

## STOCKTAKING SCENARIOS

Alexander Kravchuk

[alexander.kravchuk@cslr.org.ua](mailto:alexander.kravchuk@cslr.org.ua)

[Center for Social and Labor Research](#)

Issues, of the workshop agenda are certainly important for Ukraine. Let's consider the Ukrainian case, which is inextricably linked to the European and global crisis and development trends.

### **1) What has changed since the open outbreak of the global financial crisis in 2007/08, and why this is the case?**

To answer for the first question «what has changed for us after the crisis of 2007-2008» we need for a briefly characterizing Ukraine development until 2008.

After predatory privatization of state property, which was estimated at the time of the collapse of the Soviet Ukraine in the hundreds of billions US dollars, at the beginning of the 21st century in Ukraine has formed a new bourgeois class. It originated from the old party nomenclatures, directors of state enterprises and financial speculators. Getting their capitals literally for next to nothing by buying privatization vouchers among the people, that class tried to get their profits by the extensive exploitation of old infrastructure, production capacity, a large number of educated workforce.

Of course, this aim could be better approached by reorientation of Ukrainian production for export, in order to obtain foreign currency earnings. As a result, until 2007, Ukraine received one of the most opened economies in the world; its foreign trade turnover exceeded the GDP. Instead of expanding the domestic market, long-term investment in science technologies, bourgeoisie preferred the option of exporting the commodity sector. It was very well combined with the policy of the West to turn the former industrialized economies in the raw material appendages to their manufactures.

In order to minimize business costs within the country under state preferences are organized and thrive so-called "free economic zones" and "the territory of priority development." In fact, instead of the declared goals of the depressed regions development and the country as a whole, they are used for avoiding of import duties, exemption from corporate and value added taxes, etc. (Volume of issued tax privilege for these areas exceeded their payments to the budget by more than 28%). After 2005, when such practice was considerably restricted, Ukrainian capitalists are finding another way to minimize taxes and stepping up capital withdrawal to offshore jurisdictions. First of all this area, and it is common to all the countries of the former Soviet Union, was Cyprus. As a result, more than 90% of investments from Ukraine from 2007 to the present day concentrates on Cyprus. About one-third of foreign investments to Ukraine are Cypriot-origin, as a partially returned back resources into Ukrainian economy by local oligarchs.

In addition to the problem of withdrawal capital abroad, it is necessary to point out the country's debt policy. After the default in 2000, when Ukraine have ceased financial cooperation and borrowing money from the IMF and other international financial institutions, the debt burden has declined significantly, which, together with the favorable situation on world commodity markets has made it possible to implement more balanced economy policy and improving the welfare of Ukrainian citizens. But there was another problem: foreign private creditors massively brought capitals in Ukraine by investing primarily in the financial sector by issuing dollar-denominated loans, pushing up property prices to unprecedented heights. (The cost of new buildings in Ukraine reached in 2007 to 400% of GDP, which was in 2.5 times higher than US "bubble" figures). The private sector sank in debts to Western banks, which in 2007 controlled about 50% of the country's banking sector. As a result, the business sector has played the same destructive role for Ukrainian economy as the state-owned companies in the 90's, bringing the economy of hardest crisis.

## **2) Which have been the actual consequences of these developments for the issue / for a country / for the EU / for Europe / for the world?**

Based on the above reasons we can answer for the second question of the workshop. In 2008-2009 Ukraine received the effect «sudden stops of capital flows», capital outflow and the highest economic decline in the world (-15% of GDP in 2009). Export-oriented companies as well as related industries, being hostages of the established economic model, and faced with falling demand for their products on the world market, have suffered huge losses. This led to an outflow of foreign currency and reduction of foreign exchange reserves of the National Bank, the devaluation of the national currency, increased inflation, and reduction in production with a corresponding increase in the number of unemployed. The government returned to a strategy of living in debt and resumes the new loans with the IMF program. This implies off course a corresponding liberal reforms, the policy of "austerity."

Events after the change of the regime of Yanukovich, the military conflict, the crisis of the elites, inept, and in some places criminal finance policy in the interests of the ruling class, revealed the accumulated contradictions in economy and give a start to the new round of accelerated socio-economic crisis in Ukraine. Now the IMF, using the status of the «only Savior» of the Ukraine, oversees and approves tax reform, de facto forms the country's budget and promote the steady reduction in costs for science, education, health and other parts of the social development. The biggest pie in the budget expenditures in 2015 is the payment of interest on loans (about 16.7% of total expenditures). These are the macroeconomics results of last couple years for in Ukraine. Let us turn to the third question - "whether there were alternatives to all of this? »

## **3) Did other possibilities exist in or for the EU and why have not they been realized?**

Regarding Ukraine - yes, they were certainly possible but with existence of the political will of our elites. To avoid the coming collapse (in the modern economic system), we should do the following:

- The rejection of cooperation with the IMF and other external creditors. Conduction of open the audit of all public debt and the announcement of a unilateral default; refocusing on domestic resources for development,
- Effective and not fictitious control of capital abroad outflow,
- The formation of strategic development programs for residues of science-based industries in order to create on their basis of a breakthrough economics from the peripheral development
- Changes in tax policy that would reverse the trend of liberation of large capitals from paying taxes, implementation of progressive taxation schemes with their transparent administration and further use,
- Nationalization of strategic industries and businesses instead of transferring them to private hands (today under the auspices of the IMF and with the participation of international consultants put up for sale the remains of state energy, transport and other sectors of the economy).

Thus, even these essentially reformist (but in Ukrainian conditions - revolutionary) steps could radically improve the situation in Ukraine and the welfare of the majority of the population. But we understand that in our increasingly globalized world, such a policy option would certainly come up against opposition from the European, American, Russian and other capitalisms. It is therefore necessary to honestly answer for the fourth question about possible alternatives.

## **4) Which scenarios are possible and shall emerge, and with which consequences for the next 10-15 years, and what are the conditions for the actual realization of such trends?**

Sure, all the methods described above, could be very useful in separate country with immediately positive effect. But in global dimension in our view the only alternative is a proposal of a new project of alternative globalization. And it cannot and should not be an old or improved version of the existing order. It should not just criticize the system of commodity-money economy, and based on this global

system of redistribution of resources and inequality. But we have to offer such a development framework, which would have removed the existing contradictions.

Therefore we need work to develop a new theory that would provide the following:

- What should be the model of a **democratic** planned economy today (with critical evaluation of the socialist countries experience, their errors and successes)? It is meant the construction of such an egalitarian system of society in which everyone's needs would be democratic considered and realized with the existing material constraints;

- What criteria instead of the "resources / profitability" should be put in the basis of all production processes? (Satisfaction of true human needs and the development of human resources, with the minimizing of required resources, environmental and health impact);

- How to replace the bureaucratic system of «expert manual management» on all levels of management by automated algorithms and to get away from discredited itself representative democracy to a system considering the opinion of each person;

- What are the technical resources, the computing power needed for such modeling? Such opportunities already exist at the present level of the productive forces, cybernetic and the information revolution, the only question is to redirect these forces into the useful direction;

So, we need to put our attention on laying material foundation for such alternatives. Otherwise the system restart will be carried out in even less attractive form than we have now. Time for these changes is precisely here and now. Moreover, if we will be not able to do this today, tomorrow, the forces that rules the society with the help of previously mentioned features and with mobility of capital and total information control will make any form of protest and struggle against capitalism impossible, defer our progressive development.