselves technologically. It is a typical element of simulating of market institutional structure. Such quasi-holdings are created to shift subsidized budgetary financing of inefficient productions to shoulders of successfully working enterprises. Decrease in investment appeal of effectively functioning economic entities and preservation of an existing situation at the enterprises working inefficiently will be result of these innovations.

For the next three years it is planned to increase sharply volumes of housing construction (after correcting decrease in 2012). Having failed in

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ensuring high growth rates of gross domestic product in 2012, the Government comes back to the old tested model of economic growth, when to a half of increase in volumes of GDP it was carried out at the expense of housing construction and branches adjacent to it. Change of policy of an exchange rate policy has to become the following logical step which will allow returning for a while to achievement of high growth rates of GDP, obviously: refusal from floating rate of Belarusian ruble in relation to hard currencies and transition to a fixed rate.

However, such model of economic growth as practice showed has essential defects: use inevitably leads it to the periodic currency crises, which are showing in the form of landslide devaluations of Belarusian ruble. Devaluation restores macroeconomic balance broken by inflationary financing, brings the nominal and the real exchange rate of the Belarusian ruble into accord.

Return to old model of management is impossible in long-term prospect also that the Russian Federation in 2012 became the member of the World Trade Organization. The Russian market (and through it in the conditions of the Common Economic Space and the Belarusian market) becomes open for goods and services with low resource intensity and power consumption.

Modernization in Belarus has a technical character and looks like a technical equipment of the enterprises. Carried-out modernization on the most important task has to be such not to mention an essence of the public relations. And in it its social and economic limitation. Modernization isn’t directed on formation of the market environment. Neither to, nor after technical modernization the Belarusian enterprises won’t find the market status. Subjects of market economy are not enterprises, and the capital and business in which it is nested.

Modernization is conceived by the Government for gap elimination in level of the income with the adjacent countries. However it’s carrying out doesn’t approach, and distances a goal. As a result of refusal of structural reforms in the country conditions of fundamental balance of economy aren’t created. Growing investment import in the absence of self-sustaining mechanisms of market coordination puts pressure upon the balance of payments of the country and a rate of national currency. In Belarus there was a situation which is characteristic for classical "poverty traps" – efforts on overcoming of low growth rates of gross domestic product in the conditions of not reformed economy aggravate imbalances, create threat of macroeconomic stability.

**Comparison of the Belarusian economic model with models of market economy**

It should be noted that the Belarusian economic model isn’t unique. Similar economic systems were widespread last century, in some economically underdeveloped countries remained in a century present – for
example, the Italian corporate economy of the 20–40th years of the XX century, populist Latin American economic models (Argentina of the 80th years of the XX century, Venezuela ours days). On the contrary, appreciably economic models proximity with which declare pro-government Belarusian economists – the Swedish model of a social market economy, the Asian economy which is carrying out are very far authoritarian modernization (Singapore, Indonesia, Malaysia, South Korea) that is economy market, and Belarusian – doesn’t.

The Belarusian economy is at a stage of "the pre-capitalist market" – when the private property is, and the capital still isn’t present. There is it that a little large on the Belarusian scales private business is affiliated with the state structures, serving which it gets profit. The money earned by private structures isn't capitalized, not invested in the Belarusian enterprises, not involved in a national economic turn, and brought out of national economy.

Conclusions

The above gives the grounds to formulate the main contradiction of the Belarusian economy – between opportunities of old structure of economy, the administrative -command methods of management, which have got in inheritance from economy of the Soviet Union, on the one hand, and standards of the international system of division of labor, requirements of the world market – with another. Form of permission of a contradiction – corporate two-private economic model in which the prevailing share of state ownership, the system of pricing founded on disparity of the prices and cross subsidizing remains. Not transformed by structural reforms, the Belarusian economy doesn't answer the international standards of efficiency of use of limited resources, doesn't generate profit, sufficient for ensuring acceptable growth rates of GDP. Used as the main source of stimulation of internal demand financing by means of foreign credit resources, causes growth of investment import which isn't compensated by the corresponding gain of export. It leads to constantly repeating violation of macroeconomic balance, financial crises.

In our opinion, all transformations necessary for the Belarusian economy keep within a dismantle framework administratively - command system: gradual elimination of two-sector model, the cross subsidizing, dominating share of state property, creation of equal conditions for all economic entities leaving behind the state of only those productions where presence of the state is effective, the fastest accession to WTO, training proceeding from requirements of the new social and economic relations isn't dependent on forms of ownership and a national identity of business.
Bibliography


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