

Economic Reasons for the Political Crisis in Ukraine

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Having celebrated the second anniversary of its independence this autumn, Ukraine finds itself in a potentially catastrophic situation of unprecedented magnitude. Economic reforms have barely started, industrial and agricultural outputs are in deep decline, and the national currency is virtually worthless. The economy is in desperate condition and the high rate of inflation, running at almost 50% per month, has ruined the government's weak attempts to improve economic performance and preserve minimal living standards.

After almost two and a half centuries of either total subordination or incorporation in other states, Ukraine has recently been reborn as a sovereign power. It is the largest country in Europe in terms of territory and one of the five largest in terms of population.

Contrary to the hopes of patriotic enthusiasts, after regaining independence Ukraine faces major difficulties arising from the necessity to create from zero (if not from less than zero) the whole governmental structure which includes a normal democratic parliament, a new constitution, and finally a distinct identity for Ukraine in the modern international community.

But the most difficult task in the complex process of rebirth has been and remains that of transforming Ukraine into a market economy. Those few in Ukraine who have had some ideas of how to carry out market reform have been largely ignored and disliked. The country inherited a governmental and managerial bureaucracy that had been carefully selected and trained to serve as an agent of centralized decision making.

All attempts, however slight, to press ahead with market transformations have been effectively hampered by the Parliament which is virtually dominated by incompetent political self-promoters and old-fashioned communist party bureaucrats. After several months of massive demands and coal-miners' strikes in the Donbas region (which were accompanied by the threat of a nation-wide strike) to force its resignation, the Parliament finally voted, after numerous failed attempts, in favor of early parliamentary and presidential elections by a close vote of 243 out of 450. The vote passed three days after the Moscow bloodshed and arrests of Russia's parliamentary leaders in October 1993.

Very few members of the present Parliament are likely to survive elections scheduled for next March, despite their vote to preserve the present number of seats (which is excessive for Ukraine). On the other hand, President Kravchuk has a chance to retain his presidency next June. Despite his opponents' accusations of political cowardice, Leonid Kravchuk, due to his flexibility and prudence, managed to regain independence for the country and was able to achieve other political goals without the violence that have already shaken Moscow twice. Next June, however, the outcome of the elections will depend greatly upon the economic performance of the government, which became the responsibility of the President after the Parliament expressed mistrust in Prime Minister Leonid Kuchma and his Cabinet.

The latest government, which stayed in power for ten months, has probably inflicted the heaviest damage on the Ukrainian economy, highly exceeding the combined negative impact of externally generated losses as well as those generated by the two previous governments. The government's inability to pursue a course of market reform stemmed from the composition of the Parliament: 60% were former communist party bureaucrats of different levels, 35% represented a variety of communist regime critics, and only 5% were real new democrats and market

reform-minded professionals. The government's top personnel looked like the Parliament in miniature: the Prime Minister, his First Vice Minister, three out of four of the remaining Vice Ministers, and a number of key ministers were self-appointed members of Parliament. This was a vivid example of the mentality of the former Soviet Parliament at work—the merger of legislative and executive powers and the conglomeration of incompetent politicians and old-style communist bureaucrats. This government came to power without any program of economic reform and was only able to present one a couple of weeks before the Parliament dismissed its comrades.

The first one to realize the senselessness of his dual efforts was a wise First Vice Prime Minister—a sophisticated politician who departed from the government after only three months in the hopes of at least retaining his parliamentary seat. The next one to quit was another moonlighter—the Vice Prime Minister responsible for the energy complex who joined the ranks of external trade promoters. The greatest obduracy, however, was demonstrated by another member of parliament-moonlighter—one V. Pynzenyk, the former provincial head of a petty chair of economics, a price formation specialist for the centralized economy, Vice Prime Minister, and minister of economics responsible for the promotion of market reform in the economy. He sent in his resignation just several days before the government was dismissed. Curiously his resignation was immediately accepted without even reviewing his past record of activity and achieved results, as would have been the case with other ministers.

The government in question was granted extraordinary and unprecedented powers by the parliament at the beginning of its activity. For a period of six months the government could change at will existing legislation in the economic sphere to promote a non-existent program of economic reform. An “indicative”, a two-page action plan presented by the Government—contained good wishes and admirable sentiment but was without a mechanism for their implementation or realization and could not serve as an intellectual guide for further actions.

The major goal of the government was to restore control over the 96% state-owned economy which in and of itself was a good idea. The methods, however, which were the only ones

which the Vice Prime Minister for economic reform knew, were those of a centrally-planned economy. He started to reconstruct a very tight vertical management of the economy through the Ministry of Economics by decrees, prohibitions, quotas, licenses, and the like. His aim was to subordinate the economic life of Ukraine to this ministry (formerly Gosplan, the former State Planning Council) and to restore centralized planning, which has been proven to be the most devastating instrument for the regulation of the economy. It was clear that he did not, in fact, have the slightest idea of how a market economy works.

During a six month period, this Gosplan-Ministry of Economics has almost doubled in size, with more than one thousand employees. During this period of extraordinary powers, money in circulation has increased eleven-fold, the Gross Domestic Product has dropped by 8% as compared with the same period of the previous year, National Income decreased by 9%, and consumer goods production dropped by 14%, including 17% for food. This deep recession was not of a structural character, caused by the closure or restructuring of energy-consuming or ecologically-harmful enterprises, but rather was a consequence of the ignorance of the government's chief economist, which brought the living standard of 70% of the population below the poverty level.

Besides super-concentration of decision-making within the Ministry of Economics, its former chief introduced high taxes on producers which in some cases withdrew more than 90% of their income, introduced a Value Added Tax of as high as 28%, initiated 50% obligatory hard currency selling by exporters to the National Bank under hyper-inflation, and some other "economy-stimulating" steps, which in fact heavily damaged producers and industrial exporters.

Finally, the former minister of economics did his best to break economic links with Russia by prematurely leaving the rouble zone and blocking mutual payments. Consequently Ukrainian industry, which is almost 75% dependent on the cooperation with the Russian Federation, has nearly collapsed.

At the same time, the unprofitable socialist kolkhoz and sovkhos (state-owned agricultural collective farms) were heavily subsidized by soft government credits which had first been used by banks for on-lending purposes at market rates. This financial

operation was particularly damaging to the Ukrainian economy for many reasons. It further increased the budgetary deficit, spurred the inflation rate, helped to keep unproductive agricultural units afloat, and, finally, seriously hampered the privatization processes in agriculture.

Naturally, when the extraordinary power of the government expired to issue decree, the Parliament rejected the requests of its comrades in Government to extend to it the power to issue decrees. Neither the Prime Minister nor the Parliament were intellectually equipped to manage the Ukrainian economy and, after the dismissal of the cabinet in the fall of September 1993, the President of the country took over the responsibility of the government to fill in a power vacuum, appointing an acting Prime-Minister to manage everyday functions of the Cabinet.

From the outset the President of Ukraine admitted that the adoption of a tough "vertical line" to manage the economy proved to be ineffective and stressed the necessity for market reforms in the country through privatization, creation of land and capital funds markets, etc. But Ukraine can hardly be expected to realize market reform transformation unless the current monstrosity of a Ministry of Economics, with all its Gosplan functions, is eliminated or at least drastically reduced in size, with many of its roles transferred to the Ministry of Finance and the National Bank. The former can encourage or discourage economic development and influence the structural transformation and market reform process through tax and budgetary policy, while the latter can achieve these same goals through the use of monetary and credit policy.

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All in all, the last government managed to push 13 laws through the Parliament and prepared 66 more, mainly to develop and modify the previous ones. A number of these laws were designed by the Ministry of Economics to take a firm grip on external-economic relations. Despite the existence of the Minis-

try of External Economic Relation and its Minister's will to resist such attempts, the Ministry of Economics usurped the power to deal with external trade. It introduced export quotas as well as import tariffs on many items, including those critical for Ukraine's economy such as oil, timber, and non-ferrous metals. It also made itself responsible for allocating quotas and licensing exports. As a foreign political analyst for the Council of Advisors to the Parliament of Ukraine acknowledged, Ukraine's economic situation is further complicated by rampant corruption and racketeering —two elements greatly hindering economic development and furthering the impoverishment of the country.

Having in mind that the Parliament has finally fixed a date to review the Government's economic program and its implementation with a view to evaluate the achieved results, the Vice Prime Minister and "chief reformer" resigned several days before that date to escape responsibility. Now, with only one job at the retiring Parliament, and with plenty of free time, he is engaged in a new election campaign for the next parliamentary race. He gives TV interviews and publishes newspaper articles explaining the failures of the country's economic reform through the newly-acquired knowledge which he drew from a U.S. macroeconomics textbook for freshmen.

The long-awaited vote to hold early parliamentary elections next March was welcomed by all political parties and popular movements as a chance to get rid of the extremely unpopular, helpless, and pro-Soviet Parliament. Thus the forthcoming elections in Ukraine will be the first since the Communist Party lost its dominant influence in political life.

For the time being there is no nationwide political party or popular movement in Ukraine which could hold the country together. By November 1993, 29 political parties were officially registered with the Ministry of Justice, with memberships ranging from several hundred to several thousand. Very few of them have articulated their political ideas with an adequate clarity and some of them are in fact not parties but political clubs.

According to a recent public poll, the Green Party has the strongest positive support with as much as 41% for their proclaimed ideas, but not for their actions. Naturally, this popularity will not be adequately mirrored in the composition of the next Parliament. Next comes the Ruh Movement with 25% for their

formerly important contribution to Ukraine's independence and present criticism of the Government. Unfortunately, this very influential movement has recently suffered a split over the issue of national identity, which has considerably weakened its prospects for future parliamentary seats. The Democratic Party received 24% for its name, similar to the Greens.

There are several more parties which have gained relatively noticeable positive support ranging from 10 to 20%. In decreasing order they are: the Republican Party, the Socialist Party, the Agricultural Democratic Party, the Democratic Revival Party, and the Christian-Democratic Party. Four more parties—the Social-Democratic Party, the Ukrainian National Assembly, the Social Congress, and the Liberal Party—have between 5 and 8%. There is one more popular movement, the "New Ukraine", which was not included in this poll. This movement unites pragmatics and other supporters of market reform transformations, has experienced leaders, and can win a significant number of seats next March.

This same poll has also identified the presence of a strong popular distrust for political parties and movements. The Union of Ukrainian Communists tops the list with 38% of the vote; The Ruh movement and the Socialist Party respectively hold second and third place. This distribution of places clearly shows that people would like to disassociate themselves from any extreme ideas.

The presidential elections scheduled for June 1993 will probably not have a rich variety of strong candidates. Ukraine is now experiencing a lack of political leaders with nation-wide purchase. Those who became popular due to their important contribution to the country's independence were not able to carry out the market-oriented economic reforms which Ukraine needs. However, the experience which has already been accumulated will provide the next Parliament, and consequently the next governments, with superior insight into the politics of independence and market economics. With all due reservations, political stability and economic development is now a real option for Ukraine. ■