EXPLAINING POLICY CHOICES IN TRANSITION ECONOMIES: MODELS OF ECONOMIC POLICY IN UKRAINE

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Abstract

Studies of societies undergoing economic and political transition have focused more on the consequences or effects of governmental policies than on explaining why a specific policy choice was made between the possible alternatives. Further, many of these explanations do not meet basic standards of explanation for the social sciences. This paper examines the policy implications of these explanations by using post-independence economic policy in Ukraine as a focus. It attempts to make the assumptions underlying different policy explanations explicit, identify the variables that have been used to explain policy decisions, and then group explanations into different models according to these variables. Four basic explanatory models can be identified from the literature on Ukraine: the volunteeristic/executive leadership model, the incremental/pluralist model, the structural/institutional model, and the power elite model. Three other models are found to be less useful: the rational model, the majoritarian model, and game theory. Making these models explicit permit empirical tests of their explanatory usefulness and relevance for developmental policy strategies.

Introduction

Governments in societies undergoing political and economic transition must make policy choices among unfamiliar alternatives, many of which are not only difficult but must also be made simultaneously rather than sequentially, and for which there is little precedence for guidance. The literature on this transition initially looked to the Western experience to provide models for both policy and theoretical guidance for
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this process. The result has been a voluminous cacophony of dissonant theories, explanations, and policy recommendations, many of which have turned out to be at best inappropriate and at worst unjustifiably sanguine. These former include analogies with the American “Wild West” and with the “Robber Baron” periods, regrettable but necessary and temporary eras through which transition nations must pass. Some have proposed a teleological vision of transition (e.g. Brzezinski, 1997; Brabant, 1998), presenting guidance to policy makers and criteria to scholars for measure the success of change. Others argued that key nations, particularly Russia and its leaders, have already made notable progress in this transition (e.g., Anders Aslund, 1995; John Morrison, 1991).

Many recent works, however, have been darkly pessimistic about the transition process, particularly of Russia, and have seriously questioned the appropriateness of Western models. Gaddy and Ickes (1998) argue that Russia (and by analogy others) are insulating themselves from, rather than developing, a market economy. Wedel (1998a) documents the unanticipated results of Western aid, the resilience of Soviet political culture, and the opportunism of “reformers.” Still others, such as Pickles and Smith (1998) have challenged comfortable assumptions that transition might have either defined stages or a clear end-point.

Assessing the consequences of particular economic policies has been slightly less bewildering than having to make or recommend them, and two alternative models of transition have emerged: those of “shock therapy” versus gradualist reforms. Although risking oversimplification, there is evidence of a linkage between reform policies and economic performance. Nations that have pursued democratization and marketization have performed best, and these have mainly been those in central Europe and the Baltics with at least a dim memory and some remnants of capitalism, parliamentary democracy, and civil society.

However much attention that the effects or consequences of economic policies has received, far less attention has been paid to explaining why specific policy choices were made between available alternatives, and even less has been paid to the implementation of these policies. The linkage between the characteristics of a nation, the political process, and choices of economic policies has yet to be established. Multiple explanations are stated with relative casualness, assumptions are seldom made explicit, and few authors hypothesize on which are
necessary or sufficient conditions to explain why particular economic policy choices or sets of policy choices were taken, and policy recommendations are made without considering the feasibility of implementation.

The purpose of this paper is to examine explanations for economic policy choices and their implementation by focusing on post-independence Ukraine. The thesis is that when assumptions underlying different policy explanations are made explicit and the variables that have been used to explain policy decisions are identified, then these explanations can be simplified and examined both logically and empirically as explanatory models.

Such an approach is consistent with policy analysis, which is concerned not only with what governments do and the consequences of their actions, but also why they do it. A succinct summary of the use of policy models in explanation is provided by Dye (1998). He suggests that models are useful for several reasons (pp. 36-38), particularly because they help identify the really important factors (in our case, those relevant for economic policy) and because they suggest an explanation (in our case, of why certain macroeconomic policy alternatives were chosen rather than others). We should further note that, in the social sciences, an explanation means specifying the necessary and the sufficient conditions for the occurrence of an event or phenomenon (i.e. a policy choice). If the conditions exist and the phenomenon does not occur, or if the phenomenon occurs but the conditions do not exist, we do not have a successful explanation.

Ukraine is an appropriate subject for a systematic and critical examination of these explanations of economic policy choices. It has, at different times (and sometimes even simultaneously), pursued gradualist, reformist, and obstructionist economic policies; further, these policies and their consequences have been widely observed and documented by both scholars and journalists, and the explanations for these policies are readily available. These economic policies have prevented Ukraine from living up to the optimism that greeted its independence, and explaining these choices and their implementation will clarify which policy choices still exist.
Background of Ukraine’s Development

The former Soviet Socialist Republic of Ukraine played a pivotal role in the disintegration of the Soviet Union. In March 1991, a majority of Ukrainians voted for both preserving the USSR and for sovereignty within the USSR. This ambivalence was resolved on December 1 with an overwhelming vote for independence and the election of Leonid Kravchuk as president. Kravchuk, former ideologue of the Communist party and a recently converted nationalist, was supported by an unlikely coalition of nationalists and his colleagues in the former Communist apparat. A week later, he met in Minsk with the presidents of Russia and Belarus to sign the Belovezhskaya agreement which formally dissolved the USSR and replaced it with the CIS.

Ukraine’s Potential

Of all the new republics created from the former Soviet Union, Ukraine was the one for which there appeared justifiable cause for optimism. Deutschbank’s ranking of Ukraine as the former Soviet republics with the greatest likelihood for integration into the European market is well known (Corebet and Gummich, 1990), as is the World Bank’s assertion that Ukraine had the potential to become one of “the richest countries of the world” (quoted in The Economist, 1995a: p.21). At independence, such an assessment did not seem unreasonable. In contrast to some former Soviet republics, such as Belarus, Ukraine has had a pro-independence and anti-communist tradition on which to build a democratic state. And it had a diversified economic base, including not only heavy industry and enormous factories in the military-industrial complex, but also significant consumer and agricultural production. In 1989, Ukraine produced 34% of the Union’s steel and 46% of its iron ore, as well as 36% of its television sets and 53% of its sugar, contributing over 40% of the industrial and 30% of the agricultural “net material product” of the former USSR, with a national income 10% higher than Russia’s.

There were, however, some initial concerns raised about the physical limits on this potential. Some more cautious observers reminded us that Ukraine’s industry was decapitalized, polluting, energy intensive, out-dated, and disproportionately concentrated in defense, and that its agricultural potential was similarly reduced by cultivation practices and a
labor intensive, aging workforce (Bond, 1992; Golitsyn, 1993; Tedstrom, 1991, Rowen et al., 1994). And although observers recognized that Ukraine would have to build a state and transform an economy simultaneously, few anticipated how ineptly Ukraine would perform the latter task.

**Ukraine’s Initial Performance**

The initial optimism about Ukraine turned out to be misplaced, for Ukraine’s economic performance has been more disappointing than even the voices of caution feared. The disintegration of the Soviet system was not followed by the anticipated economic transformation. Rather, Ukraine’s macroeconomic collapse ranks among the worst in the former Soviet Union and Eastern Europe--exceeded only by those nations torn by civil war (e.g., Slay, 1996: p. 55). Even the pessimists failed to anticipate the human errors that would turn a difficult transition into a nightmare for millions of its citizens. By the end of 1994, the real gross domestic product was at 36% of the 1990 level, industrial production at 51%, and the value of agricultural production at 66%, shown in Table 1. These statistics, as a number of observers have commented, overstate the extent of the disaster for three reasons. First, the GDP of the Soviet period was over-valued; second, the decline in industrial output includes the drop in production of low-quality goods without a market; and third, the official statistics do not include activities in the unofficial or shadow economy, estimated variously since 1994 to be approximately 50% of the total economy. Even conceding these points, though, the deterioration of the economy was real.
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Table 1
Indexes of Decline (1990=100)

<table>
<thead>
<tr>
<th>Year</th>
<th>Real GDP</th>
<th>Industrial Production</th>
<th>Agricultural Production</th>
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<tr>
<td>1992</td>
<td>82.1</td>
<td>86.9</td>
<td></td>
</tr>
<tr>
<td>1993</td>
<td>60.1</td>
<td>79.5</td>
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<td>1994</td>
<td>36.0</td>
<td>51.2</td>
<td>77.4</td>
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<td>1995</td>
<td>33.5</td>
<td>45.2</td>
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<td>1996</td>
<td>31.4</td>
<td>42.9</td>
<td>66.5</td>
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<tr>
<td>1997</td>
<td>31.3</td>
<td>42.2</td>
<td>65.1</td>
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Source: TACIS, 1997

The devaluation of the first post-independence currency, the karbonavets (“coupon”), and the disintegration of standards of living followed. In 1993, inflation was one of the highest in the world, variously estimated at between 5,000 and 10,000 percent (TACIS, 1997; Slay, 1996). The karbonavets, at 8,860 to the dollar at the end of 1993, fell to 522,230 by the end of 1994 and 1.5 million by the end of 1995 (TACIS, 1997). By 1995 the CPI had reached 118,000,000 percent over 1990 (Slay, 1996). These numbers, however shocking they might be to economists, to Ukrainians simply meant they were enduring one of the worst depressions of modern history. Articles began appearing with such titles as “The Birth and Possible Death of a Country” (Cowley, 1994), and “Ukraine: Slipping Back” (The Economist, 1995b).

The policy responses of the Kravchuk government were at best ineffective and possibly even exacerbated the economic crisis. These included increased producer and consumer subsidies and monetarizing the resulting budget deficit, maintaining multiple currency exchange rates, trade licensing requirements, sluggish privatization of state enterprises, and negative interest rates. This economic disintegration contributed to Kravchuk’s defeat in the presidential elections of July 1994. He was replaced by Leonid Kuchma, formerly head of the largest missile complex in the Soviet Union, who had briefly been Kravchuk’s prime minister. The new president quickly moved to secure loans from international agencies and institute required fiscal and monetary policy reforms.
Flawed Optimism

By mid 1998, there again appeared to be reasons for cautious optimism. The budget deficit had been reduced and most prices decontrolled, replacing credit emissions with both internal and external financing. Hyperinflation ended, declining to 180% in 1995, 39% in 1996, 10.1% for 1997, and 7% for the first nine months of 1998. Price liberalization reduced controls over much of the economy. Exchange rates were unified and interest rates raised to more realistic levels. The karbonavets stabilized in the fall of 1995 at around 180,000 to the dollar, and stability continued after the introduction of the hryvnya in September 1996, exchanged at 100,000 to the karbonavets --the first noninflationary and nonconfiscatory currency exchange that Ukrainians had experienced this century. However, the exchange rate began to fall in late 1997, partly as a consequence of the Asian economic crisis, and had yet to recover before the effects of Russia’s financial crisis were felt. By October it had fallen to around 3.4 to the dollar, where it hovered for the rest of the year.

However notable these achievements, they have been accompanied by indications of continued structural and policy weaknesses, often been characterized as the “snail pace” of reforms. The IMF has become so frustrated that, in April 1998, it declined to provide the next tranche of a desperately needed $550 million loan. In September it reached a new 2.2 billion dollar loan agreement, but then suspended the loan in December because of the government’s “poor tax collection and sluggish reforms” (Warner, 1998).

There are a number of reasons to be cautious about Ukraine’s future. First, containing the deficit has not been achieved by either increasing revenues or restructuring government policy, but rather by not honoring budget obligations, creating huge wage arrears and enormous inter-enterprise debts. Jeffrey Sachs, Director of the Harvard Institute for International Development, suggested that the measures needed to preserve existing currency stability require more structural changes, including further lowered spending targets and budget deficits and simplified tax laws to reduce the shadow economy (Gorschinskaya, 1998a).

Second, privatization has left large state enterprises untouched, and much of that which has occurred has been “nomenklatura privatization” or incorporation with the state as the major shareholder and Soviet-era management still in control. Further, most of the small firms
privatized were sold or leased to their employees, frequently in ways that has confused ownership.

Third, control over inflation has yet to stop the decline in production. As a number of observers have noted (e.g., Kaufmann, 1997), macroeconomic stabilization, together with price liberalization and privatization, may be necessary conditions for economic growth, but they are clearly not sufficient. The GDP declined by 10% in 1996 and a further 3.2% in 1997, despite repeated assurances from high government officials who had predicted a slight growth for both years. The European Bank for Reconstruction and Development (EBRD) predicted a best case scenario for Ukraine in 1997 of two percent growth and a worst case scenario of a four percent decline (Parrott, 1997). Ukraine almost met this worst case scenario. Although the GDP grew by 1.7% in the first quarter of 1998, by the second quarter that had shrunk to .2% and is expected to be negative for the whole year. More negative news was that the budget deficit for March was 6.6% of the GDP (Jamestown Foundation 1998), and that revenues for the first nine months were 50.8% of the annual target (BISNIS, 1998).

Fourth, the government has been unable to retard the corrosive effects of both official and unofficial corruption. As of November 1996, illegal foreign currency exports during the previous four years were estimated at $20 billion, and according to the Ministry of the Interior, the number of crimes committed in the financial, credit, and banking systems had doubled over the prior ten months (Interfax-Ukraine, 1997b). The government’s weak and mainly symbolic actions to reduce corruption have been so ineffectual that the United States threatened to half its foreign aid to Ukraine in early 1998, but has since recanted.

Fifth, and related, is that the government has yet to take successful measures to reduce the informal or shadow economy, almost universally estimated to be approximately half of the total Ukrainian economy by both government officials, such as National Bank of Ukraine President Yushchenko (Jamestown Foundation, 1998) and the scholar who has most studied this phenomenon in Ukraine (Kaufmann, 1994; 1996; 1997; and Kaufmann and Kaliberda, 1996). Such a huge unofficial economy reflects both an enterprising population and a lucrative but unavailable source of government revenues.
And last, the shift to domestic and international borrowing to finance the deficit, replacing most credit emissions, has had the short-term benefit of stabilizing the currency but the long-term disadvantage of creating a credit dependency where none existed before. Further, since these credits have largely (though not entirely) been used to finance current expenditures, their interest and principle repayment increases expenditures but do not result in increased budget revenues. In the approved 1998 state (national) budget, debt repayment was the single largest expenditure item, accounting for 11.8% of total budgeted expenditures; it accounted for 85% of the approved budget deficit (calculated from Holos Ukrayiny, 1998).

**Explaining Ukraine’s Economic Disintegration**

Ukraine’s economic disintegration has been variously attributed to three causes. First, some economic decline unavoidably resulted directly from the end of the Soviet economic system—a failing supply and distribution system, overvalued products that were non-competitive on the world market, decapitalized and inefficient industries, an accounting system indifferent to actual prices, and the increase of energy prices to world levels (e.g., McCarthy et al., 1995). Such decline could not be halted by government policy, and indeed may not have been entirely undesirable.

But second, such inevitability held little consolation for the population, and research has consistently and convincingly blamed government policy choices, utilizing soft credits to finance budget deficits, keep failing enterprises afloat, and controlling agricultural prices, for accelerating an already deteriorating economy. These policy choices, when implemented, resulted in macroeconomic actions rarely equaled—multiple exchange rates, unrepaid bank loans; negative interest rates; administrative price controls, enterprise and consumer subsidies, rapid expansion of the money supply, limited liberalization, and confiscatory taxation. Strauss’ data (1995a) supported his thesis that inflation resulted from, rather than caused, budget deficits, and he (1995b) and Dunn (1995) further showed that social and political factors, rather than economic conditions, dominated budgetary decisions leading to these deficits. Kaufmann’s work (1995) showed that administered prices have persisted after decontrol, while Ghosh (1996) demonstrated that credits issued to sustain output growth fed inflation but had a negligible effect on output—a bad outcome with no compensating benefit.
And third, some Ukrainians blame reform itself, especially price decontrol, for the economic disintegration, in particular production declines. This has been a popular position not only among the anti-reform forces of the bureaucracy and the parliament (Rada), but also among some nationalists (see interviews in Shen, 1996). Since this explanation has been empirically discredited, it will not be pursued further in this paper.

There is universal agreement that Ukraine’s deterioration was caused by policies of former President Kravchuk (1991-1994) and its limited recovery attributable to those of President Kuchma (1994-present). However, explanations for why these presidents pursued different policies are sometimes viewed almost as self-evident and stated with relative casualness. Many propose an undifferentiated multiplicity of causes, and without knowing the relative importance of each, it is difficult to distinguish the necessary or sufficient conditions to explain the particular economic policy choice or sets of policy choices that was taken. Even less attention has been paid to implementing these policies, particularly the effects of administrative discretion on reformist policies and the limits that administrative capacity place on policy choices. And while a consensus has developed on identifying government policy actions that caused this national catastrophe, there has been less than unanimity in the explanations for why the government made a specific policy choice between available alternatives and failed to take others. Further, the explanations have been far less systematic than the analyses of actions; more attention has been devoted to explaining economic decline than to explaining why some policy alternatives were chosen, why others were not, the necessary and sufficient conditions to change these policy choices, and the important distinction between policy formation and implementation.

Explanations for Ukrainian economic policy since independence can be grouped according to one or a combination of four variables on which they focus. These are (1) the will power and leadership of each of the presidential administrations, (2) the strategies of gradualistic change, (3) the persistence of a Soviet-era administrative apparatus incapable of implementing reform but capable of blocking reformist policies, or (4) opportunistic alliances between powerful groups (e.g., clans) able to obstruct economic change. These largely exhaust the serious writings to date. Each of these identifiable groups can be viewed as separate explanatory models, and, based on those proposed by Dye, will be designated the volunteeristic/executive leadership, incremental/pluralist,
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structural/institutional, and power elite explanations. In addition, three other identifiable models that so far have been little utilized to explain Ukrainian economic policy will be discussed.

The Volunteeristic/Executive Leadership Explanation

The volunteeristic/executive leadership explanation is arguably the most optimistic explanation for Ukraine's policy failures. It presumes a high degree of freedom in choosing between policy alternatives and implies that failed policies could have been reversed had different choices been made. Many, possibly most, observers explain President Kravchuk's disastrous economic policies as at least partly attributable to a “lack of will,” a hesitancy to break with the past, listen to advisors, or focus on economic policy (e.g. Jaworsky, 1995), or enforce fiscal discipline (Slay, 1996). Shen (1996) similarly explains Kravchuk's policies as the result of a character flaw, that he “lacked the decisiveness and finesse to steer Ukraine” (p. 54). Bohdan Krawchenko, currently vice-rector of the Academy of Public Administration in Ukraine, argued that “Economic reform is above all a matter of political will,” but excused Kravchuk because he focused on the establishment of statehood and left economic policy to the prime minister (Krawchenko n.d.). Kravchuk (1995) argues that the government’s 1993 reversal of tax reforms was “skittishness” resulting from fear of revenue loss. He implies that a correct analysis could have led to appropriate responses. Anders Åslund (1995a, 1995b), economist and advisor to Kuchma, focuses on the flaws of Kravchuk's political leadership to explain Ukraine’s early poor performance, specifically his reliance on the old Communist establishment, tolerance of massive corruption at the top levels, and his lack of political will. Dabrowski and Antczak (1996: p. 76) are more blunt, stating that “Ukraine may have been in the best political position to start a rapid and consistent economic reform...but Ukrainian political elites lost their chance in the first three years of independence.”

Similarly, some ascribe the limited reforms under Kuchma to his “will power” (e.g., The Economist, 1995a). Kuchma himself, during the 1994 campaign, claimed that he, in contrast to Kravchuk, possessed the “political will” to implement reforms (Reuters, 10 July 1994, quoted in Kuzio: p. 48). And when the reformist Viktor Pynzenik resigned as deputy prime minister in charge of reform, one of the charges he leveled...
against Kuchma was that he lacked also the political will to pursue reforms seriously (Jamestown Foundation, 1997).

Havrylyshyn (1997) is among those who explicitly reject this volunteeristic explanation. He articulates and then rejects two hypotheses that have been offered to justify delaying reforms, which he calls the intellectual debates and the nation-building priorities hypotheses. The first he rejects as hollow, since the experiences of other former Soviet bloc countries can now be used as examples; the latter, he argues, were tasks needed everywhere and therefore Ukraine was not unique. Instead, he offers the rentier-patriarchs explanation (discussed below as the power elite explanation). However, he does appear to undermine the strength of this explanation by arguing that Kuchma’s reform program as prime minister failed because then-President Kravchuk’s support ended. He thus implicitly proposed a volunteeristic explanation, that Kravchuk lacked the will to provide executive leadership necessary to support continued reforms.

The Incremental/Pluralist Explanation

Other explanations for Ukrainian economic policies recognize the systemic obstacles to reform policies and consequently are much less optimistic about the possibility of reform. These possibly imply that increased knowledge about Ukraine leads to increased pessimism. The first of these is the incremental/pluralist explanatory model. These are frequently described as separate models (including by Dye), the first as process and the second as dynamics of interaction. For our purposes, however, they can be combined. They both presume a non-ideological short-term approach to choosing between policy alternatives, responding to momentary pressures rather than pursuing long-term goals.

This model focuses on strategy or process, and provides another explanation for President Kravchuk’s indifference to reform and the paralysis of his government, support for which was based on an unlikely coalition of Ukrainian nationalists and former nomenklatura. According to this explanation, no reform could go very far before being stalled and later undone by subsequent policies, following a zig-zag course (Havrylyshyn, 1997; Krawchenko, n.d.). His policies consequently meet the classic test of incremental policies — focusing on developing a consensus on means (i.e. independence and its symbolic trappings) between groups.
who disagreed on goals (i.e. avoiding perestroika-era reforms, economic betterment, or independence itself as a terminal value).

Some also apply this model to explain Kuchma’s policies, first as premier and now as president. They argue that these originated from pragmatism rather than ideology (Jaworsky, 1995; Kuzio, 1997: pp. 44, 48), that he turned to reform as the only means out of economic disaster. Such an interpretation views his reformist policies as incremental, non-ideological and non-goal oriented. Indeed, it is difficult to explain Kuchma otherwise. When he became prime minister in October 1992, he apparently had no concrete plan for real structural change, instead proposing “evolutionary change” and a “Ukrainian model” of reform (The Economist, 1992a). There was nothing in prior statements to predict the aggressive “Plan of Action” he proposed as prime minister in January 1993, and later during the 1994 campaign, he described himself as a pragmatist (cited in Kuzio, 1997: p. 48).

Kuchma’s economic policies appear reformist because they stand in such contrast to Kravchuk’s. However, his policies have also consisted of reform, retreat, weaker reform, and retreat again. Zviglyanich (1998) argues that Kuchma’s original reformist program resulted from the need to adopt an economic policy quickly after his unexpected victory in the 1994 presidential election. The retreat from this radical Western reform model began with the Uzhgorod speech in April 1995, when he announced a “correction” in his policies toward higher inflation, more social guarantees, and “production development,” (Pivnev, 1995) as well as “halting production decline” (Karpenko, 1995). According to Zviglyanich, this “Ukrainian economic model,” a gradualist approach to economic reforms which postpones restructuring ailing enterprises, is still the basis of Kuchma’s economic policy, a compromise between the pro-market reformers and the pro-stabilization forces which have dominated Kuchma’s governments. Policies therefore swing between bowing to and defying the IMF. These have been successful apparently because of U.S. pressures on the IMF to relent even when Ukraine fails to meet IMF requirements.

Kravchuk (1995, 1997) offers what is arguably the most explicit incremental explanation for Kuchma’s reformism. He discounted the explanation that Kuchma overcame the influence of state enterprises or their nomenklatura patrons (discussed below as the power elite explanation), as well as the explanation that it was through his
“willpower.” Instead, he demonstrates that inflationary means of financing the budget deficit no longer worked, because the public was finally able to evade the “inflation tax” by adaptive behavior to the government’s credit policy through dollarization, etc. At that point, where inflation could no longer finance the deficit, the government had no choice but stabilize the money supply. Thus, stabilization and the currency reform of 1996 were “no great product of the government’s political will to reform the monetary system. It had simply exhausted its options.”

The argument that Kuchma’s policies have been motivated by a recognition of the failures of his predecessor’s policies certainly questions whether he is an ideological reformer. Many of those who originally viewed Kuchma as a reformer have subsequently had cause to at least partially recant; he has continued Ukraine’s virtually inexhaustible inability to embarrass its friends. Probably the most notable of these is Anders Åslund, who in 1995 was openly laudatory of the sincerity of Kuchma’s reformism. In particular, in one such published article (1995b), he wrote that the Ukrainian economy was “likely” to hit bottom in 1995, and that it seemed “on the verge of an era of accelerated economic growth” (pp. 142-143). However, even he had to admit that Kuchma’s determination to pursue reformist economic policies were the result more of pragmatism than from a personal commitment (pp. 134-135).

The Structural/Institutional Explanation

The third of these explanatory models is structural/institutional, the view that “Governmental institutions are really structured patterns of behavior of individuals and groups” (Dye: p. 15). This view focuses not only on the difficulty of formulating reformist policies, but also on the barriers that exist to implementing reformist policies. Ukrainian institutional and organizational capacities are described as at best incapable of implementing change or at worst even blocking reforms. These include the confusing relationships between and among political, administrative, and legal institutions. For political institutions, the principle focus has been the leadership dominance of opponents of reform in the Rada and their battles with the Presidents (both Kuchma and Kravchuk) over control of the Cabinet of Ministers, local governments, and especially the credit policies of the Central Bank.
The Political Institutions

Independence did not quickly lead to the expected reform of political and economic institutions. Independent Ukraine was the last of the newly independent states to adopt a post-independence constitution, continuing to operate under the much amended 1978 Brezhnev-era constitution until mid-1996. The unique solution for this inability to resolve such a fundamental issue was a June 1995 temporary constitutional agreement signed between the President and the Rada, which stipulated that they would ignore certain provisions of the existing constitution. Both the constitutional agreement and the constitution itself had substantial opposition in the Rada, and both were approved only after Kuchma threatened to call for a referendum in each case, probably illegally. And the new constitution still did not resolve fundamental disagreements over the nature of the state and citizenship, leaving matters such as property ownership, executive/legislative relations, and central/local subordination to be implemented through highly contentious and thus far largely unresolved legislative battles.

The Administrative System

The role of Ukraine's administrative system in formulating and executing economic policy is also a component of the structural/institutional explanation. When the developmental resources of Ukraine are listed --an educated workforce, location near markets, natural and agricultural resources, etc. --no one includes the complex of people and organizations that together comprise Ukraine’s administrative bureaucracy. Instead, these are among the explanations for its failed economic policies. This explanation emphasizes the incapacity of the administrative system, surviving virtually unchanged from the Soviet era, to even adequately perform routine responsibilities much less promote reform.

The First View: Trained Incapacity

Two views can be found explaining the administrative system’s ability to resist change and pervert reformist policies. First is “trained incapacity,” or the basic institutional inertia resulting from the transformation of Soviet-era Ukrainian branches of Union bureaucracies into national ministries and committees. The inertia has been transmitted
to the Ukrainian bureaucracy through three mediums: organization, personnel, and organizational culture.

**Organization** Organizationally, agencies subordinated to Soviet centralized control with purely implementing responsibilities virtually overnight became agencies of an independent republic with primary policy responsibilities, retaining however the same hierarchically centralized structure. All of the former State Planning Committee (GOSPLAN) and most of the State Committee for Material and Technical Supplies (GOSSNAB) became the Ministry of Economy (Ishaq and Hare 1997), and continues overseeing the activities of industrial branch ministries; the former *apparat* of the Central Committee of the Communist Party became the presidential administration (Sundakov 1997: p. 278). The branches of the Soviet Ministries of Finance and Statistics became Ukrainian ministries, and the KGB became the Ukrainian Security Service.

This development created a highly complex structure of 70 or so ministries and committees overseen by a prime minister, a first deputy prime minister, and seven deputy prime ministers, since reduced, consolidated, and simplified (although the number of coordinating units have mushroomed). Further, it mixed functional agencies, who have vague and ill-defined clienteles (e.g. finance, environmental protection, or economic reform) with sectoral agencies with clearly defined and politically active clienteles (e.g. military-industrial complex, industry, or agriculture). The obvious coordination problems are aggravated by the fact that apparently little horizontal communication occurs and officials in top positions engage excessively in micro-management.

Kravchuk (1995) argues that these dominant characteristics, largely Soviet-era holdovers, are barriers to reform and capacity building. He lists these characteristics as follows:

--over centralization in a unitary state
--excessively hierarchical internal command structure
--closed and secretive decision making
--administrative units lacking staff
--lack of a rule of law tradition and a public service ethic
--lack of trained and motivated civil service system employees

**Personnel** The second negative vestige of the Soviet bureaucracy was that this transformation left personnel largely unchanged, and
therefore with the former nomenklatura remaining in top policy positions. This continuity in personnel has clearly contributed to the bureaucracy’s role as an obstacle to reform. Slay, for example, argued that reestablishing price controls in 1993 “played into the hands of Ukraine’s many Soviet-era bureaucrats...” Cowley (1994) notes the indifference of Zvialhilsky, prime minister after Kuchma, to inflation because he considered it a capitalistic problem, and that Ukraine’s first finance minister, Pyatechenko, was nick-named “cement-head.” Petro Hermanchuk, Minister of Finance from July 1994 until February 1997, indicated his belief that the bureaucracy’s role in a market system differed little from centralized planning: “There is no such thing as a country that does no planning. A market economy does not amount to chaos; everything is planned ahead of time” (Ilchenko, 1994).

Of the permanent bureaucracy inherited from the Soviet period, possibly the most significant is the presidential administration, or the old Communist apparat. According to a World Bank study (cited by York, 1997), these elite bureaucrats link the president and the administrative system, and therefore control the administrative agenda as well as the flow of information within the government. Numbering approximately 800 persons, they outnumber and thus can intimidate all but the largest agencies.

**Organization Culture** The third of these inherited characteristics is the bureaucracy’s organizational culture, including its ability to define its own role and continue already established procedures. The organizational culture that the Ministry of Finance inherited from the Soviet system is particularly important, because it was largely a bookkeeping agency keeping records of plan implementation rather than a real policy-making agency; expenditures were a record of plan fulfillment. Hutchings (1983) discussed the relative subordination of financial planning by the ministry to physical planning by GOSPLAN and made the relatively unflattering observation:

> one might...even conclude that a minister of finance is a virtual fixture not because the post is so difficult that only a genius can fill it but mainly because he is not required to take any decision that is not of a routine nature (p. 22).

Sundakov (1997) describes Ukraine’s administrative system as, “Neither in its structure nor in its approaches to management does it
appear well suited for the task of creating and governing a modern market economy” (1997; p. 287). He proposed four key characteristics of the organizational culture and procedures relevant to economic policy making. First, the diffuseness of executive and legislative authority, in that the president can issue legislation-like decrees; the parliament can pass resolutions that are essentially executive instructions; the cabinet of ministers can issue decrees with broad legislative properties, and individual ministries and agencies can promulgate administrative instructions similar to presidential and cabinet decrees. Such diffuseness and confusion of authority mattered little during the Soviet period, when a single arbiter existed to resolve conflicts, but has become a barrier to developing consistent economic policies with clear goals in a post-Soviet political system of specialized structures with diffuse authority (e.g., Hinton, 1995).

Second, Sundakov argued that the administrative system “continues to reflect the demands of administering a centrally planned economy” (p. 280), since the ministries and state committees are organized along sectoral, rather than functional, lines. Such organization, he observes, encourages a close relationship between industries and administrative units and promotes the phenomena more generally known as clientilism and sub-system politics. Further, he argues that such vertical compartmentalization discourages a broad view of policies and such a large size makes the cabinet of ministers unwieldy. The third key characteristic is that funding government activities is divorced from the budget because the budget process is effectively divorced from policy making. The budget therefore is not respected as an expenditure plan, further complicated by of the large number of revenue sources. And fourth, conflicting laws and regulations and under-staffing by the control apparatus, these agencies can exercise much discretion in choosing cases to pursue and can exercise such arbitrary powers that those in business find that violating some regulation is unavoidable.

Kravchuk (1995) also used organization culture in explaining President Kravchuk's failed economic policies. He argued that the government issued new credits because it misunderstood the cause of economic decline, as a problem rather than as a correction, presumably because it was viewed through the lenses of Soviet era policy alternatives. Later (1998) he offers a more blunt explanation for Kravchuk’s credit policies --to stem the fall in output while “wringing inflation out of the retail trade sector,” thus “consciously transferring liquidity from
households to the enterprise sector” --continuing a Soviet method of suppressing inflation by manipulating retail prices through policy tools still available to the Ukrainian government.

There are some, however, who disagree that the administrative system has survived the transition from a command to a market economy with only superficial changes. Ishaq and Hare (1997) in particular argue that, with the exceptions of coal, agriculture, and the military-industrial complex, the institutions of central planning have been replaced by market-adaptive organizations. They argue that the Ministry of Economy, although a successor of GOSPLAN, is “today concerned largely with macroeconomic forecasting and the drafting of laws governing economic management, together with oversight over new economic institutions...” Also, another former Soviet agency, the Ministry of Foreign Economic Relations, has been revamped with the addition of market related departments, such as anti-dumping, import restrictions, and unfair competition. Further, a number of branch or sector ministries have been consolidated into the Ministry of Industry, and new agencies have been created, such as the State Property Fund (1997: pp. 10-11). While administrative changes are undeniable and should not be discounted, an alternative view is that the Ukrainian bureaucracy, and bureaucrats, have ensured their survival by making necessary adaptations to the market system and taking on new roles.

The administrative inertia explanation of Ukrainian economic policy is appealing. It is easy to understand why, during periods of rapid change, bureaucrats would continue familiar routines, and it is not surprising that they would find it difficult to admit that all past policy, organizational forms, and management strategies are inapplicable or perhaps even irrelevant, and must be completely unlearned and replaced by not only unfamiliar but alien ideas. What is difficult to understand, however, is the failure of institutional learning, why ineffective policies were repeated even though their blatant failure was obvious. Although the explanation of slow learning should probably not be rejected (and indeed is implied by some, such as Krawchenko (n.d.)that “it gained independence...with many of its best brains in Moscow”), it is tempting to look for more self-interested perpetrators to explain economic policies.
The Second View: The Malevolent Bureaucracy

Beyond institutional inertia, the Ukrainian bureaucracy is viewed as playing an active and even malevolent role in blocking reform through such devices as perpetuating Soviet era controls over Ukrainian industry and agriculture (i.e. through the continuing control by sector ministries over industry and trade), developing client relationships with powerful economic interests opposed to reform, appropriating state assets for private gain (*nomenklatura* privatization) and contributing to the growth of corruption and the shadow economy through the proliferation of rules, regulations, and permit requirements that citizens either ignore by moving into the shadow economy or circumvent through bribes. Elements of the bureaucracy are therefore central to the problem of corruption and the effects of corruption, like the earlier hyperinflation, has corrosive consequences for reform and foreign investment. Some (e.g., Havrylyshyn, 1997) argue that continuing government regulations and controls over economic activities make this corruption inevitable.

Administrative incapacity and corruption threaten Western cooperation and funding on projects with significance not only for Ukraine but also for international well-being, including funding for closing the Chernobyl nuclear energy plant. The American investment community has made very vocal complaints before available forums about burdensome regulations, rampant bribe taking, and arbitrary administrative actions, including to the Kuchma-Gore Commission meeting in January 1997 (Hasiuk, 1997), hearings by the House Appropriations subcommittee on foreign appropriations the following April (Brzezinski, 1997), and to the Senate Foreign Relations subcommittee the next month (Winter, 1997). Although Congress approved an aid package to Ukraine of $225 million, it conditioned half on the Secretary of State’s certification that 12 complaints of American investors in Ukraine had been resolved.

Evidence of administrative venality is not just anecdotal. Kaufmann (1997) demonstrates that barriers to private sector growth have been intensifying during the Kuchma administration rather than declining. One survey of new domestic private enterprises, between June 1994 and March 1996, found the perception that the business environment had become more constraining, or at best unchanged, particularly in terms of “[e]xcessive taxation, unstable legislation, and trade/regulatory constraints.” Respondents also specified the amount of bribes (“unofficial payments”) needed to ameliorate these impediments (1997: p. 238).
Another survey of 50 firms in Kyiv and Lviv throughout 1996 found that the reported tax burdens increased every month and that in all but the first quarter there were increased bureaucratic problems in paying such taxes (p. 241). Although the methodology used was self-reporting, and therefore notoriously subject to a number of possible reporting errors, including subjective concepts of fair taxation (or a “normalized base”), regulations, etc., these are credible because they support other evidence and thus far there is none to contradict it. Kaufmann further cites evidence that administrative constraints on foreign institutions worsened during 1996 and cites a long list of tax, legal, and licensing barriers that have either not been removed or were actually tightened during that period (pp. 243-244).

Kaufmann argues that these administrative barriers (controls, licenses, taxes, etc.) increase the cost of doing business in Ukraine in two ways --increased time and expense of complying or increased costs in unofficial payments (p. 246) --neither of which increases productivity or profitability. If these costs become too onerous to pay, firms may either decline to invest in Ukraine, leave, or join the underground economy (p. 246). Kaufmann therefore links the hesitancy of foreigners to invest in Ukraine and the growth of the shadow economy (to an estimated 50% of the total economy as calculated by both macro electric methodology and micro-survey data), to existing regulations and administrative actions in implementing them. These also help explain why Ukraine is last among new independent states and former satellites on a per-capita basis in foreign investments.

One explanation for the development of a self-serving anti-reform bureaucracy in Ukraine is suggested by the model which Sergeyev (1998: pp. 112-119) used to distinguish the transfer of power in Russia from that in Eastern Europe. In countries such as Poland, the “power buy out,” or the trade of property for power gave the representatives of an emerging civil society control over the government and much of the bureaucracy, but in return gave the nomenklatura control over much of state property. In Russia, however, power dropped into the hands of Yeltsin and the Democrats as a result of the 1991 abortive putsch, so there was no power buy-out. However, since the reformers had no administrative personnel, they had to rely on the nomenklatura to staff the State administrative apparatus; since budgetary funds were insufficient to finance a “buy-out,” the nomenklatura were allowed, even encouraged by some reformers, to profit from administrative duties--i.e., to solicit bribes. In Ukraine, there
was neither a power buy-out nor a power transfer; in fact the nationalist-reformers allied themselves with the prior nomenklatura in the person of Kravchuk; the bureaucratic elites were consequently under no pressure from any quarter to either reform or surrender power.

The imperative for administrative reform is central to the structural/institutional explanation for Ukrainian economic policy. Kaufmann, for one, is optimistic that if reforms can be implemented (deregulation, privatization, and tax reform), most shadow operations will return to the official economy rather quickly, and his survey data indicates that 30-40% would return within the first two years; within five years all but a hard-core of 15% would return (1997: pp. 253-260). This survey was completed in early 1996, and we cannot test the validity of his findings since few of his recommended reforms have been implemented. However, the results of a study done two years earlier were almost identical (Kaufmann and Kaliberda, 1996). Neither survey examined the effects that delaying reforms would have on the firms’ return to the official economy. However, Kaufmann did suggest that Ukraine had a limited “window of opportunity.” And although he explains flight from the official economy as a rational response to existing business conditions, he fails to discuss the possibility that tax evasion might become institutionalized and continue even beyond reforms that eliminate the abuses that promoted it; that is, become cultural rather than adaptive behavior. After all, a tax rate of zero (plus bribes and protection payments) might still be a smaller payment than even reasonable tax rates. And while proposed amnesties for past evasions is probably a necessary condition for luring evasive enterprises back into the official economy, it is probably also not a sufficient condition, absent significant reforms of not only administrative controls but also of the bureaucracy itself. But even the most thorough of reforms is unlikely to eliminate all administrative controls, for governments in democratic free-market economies exercise some police powers; even after the most thorough administrative reform (however unlikely this might be), the Ukrainian bureaucracy would still retain some controls over citizens and the economy.

The Power Elite Model

The fourth explanation, the *power elite* model, views public policy as the “preferences and values of a governing elite” (Dye: pp. 21-11). Proponents of this explanation for Ukrainian economic policy typically note the constant pressure to resist reforms, and expand cheap credits and
direct subsidies, from interests and lobbying groups --particularly major industries, agricultural organizations, banks, clans, coal miners, and government agencies. This explanation generally holds that such pressures have been successful partly because of the structure of government and partly because there has been little counter pressures from reform interests. Havrylyshyn (1994) made such an argument to explain Ukraine's failure to stabilize public finances under Kravchuk, resulting in an enormous monetary expansion and the subsequent decline in the value of its money. He argued that powerful interests were able to block changes which threatened revenues they received from the partially reformed system. He calls these interests the *rentier patriarchy* (1997), led by President Kravchuk himself, and attributes their rise at least partly to their successful alliance with the democratic nationalists and the latters' lack of support for economic reforms. The linkage between these groups and economic policy is the influence of their representatives in the Rada, centered around the “red directors,” and that institution's ability to shape policy. Neutralizing the mass of citizens suffering from the consequences of the new economic arrangement could be achieved, at least temporarily, through “neo-feudal” obligations to workers--jobs and some privileges as before. Similarly, the EBRD (Parrott, 1997) explains Kuchma's abandonment of even his half-hearted reform measures to the opposition in parliament and at the local level, particularly from the agro-industrial lobby.

The strength of this explanation is its self-evident appeal. Its weakness is the same as all power elite explanations, because it risks confusing outcome with cause. Since the old nomenklatura, or *rentier patriarchy*, have benefited from delayed reforms, the causal link is logical but should be demonstrated rather than assumed (not a difficult standard to meet). Their influence over policy has been attributed to the ability to create, and continue, policies for their own benefit--i.e., preferential credits at zero or negative interest rates, access to differential foreign exchange rates, import/export licenses, illegal privatization, etc. However, IMF-induced monetary reforms have forced the discontinuation of some of these practices, particularly the first two. If, however, the power elite model is accurate, we can expect to find that the nomenklatura and their allies/representatives in the Rada and the bureaucracy are not only continuing to benefit from policies that have continued, such as privatization, but have developed other policies to create wealth and privilege. Three possible forms that have emerged, and thus might be
used as a validation of the power elite explanation, are non-credit budget items, increased bureaucratic regulatory controls, and inter-clan conflicts.

**Protecting Privilege Through Non-credit Budget Items**

The agro-industrial complex clearly benefitted from the soft-budget constraints which ended with the increased monetary and fiscal discipline required to qualify for IMF credit. Producer subsidies declined from 23% of expenditures in 1994 to less than 6% in the first half of 1997 (IMF 1997)—still a hefty share but also a significant decline. However, if the nomenklatura is a true power elite, this decline should not be taken as an indication that it has lost its power to benefit from public policies. There is evidence that elements of the nomenklatura continue to benefit from legitimate items that have become imbedded in the budget. The 1998 budget submitted to the Rada contained an expenditure request of almost two billion hryvnyas for “Industry and Energy,” still approximately 6% of the expenditure budget. Half of this amount was explicitly for unprofitable coal mines. Further, some sectors, namely agriculture and energy, continue to enjoy special exemptions from certain taxes, particularly exemption from the value added tax. The tax expenditure for energy in 1998 was estimated at 664 million hryvnyas (Cabinet of Ministers, 1997). Agricultural producers are also exempt from enterprise profit taxes, according to President Kuchma resulting in further revenue losses of 150-170 million hryvnyas annually (Kuchma, 1996). In addition, the Cabinet of Ministers has a discretionary Reserve Fund, approved at 200 million hryvnyas for 1997; less than two months after the budget was approved it was over-committed by 44 million hryvnyas and was consequently doubled to 400 million hryvnyas; the law explicitly authorized the Cabinet to use funds to support the autumn-winter harvest and “other pressing needs in conformity with the tradition of the Cabinet reserve fund” (Interfax-Ukraine Business Review, 1997b). Also, the government’s inability to deal with inter-enterprise debt, private sector wage arrears, and tax arrears directly benefits this elite. It would appear that certain enterprise and agricultural directors, the core of the nomenklatura, have been able to institutionalize a permanent subsidy in the budget and as well as achieve government paralysis, delaying reform for now, and possibly indefinitely.
Protecting Privilege Through Increased Bureaucratic Regulations

A second post-IMF development that would protect the privileged position of the nomenklatura is the increased state regulation of economic activities, thus insuring their continued advantage over new enterprises lacking allies in the bureaucracy. Kaufmann (1997) indeed noted such an increase. A survey conducted in March 1996 found that, according to the perceptions of private sector enterprises, impediments in trade/regulatory restrictions had increased over those in the June 1994 survey. Further, he reported that documented evidence indicated a worsening of the legal and administrative constraints for foreign business (1997, p. 243). Such developments are consistent with the power elite explanation, that when one route to influencing self-serving policies is closed, the elite will seek others. Also, it is consistent with Havrylyshyn’s argument (1997) that the new class of rentier patriarchs view positively only those two reform elements which benefit them, those of decentralization and privatization. Of the other two elements of reform, financial stabilization and liberalization, the rentier patriarchs are probably negative toward the former and definitely toward the latter --because it “closes the lucrative potential of cheap raw materials and also removes their monopolistic status by introducing foreign and domestic competition” (p. 284). Increased legal and administrative interference, from which they themselves can escape, is therefore a logical instrument to combat liberalization and the marketization therein implied.

Probably the most visible recent case of a firm exiting the Ukrainian market because of the arbitrary and excessive nature of Ukrainian administrative controls, linked to insiders, was that of Motorola. In the fall of 1996 it announced plans to invest $500 million in a country-wide mobile communication service. Such an investment would make it the largest investor in independent Ukraine and would equal about half as much as all other foreign investments (Hill, 1996). However, on March 24, 1997, Motorola confirmed it was pulling out, “citing the government’s frequent rule changes, exorbitant fees and favoritism to a local competitor whose owners include senior government officials” (Brzezinski 1997).

A lesser known villain in the Ukrainian bureaucracy is the State Committee on Standardization, Meteorology and Certification. This
innocuous sounding organization has become a cornerstone in complaints of foreigners doing business in Ukraine, and its actions have endangered both loans from the World Bank and U.S. aid to Ukraine. The committee's vast power is to issue licenses for all imports into Ukraine. Licenses are issued for a year after the committee inspects the foreign factories which manufacturers the goods to be imported; otherwise its accredited laboratories must test samples from each shipment of goods being imported (Carlsen, 1998c). The committee has clashed with such multinational giants as Nestle (over an additive) and Coca Cola (over its concentrate) (Carlsen, 1998a). But by far the most visible battle has been with Procter & Gamble. In February 1998, the Committee accused Procter&Gamble of using unaccredited “bogus” labs to test new products being introduced into the Ukrainian market, discovered when it did not receive its customary 25% of the lab’s profits for testing (Carlsen, 1998b). In March, the Committee further revoked its annual quality certificate for over half of P&G’s products for not having its foreign factories inspected on time, and accused the corporation of marketing soap with a “washing index” below the Ukrainian minimum (Carlsen, 1998d). The Committee does not accept tests from labs that are not accredited (i.e. that do not kick-back part of the fee), nor does it accept approvals from standards committees in other countries, nor even from Ukraine’s own Ministry of Health.

The World Bank has long been concerned about the potential for corruption inherent in the certification requirement, and in the spring of 1997 briefly insisted on its discontinuation as a condition for providing Ukraine with the second installment of the enterprise development loan. Apparently the bank was concerned not only with bribery paid for granting the certificates as well as a large number of cases where State Customs, for a fee, had allowed goods to pass without quality certificates. The head of the committee, apparently with a straight face, claimed that abolishing the certificates “would lead only to...flooding Ukraine with low-quality goods” (Hasiuk, 1997). Although only the most militant defender of the free market will assert the unerring virtue of multinational corporations, the spectacle of one of the most corrupt and incompetent bureaucracies in the world, in a nation historically producing among the world’s most shoddy consumer goods, serving as a barrier between the Ukrainian consumer and inferior foreign-made products is farcical. Such developments demonstrate the impediments in Ukraine to the development of a market as a primary means of regulating the quality of goods and contract law as a mediator of corporate/consumer relations.
Although not all 12 of the specific complaints made by U.S. investors against the Ukrainian government had been satisfactorily resolved, including the case of Procter&Gamble, Secretary Albright “certified that the Ukrainian government has made significant progress toward resolving U.S. investor complaints” (Intelnews, 1998). And President Kuchma has responded to complaints from both domestic and foreign investors by issuing decrees and creating even more layers of bureaucracy. In July 1997, he established the Supreme Economic Council, headed by himself, to coordinate proposals for and monitor economic reform (Interfax-Ukraine Business Review, 1997a). He also established a Foreign Investment Advisory Council, which first met in October (BISNIS 1997), and in December he signed the “Edict on Deregulation of Entrepreneurial Activity,” placing the State Committee on Problems of the Development of Business Enterprise directly under the president and giving this committee authority to review all governmental acts, central and local, that interfere with entrepreneurial activity. The committee has also identified over a thousand types of work requiring licenses and 25 government entities with the right to audit enterprises (Vyshlinskiy, 1997). However, these and other announced reforms to encourage both domestic and foreign investment were followed by the Procter&Gamble dispute mentioned previously, and in March, Presidential Chief of Staff Yevhen Kushnaryov sent another mixed signal by announcing that “the government is working on a decree to further strengthen the state’s control over the economy” (Gorchiskaya, 1998).

Protecting Privilege and Inter-clan Conflicts

A third post-IMF development may be the disintegration of a cohesive elite into the less visible clan politics and clan warfare. It is difficult to sort through the confusing clan identities and alliances -- geographic, sectoral, functional, economic, and personal. Studying clans is done by the primitive methodologies of deduction or insider observations, more than by quantitative evidence. One such interpretation of contemporary Ukrainian politics in the context of clan conflicts was by the Ukrainian sociologist Volodymyr Zviglyanich (1997b). He interprets much of post-independence Ukrainian politics as shifting relationships between three geographic/functional clans and their interests --Kyiv (financial and political), Dnipropetrovsk (the military-industrial complex) and Donetsk (coal and metal)--and only partially to “differences in economic models and strategies.” According to this interpretation, Kuchma has come to rely
more on his Dnipropetrovsk clan because he is less interested in alliances with the other two clans than he is with personal loyalty. Zviglyanich reminds us that all of Ukraine’s eight prime ministers (three appointed by Kuchma) have been former members of the Soviet nomenklatura, and that they have not included any of Kiev’s liberal economists nor anyone from western Ukraine. He later (1998) argued that the “bureaucratic-oligarchic capitalism” under Kuchma “is facilitating the redistribution of property between the existing political clans.”

Another Ukrainian, journalist Olha Ansimova (1997), is more blunt in explaining economic policy as clan politics. She argued that Kuchma’s “target is not radical economic reforms, but creating conditions for accumulating wealth for his Dnipropetrovsk cronies.” She continues that “top government officials aren’t likely to begin real reforms for the sake of the country until large-scale privatization is over and they [have] concentrated big money in their own hands. The government is likely to demonstrate slight weakening of fiscal policy every time the economic crisis reaches a critical point and the country is jeopardized by a social outburst.” However, others have argued against such a simple explanation, pointing to the split between former prime minister Lazarenko and Kuchma as a signal that the Dnipropetrovsk clan is no longer homogeneous but rather divided by economic and generational subgroups (Jamestown Foundation, 1997).

**Other Models to Explain Economic Policy**

**The Rational Model**

Of Dye’s other policy models, there are three that have yet to be fully explored as a basis to explain Ukrainian economic policies. First, no one has seriously applied a rational decision model of “maximum social gain” (Dye: p. 25) to Ukrainian policy choices. Most have suggested that President Kuchma had no other option but pursue reforms, and indeed arguments that these policies were goal-oriented rather than incremental have difficulty accommodating the known facts. However, the apologists for President Kravchuk come close to arguing his policies were rational. These include the gradualists who assert that reforms were necessarily sequential, that state- and nation-building took precedence over economic reform, liberalization, and marketization. Taras Kuzio, easily the most prolific writer about Ukrainian politics, is probably the best known of these. He asserts that under Kravchuk “domestic reform was largely
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postponed in favor of nation- and state-building” (1997: p. 90), and that Kravchuk and Kuchma were “two Ukrainian patriots from the Party of Power with different visions of state-and nation-building” (Kuzio, 1997: p. 39). Further, he argues that Kuchma’s economic reforms built on Kravchuk’s nation building successes, and the differences between them was not a matter of disagreement but of emphasis.

Most observers, however, do not share such benign assessment of Kravchuk. First, his nation-building successes were limited and were more symbolic than substantive—a national holiday, a national anthem, a flag, and a diplomatic corps with embassies abroad, replacement of Russian language textbooks with Ukrainian ones (at a time the economy was disintegrating). His institution building primarily consisted of renaming entities of the Soviet bureaucracy, and he did not give the nation a legal system, a constitutional (supreme) court, or most of all a constitution. Second, an alternative interpretation of Kuchma’s debt to Kravchuk is that, rather than building on his predecessor’s nation-building successes (as Kuzio argued), Kuchma was faced with the unappealing need of rapidly correcting the economic failures of his predecessor, delayed far beyond the point of crisis. Third, it is not factually correct to say that Kravchuk ignored economic reform (as Kuzio argued), for his administration explicitly pursued policies that undid what few reforms had been implemented. Havrylyshyn (1997) describes the zig-zags in Kravchuk’s economic policies, freeing prices and then creating massive subsidies, removing and then reimposing multiple exchange rates, etc. And fourth, although the need for sequential reform is theoretically appealing, and probably logical in such areas as reform of the banking system, it is operationally questionable as a broad guide. There is no empirical reason that reforms such as price decontrol, unified exchange rates, and liberalized foreign trade cannot occur together with political reform, and the costs of not doing so are very severe. By failing to act against a dispirited, disorganized and delegitimized nomenklatura, Kravchuk gave them time and resources to construct obstacles to reform, some of which are still insurmountable. There is a growing body of literature on the complex relationship between economic and political reforms (e.g., de Melo et al., 1997; Dabrowski and Antczak, 1996), which cannot be captured in simple sequential theories. Kravchuk had the misfortune of being president of Ukraine at a time when both political and economic transformation occurred simultaneously, and unfortunately for Ukraine, he did neither very successfully.
The Majoritarian Model

The second unexplored model is the majoritarian model, that economic policies resulted in response to majority popular pressure. This model is examined by Dye as elite-mass interaction, and is the basic presumptive model of democratic policy making. However, its relevance to Ukraine is minimal, because it has never been a mass popular movement pressuring for economic reform. The logical reform constituency, the nationalists, heeded the advise of Taras Shevchenko, Ukraine’s greatest literary figure, that the nation should first expel the invader and then prosperity would follow. Economic reform is still not at the top of their agenda. Mass pressure on economic policy thus far has generally been concerned with specific government action –salary arrears and subsidies--with marches to and demonstrations in Kyiv and regional centers. Even these are suspect as subjects mobilized by factions in intra-elite conflicts. The closest similarity to mass-movement pressuring for economic policy are the Communists and others who wish to undo economic reform.

Public opinion polls in Ukraine, as well as recent elections, have long confirmed the ambivalent attitudes of Ukrainians toward reform. Majority Ukrainian support for both a free market system and government guaranteed employment has been noted by several writers. Kaufmann (1997: p. 238) found that positive responses of Ukrainian entrepreneurs to the question “Is the reform process irreversible?” increased from 45% to 60% from March 1995 to March 1996, yet during the same period, the negative responses to the question “Have the reforms had a positive impact on your business?” also increased from 54% to 65%. In a recent Socis Gallup poll (The Economist, 1998), 79% responded that they were better off in Soviet times, and in a follow-up question, only 12% responded that they expected to better off in a year. In an earlier Socis Gallup poll (Tkachuk 1995), respondents split almost evenly between those saying that privatization would lead the economy out of its present crisis (35%), would aggravate social problems (35%) and with no opinion (30%). Only 28% responded that reducing the state sector would alleviate social problems, while 44% were negative. Ukrainians apparently are much more concerned with a government that will ensure their living standards than with what kind of government it is, or what policies it pursues.
There is a legitimate concern that the disintegration of economic life in Ukraine will weaken the nation’s commitment to Democracy if not independence. Such concern may be well placed. Polls conducted between 1991 and 1996 by the Institute of Sociology and the Democratic Initiatives Foundation (Zviglyanich 1997a) discovered significant changes in attitudes toward democracy. The percentage agreeing to the question “Ukraine needs the same type of development as Western countries” declined slightly from 56% to 49%, while those disagreeing almost tripled from 12% to 30%. For the question “Democracy will never take root in our country,” those agreeing doubled, from 12% to 25%, while those disagreeing increased slightly, from 42% to 48%. The results of the March 1998 Rada elections seem to confirm this shift. Some comfort, however, can be taken in the work by Gibson (1996), who found that (as of 1992), “there is little difference in the economic attitudes of Ukrainians according to whether the economy is treating them badly or not” (p. 971), although this data was from a period when Ukrainian respondents had little experience with reform.

**Game Theory**

Another unexplored model to explain Ukrainian economic policy is game theory, “the study of rational decisions in situations in which two or more participants have choices to make and the outcome depends on the choices made by each of them” (Dye: p. 35). Such an explanation would examine the anticipatory strategies employed between players viewing each other as antagonists in either zero-sum or non-zero sum situations. Ukrainian economic policies as strategic negotiations between the president, the cabinet, and the Rada have yet to receive careful scholar examination. This model could also be used to examine the relationship between Ukraine and international lending agencies. Such an approach has been used to explain Russian economic policy as part of a strategy between the Russian government, the IMF, and the U.S. State Department (see Stone, 1996).

**Summary**

The policy process in transition societies deserve the same careful treatment that policy consequences have been receiving. Frequently, the process is viewed as self-evident or explained with some casualness. When examined systematically, four separately identifiable, albeit interrelated,
models emerge as explanations for known facts about Ukrainian economic policies. When we examine these models, however, we have a picture of the policy cycle, including formation and implementation, that is far more complex than can be captured in any of these models alone. Although summarizing these models risks mis-stating or even distorting the works that are summarized, such a summary can also clarify the status of current research on Ukrainian economic reforms. Each of these four models emphasizes a key factor in explaining economic policy, but cannot entirely exclude factors emphasized in the three other models. While the volunteeristic model emphasizes presidential leadership, it also makes certain assumptions about the role of strategy (e.g. incremental or rational), institutional roles (i.e., the Rada and the bureaucracy), and the elites (the old nomenklatura and its allies and rivals). The other three models make similar assumptions, which are summarized in Table 2.

### Table 2
**Assumptions of Four Policy Models**

<table>
<thead>
<tr>
<th>Models</th>
<th>Executive Leadership</th>
<th>Strategy</th>
<th>Institutional Roles</th>
<th>Elite Roles</th>
</tr>
</thead>
<tbody>
<tr>
<td>Volunteeristic</td>
<td>executive leadership predominates (either pro-or anti-reform) presumed rational</td>
<td>presumed passive &amp; instrumental</td>
<td>presumed supportive or neutralized</td>
<td></td>
</tr>
<tr>
<td>Pluralistic/Incremental</td>
<td>pragmatic marginal changes</td>
<td>adaptive</td>
<td>cooptation</td>
<td></td>
</tr>
<tr>
<td>Institutional</td>
<td>threat inertia, self-interest</td>
<td>predominant</td>
<td>symbiotic alliances</td>
<td></td>
</tr>
<tr>
<td>Elitist</td>
<td>elite cohesion; possible preserving policies</td>
<td>control over key decision points</td>
<td>predominant, manipulative</td>
<td></td>
</tr>
</tbody>
</table>
The volunteeristic/executive leadership model presumes that presidential leadership predominates, that the president can pursue a recognizably rational economic strategy, that the Rada will validate presidential initiative, the bureaucracy will comply with their directives, and that the elite can be neutralized if it is not supportive. The pluralistic/incremental strategy presumes a pragmatic leader who will make marginal policy changes in response to constantly changing pressures from the Rada, the bureaucracy, and the elites, while at the same coopting them when possible. The institutional model views presidential leadership as an external threat to the predominance of the bureaucracy’s continued inertia and self-interested policies in alliance with elite allies. The power elite model views presidential leadership within the context of elite cohesion and the potential formation of elite factions and counter-elites, which pursue self-serving policies through control over key decision points in the Rada and the bureaucracy.

Two of these four explanatory models have been used to explain both successful and failed economic reform policy. The volunteeristic/executive leadership has been used to explain Kravchuk’s failure to reform as well as Kuchma’s comparatively successful policies, as the incremental/pluralist has been used to explain Kravchuk’s inability to more forward with reforms as it has Kuchma’s limited successes with gradualism and opportunism. The differences between these two presidents apparently were the alliances upon which their support was based as well as the policy options that were open; President Kravchuk had far more slack resources to squander than did Kuchma. The other two models, however, have been used exclusively to explain failures to pursue economic reform policies. The institutional/structural explanation paints a dreary picture of an administrative apparatus that at best is unequipped to successfully implement reform policies and that, at least some elements, is actually perverting reform. And the power elite model explains the failure to pursue reform policies by the persistence of powerful elements who have insurmountable alliances in units responsible for formulating and implementing reform policies—the Rada, the bureaucracy, and local governments.

Conclusion

These explanations raise serious concerns for the reform potential of Ukraine. We cannot say for certain whether President Kravchuk could have pursued reform successfully if his will to reform and his leadership
skills had been greater, or if he had adopted an incremental style --a cycle of pushing opportunistic reforms and retreating slightly (rather than entirely) when pressures became intense. Nor can we say with certainty which factors best explain Kuchma’s failure to complete the reforms he began. It seems unlikely that a reformed bureaucracy could successfully remove regulatory obstructions that facilitate corruption and discourage investment in the official economy, so long as opponents of reform are well represented in the Rada and the constitutional structure fails to correct the confusion between laws, decrees, and edicts. Unlikely, but we have no empirical evidence to say for certain.

Finally, recommendations for reform which are not based on sound empirical analysis of the policy cycle in Ukraine will be of questionable value. Sundakov (1997) for example, proposes that the government should voluntarily desist “from using its authority to issue quasi-legislative acts” and instead focus “attention on getting its policies implemented through parliamentary legislation” (1997: p. 279), even though there is little evidence to indicate that the Rada, if given a monopoly on legislating, would pass reform legislation even if it were very carefully constructed by the executive. Similarly, Kaufmann (1997) recommended unidentified measures to “develop a cadre of democratically elected politicians and officials that represent the interests of a broader-based business sector in the localities” (pp. 263-264). Stipulating such rigid conditions as necessary for economic reform policies is equivalent to saying that reforms will not occur. In a truly democratic election, it is not feasible to dictate who should be elected, and truly democratic elections in Ukraine, as we saw in March 1998, clearly guarantee that reformers will not be elected.

Perhaps only Kuchma’s incremental policy has hopes of success, and perhaps genuine reform is currently hopeless within the existing policy structure of Ukraine. Whereas democracy is a process, reform is an outcome, which might not be possible in a system which permits obstructionist interests an equal representation with reformists. Not even the Yeltsin model, a de facto coup d’etat circumventing parliament and establishing parallel but subservient bureaucracies with the assistance of U. S. AID (see Wedel, 1998b), appears to be a viable alternative.
References


Explaining Policy Choices


Biographical Sketch

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