Abstract
The typical academic analysis of post-Soviet transitions focuses on the need to shift from a fully socialist to a fully capitalist economic system. While this transformation has occurred in some post-Soviet states, in Ukraine research shows that non-capitalist means of production remain common by the choice of the participants. Despite its existence, this gradient of economies in Ukraine has been largely overlooked in academic literature. In this essay, I argue that the failure of Western academic analysis and policy recommendations for Ukraine over the last twenty-five-years can be directly linked to the failure of academics and policy advisors to take a nuanced approach in studying Ukraine’s particular economic conditions. To correct this, I propose further research be conducted to more clearly outline the true economic complexity in Ukrainian society. By meaningfully acknowledging the gradient of economic activity in the country, challenging the hegemony of capitalism, and breaking the false economic binary, more meaningful study of the country can be undertaken and more meaningful policy recommendations can be made.
Introduction

Nearly every news article over the 2014 conflict in Ukraine begins with some variation of the same image: a map of the country bifurcated along roughly the same line cutting from the southwest to the northeast of the country. The left is typically labeled as Ukrainian speaking and the right as Russian speaking. This makes for a clean, easy-to-understand explanation for the clash of ideas occurring in the country. Unfortunately, like most straightforward explanations in the world of geopolitics, this particular image greatly oversimplifies the cultural complexity of Ukraine. While it is true that Russian is more common in the east and Ukrainian is more common in the west, both languages are heavily used across the country. A Ukrainian citizen may speak Russian at home, Ukrainian at work, and Surzhyk (a mixture of the two languages) in the streets. Such code switching is common between the two languages and oftentimes conversants do not even realize they are switching languages.1 By dividing the country into “Russian-speaking” and “Ukrainian-speaking” halves this sort of reductionist analysis glosses over the complexity and nuance needed for meaningful analysis, whitewashing the nation’s linguistic landscape into two unhelpful groups. In doing so, reporters and scholars grossly oversimplify the culture of the region and, as a result, diminish the usefulness of their reporting.

Since the collapse of the Soviet Union in 1991, a similar reductionist narrative has been advanced in regard to the Ukraine’s economic system. Analysts refer to the transition from socialism to capitalism as a binary transformation—targeted economic reforms are made and suddenly a country becomes capitalist; any sort of incomplete transformation is simply labeled as a failure of reform. Commentary on the Ukrainian transition typically focuses on how Ukraine can go about becoming fully capitalist, often by suggesting the Ukrainian government undertake

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similar reforms to Poland or the Baltic countries. This subsumes Ukraine’s true economic diversity, however, and blurs reality. Research shows that non-capitalistic economies remain common in Ukraine by the choice of the participants.\(^2\) I argue that the failure of Western academic analysis and policy recommendations for Ukraine over the last 25 years is directly linked in part to the failure of academics and policy advisors to take a nuanced approach to studying Ukraine’s particular economic conditions. I propose further research be conducted to more clearly outline the true economic complexity in Ukrainian society. By meaningfully acknowledging the gradient of economic activity in the country, challenging the hegemony of capitalism, and breaking the false economic binary, more meaningful study of the country can be undertaken and more meaningful policy recommendations can be made.

**A Brief History**

The first organized rule over the territory of modern-day Ukraine was that of Kievan Rus in the early 900s. Kievan Rus was not a state in the modern sense, but rather a loose federation of Eastern European tribes. After its collapse, the lands of Ukraine passed through the control of many empires including the Ottoman Empire, the Austrian-Hungarian Empire, the Golden Horde of the Mongols, the Polish-Lithuanian Commonwealth, the Russian Empire, and the Soviet Union. The key takeaway from examining this 1100-year history is that Ukraine possessed no sovereignty until the collapse of the USSR in 1991. Ever since it suddenly and unexpectedly gained its independence, the nation of Ukraine has been forced to decide how to proceed politically and economically. With clashing popular opinion coupled with enormous corruption and considerable historical baggage, this process of self-exploration has not gone well.

From the start, Ukraine was not well positioned to transition to a full market economy. Much of its economy had been dominated by heavy industry in order to support the now-defunct Soviet military industrial complex, relying on subsidized inputs like fuel in order to function. Further, for marketization to succeed, many of the country’s publicly held businesses and resources would need to be privatized. In analyzing the fifteen post-Soviet states political scientist Grzegorz Ekiert placed Ukraine in the seventh and worst-off category for its post-Soviet transition, citing that it began “the separation and transformation late, with no advantages, and [in part] unwillingly.” 4 Anders Aslund, an expert on economic transitions, argues that even of the countries in this worst-off category Ukraine’s marketization went outstandingly poorly: “Ukraine’s postcommunist transition has been the most protracted and socially costly [of the post-Soviet transitions]. The leadership’s main early goal was nation building, and the economy was not given due attention. The long delay in economic reforms led to hyperinflation, extreme rent seeking, and output collapse.” 5 A poor starting position economically, rampant corruption, and social uncertainty over how the state should be organized have all been cited as reasons for this tremendous failure.

Nearly any economic indicator can be cited to demonstrate the failure of Ukraine’s economy in the nineties. To cite just two examples, “between 1990 and 1999, [...] employment declined by about one-third” 6 and “in 1993 hyperinflation of over 10,000 percent [occurred] as a result of poor economic reform and fiscal policies led three-quarters of Ukrainians [to live]

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6 Williams, "Beyond a ‘Varieties of Capitalism’", 417.
below the poverty level.”7 Indeed, “Ukraine, exhibiting similar features of plutocratic capitalism, remained mired in an unbroken economic depression until the year 2000.”8 Though the economy saw marginal recovery after the turn of the century, the social and political damage had already been done. Privatization was slow, unfair, and corrupt, leading to numerous problems. As Schwartz explains, “the distinct Russian and Ukrainian approaches to privatization both led to political economies marked by significant concentration of wealth, collusion between businesses and political elites, high levels of corruption, slow economic growth, and weakly institutionalized market institutions that encouraged asset stripping.”9 This has been blamed in part on the exploitation of political advantage held by the former-Soviet elite who remained in power after the collapse of the USSR and on part on criminal empires that arose in the decade of restructuring. Yekelchyk notes, “What emerged in Ukraine in the 2000s was crony capitalism at its worst. The new rich usually owed their instant wealth to their government connections, if not their own political appointments, but some of them also came from gangster backgrounds. [...] The gap between rich and poor grew rapidly, exacerbating popular resentment against rampant corruption and political manipulation.”10 Corruption has been the defining feature of post-Soviet economic transitions, and Ukraine has faced some of the worst of any post-Soviet state.

What is even more important than the economic distress for the sake of this argument is the damage that was done to public perceptions of the system. “Politically, privatization helped transform popular idealism into the deep cynicism that traditionally stereotypes Russians” and was even worse in Ukraine. Schwartz points out, “Whereas the Russian voucher privatization program attracted millions of participants, the Ukrainian public practically avoided it entirely.

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7 Yekelchyk, The Conflict in Ukraine, 77.
9 Ibid.
10 Yekelchyk, The Conflict in Ukraine, 78.
seeing it--accurately--for the sham that it was. [...] In many eyes, privatization in the Ukraine has led to even greater capture by the new plutocrats (often, communist clans) than in Russia.”¹¹ In the early nineties, public support for dramatic economic reform was always low and many, even those with some degree of optimism, remained skeptical. By the end of the decade, the systematic corruption of politics and the great economic turmoil faced by the average citizen came together to disillusion the vast majority of Ukrainian citizens.

All of this social and political frustration has not gone unexpressed. Since gaining independence Ukraine has experienced two popular revolutions (the Orange Revolution in 2004 and the Euromaidan Revolution in 2014), both deposing politically unpopular administrations. Shortly after the second revolution, Russia annexed the territory of Crimea in southern Ukraine. Several areas in the east of the country also experienced pro-Russian unrest. In the two years since the ousting of the Ukrainian government in the Euromaidan Revolution, the new government has been working (at least ostensibly) to implement structural changes, but at the time of writing, conflict continues and Ukraine remains far from economically stable. According to Aslund, “Ukraine’s economic situation is spiraling out of control with a burgeoning budget deficit, rapidly rising public debt, plummeting exchange rate, and surging inflation. The country is on the verge of an inflation-depreciation cycle and international default.”¹² While he prescribes further economic reform to move the country closer to free and fair capitalism, his suggestions fail to consider popular opinion or to recognize the true economic diversity of the country.

The Ideal of Marketization

¹¹ Schwartz, The Politics of Greed, 16.
Proponents of a complete economic transition to a capitalist system ardently extol capitalism’s many virtues, emphasizing specifically the obvious economic benefits. If individuals are allowed to own the means of productions and profit from their efficient use, these individuals should be incentivized to maximize their efficient production of goods and society, as a whole, should prosper. Additionally, full marketization would allow for stronger ties and easier economic interactions with other capitalist countries. Some scholars note the benefits Ukraine could gain from integration into the EU, including “access to its markets, job opportunities, and presumably visa-free travel.”13 Overall status as a capitalist country should, in theory, allow for more significant interactions with other capitalist countries.

More than the economic benefits, however, full conversion to capitalism is considered by many to be a requirement for peace, stability, and democracy. Proponents of marketization assert that capitalism reinforces democracy.14 First, it is seen as a means of bolstering rule of law. A capitalist system should, in theory, be less prone to corruption because capital is held by numerous private entities instead of accumulated by politicians. A free and fair economic system supports a free and fair political system. Second, marketization is said to contribute to political diversity. According to Aslund, open privatization in some former-Soviet states provided oligarchs with a sense of security, which allowed them to compete in open politics; “by contrast, democracy is much weaker in Kazakhstan and Ukraine, and even the most powerful businessmen are anxious not to criticize the ruler in public, fearing exile.”15 Though this quote is from 2002 and no longer reflects the current political sentiments of the country, the idea that a capitalist economy is more conducive to political competition remains. Finally, Aslund argues that a true capitalist system prevents oligarchs from accumulating too much power by forcing them to work

13 Ibid., 105.
15 Aslund, Building Capitalism, 300.
in the open: “at present, Ukraine stands out as the last post-communist outpost where tycoons wield substantial political power.”16 Were true capitalism to take hold and crony capitalism stamped out, this would no longer be the case, as true capitalism leads to democracy and democracy protects its citizens from corruption. Or so goes the argument of the systems proponents.

A Harsher Reality

Unfortunately, privatization and marketization did not pan out as was forecasted. One major issue was corruption. While every model was based on the assumption that proper privatization would take care of corruption, in reality every country in the former Soviet Union (FSU) struggled heavily with the issue. As Schwartz explains, “Today’s FSU reality suggests that privatization is not an automatic fix for countries emerging from communism. Corrupt plutocracies have appeared throughout the FSU, with the new owners conducting business in ways that mock ideal notions of private enterprise.”17 While it is nice to praise the benefits of an idealized transition to capitalism, in practice this idealized transition has proved unattainable and corruption has proved an inevitable feature of post-Soviet economic transition. To brag of the benefits of a complete economic transition to capitalism while ignoring the unavoidable specter of corruption is simply unrealistic and dishonest.

A second major challenge in Ukraine’s transition to a full market economy was the weak political support it faced and general conflict in Ukrainian society over whether or not the transition was truly desirable. Immediately after the collapse of the Soviet Union, “economic

16 Aslund, What Went Wrong, 29.
17 Schwartz, The Politics of Greed, 16.
reform barely entered the political agenda.” As the decades continued, support for reform efforts fluctuated, but by the end of the nineties, 70-90% of the country continued to express strong approval for communist economic systems and less than 10% supported the state of the economy at the turn of the century. Though privatization had been occurring for nearly ten years, “at decade’s end the private sector still only accounted for just over half of GDP.” Even today, over 25 years after the collapse of the USSR, “little understanding of market economic ideas has taken hold in Ukraine.” Whether this lack of understanding stems from support for other economic systems or disinterest in economics overall, it is clear the marketization of Ukraine has not panned out as hoped by proponents of capitalist economic reform.

Public opinion on the economic landscape of Ukraine is conflicted even to the point that the same individual will simultaneously express contradictory support for opposing economic systems. In a survey conducted in 2001, Ukrainian citizens reported simultaneous approval of “capitalism and state tutelage, privatization and full employment, freedom of movement and residence permits, human rights and the death penalty.” In another poll conducted in 1996, “No less that 18 percent [of respondents] stated they would support both sides, that is, promoters of both socialism and capitalism -- to avoid instability and conflict.” Clearly the implementation of all of these contradictory ideas is a bureaucratic impossibility. The fact that so many people were willing to back them simultaneously, however, demonstrates the support for a variety of

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18 Aslund, Building Capitalism, 63.
19 Ekiert Grzegorz and Stephen Hanson, ed., Capitalism and Democracy in Central and Eastern Europe: Assessing the Legacy of Communist Rule (Cambridge: Cambridge, 2003), 96.
21 Aslund, What Went Wrong, 32.
22 Mikhail Molchanov, Political Culture and National Identity in Russian-Ukrainian Relations (College Station: Texas A&M, 2002), 184.
economic systems in Ukraine.

Even more significant, however, is the prevalence of apathy toward economic policy in Ukraine. Political analyst Mykola Riabchuk expounds on this, discussing the “amorphous group of those who note that they ‘do not care,’ ‘are not interested,’ [and] ‘feel undecided.’”24 He goes on to explain that “perhaps the best example of this ambiguity was revealed by a 1996 national survey [mentioned above] that asked 1200 respondents to define which political tendency they supported. It appeared that 13 percent favoured promoters of capitalism and 20 percent -- of socialism, 25 percent claimed they did not support anybody, and 22 percent remained undecided.”25 Even the 2004 Orange Revolution, one of the largest public expressions of frustration in the country’s history, generally avoided economic arguments and instead focused on issues of corruption and political representation. Rather than target the terrible economic policy that led to many of the nation’s problems, “the new Ukrainian middle class [instead] resented the rampant corruption and the lack of equal opportunity.”26 Politically, support for the Communist Party as a political system has died. “In the October 2014 parliamentary elections, the Communist Party received only 3.9 percent of the votes cast and fell below the 5 percent threshold for representation. This was the first time since the Bolshevik Revolution in 1917 that the communists were not represented in the Ukrainian Parliament. Nor did any other socialist or left-wing party enter parliament.”27 This lack of political support for socialist and left-wing parties, however, does not translate into a lack of support for socialist and left-wing economic systems.

24 Ibid.
25 Ibid.
26 Yekelchyk, The Conflict in Ukraine, 88.
27 Aslund, What Went Wrong, 32.
Non-Capitalist Means of Production in Modern Ukraine

In the decade following the collapse of the USSR, necessity made non-capitalist means of production incredibly common in Ukraine. Facing incredible shortages in the cities, “for many urban residents, having relatives in a village or owning a small garden pit in the countryside, where they could grow their own food, became the key to survival.”

Though economic problems have persisted, the shortages that plagued the post-Soviet states in their first decade of existence have not. Despite this, support for non-capitalist means of production remains. In 2006, “some 60 percent of all households [across the four areas of Ukraine surveyed] asserted that they primarily rely on non-capitalist economic practices to secure their livelihood.” Of these households, the survey revealed that many utilized non-capitalist practices out of choice rather than out of necessity.

One of the most common forms of this non-capitalist means of production is the use of “blat”, or informal channels and personal connections used to acquire goods, obtain services, or even secure a hard-to-get job or political appointment. Though the term “blat” is often associated with black markets, corruption, and criminal networks, it does not inherently necessitate any exploitation or illegal behavior. Oftentimes blat networks simply allow participants to bargain skills and resources without the use of currency as a medium of exchange or with money only playing a token role in the interaction. In one survey conducted in 2011, “8 percent of households now chiefly rely on such ‘paid favors’, namely undeclared monetized exchanges conducted within personal networks mainly for social and/or redistributive purposes, rather than for profit-making rationales.”

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28 Yekelchyk, The Conflict in Ukraine, 77.
29 Williams, “Beyond a ‘Varieties of Capitalism’”, 418.
30 Ibid., 423.
31 Ibid., 418.
exchange for a small sum of money and an assurance of a future favor. In another a plumber fixed a friend’s leaky pipes and accepted a small amount of homegrown produce in exchange. “Such exchanges, in consequence, are more akin to unpaid mutual aid than capitalist economic relations in terms of the economic relations involved and grounded more in not-for-profit rationales associated with community-building or redistributive motives that motives related to profit-making.”32 On the whole, the use of these informal networks is higher among individuals with low household incomes and with individuals who reside in rural areas.33

The key lesson here is that while capitalist economic exchange is very common in modern Ukraine it is not the sole means of exchange. Recognizing this, it becomes easier to understand “the shallow permeation of capitalism as well as the continuing prevalence of multifarious non-capitalist economic practices in this society.”34 Unfortunately, the majority of scholarship and policy recommendations for Ukraine assume a total hegemony of capitalism. This assumption, as shown by the examples above, is unjustified. In order to undertake more meaningful analysis, scholars first must acknowledge Ukraine’s true economic diversity and incorporate it into their models and predictions.

A More Nuanced Approach

As shown above, the characterization of Ukraine as either a capitalist country or a country on the path to capitalism is presumptuous and incorrect. To correct this erroneous image, scholars and analysts alike need to understand that socialism is not a burden to overcome, that capitalism does not need to totally dominate the economic landscape to be useful, and that in the end the Ukrainian people are satisfied that their country exists in a ‘middle-ground’ between

32 Ibid., 420.
33 Ibid., 421.
34 Ibid., 414.
economic systems.

Many of the narratives about post-Soviet Ukraine focus on the country ‘overcoming’ its history of socialism and ‘achieving’ a total market economy. Ekiert does well to note that “legacy explanations [of economic transition] usually highlight the burden of the past, understood as a set of factors likely to impede the formation of modern democratic polities and market economies in the postcommunist context.”\(^{35}\) In reality, while the economic system of the Soviet Union was riddled with problems, it was not a complete failure. Indeed, Soviet Ukraine actually boasted a large array of successful social safety nets and its citizens frequently engaged in non-capitalist exchange, as with the examples provided above. These benefits must not be overlooked “especially when one compares the experiences of post-communism with other cases of post-authoritarian transformations burdened by massive social problems.”\(^{36}\) To reject the entire system wholeheartedly misses its benefit and falls victim to ‘throwing the baby out with the bathwater.’

Coupled with the myth of needing to overcome historical economic systems is the myth of the necessity of capitalist hegemony. Post-Soviet countries on the whole have often been depicted as ‘on the path to capitalism’ and anything short of achieving a fully capitalist economy is seen as ‘incomplete’ or ‘failed’ transition. This myth, in fact, is perhaps the biggest barrier to accepting a more nuanced interpretation of Ukraine’s economy: as Williams notes, “the outcome is that the future is closed off to anything other than capitalist hegemony.”\(^{37}\) In their article "Beyond a ‘Varieties of Capitalism’ Approach in Central and Eastern Europe: Some Lessons from Ukraine,” political scientists Colin Williams, Sara Nadin, and Peter Rodgers challenge this myth, eloquently dismantling the foundation of the idea:

\(^{35}\) Ekiert, *Capitalism and Democracy*, 5.
\(^{36}\) Ibid.
\(^{37}\) Williams, “Beyond a ‘Varieties of Capitalism’”, 414.
Ever since the demise of the Soviet Bloc, the recurring meta-narrative has been that there is an indisputable, inevitable and irreversible transition towards capitalism. As a result, an increasingly popular argument has been that all economies can be depicted as varieties of capitalism. Seen through this lens, every economy is now essentially capitalist and if non-capitalist economic practices persist, they represent little more than residues inhabiting the margins and are rapidly disappearing as capitalism reaches ever more broadly and deeply into every orifice of daily life across the globe. Indeed, even those opposed to the deeper permeation of capitalist economic relations now view its continuing colonisation as immutable and irrefutable.38

It is exactly these fallacious assumptions that need to be overcome in studying modern-day Ukraine. Academics and policy makers have been prescribing similar economic solutions to every post-Soviet nation since the collapse of the USSR, and experience has shown their suggestions lacking. Beyond the economic and political complications of their proposed policies, these ideas also fail to respect the will of the Ukrainian population.

In the end, capitalism only works if the participants in the system want it. This extends to all members of the system: producers, consumers, politicians, and citizens. In analyzing greed and corruption in Russia and Ukraine, political scientist Andrew Schwartz argues, “The institutions of liberal democracy and a modern, regulated market economy [will not] take root in Russia and Ukraine until dominant interest groups [the oligarchs] turn their attention from winning additional assets to securing the rights to the property they already have acquired. Only then might Russia and Ukraine escape the grasp of plutocratic capitalism.”39 This does not capture the full picture; even if politicians and business owners eschew corruption and embrace rule of law, full capitalism is not guaranteed in the country. As long as there are citizens of Ukraine who prefer to rely on non-capitalist means of production, the Ukrainian economy will remain a blend of economic systems, capitalist and non-capitalist alike. Ignoring this reality while prescribing policies and future actions, no matter how logical and desirable the predictions

38 Ibid.
39 Ibid.
of capitalism, is dishonest and undermines the usefulness of the resulting analysis. Only by accepting and embracing the true economic landscape of Ukraine can scholars and policy makers craft truly valuable work.
Bibliography


