

Reform Incentives

Price of reform delays

Inevitably, the fundamental incentives in opting for an economic development strategy are driven by aspirations to attain higher living standards, establishing a favorable environment that would foster societal development founded on the well-being of each individual. As stated above, the existing economic model cannot contain these needs. This begs a question of what there is to be lost and won for Belarus if the country eschews economic reforms and preserves the existing economic model for as long as possible. In our opinion, key effects of shunning reforms are the following:

- A chronic lagging of Belarus behind developed Western countries and its immediate neighbors with starting conditions similar to those of Belarus of a few years past. Belarus has lost its reputation of the most rapidly developing former USSR republic; instead, since 2000, it ranks among the region's slowest economic growers. In 2001, it had the lowest economic growth rate among CIS countries. To prove the alleged Belarusian economic miracle, it has become common practice for government statisticians to compare Belarusian indicators with those of Russia to show advantages of the official economic course. However, the same approach may now be used to reveal the drawbacks and potential negative consequences of the strategy geared at putting reforms on hold. Economic stagnation will

- turn Belarus into a lesser developed, Third World-type country. Technology and know-how disparities between the nation's economy and those of the developed Western countries or even the neighboring nations will widen. Belarus has already begun losing the capacity to position itself in the international labor market and adapt to global economic processes. The country's economy is becoming highly exposed to external crises; in fact, it is turning into a transit Third World periphery, with all the economic ailments characteristic of such countries.
- Given the market orientation of the neighboring economies, the Belarusians' belief in the Soviet-style mode of living, fostered also throughout the last decade, and its possible continuation may be a fallacy. The government has already proven to be incapable of ensuring an appropriate degree of social security and subsidizing out-of-pocket payments for social services. Belarusians may find themselves in a situation where socialism is ultimately wiped out, and a market-based system spurring them to shoulder responsibility for their own living conditions and income is not yet established due to the current government's anti-market policies.
 - Belarusians will have to live in increasing poverty. In 2001 and 2002, the decline in living standards became increasingly noticeable. In January 2003 alone, real-term personal income dropped by some 10 percent. Given the financial standing of industrial giants, a sharp rise in unemployment seems inevitable. In these circumstances, degradation of the Belarusian society, a demographic crisis, self-destruction of the nation's intellectual potential and brain drain may potentially assume devastating proportions.

A market reform model: motivators behind the options

One important motivating factor in choosing an economic reform strategy is the desire to see an operating and efficient economy, capable of ensuring the country's sustainable development. Lessons learned from previous reforms in

post-Communist countries suggest that not all reform models may be best suited for achieving this goal.

Transitions of former socialist countries spawned two types of market economies. One of them can be defined as democratic capitalism. This economic system is mostly characterized by stable, transparent and fair rules of the game for all market players. It emerged in Central European and Baltic states whose political and economic systems copy patterns of Western democracies in their basic aspects. Success of these countries' economic models is attested by their accession to the European Union, OECD and NATO.

The basic precept for democratic capitalism is the individual whose well-being can be realistically achieved in an economic system founded on economic freedom and private ownership. Free market and private enterprise make up a system of incentives for participants of economic process that enable satisfaction of personal aspirations and interests of people by producing goods with value adequately determined in free exchange, this being the free market principle, and whose income and property are protected from confiscation, this being the principle of inviolability of private property. The main function of government in this system is to protect ownership rights and ensure compliance with contractual obligations, which sets the stage for a stable and predictable economic growth. The government's social function is anchored in the principle of assisting those who are in actual need of welfare, rather than in unsystematic distribution of resources which frequently enriches the wealthy and impoverishes the poor.

The other model born in transition is referred to as oligarchic capitalism. It is characteristic for government's excessive interference in the economy so as to further interests of a small group of people in power or those enjoying preferential treatment from government, as well as by widespread use of administrative methods in controlling economic processes. Oligarchic capitalism has taken root in Russia, the Ukraine, most of other CIS countries and some European countries. This model serves not so much general public interests as those of a certain group of people claiming the right to speak on public behalf who amalgamate with State bureaucracy by using mechanisms of clientage and corruption.

Oligarchic capitalism is spawned mainly by half-hearted, ‘doctored’ economic reforms. Unlike the comprehensive economic reforms which breed a system of well-founded economic motivators for individuals and undertakings, warrant circulation of unbiased information on the economic situation and establish risk-reducing institutional mechanisms, ‘doctored’ reforms result in there being a hybrid model with features of a market economy, albeit in a system of business incentives suggesting that the success of private enterprise depends almost entirely on ‘snouts at the trough’ strategies, access to distribution of public funds and resources that may fall into private hands only by bureaucratic permission. This system dampens motivation for creative work, as all undertakings thus fall into two categories: those on the receiving end of government privileges and those cramped by the government for the benefit of the privileged. It is precisely this model that engenders the notorious practice in Russia of delaying payments to doctors and teachers despite oil prices (Russia’s key export commodity) currently standing at \$30 per barrel, in a country boasting its billionaires. Belarus’ incorporation into the Russian Federation will i.a. lead to entrenching the model of oligarchic capitalism, thus dooming the nation for Third World status for years to come, if not permanently.

The pro-European option and European integration as an incentive for economic reforms

Europeanization of the Belarusian economic model is the fundamental factor enabling a civilized pro-European choice for Belarus. The European integration of Belarus cannot happen without restructuring the economy and public governance aimed at facilitating complete integration with the European economic space. This goal could be achieved through an economic strategy aimed at establishing a functional market economy capable of sustaining competitive pressure in the single European market. Internal adoption of EU laws would cause domestic economic processes to be regulated along the same standards as in the European Union. In macroeconomic policy terms, the country’s monetary and lending system should meet the criteria set for accession to the

European Monetary Union. These are the following: high degree of price stability (with deviations not exceeding 1.5 percent of the average European level), capping public debt at 60 percent of GDP, stable interest rates and a stable exchange rate.

Certainly, there are hindrances on Belarus' way towards Europe. The main ones are inherent in the country. To join the European home of nations, it is necessary to ensure that its values, rules and standards become common practice and part of tradition in Belarus. This is a complicated and lengthy process requiring strong political will inside the country as well as the government's consistent efforts in enacting proper laws and establishing adequate political and market institutions. Another barrier is on the European Union's side. The difficulty of the task is due to the fact that the Belarusian public will have to overcome EU skepticism about this country. However, it is possible if, above all, the Belarusian society becomes inherently European, i.e. reaches civilization and cultural standards characteristic of any democratic country with a market economy and due respect for democratic freedoms and human rights.

Major factors that will determine ways of rapprochement between Belarus and the European Union will include the presence of political will in the country to go ahead with radical economic reforms. If this is in place, Belarus will be able to have an efficient economy capable of ensuring long-term economic growth.

In this event, the nation might choose between joining the EU and building its relations with it, as does Norway for instance. However, in either case the country's alignment with European laws would proceed rather quickly. Adoption of some of the *acquis communautaire* that would negatively impact business incentives could be postponed, or it could be adopted in more liberal versions. Adoption of European laws, or the opportunity to assume responsibilities of an EU member state, i.e. application of the *acquis communautaire*, would not only mean that Belarus may enjoy membership in the Union but also, if not chiefly, that the country has put an efficient economic policy to work.

The goal of ensuring sustainable development of Belarus and the country's Europeanization would be attained if the country adopts an economic strategy based on the following principles:

- **Market economy.** In the future, the Belarusian economic model should certainly be based on the tenets of private ownership and free market. This implies maximum privatization of state-owned property and curbing government interference in the economy. Low living standards on the one hand and global economic realities, of which Belarus will inevitably be part on the other, suggest that the country will not have strong government, which currently redistributes up to 50 percent of GDP, especially given that the Belarusian economy is yet to receive powerful impetus for a civilized development. In the foreseeable future, Belarus is likely to have to diminish the role of government, whose interference in the economy would whittle down to a few basic functions plus an inconsiderable role of welfare provider.
- **Openness.** Being a small economy, Belarus will have to be integrated with the international market. Its ability for successful adaptation to a highly competitive market environment will depend on the degree to which the government's economic policy will promote international integration, open the country for trade and investments, free movement of goods, services and capital. An economic strategy based on aspirations to autocracy, domestic market protection, import restrictions, and excessive expectations for public support would be a dead-end policy sidetracking the economy into stagnation.
- **Competitiveness.** This implies economic de-monopolization and furthest possible reduction of government intervention otherwise aimed at restricting business operations, nurturing and keeping 'national champions' afloat and supporting selected companies. Competitiveness of the Belarusian economy is the pre-condition for enhancing competitive strength of undertakings by fostering a system of incentives geared at stepping up efforts in productivity, investments and innovation.

With these conditions in place, public oversight in the economy should be based on the following principles:

- **Rule of law.** Economic processes should be regulated by acts of Parliament, rather than bureaucratic directives of the executive. The govern-

ment's key function should be to safeguard ownership rights and fulfil contractual obligations.

- **Transparency.** An economy can be efficient only if it functions on a level playing field for all undertakings. Decision-making in the economic policy should be transparent and accountable to the general public instead of being hinged on isolated interests of those closely connected to bureaucrats who leverage government's intervention in the economy for furthering their own business agenda. Discretionary powers of the State machinery, such as the arbitrary right to grant various privileges and concessions, state aid, access to public resources etc. should be minimized.
- **Stable and predictable regulations.** Undertakings operating in a market environment should be rid of excessive transactional expenses due to frequent and arbitrary changes in regulations governing business activity.

These principles are implementable only in an efficient democratic system warranted by genuinely independent legislative and judicial powers, and with public oversight of political process.