One Step Forward, Two Steps Back: An Analysis of the Post-Soviet Transition in Belarus

Introduction

The republic of Belarus has experienced several stages of transition after the collapse of the Soviet Union. The first stage was characterized by an attempt to shift away from the soviet production techniques, experimenting with practices drawn from the West. The temporary parliament of 1990-1994 implemented a series of market reforms during the first years of Belarusian independence. However, the market reforms generated disappointing results which were further compounded by a general social discontent. These unsatisfactory results animated the revival of central planning and state control over distribution of goods. This reemergence of the state distinguishes a second stage of the post-soviet transition. The values of totalitarianism have remained strong for almost two decades despite the efforts in economic and political transformation and a general trend of capitalist development among neighboring countries.

This inquiry seeks to provide an institutional analysis of the post-soviet transition in Belarus. It demonstrates that an absence of a thorough institutional inquiry drove the failure of market reforms. The results of market policies only further consolidated the old soviet institutional structure, momentarily relieving some of the havoc spurred by market reforms. While returning to the old methods of production and management improved the economic climate of the country temporarily, preservation of soviet techniques restricted the dynamic technological nature of the production mechanism.

The first part of the inquiry provides a brief overview of the main policies implemented during the capitalization process. Then, drawing on J. Fagg Foster’s principal of institutional adjustment and John Dewey’s analysis of habits, this inquiry offers a critical analysis of the

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1 In the context of this paper technology is defined as and interchangeably used with a joint stock of knowledge
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The second section considers the transition back to the soviet mode of production, seeking to establish that the preservation of soviet traditions has guided the Belarusian economy towards an unproductive and damaging path-dependence. This path-dependence has contributed to retarding the process of cumulative causation and capped the influx to the joint stock of knowledge, both of which remain crucial for progressive institutional change.

*Market Reforms*

The beginning of the 1990’s appeared as a great turning point in Belarusian history. The fall of the USSR meant official Belarusian independence and an autonomous mode of development. Stanislav Shushkevich became the Chairman of the Supreme Soviet– a temporary governmental structure– until the first presidential elections in 1994. Economic activity was one of the main concerns for the new-born independent country (Savchenko, 234). There existed a need for a new economic system, one that would eliminate the existing economic distortions, productively allocate resources, and improve the living standards of the Belarusian population. But most importantly, there was a general yearning for a socio-political change towards a more transparent environment, an environment that was still foreign to old soviet traditions.

The consensus of the Supreme Soviet was to focus on: de-etatization of state property, decentralization, economic freedom for producers, a single tax policy, new principles of national budgeting, a new banking system, and reconstruction of trade controls. Shock therapy calling for vast privatization served as the primary policy tool and was adopted as the first major step in transition to a market economy. Nevertheless, the rapidness of the new economic policies retained a modest character (Bogdankiewicz, 337).
The legal framework in existence by 1993 made it possible for privatization of both large-scale and small-scale enterprises. The development of privatization reforms did not, however, imply governmental control over the adjustment process. The Ministry of State Property and Privatization (MSPP) of the republic of Belarus—the executive institution responsible for market policies—was given great freedom in decision-making: the MSPP functioned independently of political institutions. When considering the percentage share of total income contributed by private Belarusian businesses by 1994, a mere 15% of GNP (EBRD dataset), it becomes clear that the market reforms did indeed move sluggishly. Furthermore, privatization of large factories was never accomplished. Interestingly, large-scale enterprises had the highest potential since those were the most efficient manufacturing and assembling factories.

This attempt of a transition to the capitalist mode of development was also associated with increased employment rates in cooperative and privately owned joint-stock companies; while there was a sharp increase in unemployment rates for the state sector. This spike in unemployment was caused by the reconstruction of administrative institutions (or rather their elimination) and bankruptcy of massive state enterprises associated with the institutional crisis (Bogdankiewicz, 340). In addition, rapid growth of consumption, rising inflation, and low levels of gross investment prevented the needed expansionary policy to promote basic capital reproduction and its technological renovation. Further compounding this problem was a need for reconstructing the military which occupied a significant role in the industrial sector for soviet Belarus. However, the program for a military changeover was not devised yet.

The year of 1991 marked the beginning of the post-soviet economic crisis which was especially noticeable in Belarus due to consistent economic growth from 1982-1990. Market shock therapy lowered economic growth rates which were characterized by occasional
fluctuations with a general tendency of decreasing GDP (EBRD dataset). These aspects also spurred confusion in market relations since production was no longer dictated by the state and the system for distribution of material resources had been dismantled; yet, the state diminished its role before establishing alternative mechanisms.

The disappointing results induced a number of contra-arguments on the suitability of the chosen tactics for the economic transition as well as a general public discontent with the economic downturn. The idea of market reforms in Belarus takes its roots in the neoclassical model of economic theory and its view on the efficiency of property rights. This ideology, in turn, legitimized the shock privatization. As Thorstein Veblen points out in his *Business Enterprise*, “the spiritual ground of business enterprise is given by the institution of ownership” (Veblen, 37). While on the contrary, the dominant rights system with its state-owned enterprises was considered an inefficient model mainly due to a principal agent problem caused by asymmetric information.

However, the efficiency of the “invisible hand” or the “Walrasian auctioneer” meant handing control of the previously command driven system to the workings of free markets which choose the most fit agents within the economy. This idea of market distribution was appalling to the soviet mentality which was used to viewing the state authority as the ultimate troubleshooter. The command system, however, guaranteed the social equality of economic agents while ensuring the dominance of the political power held by government elites. One can relate Hyman Minsky’s idea on the usefulness of markets in relation to this issue when he states:

The market mechanism is a good enough device for making social decisions about unimportant matters such as the mix of colors in the production of frocks, the length of the skirts, or the flavors of ice cream, it cannot and it should not be relied upon for important big matters such as the distribution of income, the maintenance of economic stability, the capital development of the economy and the education and training of the young (Minsky, 101).
Crude implementation of the market reforms served a clear ceremonial function in bringing the Belarusian nation away from the socialist mentality: it served as an attempt to corrupt the existing set of ceremonial values. It came as no surprise that the liberalist\textsuperscript{2} Supreme Soviet decided to continue market shock therapy. The belief was that eventually market reform would generate more satisfying results, more closely paralleling the observed apparent efficiency of the capitalist mode of production in the West. However, the Belarusian parliament failed to consider the fact that Belarus did not have a proper institutional setting for such abrupt changes. Furthermore, there was no instrumental inquiry into how best to coordinate the process of implementing market policies (i.e. introducing technological innovations) within the existing institutional structure. In fact, state institutions of the soviet type were eradicated as a dark footprint of soviet deficiency.

Ultimately, the market reforms were implemented in a very spontaneous fashion. The Supreme Soviet did not initiate any specific political power arrangements to provide economic security and reduce transaction costs for newly privatized businesses, nor did they design the property rights system in accordance with the institutional structure at the time. The results indicated that there existed a clear conflict of instrumental vs. ceremonial functions between the institutions of the two systems, which was not solicitously considered in regards to policy implementation.

\textit{Institutional Grounds}

The coercion of new technology in the form of market practices was foreign to the eloquently-developed and ingrained soviet mentality (i.e. soviet habits). This alienation led to social conflict as a result of problems with the existing institutional structure. Institutional structures characterize the habits of use and wont that allow people to act and respond with a

\textsuperscript{2} It was the majority of the liberals in the Supreme Soviet as opposed to the conservative representatives
high degree of confidence in their expectations (Neale, 1180). Habits, according to Dewey, are “a kind of human activity which are influenced by prior activity and hence, are acquired” (Dewey, 31). Institutions give continuity to actions and assure that each action suits the actions of other people to maintain the ongoing process. This implies systematization of minor elements of action, which remains projective and dynamic in quality (Dewey, 31). Society, in turn, exists as a set of institutional systems, which are based on a set of socially prescribed patterns of behavior or habits (Bush, 127). This implies a concatenation of individuals and the social system, an interconnectedness that necessitates consideration while examining the phenomenon of institutional change.

Overcoming the soviet mentality appeared to be the biggest obstacle despite the fatigue from soviet control and a general expectation of change prevailing in Belarusian society. In studying any social and hence, institutional change, it remains important to remember that adjusting habits requires cooperation between the organism and the environment. It is impossible to change habits directly; rather, change requires an “indirect modification of conditions, intelligent selecting and weighting of the objects which engage attention and which influence the fulfillment of desires” (Dewey, 19). More generally, habit formation exists as the mechanism which internalizes socially prescribed behavior. A successful adaption of new habits requires a relatively mechanized and unaccustomed set of actions, both of which were lacking in Belarusian society. These actions cannot relate to a previous order of things; rather, these actions should exist as their complete opposite. An executor of such actions should act upon them automatically, without being involved in any evaluation processes. To force one to stop thinking about the old habits, the new unaccustomed actions must be different from the original ones. Otherwise it becomes likely that the actor will fall back into the old state of habits. And, the
market reforms were implemented as crude instruments with the main purpose of eradicating the soviet system and to fully deracinate the soviet mentality. This, in accordance with Dewey, was a fatal failure in attempting to change the soviet habits; since this particular action was not disconnected from the past ones, it continuously elicited previously established habits from the socialist system.

This brings us to the idea that any change should include two types of behavior consistent with the Veblenian dichotomy—instrumental and ceremonial behaviors. Instrumental behavior is an internal behavior that results from warranted scientific inquiry. It requires continuous technological development and accumulation of tools that fit a given set of skills in order to prolong the life process: instrumental behavior remains technological in nature and serves a productive purpose. Ceremonial behavior is conditioned by tradition and acquired externally from social interactions; it associates with pecuniary gain and promotes invidious distinction. Thus, the transition to market policies ignored the significant impact of ceremonial behavior; rather it focused solely on blind imitation of instrumental behavior borrowed from other nations developed under a different set of institutions.

In analyzing a social conflict deriving from institutional arrangements, it becomes important to distinguish the values that form these types of behavior. These values serve as pivots which coordinate said behaviors. In accordance with Bush’s scheme for analyzing ceremonially vs. instrumentally warranted patterns, the set of values have to be targeted in order to restructure the institutional system. Instrumental values are a subject to a dynamic change as the state of knowledge changes and new technologies are discovered (a new set of economic policies in the context of this paper). Ceremonial values are accepted on authority and, according to Ayres, serve mainly to prevent change (Ayres 1961b, 103). Moreover, it remains impossible to
directly change behaviors by enforcing new technology. Technology drives institutional change, but it affects the behavior of institutions, not their values. Conversely, ceremonial dominance determines the degree of tolerability for a certain type of behavior given the existing institutional system.

The market reforms in Belarus indicate that the degree of past-binding ceremonial dominance was overlooked in favor of focusing solely on the efficient instrumental feasibility. Only evaluation of both feasibility standards can anticipate change within an institutional space. This is because ceremonial habit is part of the social fabric and as such requires attention when seeking recognized interdependence and locating the bounds of minimal dislocation. This change, if accomplished, functions in accordance with the principles of institutional adjustment (PIA) as put forth by Foster. The principle of technological determination suggests that an institutional structure must coincide with the instrumental capabilities of the system. Technological determination provides us with a new set of available behaviors. The principle of recognized interdependence reinforces the idea that a new type of behavior has to be directed and mechanized since it only becomes habitual through repetition. Foster emphasizes that “conceptual apprehension precedes the course of action differentiating the new pattern from the old” (Foster, 933). Finally, the principal of minimal dislocation defines the limits of the adjustment process and states that any modifications have to be approved by the existing institutional structure. If they are not, then society can eliminate changed patterns inappropriate to the problem-solving process.

While the Supreme Soviet in collaboration with the MSPP committee provided the “data” required by the first PIA, it failed to coordinate the “instrumental functions at a level of efficiency tolerable to the members of the institution” (Foster, 935). The second principle was
violated because there was no plan of corresponding renovation of the economic sector based on the new policies. The reforms were abrupt and chaotic, which could not provide the required level of mechanization. Most importantly, the market reforms failed to selectively target only those factors that were considered problematic to the society which clashed with the ceremonial dominance of the soviet habits.

*Market Socialism*

Spontaneity of the market reforms and ignorance towards the postulates of institutional adjustment caused the Belarusian society to reverse course back to the soviet mode of production. The summer of 1994 dispelled all economic doubts about the efficiency of market reforms when the republic of Belarus elected its first (and to date only) president Aleksandr Lukashenko. Lukashenko directed the nation back to the old soviet track in an attempt to solve the ongoing social conflict. In 1995 Lukashenko adopted a new route of economic development—so called market socialism, which marked a second stage of the post-soviet transition.

Central planning became the dominant and driving force of economic activity once again. Administrative controls over prices and exchange rates were imposed in response to the rapid inflation and currency depreciation caused by market reforms. The majority of factories and services remained under the control of national ministries. Various types of tight policies were applied to businesses by local and central governments: regulatory changes, copious inspections, and prohibition of practices that were legal during 1991-1994 (Savchenko, 238). Elimination of shock therapy was implemented in attempt to improve growth rates, lower the structural unemployment differential between the “private” sector and the state-owned enterprises, and to prevent the emergence of an oligarchy class³. Resulting from distortions in income distribution,

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³ A small wealthy class that emerged after vast privatization reforms in Russia during the early 1990’s
Belarusian society did not favor of market redistributive practices; rather, they preferred reciprocal practices of the soviet economic system.

Although the transition to market socialism caused substantial criticism from the zealous advocates of market practices, the early actions of Lukashenko’s government managed to suppress the social conflict instigated by the ceremonial dominance and temporarily improved a number of economic factors such as GDP per capita, unemployment and inflation rates (EBRD dataset). These soviet behavioral patterns were instrumentally feasible and permitted by the ceremonial needs of the existing institutions and not surprisingly so given that there was no technological inflow. New technology does not only provide solutions to institutional problems, but, in fact, is responsible for creating the problems. Technological change requires alterations in behavior (through the value system) and thought. This change creates new problems for society which needs to adjust accordingly. There were no problems created as there was no knowledge expansion and hence, no need for the adjustment process per se.

But what makes authorities stifle the development of technological innovations? An authoritarian government puts an effort into suppressing the knowledge inflow to a given stock of knowledge because this will consequently require an institutional adjustment, lowering ceremonial dominance, which will diminish the degree of authority. Hence, ceremonial encapsulation deprives the community of higher levels of instrumental efficiency. Such conservation of soviet habits conforms to Dewey’s idea that force only suffices to return a previous order of things and to restore familiar behavioral patterns, it does not bring change (Sturgeon).

Ayres realized that in communities like Trobriand society, ceremonial practices are perceived as a source of instrumental efficiency, while ceremonially warranted patterns suppress
technological growth (Ayres 1944a, 180-190). In this, ceremonial dominance remains an imitation of technological efficiency via ceremonial encapsulation of instrumental behavioral patterns. Increasing the degree of ceremonial encapsulation, in turn, displaces instrumentally warranted behaviors and leads to regressive adjustments in institutions. However, unlike the Trobriand society, where ceremonial dominance was rationalized through magic, the totalitarian system in Belarus uses ideology in order maintain soviet ceremonial dominance as the main instrument for holding a high degree of political authority even when the living standards slowly depreciate.

The government authorities present stagnating economic and social conditions as desired stability through the use of education and media. Education and media primarily function as a source of ideological propaganda, directing the asserted process of economic growth and eliminating undesirable pluralist thought through blocking the outside information flow. Absorption and diffusion of new knowledge can only occur if society thinks it can be accepted by ceremonial dominance. As Bush notices “knowledge that cannot be reconciled with the need to justify existing patterns of status, power, and other forms of invidious distinctions would not be intentionally sanctioned” (Bush, 141).

This, however, does not mean that it is impossible to improve the institutional organization of society in a way that will promote dynamic technological changes. The key is for every individual to have the ability to non-invidiously participate in modifying the existing institutional structure. Tool affirms that “so long as democratic means of deliberation and social action are available, the community is prompted to continue its experimentation with alternative institutional forms until the most efficient options, on present warranted knowledge, are chosen” (Tool, 103). This means that a democracy is needed as it functions as the only organization of a
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community that does not promote ceremonial judgments, preventing proper adjustments desired by the community.

CONCLUSION

Belarus exists as yet another example of a post-soviet transition economy where adequate changes of institutional adjustment need to take place in order to start drifting away from the soviet mode of behavior and thought. This inquiry demonstrates that a vague understanding of the market system, dysfunctional institutions under the new regime, and ignorance towards the principles of institutional adjustment caused the Belarusian society to repudiate the market-oriented development and indirectly instigated the soviet path-dependence. This, in turn, stifled technological growth as a dynamic process of cumulative causation which can only be fixed within a more democratic environment.

REFERENCES

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