

DECREE ON SOCIAL PARASITISM: SHOT IN THE DARK

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Presidential Decree No.3 "[On preventing freeloading practices](#)" was issued on 2 April. Although neither the document itself, nor official commentary to it gives the reasons why the Decree was developed, it is apparent that its appearance was provoked by the economic crisis unfolding in Belarus.

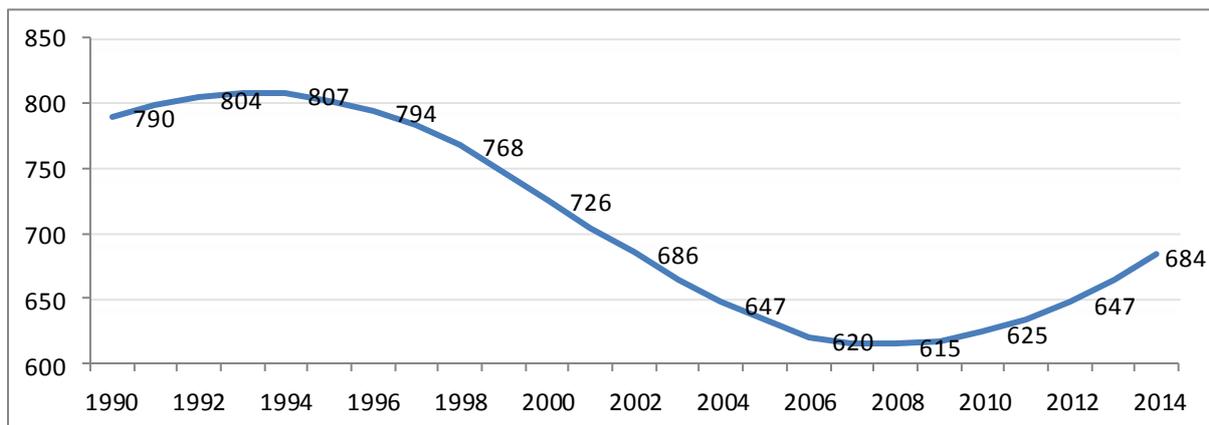
The drafters provide three specific objectives of the Decree in the preamble to the document, but only one of them is based upon purely economic motives: "to encourage able-bodied citizens to be involved in labor activity." The regulatory objective that refers to citizens' legal obligation is as follows: "to ensure the compliance with the constitutional obligation of citizens to participate in financing of state expenditures." Finally, the objective that has a moral and ethical implication is "to prevent social parasitism." How effective will Decree No.3 prove in achieving the three declared objectives, and is this mission realistic at all?

Objective No.1: To encourage people to work

The demographic burden on working-age population in Belarus is growing heavier from year to year. The high birth rate registered in the late 1980s provided the country with the so-called "[demographic bonus](#)" (the period from the late 1990s to 2008). That time was extremely favorable for putting in place painful economic and social reforms, as the share of citizens at nonworking ages was relatively low, i.e. expenses on social security system were moderate. Unfortunately, during that period, structural reforms were not introduced. Since 2008, working-age population has been steadily decreasing, whereas population at nonworking ages (younger than 16 and older than 55 for women and 60 for men) has consistently increased. During the next decade, the rate of demographic burden will keep growing.

Chart 1. Persons at nonworking age per 1,000 working-age persons 1990–2014.

Source: Belstat



Given the ongoing decrease in workforce amid expanding nonworking age population, the government's concern over the need to "encourage people to work" is understandable. However, according to official statistics, the unemployment rate in the country remains low — it stood at 0.8% as of 1 February 2015. Therefore, the first objective of the Decree looks rather contradictory.

As defined by the International Labour Organization (ILO), "unemployed workers" are those who are currently not working but are willing and able to work for pay, currently available to work, and have actively searched for work. Instead, the Belarusian authorities employ the notion of "registered unemployment". According to the law "*On employment of the population of the Republic of Belarus*," only able-bodied citizens who have registered at the labor, employment and social security authority are considered to be officially unemployed. Unemployment dynamics in accordance with the ILO methodology is not used by the Belarusian state authorities, while official methodology for identifying unemployment distorts the real situation in the labor market.

For unemployed Belarusians it is not worth the trouble to register at a state job center. First, both state and private enterprises do not normally apply to job centers for potential employees to fill in decent vacancies. Second, unemployment benefits are very meagre. In Minsk, unemployment benefits averaged approximately 115,000 rubles (which is equal EUR 7.5) in late 2014. On the instructions of job centers, unemployed individuals can perform (low-)paid public work, such as street cleaning. Therefore only unskilled individuals and qualified workers with a number of specialties which are in high demand in the Belarusian labor market (such as engineers and medical workers) can find jobs through the state job centers.

Despite the lack of accurate data, it is clear that real unemployment has increased in Belarus over the last few months. First, following economic stagnation in Russia and depreciation of the Russian ruble, thousands of labor migrants returned to Belarus from Russia or reduced the number of their foreign work trips. Second, because of the reduction in export supplies, many state-owned industrial companies have recently switched to a part-time working week. Concealed unemployment — when labor relations with the employer formally remain, but there is no real employment — has expanded. Therefore, being unable to offer new job places and decent support for the unemployed, the state is pushing citizens to register at job centers and perform inefficient low-paid work. This "encouragement of labor activity" is not only wrong from legal and ethical perspective, but also inefficient from the economic point of view and is socially harmful.

Workers are quite poorly protected in Belarus: compensation for part-time work is insignificant, retraining programs are inefficient, employment services are ineffective, and unemployment benefits are minuscule. The main element of worker protection in the labor market — long-term and permanent labor contracts — are virtually nonexistent in Belarus. Further, the Belarusian labor legislation is not flexible enough to effectively regulate agency labor, distance labor, working hours and wages flexibility. Instead of addressing these problems, Decree No.3 increases tension in the labor market.

Objective No.2: Constitutional obligation to finance state expenditures

Decree No.3 *de facto* introduces an additional tax on households with members at working age who are employed in the national economy less than 183 calendar days during the year. The Decree cites Article 56 of the Constitution concerning the “*constitutional obligation of citizens to participate in financing of state expenditures*” and construes income tax and transfers to the Social Security Fund as financing of state expenditures, whereas indirect taxes (the value-added tax and excises) are not considered to be contributions to financing of state expenditures.

However, indirect taxes — the VAT and excises — account for more than a third of Belarusian budget revenues. When they buy a loaf of bread or a pack of pasta, pay for mobile services or a hairdo, even jobless citizens pay taxes. Therefore they nevertheless take part in financing state expenditures. Importantly, the amount of indirect taxes paid by some “social parasites” (according to the Decree’s notion) can exceed the amount of income tax and transfers to the Social Security Fund paid by an employee with a small wage. A jobless person who monthly spends 10 million Belarusian rubles (EUR 650) on local goods and services contributes to the budget with the amount of indirect taxes which is equal the sum of direct taxes paid by an unemployed citizen with a monthly wage of 4 million rubles.

When it comes to the introduction of the tax on citizens who do not pay income taxes, Decree No.3 runs counter the Tax Code and contradicts common sense. The personal income tax applies to incomes received by individuals; however, nonworkers have no official incomes. Then what will the tax imposed on the unemployed be applied to? It will essentially be applied to their alleged illegal incomes, or their previous incomes, or their family members’ incomes. In the first case, it is up to state tax agencies to prove availability of illegal incomes, whereas in the second case, we would *de facto* observe double taxation.

A failure to pay the income tax and make transfers to the Social Security Fund would automatically imply noninvolvement of a citizen in financing of state subsidies that are provided to reduce utility fees and ensure free-of-charge medical services. A more efficient economic system would only provide subsidies to pay utility fees for vulnerable population groups, instead of current Belarusian case of offering preferential rates to everyone. As for medical services, one of possible solutions is to offer jobless residents to pay for a special medical insurance, which would enable him/her to enjoy medical services on an equal basis with workers.

Objective No.3: To prevent social parasitism

Decree No.3 never had a chance to become a subject of a comprehensive public discussion while it was being drafted. There were no either parliamentary hearings, or TV debates between proponents and opponents of the document, or discussions among specialized civil society organizations. As a result, the wide public has not been given a thorough substantiated analysis of the benefits and costs of the document. The only official estimate released by the Ministry of Finance says the annual total amount of levies collected by the state as a result of the Decree would total 450 billion rubles (EUR 29.4 mln). But will the Decree not contribute to social tensions, given the fact that thousands of citizens unable to find a decent job and with no sources of income are imposed with a levy and pushed to carry out low-paid jobs? Will the judicial and penitentiary system be capable to deal with the number of administrative cases associated with nonpayment of the taxes imposed by the document? What costs will be incurred to mobilize the state authorities to detect "social parasites" and create a relevant electronic database? How will the government address the current challenges in the labor market that the Decree only aggravates? These questions have been left unanswered.

At the same time, the state media launched a months-long campaign to shape the public opinion on the need to tax "social parasites" not only for economic reasons, but also for the sake of social fairness. Support for these ideas was voiced at the top level: according to the [president](#), *"those who work honestly often wonder why they should work day and night, if someone else enjoys virtually the same benefits, while doing no work at all."*

Decree No.3 aims to "prevent social parasitism," but fails to provide a classification of the affected population groups. The document only lists the categories of citizens exempted from the levy, along with workers and jobless citizens with official registrations at state job centers. If we identify the population groups that fall within the scope of the Decree, its contradictory nature and inconsistencies become even more evident.

Persons with a source of income, who avoid paying taxes. Supposedly, 100,000–200,000 Belarusians fall in this category. They include not only notorious tax dodgers or people who live off cross-border trade. Thousands of young specialists have no other choice but to work for privately-owned companies with no official registration. Some freelancers and distance workers, who are considered to be unemployed according to Belarusian regulations, also belong here. The imposition of the levy on the average "social parasite" is not a panacea to effectively address the issue of illegal employment and non-payment of taxes. Solution to these problems shall include improvement of tax and labor legislations and making activities of tax agencies more efficient.

Temporary and permanent migrants. This category mostly include Belarusians employed unofficially in Russia. Their number may exceed 200,000. It would be wrong to refer to these people as "social parasites", since they fall under this category not because of their unwillingness to work, but because of the actual situation in the Russian labor market. Russian employers often prefer not to register Belarusian workers in order not to pay taxes. In practice, those migrants who fail to provide requisite documents to prove their absence in the country for longer than 183 calendar days per year will be charged the levy introduced by the Decree. Another 20,000 Belarusians live abroad on a permanent basis (in Poland, Germany, Russia, the United States, etc.), but keep their formal registration in Belarus. They do not burden the state social welfare system, as they do not come to Belarus or visit the country very seldom.

Persons displaying antisocial behavior (homeless, non-working alcoholics, drug addicts). We suppose there are 15,000–30,000 persons in this category. They qualify as “social parasites” a lot better than the other groups and indeed seem to fit the declared objective of the Decree to “prevent social parasitism.” However, it is doubtful that the document will prove an effective instrument to deal with such persons. When it comes to homeless citizens, the authorities will hardly be able to detect them and impose liability if they do not show at their formal address or have no formal address at all. Citizens displaying antisocial behavior will be unable to pay the levy and will only increase the burden on the judicial and penitentiary systems, while society and the state will have little financial gain from their forced labor (which is also a question of congruence with the Constitution and international legal norms).

Unemployed working age persons who are not registered at state job centers. As already mentioned, ineffective system of support for the unemployed makes the registration procedure pointless for most unemployed Belarusians. The number of such unemployed individuals may reach 100,000. This applies to jobless citizens who have been unable to find a job *for six months in a single year* (under the Decree, you need to be employed for at least 183 days per year), rather than the total number of jobless citizens — at any given moment, their number total between 200,000 and 300,000.

Citizens who have no illegal sources of income and live off their savings or their friends and family. This category may include from 10,000 to 30,000 individuals. On the one hand, these can be well-off people who for some reason feel that it is not necessary for them to be involved in labor relations. During the years of their employment, they could have paid taxes and made transfers that considerably exceed the average amount of tax payments and transfers. It appears that the Decree charges them with the tax on the absence of employment, which contradicts the Constitution.

On the other hand, this group also includes citizens who are temporarily out of work and belong to the less well-off — and poor — categories, for instance those who have undergone a surgery or have had an illness, but have not been registered as disabled people. If health restraints prevent such people from being employed to their previous position without doing harm to themselves (say, in a hazardous industry), and available vacancies that do not correspond to their qualifications offer insignificant compensation, they (and their families) can decide that they should refrain from labor relations for some time and instead stay at home to do the chores or take care of their health. The same applies to family members who look after elderly relatives, who do not require special care, according to findings by an official commission. The state *de facto* interferes in family affairs and fines households that in no way can be called “parasitic.” When applied to such households, Decree No.3 questions the declared objective of achieving social fairness.

The discredit of thousands of citizens by applying the – sanctioned by the state – label of “parasites” to them while they are in fact not, spoil trust relationship between citizens and the authorities. Furthermore, by citing social justice when passing the Decree, the state opens Pandora’s Box with numerous rhetorical questions associated with the socioeconomic model and taxation system existent in Belarus. For instance, why should citizens who have no illegal incomes and live off their savings and incomes of their relatives, from which taxes have been already paid and transfers have been made to the Social Security Fund, be defined as “parasites,” whereas employees of loss-making manufacturing companies that live off state subsidies are not?

Therefore, the critical examination of the objectives declared by Decree No.3 reveals major practical and theoretical problems intrinsic to each one of them. Apparently, amid

the economic stagnation it is becoming increasingly harder for the state to meet its social obligations. However, the problem of "social parasitism" cannot and should not be addressed by adopting contradictory, inconsistent, and repressive decrees that will hardly prove effective. It is a matter of open discussion with all stakeholders on improvement of tax and labor legislation and on more efficient work of tax and other relevant state agencies.