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PRIVATISATION: CAN IT SAVE BELARUSIAN ECONOMY?

According to Moody's, a credit rating agency, Belarus is in an urgent need of about \$3 billion to \$6 billion to cover the projected debt repayment and to avoid default. Amongst the possible sources of financial aid are the Anti-crisis Fund of the Eurasian Economic Community, the IMF, as well as the national privatisation programme. The importance of the latter has further increased as both Russia and the IMF insist that privatisation of state-owned enterprises would be a necessary condition for their financial support. It seems that in order to keep the economy afloat, the Belarusian authorities will no longer have a choice.

When it comes to analysing the imperatives and the plausible scenarios of the privatisation in Belarus, experts do not have a joint opinion. For instance, Aliaksei Kazlou highlights the fact that for more than two decades the state-owned enterprises have been sustained by subsidies from the national budget in a pursuit of a higher employment rate. This has created an economy that is oriented towards a soviet-type social security and stability rather than efficiency. A great number of unprofitable enterprises have been operating at the expense of the successful ones. A shift towards a more

liberal, private capital driven economy means that parasitizing enterprises will have to be restructured or shut down. This in turn may result in growing unemployment in the short run, but it may also mean increased productivity in the longer run.

A different opinion is presented in the second article by Leonid Zaiko. The author emphasises that under the conditions of an authoritarian and monocratic political regime there are hardly any chances that privatisation will be conducted following the principles of economic efficiency and rationality. Thus, it will lead to neither effective competition, nor will it push the society towards a real economic democracy. Just like in most cases of other post-soviet countries, privatisation will be used as a mechanism to create new conglomerates of political power, based on ownership. In other words, nomenclature will be replaced with economic elites. Whether Lukashenka will manage to maintain his position in the new political powers to emerge remains to be seen.

Justinas Pimpė,
Editor

PRIVATISATION AS AN OPPORTUNITY TO CREATE EFFICIENT EMPLOYMENT IN BELARUS

Aliaksei Kazlou,
Economist

The need for socially responsible restructuring in Belarus has come to a head. The numerous instances of inefficient use of economic resources in Belarusian state-owned enterprises speak in favour of privatisation.

Reducing "inefficient employment" is a social need for the restructuring of state-owned enterprises.

An analysis of economic activity of selected Belarusian industrial enterprises conducted in 2010 in the

framework of the UNDP project "Poverty reduction in Belarus" has confirmed that employment at parastatal enterprises is not efficient. Industrial enterprises of Slonim City were taken as an example. Judicially the Slonim Worsted and Spinning Factory is a joint stock company; however, the state owns over 95 per cent of its shares. Employees get salaries that cannot satisfy their needs. The enterprise is traditionally characterised by excessive employment and hidden unemployment. The number of those employed is significantly higher than is needed to produce the current output. The commercial behavior of the enterprise is odd (though there are many examples like the one above). All output

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is sold for export to Russia, but there is only one exclusive dealer. The dealer feels himself a monopolist, dictating prices and purchasing finished goods at a price below prime-cost. It is notable in this regard that raw materials (i.e., wool) used at the enterprise are imported from Russia.

The situation in which an enterprise purchases expensive imported raw materials, processes them and sells finished goods at a price below prime-cost thereby bearing losses is illogical in conditions of private ownership and market relations. It is not impossible that, selling state (therefore, nobody's) output, shadow schemes will also be taken into consideration. For nearly two decades such Belarusian enterprises have been sustained by subsidies from the national budget in pursuit of the social goal to prevent massive releases.

State economic regulation has produced distorted price signals at the market with output being cheap yet uncompetitive. The losses of relevant enterprises become the burden of the expenses of the national budget, that is, the Belarusian society has to back up "skilful" Russian businessmen. On the other hand, employees get uncompetitive salaries. Some of them have long been unemployed and disguised: the state has concealed this fact and divided part of the relevant salaries between those who could work efficiently. Their salary is essentially the unemployment benefit paid from the budget. Employees are not notified officially of being unemployed. More active employees keep looking for a job and find it abroad, at more effective enterprises.

"The unavoidable shadow of emigration"

An alternative to inefficient employment is constituted, naturally, by labour emigration, primarily to Russian Federation. However, under the conditions of emigration, Belarusian employees are, again, deprived of all their rights. Since they scale down local salaries, they are unwelcome by local working people, which in times results in hostility and social tensions between migrants and local population. In addition, labour outflow from Belarus reduces the effectiveness of using physical capital (installed equipment, machinery, technological lines) in the country. Consequently, this hampers attracting investment to Belarus since capital profitability decreases.

Low protest force – low employment elasticity

The major part of employees have to concede to low salaries and poor working conditions at state enterprises due to the fact that they do not have protest force while Belarusian trade unions in Belarus have been traditionally weak. This is the reason for very low elasticity of labour supply relative to salary. Therefore, salary cuts at Belarusian enterprises do not lead to significant levels of dismissal, as in Poland, for example. Refilling inefficient positions is possible only given a system of obligatory distribution of school graduates who were taught for budgetary funds. However, this system of resource

distribution is inefficient from the outset, unlike the market system.

No reforms were implemented in Belarus in the beginning of the transformation process, contrary to neighbouring Poland. The selected course of gradual restructuring has led to the necessity to conduct "shock therapy". All neighbouring countries learnt how to manage their economies in the competitive environment long ago, while entrepreneurs learnt to be accountable for their activities by means of their own active assets. Contrarily, Belarus remains a white spot on the map where capitalist relations are of specific nature. One can speak about lost opportunities for Belarus. High levels of unemployment in Poland and consequently social tensions are counterbalanced by efficient employment. Workers understand that they are paid for the amount of work they do and that if they work bad, they will be changed by others. In Poland, the unemployed know that they have to either look for a job or start their own business. In Belarus, this is impossible due to state interference and presence of state enterprise.

In Belarus, private small and medium-sized businesses are confronted with unfair competition from state enterprises. It is hard to compete with an enterprise supported by the relevant industry corporation which will always find resources in its budget to cover unanticipated needs. Only private ownership makes it possible to use all resources most effectively. This is why the main objective of privatisation in Belarus is the creation of effective working places with decent salaries as well as providing conditions for market-based resource allocation.

Public control as the main defence against "raider attacks" at all levels

Weak trade unions and low civic activity of the population constitute the main reason for weak control over the ongoing privatisation in the country. Naturally, investors are primarily interested in enterprises that are effective from the outset. These are to be found in the domain of either extracting natural resources or using the geographical location of the country. In this context, one could deduce Russian experience in gaining control over major natural resource-extracting enterprises by means of private capital. Raider attacks from Russian judicial or physical stakeholders have also been observable in Belarus. There are numerous examples when, after certain manipulations, effective Belarusian enterprises (which oftentimes are non-state-owned) have reduced or discontinued their activities, and their place was taken by Russian competitors. A rare instance of a successful dealing with a raider attack is the LLC "Liudmila" based in Minsk.

Privatisation following the Russian model, when an enterprise is lead towards bankruptcy and is then sold into private ownership at a low price, is a bad practice. Russian enterprises that have been privatised following this model have been subject to salary reductions and worsening working conditions. Yet low elasticity of labour supply in

The issue that still remains topical is how open and socially-oriented privatisation in Belarus will be.

Belarus provides for further reductions in salaries and worsening working conditions under private ownership, too.

Purchasing an enterprise at a price below cost as well as use of shadow schemes while making deals have to be controlled by the society. On 6 June 2011, seeking to ensure state control of openness and justice of privatisation in Belarus, the Council of Ministers passed Resolution No. 724, thereby establishing an "interdepartmental commission on coordination of activity aimed at combating illegal asset acquisition." The main tasks of the commission are to obtain information on "attempts at illegal asset (shares) acquisition in Belarus, on suspicious (non-standard) deals with them and development of measures aimed at detecting and preventing instances of illegal asset acquisition" and others.

Weak civil society also posits a significant threat to low social responsibility of restructuring and privatisation. The smash-up of social organizations and oppositional political parties by the ruling regime in Belarus allows the latter to carry out any operations on alienating state public ownership uncontrolled. It is very hard to trace the direction of asset flows

received from selling national property. The information on many deals is restricted. A significant part of the assets presumably goes to the fund of the President of the Republic of Belarus. At the same time, shadow schemes need to be considered as well since, as privatisation takes place, they are used at various levels of state administration. In this regard, one could remind of selling land to Arabs in the centre of Minsk.

Undoubtedly, privatisation is necessary to fulfill the right of Belarusians for decent work. The issue that still remains topical is how open and socially-oriented privatisation in Belarus will be. To ensure efficient monitoring, civil structures need be established that would control activities related to changes in ownership structure on an equal basis with the state. Civil society, first of all, independent trade union organizations, must trace and provide timely information on deals involving change of ownership and directions of money flow. This will be determine what the Belarusian people will get from the treasures that have been accumulated through time and hard work and that are now concentrated in state-owned enterprises.

MONOCRATIC PRIVATISATION: THEORY AND PRACTICE LESSONS

*Leonid Zaiko,
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When in the late 1940s a process of denazification began in Germany (Western Trizone), German democrats initially focused on the formation of not only political, but also economic democracy. It is economic democracy that, in addition to supplementing political democracy, may also serve as a catalyst to principally significant social changes.

In Germany, in the times of Ludwig Erhard, alongside an innovative market launch, a key moment was the process of deconcentration of large ownership. Theorists of liberal economy and social democrats were convinced that large capital and (both state and private) ownership concentration lead to the concentration of political power, which had shaped the phenomenon of German political monocacy – a Nazi state.

At the theoretical level, this process was interpreted as symmetrical concentration of political power based on the concentration of large ownership. Departure from monocacy and totalitarianism was perceived as a destruction of large corporations and a massive development of small and medium-sized enterprises.

Even if authority elites are not familiar with works by economists representing the liberal school, such as Erhard, Alfred Müller-Armack, social-democratic guru Heinrich Deist, author

of the programmatic work "Wirtschaft von Morgen", - which cannot be surprising or strange, they definitely know from their own experience that ownership gives rise to power.

For Belarusian president this moment has become decisive in the implementation of his entire political career. It is Alexander Lukashenka who stopped nomenclature privatisation in 1994. Full control over "family silver" has become his source of power and his main resource.

An analysis of the degree of ownership concentration and assets in Belarus demonstrates that 75 large enterprises across the country provide for over 70 per cent of export. Malversation of funds and profit from foreign trade takes place precisely through these enterprises, which, since the 1990s, have been referred to as "GDP-forming" enterprises. The Soviet definition appealed to the present nomenclature, as is reflected in major governmental documents.

Under the conditions of a monocratic political regime, privatisation cannot remain a certain neutral process in the formation of new centres of economic power. Until now, the government has hidden behind slogans which may evoke only positive assessment, but these slogans conceal the true goals of privatisation in Belarus – the transformation of nomenclature's political power into economic power.

Forms, methods and even the result of asset allocation will repeat the already existing practices of neighbouring countries.

An analysis of privatisation processes in the post-Soviet space has revealed that privatisation has always been conducted covertly, be it Eduard Shevarnadze's "democratic government" in Georgia, or the authoritarian hereditary presidency of Heydar Aliyev in Azerbaijan. In these versions, privatisation has become a method for the formation of political power based on the most significant resource, viz, ownership.

When 3-4 dozens of families have become major privatisors and owners, we may become witness to the establishment of new mechanisms of redistribution of budget resources, parasitizing on public spending and appropriation of funds against the background of blatant suppression of competition. This version has long been in use in Latin America as well as countries with transition economies.

Holding sittings in the parliament or the government, politicians will fairly quickly learn to "saw" the budget thereby facilitating their power. Based on this principle, political power will be systemic, consolidated and possessing features of a democratic shell to conceal the real power of an oligarch group of politicians. There are all prerequisites for the implementation of this model of the development of the political system in Belarus.

Meanwhile, propaganda abounds in myths that "privatisation will result in the creation of a highly motivated owner". Of course, one should understand that an owner like that may emerge indeed, but not in relation to, but, contrarily, given the development of open, competitive privatisation. Analysis shows that, as a rule, this alternative emerges in the presence of numerous foreign subjects of economic activity, mixed owners who compete with each other rather than redistribute the country's budget or natural resources.

An examination of processes of interaction between politics and economy gives grounds to believe that, in the correlation of *mechanisms and instruments* of political power and economic power, the former prevails in Belarus.

The protracted "abstention" from privatisation has not eliminated its necessity in the development of economic and political institutes of the society. On the other hand, forms, methods and even the result of asset allocation will repeat the already existing practices of neighbouring countries.

The division of ownership in Russia and Ukraine, as well as in other CIS states, has followed a simple scheme:

- First, large industrial property is "cut" and "sliced". The process of primary distribution of the industrial capital takes place. New groups of large owners emerge, referred to as oligarchs in the conventional Russian implementation;
- At the second stage, the division (and appropriation) of landed property takes place. This process may accompany the first stage of the appropriation of industrial property; however, its

realisation will be more successful after industrial assets have been distributed.

Our views in this range of issues of social development is grounded on the assumption that there are no principal reasons to believe that a certain privatisation will take place in Belarus which will form "economic democracy", will create new forms of small and medium ownership, or will ensure the development of large capital as an element of effective economy.

Restructuring power: outcomes of ownership conversion

Whether the potassium plant or the tractor factory will or will not be signed over for money (or in any other way) - it is not the mechanism of the formation of a new proof of ownership that is important for the authorities. For the authorities it is more important to create the conversion mechanism to change political power into economic power.

A comparison of interaction mechanisms of political and economic institutes in transition economies reveals that the political system becomes more stable given a more or less balanced ownership distribution. In this respect the case of China is notable, which, rather than divide "public property", stimulated the development of capital on its own base. According to Marx and Lenin, every single moment commodity production (small and medium-sized enterprises) gave rise to capitalism. This constitutes the paradox of the market following Lenin's model.

Interestingly, despite its outward perceptivity, Lukashenka and his team did not follow the Chinese model. In reality, Belarusian power will use the critically dangerous stage of the worsening economic situation in Belarus as a starting point to appropriate funds and assets. Privatisation will then be used to sustain the standing of the power elite, authoritarianism and monocracy.

This is happening right now given the dubious state of the government and president Lukashenka himself. Yet the main question remains: who will get ownership?

In an integrated approach, we can list candidates that have identified themselves rather intensively in the political and economic space of the country:

- The political elite, lobbying groups in power as representatives of nomenclature capital;
- Foreign (Western) capital;
- Arab funds and their symbiosis with the new comprador bourgeoisie;
- Russian capital as a representative of the symbiosis of Russia's political and economic elites;
- National capita based on initiative, rather than nomenclature, which represents new groups of democratically oriented elites.

Of course, in theory, it is possible to create "privatisation groups" in the common package, as a certain balanced distribution of ownership in

Judging by the logic of processes, it is not privatisation that will trigger changes, but rather imbalances of political institutes and changing mechanisms of economic power.

various clusters of privatisation interests. As a matter of fact, this scenario may lead to effective competition and push the society toward real economic democracy.

This alternative can be conventionally referred to as “multi-economic privatisation”. This version of “multi-privatisation” will limit the authoritarian political power. In this model, Lukashenka may be perceived as an arbitrator in the football field. But this scenario does not seem feasible so far, as the current power is the author of the rules of the game, as well as the referee and the organizer of “victories” all rolled into one.

However, there are powerful determinations, such as the Customs Union. A departure toward the system of the customs union opens new vistas for Russian capital. This becomes particularly apparent against the background of the continuous devaluation of the Russian rouble, which has rendered the national capital uncompetitive according to financial parameters in the imminent privatisation.

The authorities have essentially depleted their own business and have done everything for it to become an outsider in the potential privatisation

processes. The chances of Russian and Arab capital have doubled, which outlines the contours of the lobbying struggle for ownership. On the other hand, political elites will have to take clear stance, including the nationalistic one, on the issue. This will mark a new national political based on the interests of Belarusian capital as well as small and medium-sized enterprises.

In this light, Lukashenka and his milieu have used up their utilitarian neo-nomenclature capital. The development of political power is an instrument in the development of nomenclative private ownership. In the course of time this may lead to a diversity of political interests and it is reasonable to anticipate an emergence of new political movements and right wing parties that would adhere to market economy.

Change of ownership titles may signify the beginning of the differentiation of political interests and articulation of the demands of various lobbying groups. In this context, “Lukashenka’s time” is objectively elapsing. Judging by the logic of processes, it is not privatisation that will trigger changes, but rather imbalances of political institutes and changing mechanisms of economic power.

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