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A Different Kind of Transition:
A Heterodox Analysis of the Post-Soviet Transition in Belarus

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Introduction

The concept of transition economies has acquired a wide scope of definitions and characteristics based on different directions and nation-specific peculiarities of the transition process. Most commonly, research on this topic has focused on 'quasi-capitalist' economies in their post-transition period; particularly, the common problems of capitalist struggle, which are intensified and reinforced by the Orthodox ideas of economic theory and policy. This essay, however, explores the nature of a different type of a transition economy—the last remaining bastion of Soviet-style communism that has remained in 'transition' for almost two decades.

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 and means. 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 efforts in economic and political transformation and a general trend of capitalist development among neighboring countries.

The results of market reforms, therefore, only further consolidated the old soviet institutional structure, momentarily relieving some of the havoc spurred by market reforms. While returning to old methods of production and management improved the post-shock economic climate of the country temporarily, preservation of soviet techniques has restricted the dynamic technological nature of the production mechanism, limiting the transition and associated challenges to soviet institutions.

This inquiry seeks to provide a heterodox critique to an analysis of the post-soviet transition in Belarus, drawing on the theoretical concepts of Institutional and Post-Keynesian approaches. It demonstrates that: an absence of a thorough institutional analysis, unrealistic marketization programmes which relied heavily on traditional Neoclassical economic principles, conflicting ideological perceptions for the role of the state, and persistent systemic problems of state planning all have constituted significant constraints to the transition away from the soviet style state organization of production and distribution.

The first part of the inquiry outlines the major systemic problems of soviet organization, from which the Belarusian economy continues to suffer until today. It is followed by a brief overview of the main market reform policies implemented during the capitalization process. Then, drawing on heterodox theorists, this inquiry offers a critical analysis of the aforementioned reforms and demonstrates the need for an institutional adjustment. The next section considers the transition back to the soviet mode of production, seeking to establish the grounds for an alternative policy development in the face of persisting soviet traditions that has guided the Belarusian economy towards an unproductive and damaging path-dependence.

Soviet Reality

One of the fundamental mistakes of the economic transition reforms in Belarus (as well as many other post-soviet economies) was the absence of a nation-specific analysis of the soviet institutional arrangement of the production process. Market reforms and property rights were established as basic tools for a transition based on the IMF programmes broadly applied to the entirety of soviet Eastern Europe. It is therefore essential to begin the analysis by studying the prevailing economic climate of a Soviet economy and outlining the systemic problems of the production process that the reforms were supposed to improve—something that had never been done by the designated committees in anticipation of the reforms.

It has been recognized by a number of Post-Keynesians scholars (see Gehrke, Knell, Nell, Rider, 1992) that major economic problems with a soviet style economy are related to extensive as opposed to intensive output growth and a seller's market as opposed to a consumer's market. The roots of these economic phenomena lie in the overwhelming government control of production and distribution and underlying policy strategy directed towards satisfying the basic social needs which serve to maintain the power dynamic of the prevailing political regime.

The production process in a soviet style economy is not only planned and strictly supervised by the state, but it is also predominantly financed by government expenditures. Investment spending primarily comes from the state, which means that the production strategy is not profit-driven. This creates a set of perverse incentives for any enterprise willing to engage in the production process, regardless of how risky it may be considering the nature of production finance. However, when a large share of national income is devoted to public investment, it results in constant pressures of excess demand.

Engaging in such a production strategy means that, within limits, anything produced in the economy will be absorbed by the market, hence the former suggestion of Belarus existing as a seller's market. There is little information about real quantities demanded or consumer's preferences. Resulting shortages eliminate the incentives for an enterprise to improve quality, productivity levels or decrease costs since there is no uncertainty about having the market for their output—the market will always be there. This results in inefficiency and product deterioration, and eliminates any incentive for innovation and hence, dynamic technological evolution. The lack of demand-induced incentives to innovate, in turn, skews the production process toward an extensive growth path where the expansion of inputs exceeds output itself.

The attempts to maintain extensive growth rates led to an ever increasing share of public investment, resulting in continuous over investment and further intensification of excess demand pressures. Shortages associated with permanent excess demand create an illusion of full employment as the economy is forced to constantly operate at full capacity. As pointed out by Nell, under socialism the efficiency and productivity of the inputs are assumed and investment is planned in order to reach the highest expansion rate consistent with planned consumption (Nell, 1992, p.86). This means that it is not only supply that is controlled by the state, but also demand that is generated by the system that is continuously fueled by over-investment. The Budapest school emphasizes this privilege of defining public's needs as a uniquely repressive posture (Brown, 1988).

Although highly controversial among economists, the Post-Keynesian approach posits that the inflation level is supply-driven in a capitalist economy, while it is demand determined in a socialist economy. Maintaining a high nominal wage rate is yet another task for state planning since providing basic needs is one of the fundamental roles in a socialist state. In a socialist economy, wages tend to drift upwards while prices are held as low as possible; whereas under capitalism, nominal wages are kept as low as possible, while prices fluctuate with an upward trend (Nell, 1992, p.93). Ultimately, socialism lets the wage level increase in order to achieve social and political objectives.

Following Mark Knell's analysis (Knell, 1992, p.10), there are three types of prices relevant to market-oriented transition states—market price, administered price and natural price. Due to permanent shortages, the market price will usually be above the administered, which provides an incentive to enter the market even if the administered price is above the natural. In this case, however, planners will be forced to lower the price level. Lowering the price level or repressing prices to rise, in turn, results in suppressed inflation, providing a negative feedback to investment and growth trends:

> The high investment program, which results from the fact that all these economic plans are connected with a political decision of industrialization at a rather speedy rate, produced everywhere an inflationary gap which is being solved in some constant pressure of excess demand in all markets, which in turn, creates a situation that any increase in output, in whatever field, appears as a desirable thing (Lange, 1949, p.167).

When the level of investment exceeds a technically-feasible level, it requires an ever increasing investment share to maintain growth. But maintaining extensive growth and suppressing inflationary pressures leads to a continuous drop in the potential capacity (Rider and Knell, 1992). As a result, bottlenecks occur. This further intensifies the problem of shortages, creates supply distortions overtime, and lowers growth rates as a whole. Furthermore, given that the economy is at full capacity, there is no room left for necessary adjustments because of planning mistakes—neither at the aggregate level, nor in terms of re-switching the proportions of output.

The institutional framework in which the soviet strategy of economic growth is set is a notoriously politicized process. Investment cycles that determine growth rates are essentially political since the investment decisions are determined by the central planning mechanism. Chronic demand pressures, shortages, and repressed inflation have become institutionalized and have engendered particular behavioral patterns which are not easy to change (Gehrke and Knell, 1992).

After the collapse of the Soviet Union, centralized planning and state ownership of the means of production were blamed by mainstream theorists for driving the collapse of soviet socialism. As a result, it was advised that these newly emerged independent economies immediately switch to free markets and private property. These two basic components of market reforms were supposed to fix the efficiency and productivity problems of the soviet economies through a price mechanism that allegedly keeps the economy at an efficient equilibrium.

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, 2002, p.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[1] of state property, decentralization, economic freedom for producers, a single tax policy, and new principles of national budgeting, a new banking system, and reconstruction of trade controls (Bogdankiewicz, 1993, p.337). Shock therapy, calling for vast privatization, served as the primary policy tool and

[1] An etatist economy is the one where the state is the predominant employer with monopolistic powers and state control is pushed to an extreme level due to increased state oppression of a single party (Horvat, 1992, p.140)

was adopted as the first major step in transition towards a market economy. Nevertheless, the rapidity of the new economic policies meant they maintained a modest character.

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, but rather was left to the supposed magic of ‘free markets’. 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 in 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, 1993, p.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.

Institutional grounds

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 fittest 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, 1986, p.101).

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. 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. 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 or to 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.

Among many others, Adolph Lowe had continuously challenged the Pareto-Walrasian approach to economic analysis. His theory emphasizes that the mainstream theories approach completely ignores the rigidities of modern industrial structures and the diversity of individual motivations and expectations. He suggests an alternative approach—instrumental analysis—that calls for institutional reforms as a basic instrumental tool (means) to create a 'goal-adequate' climate for a new economic regime. The essence of this approach boils down to establishing the ends-to-means relationship properly. Lowe reverts the traditional causality logic by stating that one has to find suitable economic means (treated as unknowns) in order to achieve any stipulated ends (treated as knowns) (Lowe, 1976, pp.11-12).

Gehrke and Knell emphasize that selecting an appropriate structural adjustment path must consider that the range of feasible transition paths is constrained by the prevailing social and technological structure (Gehrke and Knell, 1992). These changes, in turn, induce motivations and microeconomic behaviors compatible with the desired goals (such as increasing efficiency and productivity without having to face the infamous deadly faults of capitalism). Hence, it is appropriate to conclude that the process of an institutional adjustment should have served as a means in order to achieve to that desired 'goal-adequate' environment. However, the ideological frictions about the usefulness of centralized planning and its ability to maintain social stability after the failed attempts of reorienting to 'free markets' further retarded the needed transformation.

Crude implementation of 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. But the disappointing results induced a number of contra-arguments on the suitability of the chosen tactics for the economic transition as well as general public discontent with the economic downturn. It came as no surprise that the liberalist[2] Supreme Soviet decided to continue market shock therapy. The belief was that eventually market reforms 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 that Belarus did not have an appropriate institutional setting for such abrupt changes. Furthermore, there was no instrumental inquiry into how best to coordinate the process of implementing market policies within the existing institutional structure. In fact, state institutions of the soviet type were eradicated as a dark footprint of soviet deficiency.

The MSPP committee basically took it to their faith that free market institutions were the best strategy for addressing the inefficiency and chronic shortage problems of the soviet economy without any concern as to what these institutions imply or what was necessary to introduce institutions that had never existed in a planned production environment. The ideological opposition to anything soviet blinded the necessity for an institutional adjustment. Moreover, this opposition prevented a realization that, while nationalization and state planning were among the reasons for the collapse of soviet communism, they should maintain a role in the transition towards a new mode of production.

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[2] It was the majority of the liberals in the Supreme Soviet as opposed to the conservative representatives

The lack of market mechanisms, poor knowledge of available technologies and a rigid nature of the production process did not fit the universal framework of the IMF marketization plan with its strict unrealistic set of institutional and behavioral assumptions necessary for a continuous market clearing mechanism. Institutional reorganization plays a primary role in a transition to a different mode of production. As pointed out by Hagemann and Kurz, it is the social structure that engenders different motivations and behavioral patterns; and it is this existing social structure that acts as a constraint to developing a new growth path (Hagemann and Kurz, 1990, pp.743-745).

Institutional structures characterize the habits of use and want that allow people to act and respond with a high degree of confidence in their expectations (Neale, 1987, p.1180). Institutions give continuity to individual actions and assure that each action suits the actions of other people to maintain the ongoing process. 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, 1987, p.127). This implies a concatenation of individuals and the social system, an interconnectedness that necessitates consideration whilst examining the phenomenon of institutional change. The coercion of new technology in the form of market practices was clearly 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. Although such a conflict is traditionally treated as a barrier rather than a necessary initial position on a path to a smooth transformation, it is nevertheless a normal state of affairs for a transition process; for there is no room for a change without a pre-existing disequilibrium of behavioral patterns.

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, 1922, p.19). A successful adaption of new habits requires a relatively mechanized and unaccustomed set of actions, both of which were lacking in Belarusian society. 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.

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 Alyaksandr Lukashenka. Lukashenka directed the nation back to the old soviet track in an attempt to solve the ongoing social conflict. In 1995 he 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, 2002, p.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 class[3]. Resulting from distortions in income distribution, 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 Lukashenka'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). Throughout the 1990's the country experienced sluggish but stable growth. While switching back to the soviet production strategy brought about stability and public content, it also rejuvenated the outdated systemic problems of the soviet reality described above. As repeatedly emphasized by Nell, the major lesson, however, is that these problems interact cumulatively—shortages and productivity problems will compound (Nell, 1993, p.16).

In addition, it was ignored that the economy was forced to assimilate into a more complex environment due to rapid globalization processes in Europe; and hence, preservation of

[3]A small wealthy class that emerged after vast privatization reforms in Russia during the early 1990's

the original soviet techniques was no longer feasible for a tentatively open economy. Meanwhile the domestic specialization has not progressed focusing mainly on heavy outdated industry adopted from the Soviet Union, which, most importantly, still used old technology (using the old capital stock). Overtime the consequences of extensive growth and public over-investment further intensified potential problems associated with excess demand pressures. These additional complications were primarily related to the degree of openness to foreign markets. The involvement of the Belarusian economy with market-oriented neighbors requires the development of a relatively sophisticated financial structure, for which the rigidities of a soviet institutional system were not suited.

A trivial credit system combined with the lack of private investment associated with perverse incentive structures continued to repress inflation, deterioration of the current account and repetitive trade wars brought about a series of persistent currency crises throughout the 2000's and consequently, more severe demand pressures and supply distortions. The Central Bank has continuously exercised aggressive monetary policy in order to suppress inflation and keep the promised stability of exchange markets. Central Bank's actions, in turn, led to significant over-valuation of currency and distorted trade balances—not the most attractive environment for potential private investors. Persistent current account deficits and diminishing reserve assets resulted in an increased dysfunction of the official exchange markets, pushing the Central Bank to impose strict capital controls given its inability to give up price stability (Huett, Krapf, Uysal, 2013, pp.3-5). The banks progressively refused to sell foreign currency at official rates to the public during currency runs, which provided a negative feedback on the dynamics of trade balance and eventually pushed the Central Bank to fully cut off foreign currency reserves to commercial banks.

By 2010 it was clear that the country was in desperate need of major institutional transformation and demand-oriented policy given the negative consequences of its discrepancy with neighboring trade partners. McKinnon accurately explained this dynamic right after the collapse of the Soviet Union. He noticed that when a socialist economy opens to foreign markets in goods for which their domestic costs are administered above world market prices, those good sectors will be highly susceptible to bankruptcy unless costs/prices are adjusted accordingly. Monetary policy, no matter how aggressively applied, will be highly inefficient as a result of fundamental problems with production organization (following McKinnon, 1991). The abrupt unregulated price liberalization, stripping of the public goods sector and mass privatization of state enterprises failed to address the lack of demand. Instead, the policies should aim at reorganization or a set of reforms to modify the incentive structure by directing the production mechanism to profit-based autonomous spending which drives income growth (following Kalecki, Kregel, Eichner, etc). This would imply industrial and strategic trade policies with the goal of bringing technological innovation into the production process, which in turn requires reorganization of the existing institutional structure.

Technological transformation

The 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. Instrumental values are subject to dynamic change as the state of knowledge changes and new technologies are discovered. 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.

New technology does not only provide solutions to institutional problems, but, in fact, is responsible for creating the problems—the conflicting disequilibrium mentioned above that induces change. 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*. In this context, Lowe's instrumental approach calls for a radical technological and social transformation especially in such a rigid economic climate as a soviet style mode of production where the existing capital stock and production mechanisms act as the main structural barrier (Hagemann and Kurz, 1990, pp.749-750). For Lowe, pursuing a new growth path is directly related to a change in technology accompanied by liquidation of the old capital stock under public controls.

This policy recommendation also finds support in critique of a soft budget constraint as developed by Kornai. He explains the chronic problems of permanent shortages by excessive state spending. State authorities tend to soften the budget when there is an expectation of external finance provisioning. Such expectations are usually fulfilled in the context of a soviet regime, as was discussed earlier, provided there exists strict control over the production process from state authorities (Kornai, 1986, pp.1-37). This only gives an illusion of regulation since an enterprise will feel less responsible the more the state authorities intervene. Hence, institutions including property rights and financial intermediaries should be introduced to harden the budget constraints (Gedeon, 1992, pp. 164-167).

Adjustment requirements

While one recognizes the need for a set of reforms directed toward the fundamental mechanisms of a soviet mode of production and distribution, it has been already demonstrated empirically that eradicating every single aspect of centralized planning and state regulations would be a fatal mistake. Instead of dismantling the entire system of planning, it needs to be restructured. Instead of engaging in a vast limitless privatization process, hoping for the magic features of private property, soviet institutions need to be reorganized and supervised. The key is to find a balance consistent with the existing value structure between the necessary public sector activity and discretionary public sector involvement (Forstater, 1997, p.17). Market forces and central planning elements should be engendered as complements in order to make the transformation process smoother. As new institutions are introduced, the former social context in which microeconomic behavior is formed is then dissipated in a profound way. Appropriately dealing with this disturbance requires a significant degree of flexibility, which is a very desirable feature of any economic system as the lack of such will cause sluggish growth, inflationary pressures and bottlenecks[4].

Opportunity cost of freedom and order

While it might seem obvious that there has to be a technological reorganization and investment incentive restructuring to satisfy public needs due to chronic excess demand pressures, the case of Belarus demonstrates that there exist integral obstacles to such a change. Moreover, it is the state itself that is interested in preventing the necessary changes. But what makes authorities stifle the development of technological innovations? An authoritarian

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[4] As defined by Forstater, flexibility is "the elasticity of the production system, the adaptability of the production system in the face of structural and technological changes, such as capital or labor-saving technical innovations, changes in labor supply or the supply of natural resources and changes in the composition of final demand" (Forstater, 1997, p.1).

government puts effort into suppressing technological inflow because this will require an institutional adjustment, changing the power structure and diminishing the degree of state authority. Interestingly, as pointed out by Nell, a soviet system "developed a life of its own that owed much to the politics of acquiring and maintaining power […] using police protection; the idea that never occurred to any of the 19th century architects of socialist ideas" (Nell, 1993, p.1). Ceremonial values serve mainly to prevent change and are accepted on authority (Ayres, 1961, p.103). 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.

Ayres, for example, realized that in communities like he Trobriand society, ceremonial practices are perceived as a source of instrumental efficiency, while ceremonially warranted patterns suppress technological growth (Ayres, 1944, pp.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 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 flow of outside information. Absorption and diffusion of new knowledge can only occur if society thinks it can be accepted by ceremonial dominance. As Bush notes “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, 1987, p.141).

This, however, does not mean that it is impossible to improve the institutional organization of a society in a way that will promote dynamic technological change. The key is for every individual to have the ability to 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, 2000, p.103). This means that a democracy is needed as it functions as the only organization of a community that does not promote ceremonial judgments, preventing proper adjustments desired by the community. Such a claim, however, does not imply that the process is not feasible in the environment of centralized planning. As Knell asserts, a transition of a soviet economy requires changing the nature of the role of state to the one that is oriented toward incentive based instead of directive planning and democracy instead of despotism (Knell, 1992, p.18). Lowe also emphasizes the role of democratically controlled state planning, which in turn, is an instrument of stabilization that supports emancipation and freedom. The purpose of planning then is to engender motivations, expectations and behaviors suited to the desired macro-goals (Gehrke and Knell, 1992, p.62). Hagemann and Kurz elaborate on Lowe’s instrumental approach and the role of freedom:

> Obviously, no democracy can function unless the behavior of its participants is somehow constrained. The emphasis already put in [Lowe’s Price] of Liberty on the role of spontaneous conformity, that is, self-restraint on the part of the microunits is taken up again

> and deepened in his recent work. Behavioral controls thus should balance individual freedom and macroeconomic order. Flexibility of behavior and motivation play crucial roles in instrumental analysis (Hagemann and Kurz, 1990, p.753).

One can conclude that the key for a terminal state of the soviet economy on its transition to a market-oriented economy is to find equilibrium between freedom and order. This perfect balance, however, has not been found either in communist power states or in supposedly efficient free market capitalism. A democratic socialism guided by demand management may be necessary to manage the problems (Nell, 1993, p.26).

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 inefficiency and distortions of soviet production organization. This inquiry demonstrated that a transition process is constrained by the prevailing social structure and technological organization, both of which require institutional reforms that take into account structural, behavioral and institutional arrangements, but are forcefully downgraded due to the soviet ideology of power dynamics. Central planning should be complemented with the market practices in order to embrace incentive based planning that will induce profit-based investment and change the existing system of perverse incentives.

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