

What type of capitalism in Ukraine?

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Key concepts for a 'variety of capitalism' analysis

- The French Régulation School and comparative political economy approaches:
 - the capitalist mode of development = RoA + MoR → outcomes
- a) Regime of Accumulation = a production system with a specific technological style:
 - extensive
 - intensive (Fordism)
 - super-intensive? (post-Fordism / 'new economy')
- b) Mode of Regulation = a set of institutional forms ('structural mediations') to guide and stabilise the accumulation process, i.e. to promote coherence of capitalism
 - competitive mode → laissez-faire capitalism, 1800s-1930s
 - monopolistic mode → 'organised' (co-operative corporate) capitalism, 1940s-1970s
 - neo-liberal mode → 'disorganised' capitalism, 1980s – present
- c) performance = economic development + social progress ('long waves upswing v. long waves downswing')

Problematic issues

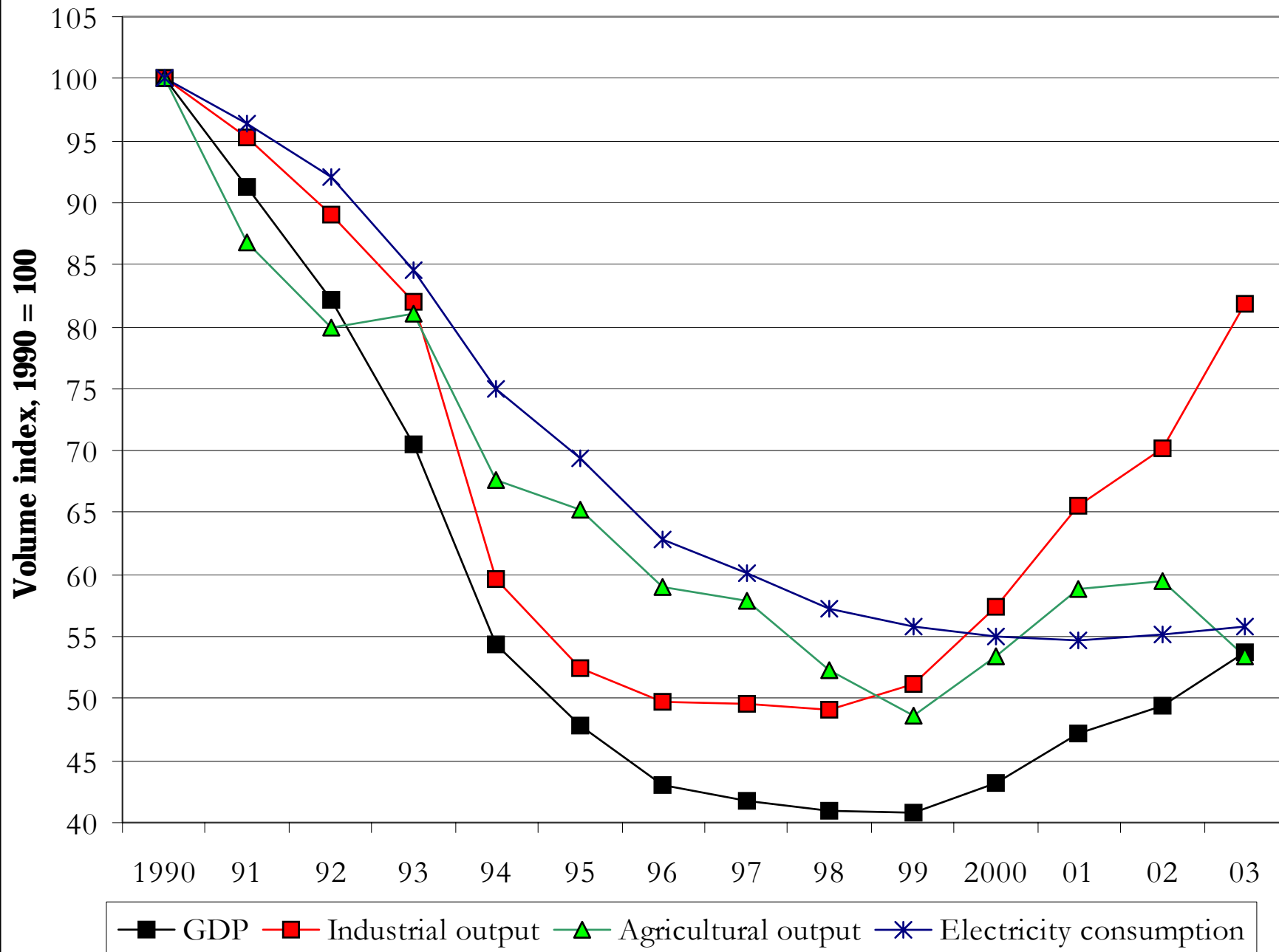
- The dichotomy of 'organised' & 'disorganised' capitalisms v. the 'diversity of capitalism' approach (German, Anglo-American, Scandinavian, Japanese, etc.)
- Methodology for studying the most advanced Western societies (G-7; high-income OECD)
- Traditional v. post-communist types of capitalism (e.g. 'oligarchic' / 'hybrid' / 'mutant')

The post-communist transformation of the Ukrainian political economy

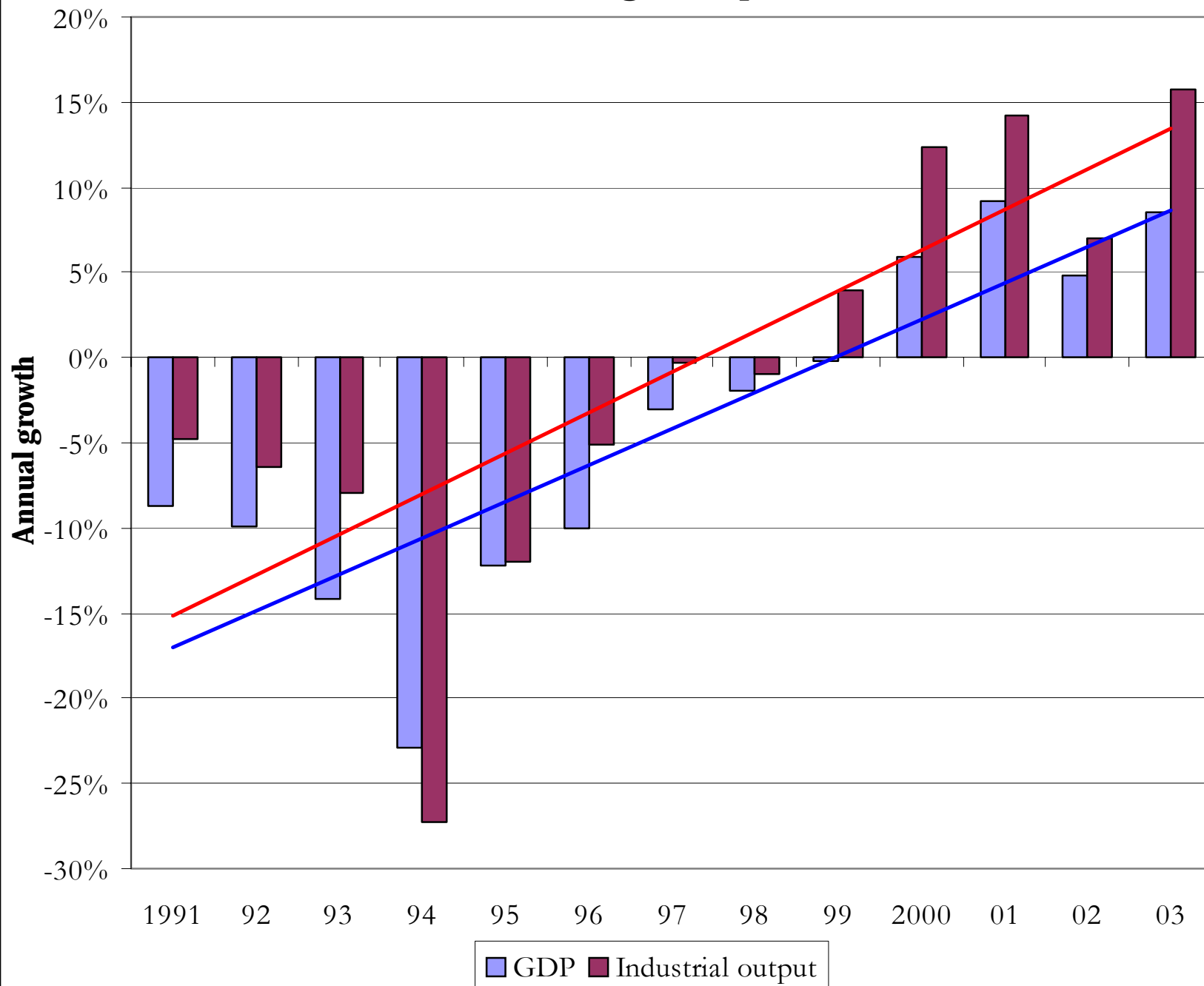
Issues to be addressed:

- Performance under post-communism: economic growth and social progress
- Instruments of control and regulation
- What type of capitalism for Ukraine?

Ukraine's post-communist economic trajectory



Ukraine's annual growth patterns



Two stages of Ukraine's post-communist transformation

- I. Decline: 1990 – 1996
 - II. Recovery: 1997 – present
- ☞ Two transformation phases ↔ two different modes of regulation
- I. ‘Chaotic capitalism’ (Lane 1999; 2000) → Ukraine’s Great Post-Communist Depression
 - II. ‘Combine capitalism’ (= state-initiated conglomerate-propelled) → economic recovery and growth; and social progress?

What is a 'chaotic capitalism'?

- “A chaotic social formation may be defined as a social and economic system which lacks institutional coordination and promotes social fragmentation: goals, law, governing institutions and economic life lack cohesion. Its characteristics are uncertainty about the future, elite disunity, the absence of a dominant and mediating class system, a mixture of media of exchange, criminalisation and corruption, rent-seeking entrepreneurs, inadequate interest articulation and an economy in decline characterised by inflation, unemployment and poverty. Whereas ‘disorganised capitalism’ does not lead to breakdown, a chaotic social formation is perverse and system is precarious” (Lane 2000: 497-98).

Ukraine's post-communist modes of regulation: from 'chaotic' to 'combine'

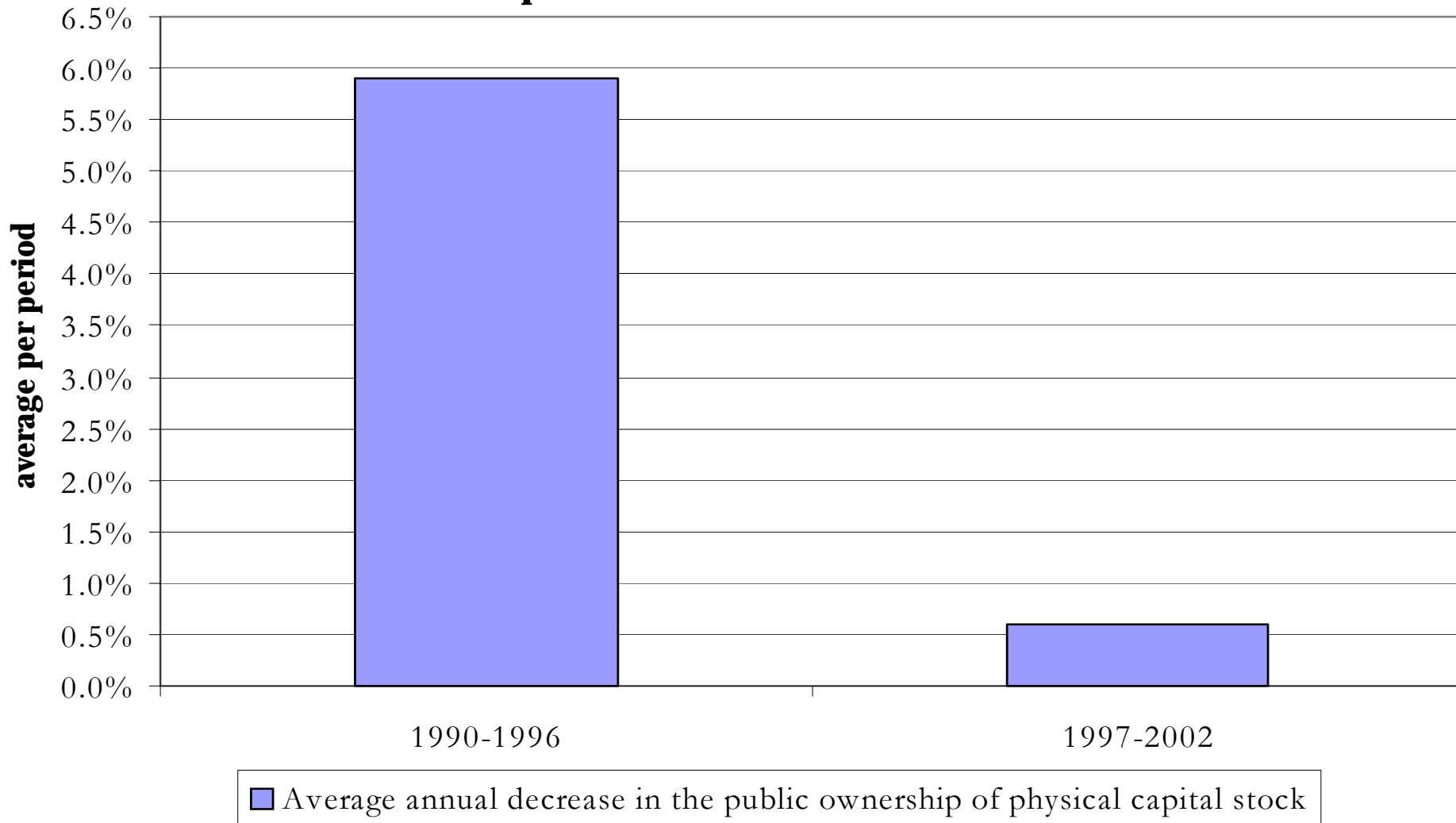
- MoR spheres of guidance and stabilisation:
 - a) the role of the state and form of state economic management
 - b) the form of capital – labour relations
 - c) the nature of competition between firms (from plan to market?)
 - d) motivational system (values, profits, investments)
 - e) the place of national economy within the international system

The 'chaotic' mode of regulation: major features in Ukraine

- a rapid withdrawal of the state from the economy and de-statisation of social welfare; 'no industrial policy is the best industrial policy'
- the most unbalanced monetary and credit arrangements; repeated monetary validation of ever-continuing inflationary shocks; deficit budget spending accommodated via escalating money emissions (= cash printing)
- no mediating role for the state within increasingly antagonistic industrial relations; the hegemony of capital over labour → no wage bargaining occurs; earned wages and salaries are regularly unpaid to be used by the owners and managers as a cushion against bankruptcy; the minimum wage, if exists at all, is set by the state at a level far below the physical subsistence level
- under macroeconomic instability accompanied by the privatisation drive, microeconomic competition is not carried out through the price mechanism within the regulated market place between various firms, but is conducted in a form of ungoverned and physically most brutal struggle between individual entrepreneurs themselves for the chunks of state-owned property and for free or even negatively charged loans issued directly by the central bank
- motivational system is based upon rent-seeking and assets-stripping
- on a global scale, the national economy which is governed by the chaotic mode of regulation fails to diversify its major trading partnership and remains on the periphery of the international economy

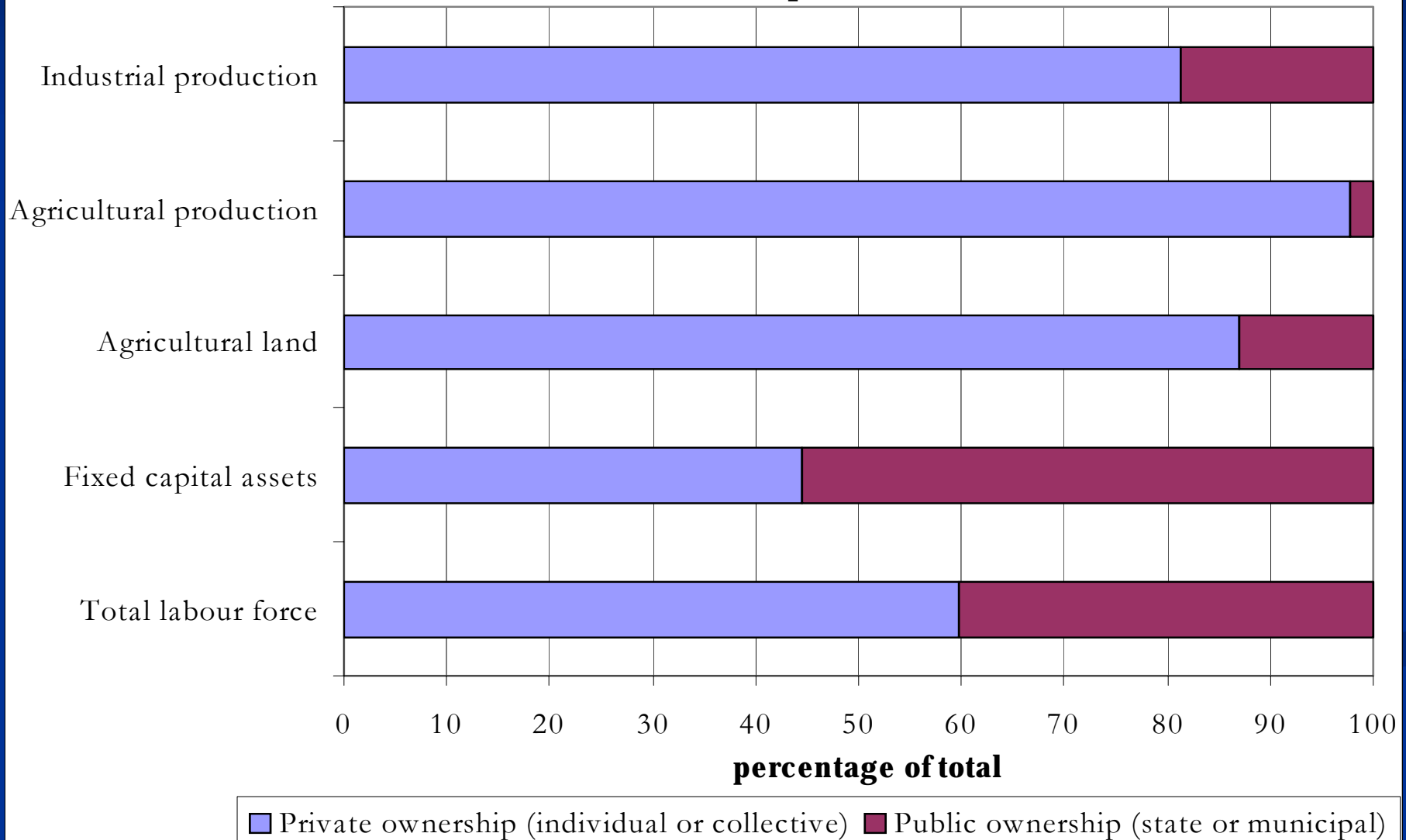
Changing the role of the post-communist state in Ukraine: slowing down the state's withdrawal

The pace of Ukraine's de-statization



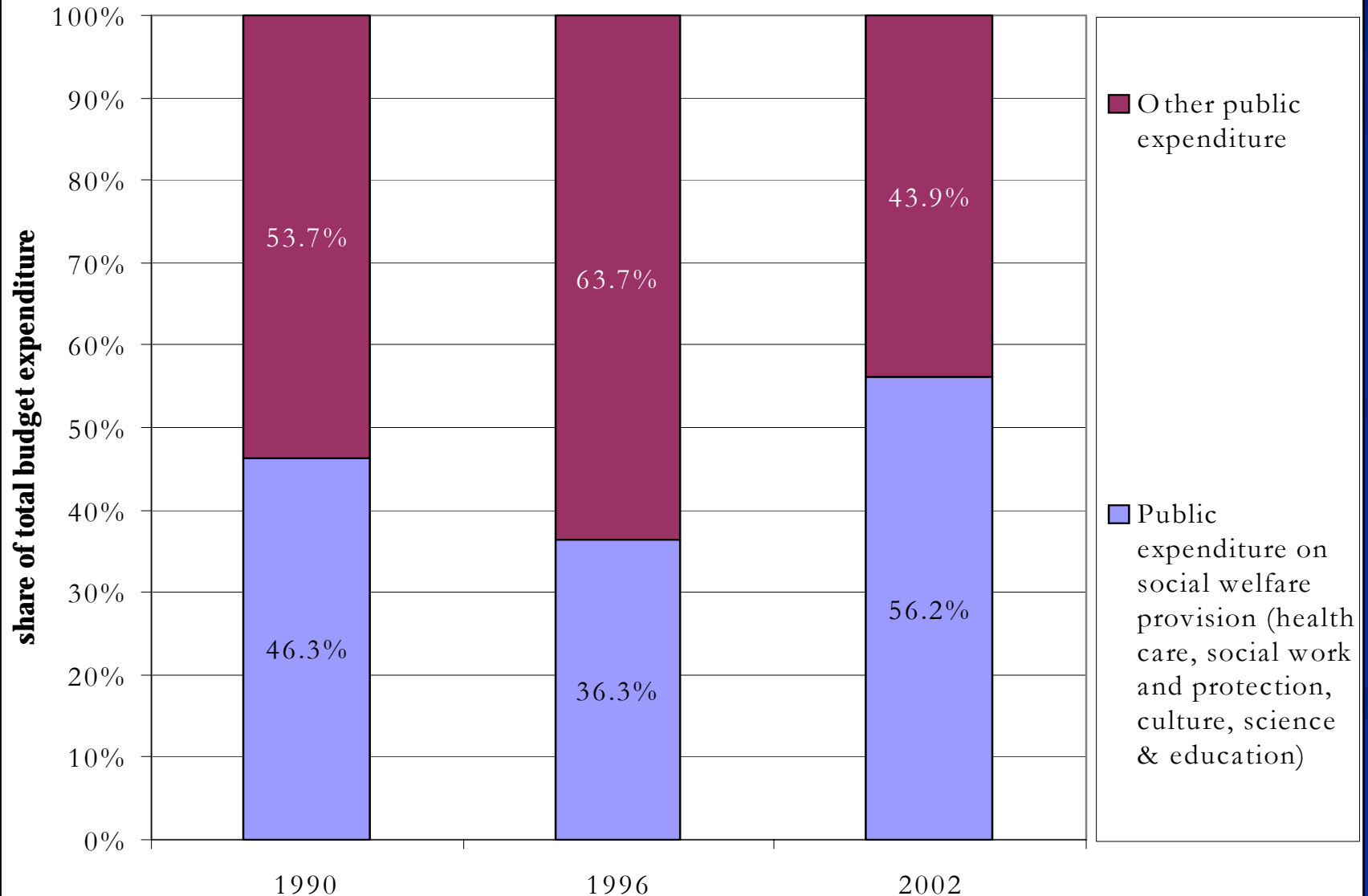
Mixed property rights structure

Ukraine: ownership structure, 2002



Returning to welfare provision

Changing public spending priorities



Facilitating the business environment

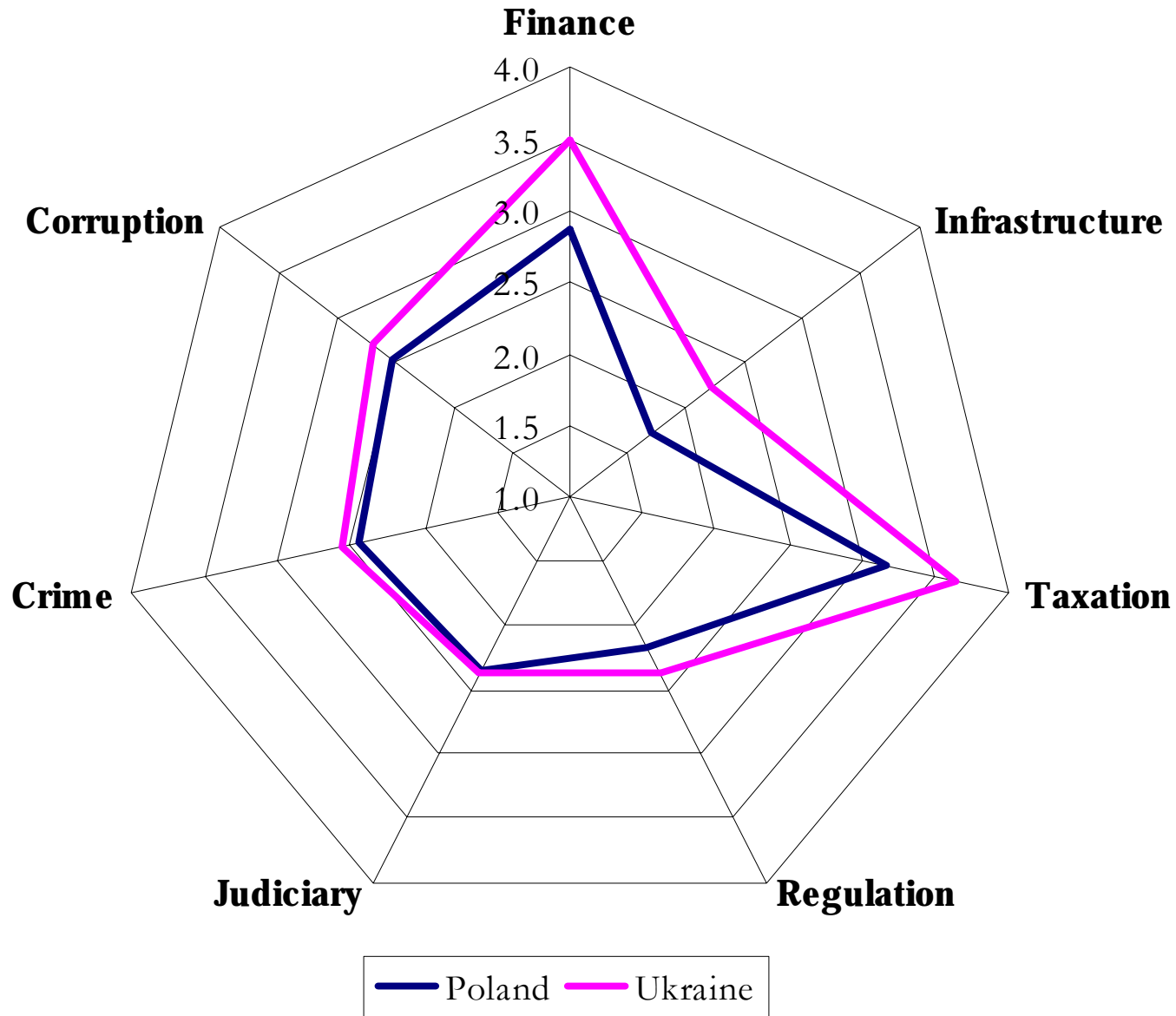
- The Business Environment and Enterprise Performance Surveys (World Bank and EBRD).

Qualitative assessments of the business environment:

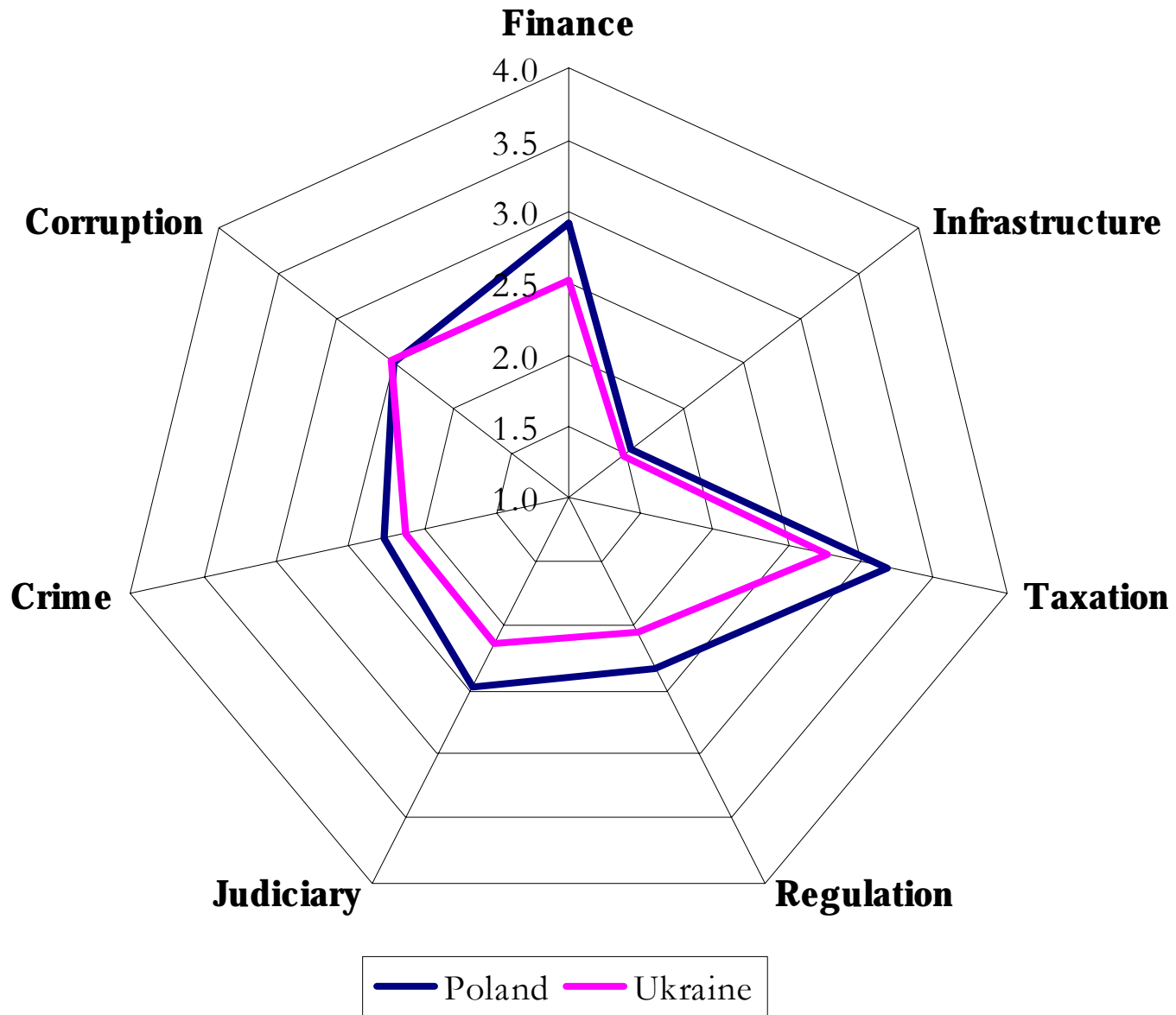
average score by dimension on a scale from 1 (=minor obstacle) to 4 (=major obstacle)

	1999	2002
Ukraine	2.77	2.22
Post-communist countries' median	2.67	2.08

Business environment, 1999

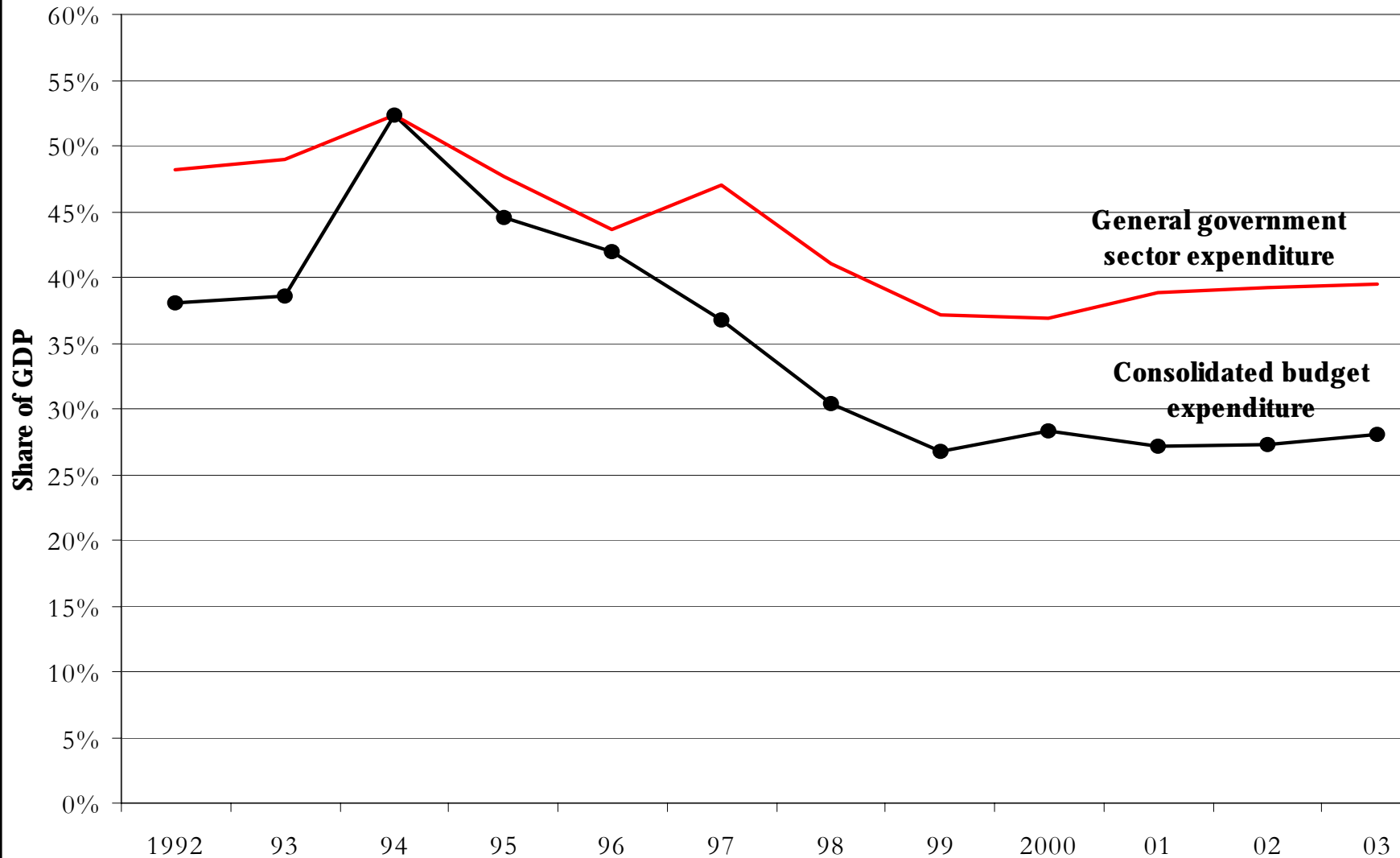


Business environment, 2002



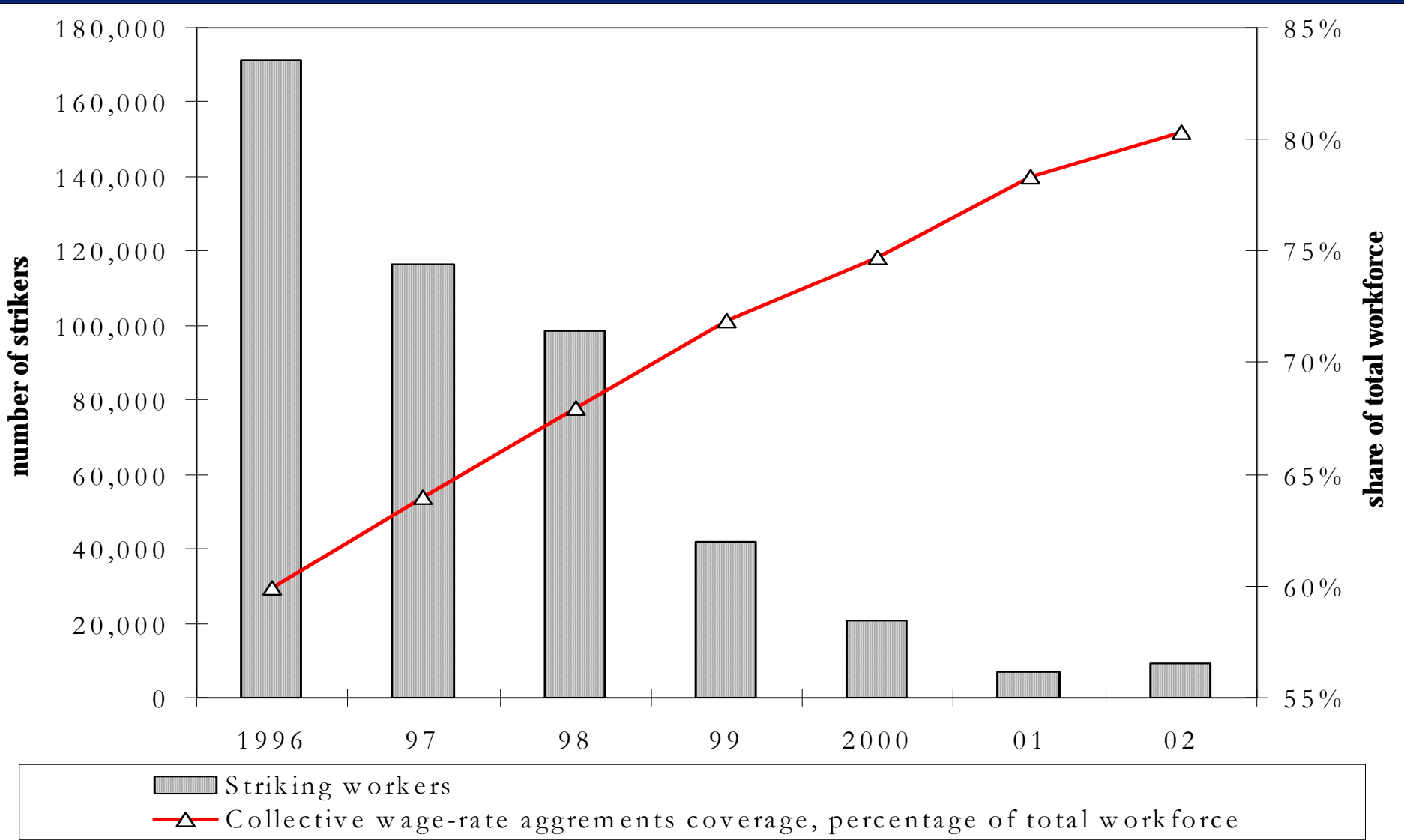
The Ukrainian state: from pulling out to bringing back?

Ukraine's public spending trajectory

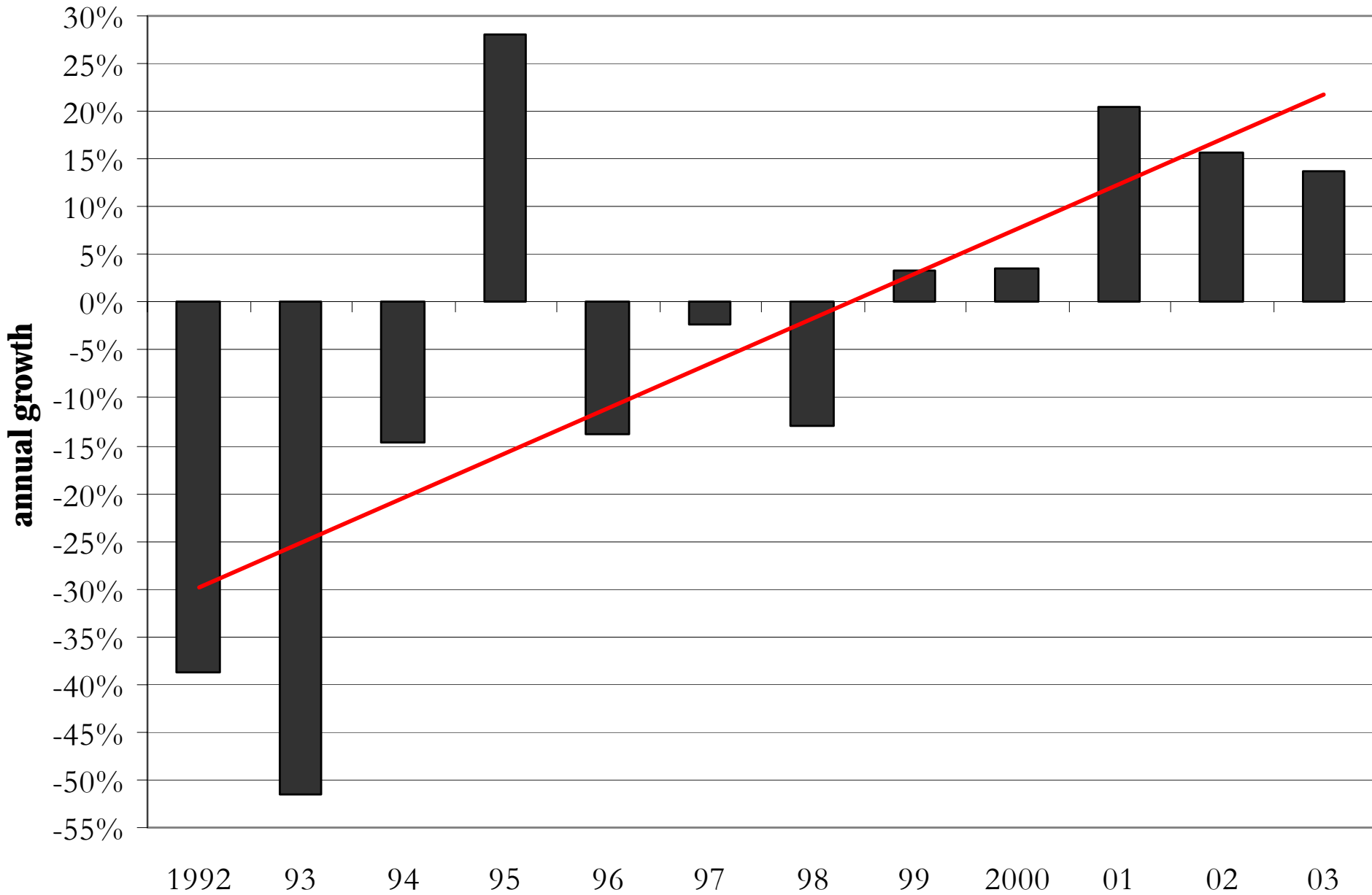


The form of capital – labour relations: from social antagonism to social accord?

Increase in tripartite wage bargaining and decrease in industrial disputes

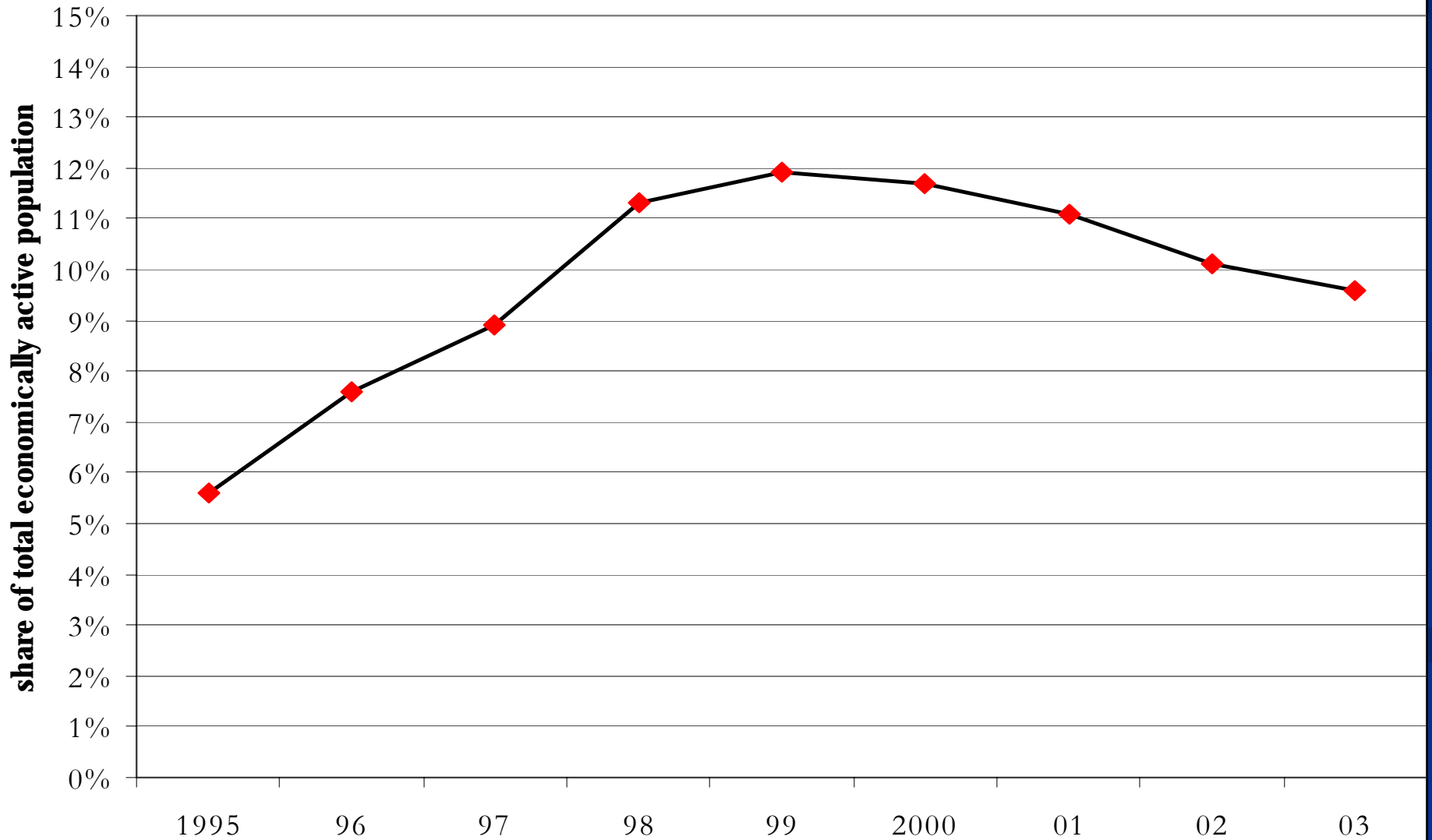


Real wage growth



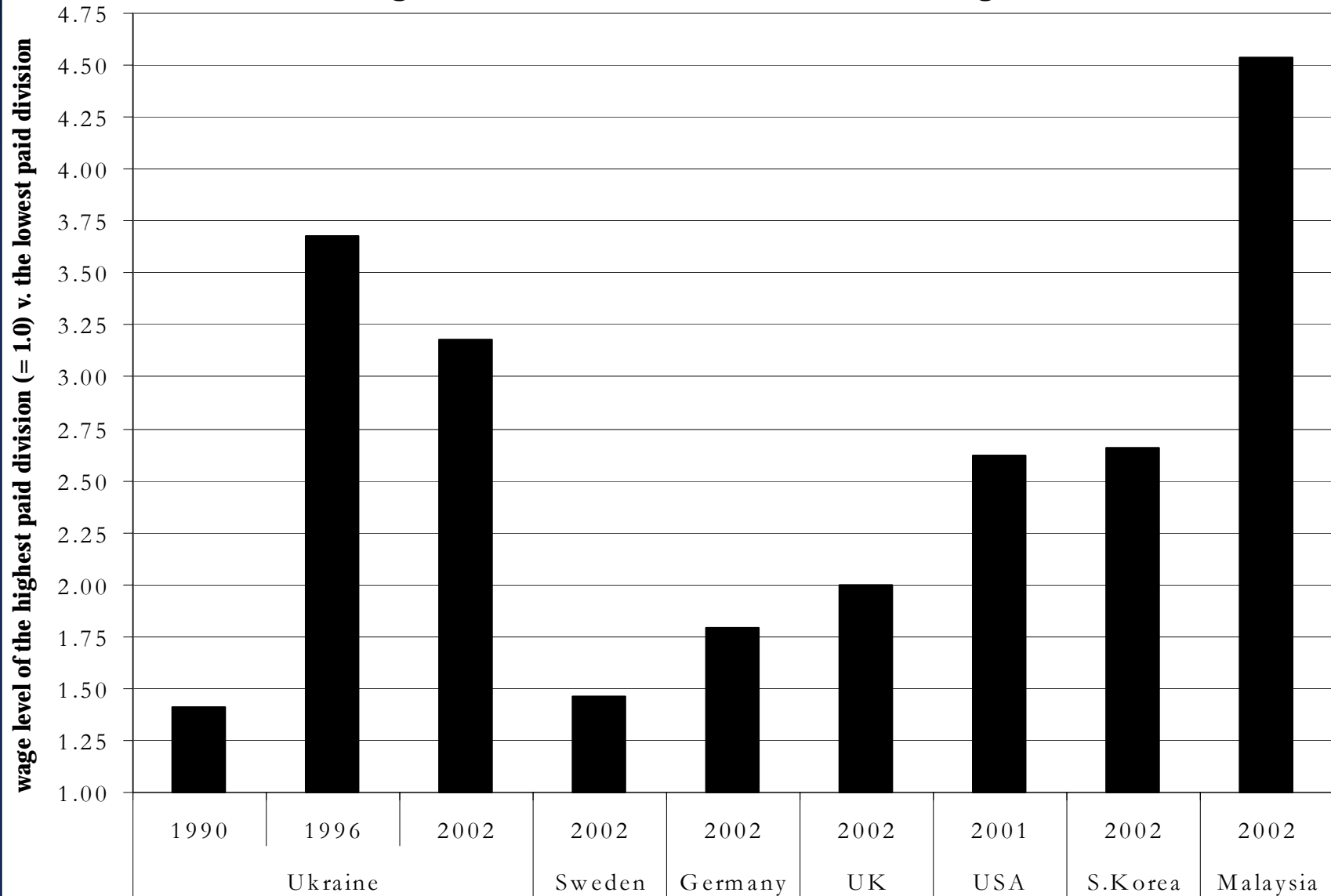
More secure jobs?

Ukraine: ILO unemployment



Long way round neo-corporatism

Wage differentiation within manufacturing



Information and co-ordination structure: towards the full combination of available mechanisms

State intervention + Markets + Networks

- Industrial policy (since mid-1990s): subsidies for mining and quarrying; tax allowances, pro-innovation preferential treatment and co-investment projects in other industries
- Regional policy (since late 1990s): special economic zones (tax-free areas) and priority development areas (special investment regime)
- However, active developmental policies are hindered by low state expenditure
- Two-tier corporate structure: giant conglomerates and small & medium firms

Ukraine's Five Grand National Masters

“Five players have appeared on Ukraine’s business field. The five players who have reached not only the level of masters but that of grand masters. We would like the rest to catch-up with them ... We should also draw a thick line and not allow foreign penetration into strategic sectors ... Foreign penetration could be a threat to this state’s national economic interests”

- Mykhailo Chechetov

Head, The State Property Fund of Ukraine
(press-conference in Kyiv, 26 December 2003)

Ukraine's largest conglomerates

- The Big Five:
 1. The Industrial Union of the Donbas (*ISD*; Donetsk-based; owners: Vitaliy Hayduk, Serhiy Taruta and Viktor Yanukovych)
 2. System Capital Management (*SCM*; Donetsk-based; owner: Rynat Akmetov)
 3. The Interpipe Group (Dnipropetrovsk-based; owner: Viktor Pinchuk)
 4. The Private Bank Group (*Hrupa Pryvat*; Dnipropetrovsk-based; owner: Ihor Kolomoyskyi)
 5. The Ukrainian-Siberian Bank (*UkrSybBank*; Kharkiv-based; owner: Oleksandr Yaroslavskyi)

The rest:

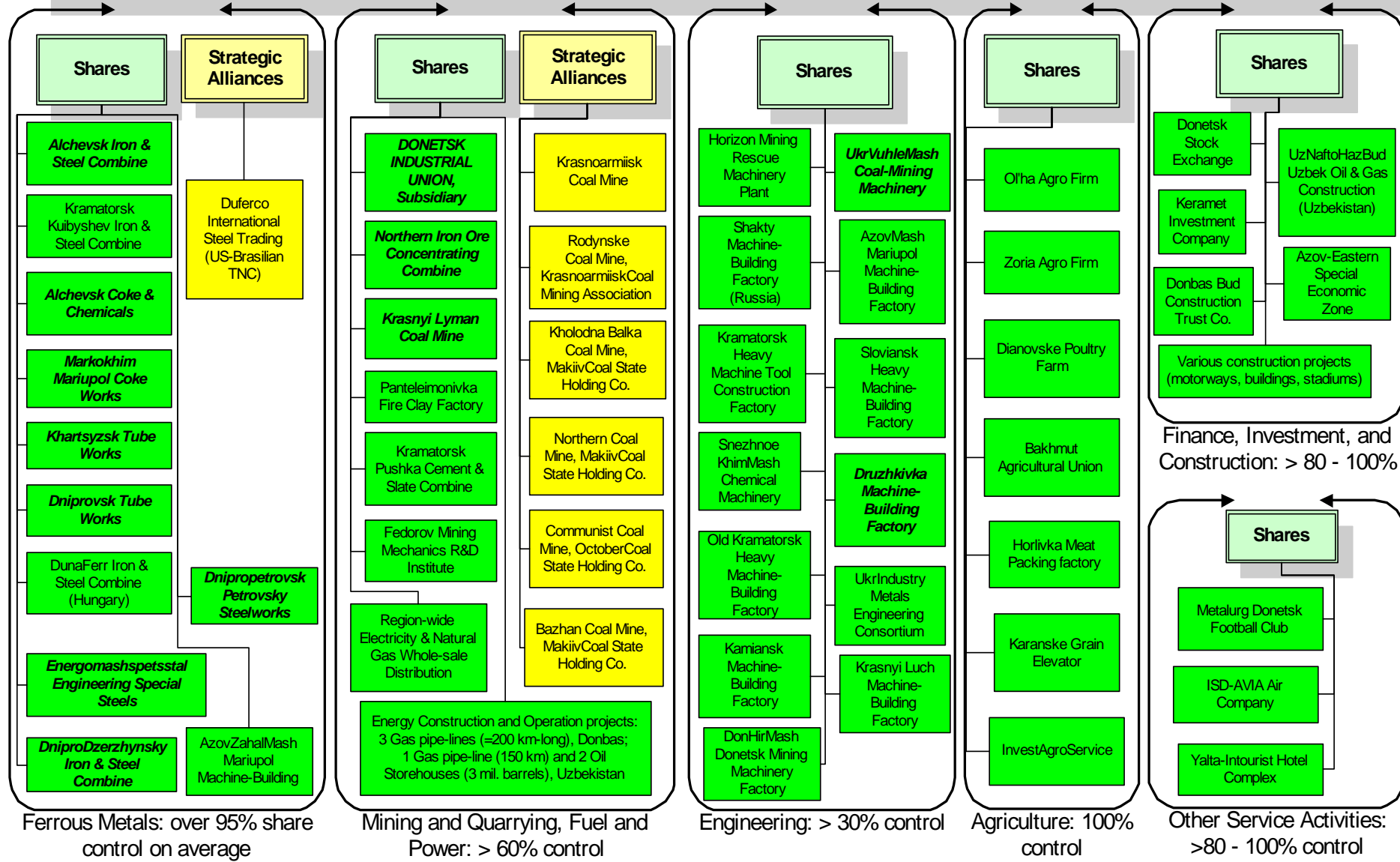
1. The Donbas business group members: *D.A.N.K.O* (Donetsk-based; co-owner: Serhiy Momot) and *A.R.S.* (Donetsk-based; owner: Ihor Humeniuk)
2. The Finance & Credit Bank Group (*Hrupa Finansy i Kredyt*; Kyiv-based; owners/associates: Kostiantyn Zhevaho; Volodymyr Khlyvniuk)
3. The Ukrainian Industrial Investments Group (*UkrPromInvest*; Kyiv-based; owner: Petro Poroshenko)
4. Dynamo Kyiv F.C. Group (*Hrupa Dynamo*; Kyiv-based; owner: Hryhoriy Surkis)

The Industrial Union of the Donbas (ISD)

Chairman of the Board: Mr. Serhiy Taruta (aged 48); CEO: Mr. Oleh Mkrтчian (aged 36)

Conglomerate headquarters: Donetsk, Ukraine; Conglomerate total revenues: US\$ 5.1 billion (2003)

Founded December 1995; reportedly by Messrs Akhat Brahyn (a.k.a Alek 'The Greek', assassinated 1995), Yevhen Shcherban (assassinated 1996), Vitaliy Hayduk et al; formal institutional founders: Vis-a-Vis Close Joint-Stock Co; AzovInTex Ltd; Ukrainian Technological Sciences Academy; Ukrainian Economic Sciences Academy; Donbas Chamber of Commerce and Industry

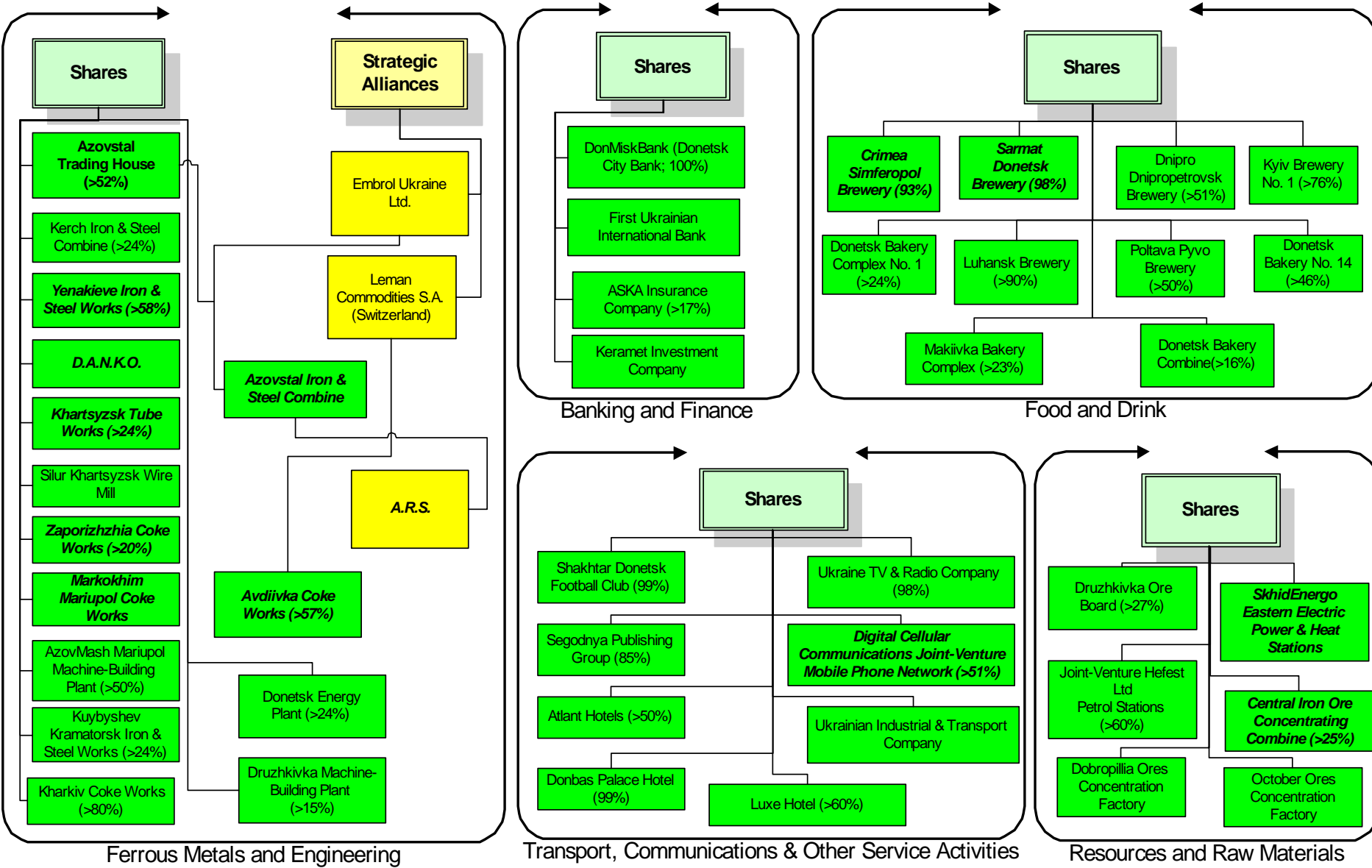


System Capital Management

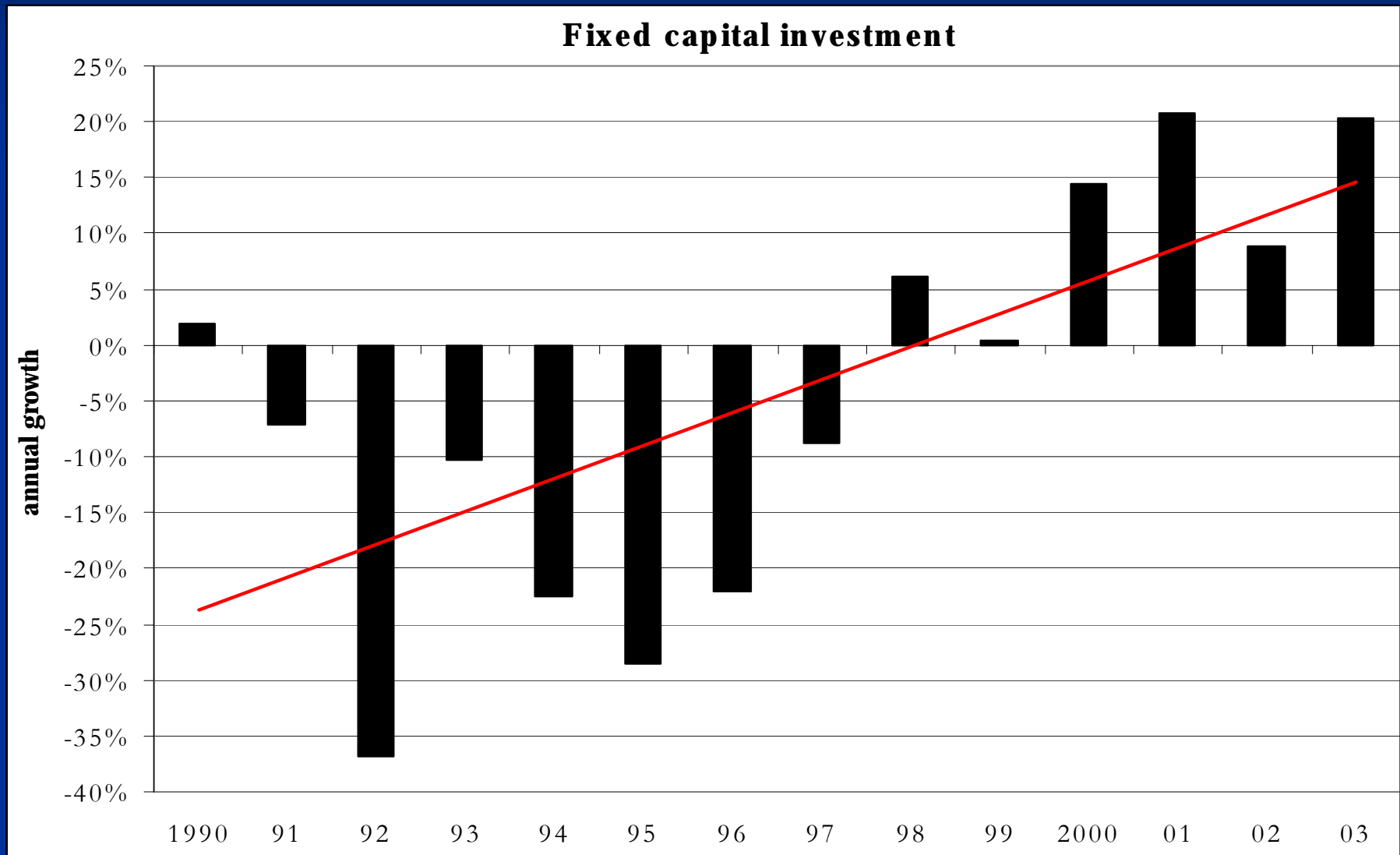
President: Mr. Rynat Akhmetov (aged 38; over 90% of shares); CEO: Mr. Ihor Prasolov (aged 42)

Founded November 2000 by Mr. Akhmetov, formerly one of the principal ISD's share-holders

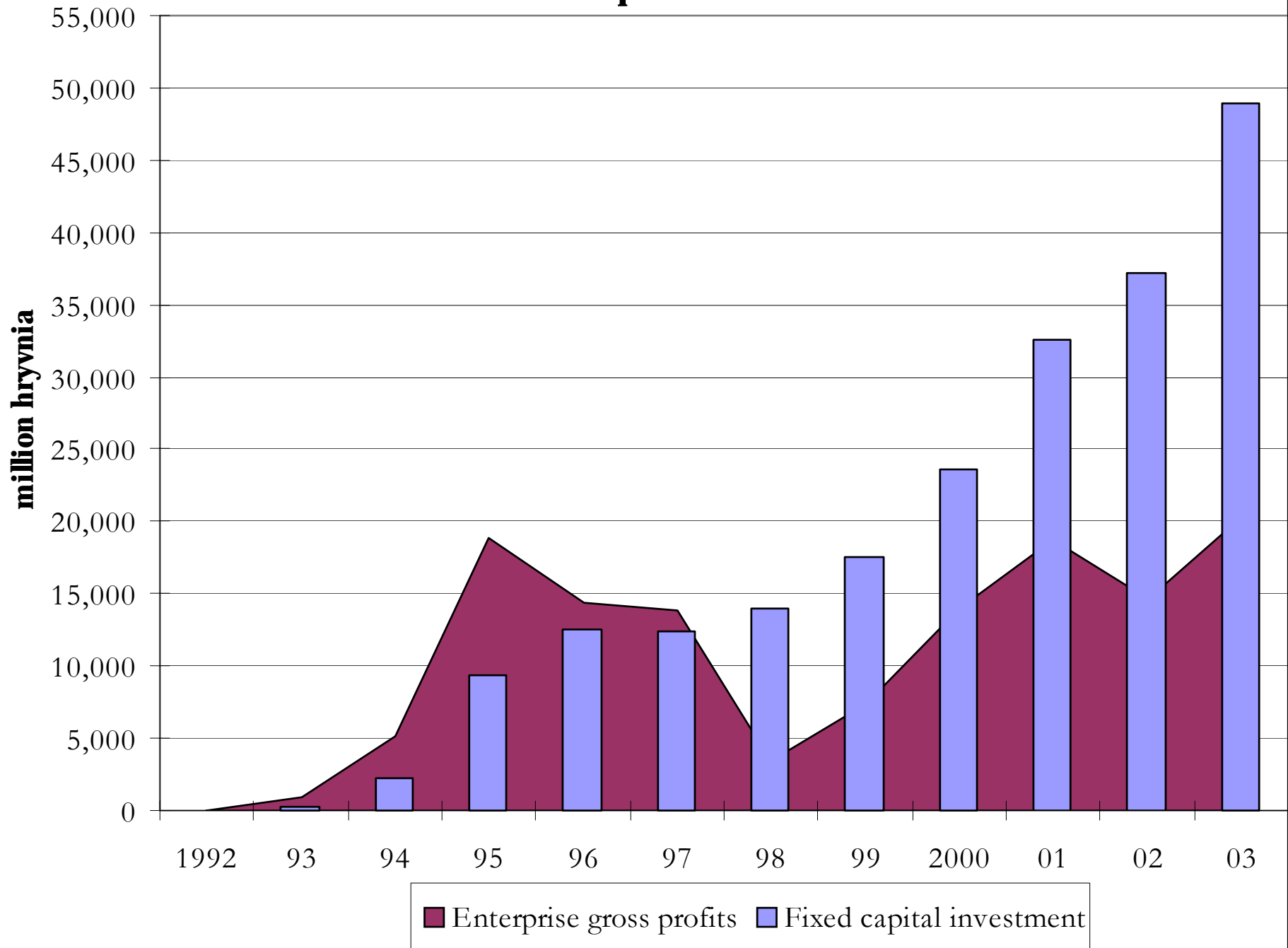
Conglomerate headquarters: Donetsk, Ukraine



Motivational system: from rent-seeking & rent-taking to capital accumulation via profit & investment

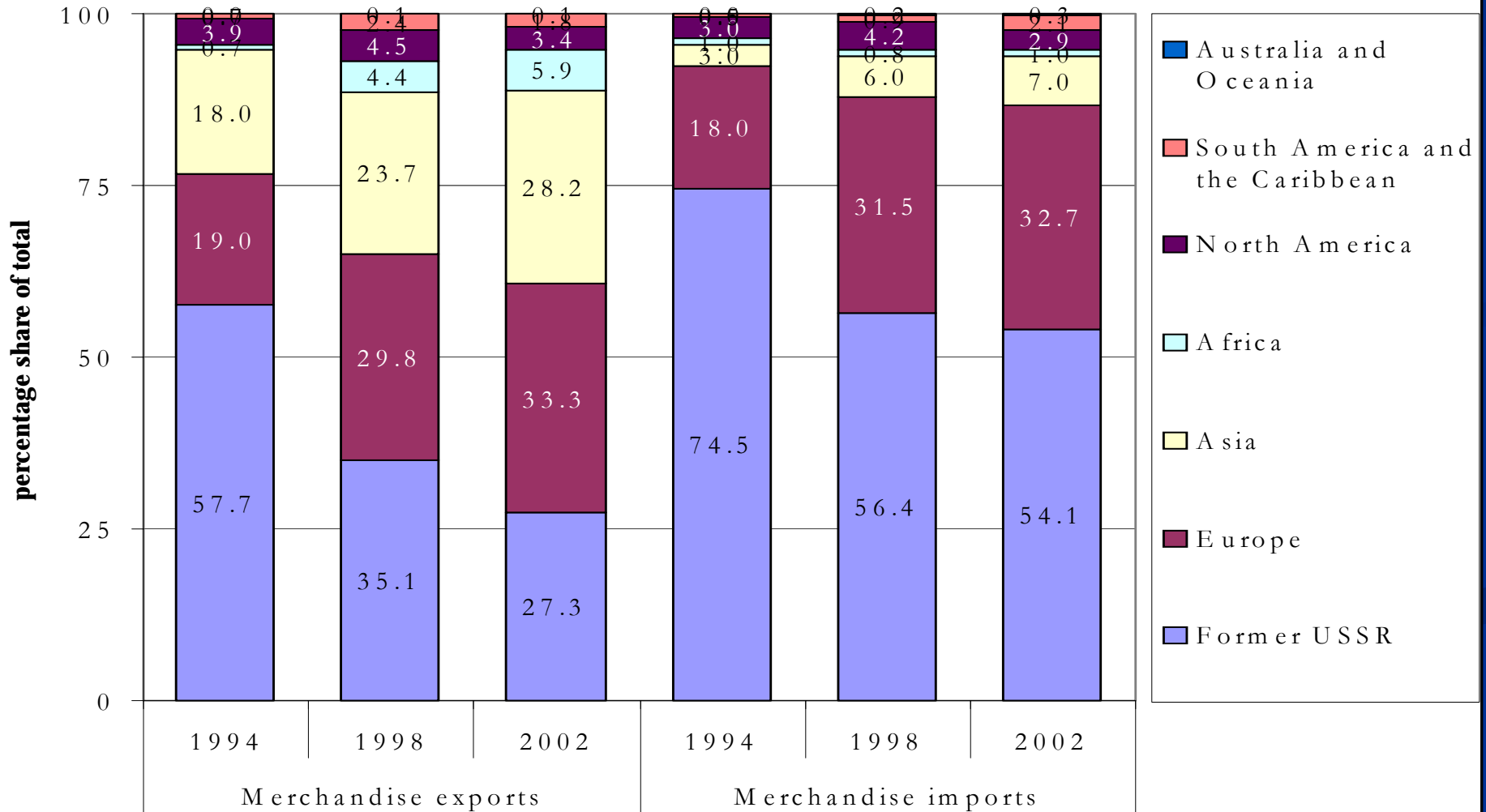


Profits and capital investments



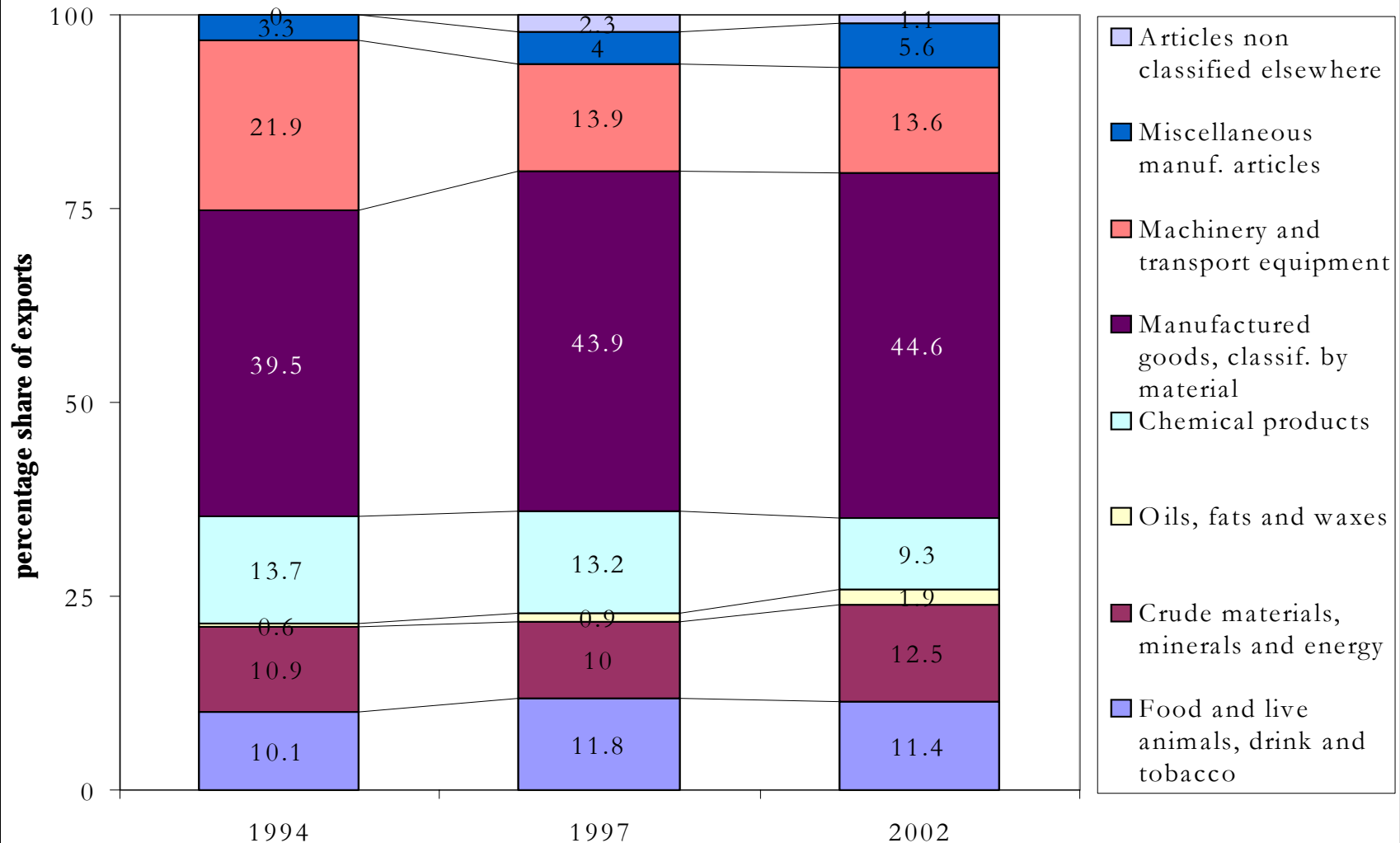
Positioning within the international political economy: from the Soviet autarky towards geographical diversification

Ukraine: foreign trade distribution



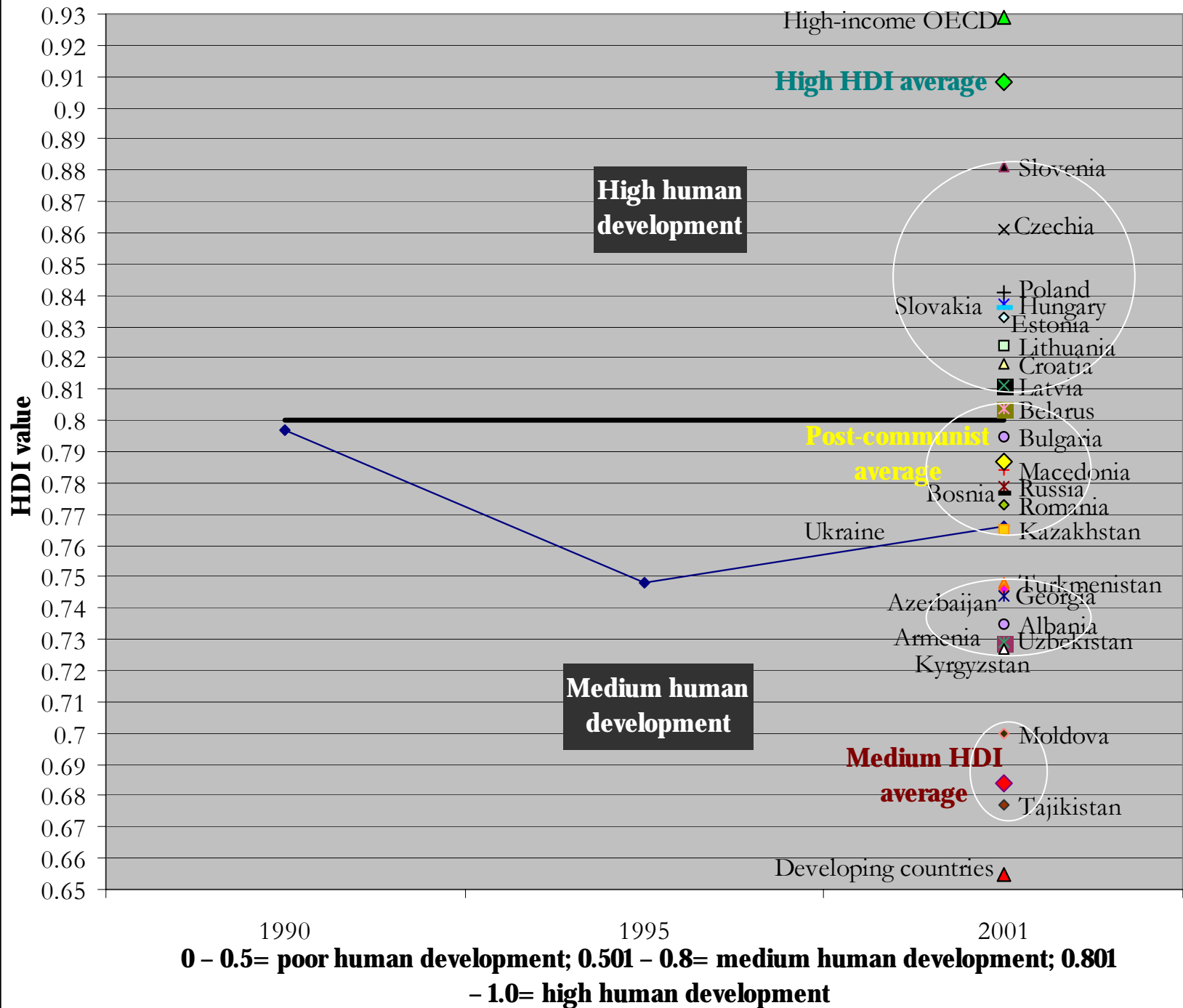
Climbing the exports ladder backwards

Ukraine: exports structure



The 'combine' mode of regulation: mixed signs of success

- a) the return to pro-active developmental state (=economic nationalism) and the increased level of intervention through industrial policy; yet hindered by low level of public spending
 - b) the suspension of unregulated labour market policies and the establishment of certain neo-corporatist arrangements
 - c) the combination of markets, indicative planning, and networks (hybrid contracting); two-tier corporate structure → competition of conglomerates within international markets and negotiation between the conglomerates within the domestic market + competition of small and medium firms on domestic and world markets
 - d) the return to accumulation of capital through profit and investment as the basis of value system
 - e) the insertion of the national economy into the international system, occupying low value-added niches
- ◆ Will 'combine capitalism' accelerate Ukraine's social progress?



What type of capitalism for Ukraine?

- The shift from 'chaotic' to 'combine' capitalism → economic recovery and growth
- However, the pace of catching-up is sluggish; human and social development indicators are still far below the pre-transformation levels
- There is a need for enhancing the state capacity, if industrial policies to be made effective
- More state's 'steering' of conglomerates towards the high value-added technological style
- New sources of capital investment to intensify the national regime of accumulation