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Alexander Paskhaver: Bureaucratic Capitalism Is Being Created in Ukraine

The system of bureaucratic capitalism is being created in Ukraine under which only that private capital can exist which has merged with the state bureaucracy. The state bureaucracy functions without any framework of setting objectives and verifying their attainment. In order to overcome the economic crisis and cease de-capitalisation of the economy, this framework is to be created, and a strategic vertical structure which will control the correspondence of current decisions with the general strategy is to be established. These issues were touched upon by President Alexander Paskhaver of the Centre for Economic Development when speaking at the seminar hosted by the International Centre for Policy Studies. His speech in brief can be found below.

In 1993-1994, the state bureaucracy was paralysed and society reacted through the emergence of a shadow economy. Private capital was growing for three-four years. But state bureaucracy started to gradually gain new features.

Liquidation of the Communist Party of the Soviet Union s the state running system which set objectives and controlled their attainment s meant the transfer of all state powers to the executive. This loss of control caused a transformation of the state bureaucracy: its functions which allowed bribery rapidly developed. Today, Ukraine is witnessing the creation of a bureaucratic capitalism: only that private capital which merged with the state managed to survive until now. Foreign capital is actively being pushed out from all joint-ventures because by nature it cannot merge with the state as closely as the national capital.

The following features of the state bureaucracy which exist in Ukraine today could be found in the Soviet State Apparat:

- uncertainty and imperfection of property rights which were the corner stones of the Soviet System;
- laws could not be implemented and so were enforced arbitrarily;
- monopolisation of all markets, selective support of separate industries or enterprises as a display of the ideology of the state economic system;
- inadequate property liability of enterprises.

The factors which led to the economic crisis were mismanagement, "privatisation" of state powers and preservation of the soviet-style economic system. Finally, the state of sharp crisis "stabilised": Ukraine' current economy exists under such conditions permanently. Influential groups which can capitalise on such a situation emerged in society, and these groups are interested in preserving the crisis.

The "privatisation" of state power has become especially dangerous. Under such conditions, the state does not lose control but at the same time cannot use it as a means of influencing capital growth. The edge of current goals over long-term ones creates incentives for asset stripping. Those persons who "privatised" state powers are not interested in creating a stock market which would facilitate the emergence of independent capital.

In order to lead Ukraine out of the economic crisis, first, forces which can oppose the economic power of the state bureaucracy and a new mechanism of setting objectives and controlling their attainment must be created. This can be provided by the system of party and parliamentary control under which every document is subject to compromise among political party members to the governing coalition. This mechanism will initially look helpless and inefficient, though gradually it will help create a functioning institution.

The second objective is to create a strategic vertical structure subordinate directly to the state supreme power which will control the correspondence of current decisions with the general strategy. The function of strategic planning is underdeveloped within the government today because it does not allow for receiving bribes.

The third area of anti-crisis measures is personnel policy. People working in the state bureaucracy should be tested in liberal knowledge.

The fourth direction of activity should be the distribution of natural inherent conflicts of state functions between different institutions to make these conflicts public and terminate their development as close inside intrigues.

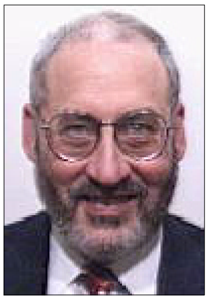
An important step towards overcoming the crisis and de-capitalising the economy is the sale of strategically important enterprises to big international corporations. Foreign capital, unlike Ukrainian capital which merged with the state bureaucracy, will not be able to strip assets from its enterprises because it is controlled by international management and stockholders from all over the world. Even 50-100 of such enterprises can substantially change the Ukrainian economy due to a completely different business philosophy.

Weekly macroeconomic seminar "Property Rights Transformation and Administrative Reform", International Centre for Policy Studies, Tuesday, 16th March 1999

Development Based on Participation

A Strategy for Transforming Societies

There has been a growing consensus on the objective of democratic, equitable, and sustainable development. Here, I have tried to argue that the whole is greater than the sum of these parts, and that successful development must focus on the whole — the transformation of society.



Joseph E. Stiglitz, Senior Vice President and Chief Economist of the World Bank

Many development strategies have focused narrowly on eco-nomics. But this focus on economics has led to a confusion of means with ends: higher GDP is not an end in itself but a means to improved living standards and a better society, one with less poverty, better health, and improved education. Furthermore, past strategies have confused cause with effect: to some extent, the changes in society that may be called modernization are as much a cause of the increases in GDP as a result. Development itself is a *transformation* of society, a societywide shift to new ways of thinking that cannot be accomplished through enclave-based growth in a dualistic economy.

Lessons of History

Past strategies failed to give sufficient prominence to this transformative role of society. The development models popular in the 1960s saw development as simply solving a complicated dynamic problem, which would improve the efficiency of the allocation of resources, and lead to accumulation of capital. The same fallacy pervaded the philosophies of the 1970s and 1980s. The central role that government played in planning and programming was seen as part of the problem of development rather than as part of the solution. This perspective held that governments claimed too large a role for themselves, one for which they were intrinsically unsuited. The solution, then, was to rely heavily on markets and, in particular, elimination of government-imposed distortions associated with protectionism, government subsidies, and government ownership. In the 1980s, the focus shifted to macroeconomic problems, to "adjustment" of fiscal imbalances and misguided monetary policies. Given the macroeconomic imbalances, it was impossible for markets to function properly.

All three of these development strategies saw development as a technical problem requiring technical solutions — better planning algorithms, better trade and pricing policies, better macroeconomic frameworks. They did not reach deep down into society, nor were they based on a belief that a participatory approach was necessary. The laws of economics were universal: demand and supply curves and the fundamental theorems of welfare economics applied as well to Africa and Asia as they did to Europe and North America. Time and space, in the view of these strategies, did not bind these scientific laws; therefore the technical approach was the appropriate one.

Defining Events

Three events of the past quarter-century are beginning to shape views on development strategies:

First, the collapse of the Soviet-style socialist economies and the end of the Cold War. Some have focused on a single lesson that emerges — the inefficacy (and dangers) of a large government role in the economy. From this, some jump to the opposite conclusion: that reliance should be placed wholly on markets. But there are two broader implications of the end of the Cold War: the ideological debates should be over, and there should be agreement that while markets are at the center of the economy, governments must play an important role. The issue is one of balance, and where that balance is may depend on the specific characteristics of the country, the capacity of its government, and the institutional development of its markets.

Second, many countries that followed the dictums of liberalization, stabilization, and privatization but still did not grow. The technical solutions were evidently not enough. An economy needs an institutional infrastructure.

Third, the rapid growth of the countries of East Asia, which showed that a reduction of poverty, widespread improvements in living standards, and even a process of democratization could accompany successful development. East Asian governments failed to follow many of the dictums of the usual consensus early in their development. Rather than giving the economy over to an untrammeled private sector governments intervened in industry, trade and financial markets. They put heavy emphasis on education and technology, to close the knowledge gap between them and the more advanced countries. While the impact of individual policies remains a subject of dispute, the mix of policies clearly worked well.

Keys to Success

These defining events have led to a recognition that the old technical solutions are sorely lacking. Policies that are imposed from outside may be grudgingly accepted on a superficial basis, but will rarely be implemented as intended. Development cannot be just a matter of negotiations between a donor and the government. Excessive conditionality of foreign donors reinforces traditional hierarchical relationships, rather than involving large segments of society in a discussion of change — and thereby catalyzing change in ways of thinking. Development must involve and support groups in civil society; these groups are part of the social capital that needs to be strengthened, and they give voice to often-excluded members of society, facilitating their participation. Our research shows that development projects with higher levels of participation are in fact more successful, probably in part because those projects make fewer erroneous assumptions about the needs and capabilities of beneficiaries.

The whole article by Joseph E. Stiglitz can be found in the World Bank newsletter about reforming economies Transition (December, 1998). The International Centre for Policy Studies publishes the russian version of the Transition under the contract with the World Bank.

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The International Centre for Policy Studies is an independent non-profit research organisation with the objective of improving the development process of Ukrainian policy. This is achieved by increasing the know-how of key government officials for policy choices, formulation, and debate, and the awareness of the public-at-large of the benefits of policy.
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