

Creative destruction

From poverty to prosperity in a nation-state with an open society

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On December 1, 1991, the vast majority of residents of Ukraine supported the Verkhovna Rada's Declaration of Renewal of State Independence in a nationwide referendum. In short, there was complete consensus about the rightness of this decision by the country's legislature. Yet, in the quarter-century that has passed since then, Ukraine failed to affirm itself as an independent, economically sound country with rule of law and quality public governance. Events in recent years—the com-

ing to power of the pro-Kremlin Yanukovich regime, military aggression on the part of Russia, the loss of Crimea and part of Donbas, a protracted economic crisis, corruption and a traitorous government, excessive state debt, and external dependence—have only confirmed this.

In the last 25 years, Ukrainians have asked themselves thousands of times: Why are we still in a vicious cycle of poverty and ambiguity? How can we break this cycle?

A bit of background: poverty, prosperity and the nation-state

British economist Angus Maddison (1926-2010) studied world economic development, calculated the main socio-economic indicators in various regions of the world historically, and came to conclusion that almost from the start of the modern era until the late 18th century-early 19th century, poverty was the natural state in all societies and countries.

The very existence of the absolute majority of humans was constantly under threat from failed crops, epidemics and competition for resources. The average life expectancy was barely 30. Only those who could take advantage of greater physical force and religion to use and control violence against others and establish rents for themselves by collecting taxes and tolls that they distributed and accumulated for themselves, lived any better. And that was how the organization of human societies was established: its social hierarchies and the rules of the game that all members of the society, willingly or unwillingly, agreed to.

These rules formed the foundation of human lives from the Antiquities through the Middle Ages. Only in the Modern Era, that is, from the 16th-17th centuries on, was there evidence of a trend towards major changes: Europe and then the US began to move from a feudal agrarian model to an industrialized model, nation-states began to emerge, and a series of bourgeois revolutions took place: the national liberation war and bourgeois revolution of 1566-1609 in Holland, the anti-monarchist revolution of 1640-1660 in England, the 1775-1783 war of liberation in the American colonies, and the anti-monarchist revolution of 1789-1794 in France.

The standard of living of ordinary people appears to have only begun to grow at the end of the 18th and early 19th centuries. The main driving force behind this shift was the solidification of nation-states in Europe and their active socio-political, economic and technological develop-



ment (see **Table 1**). And Ukraine was no exception to overall European trends at the time. Like other European nations, history gave Ukrainians the chance to establish their own nation-state, to switch from a feudal to an industrial society, and to begin to move from poverty to prosperity in the new civilizational stream that was then emerging. In the mid-17th century, a national liberation struggle unfolded to establish an independent Ukrainian nation-state and institute new socio-economic relations based on small-scale farming, private ownership of land, industrial development, free labor, and self-government.

The economic set-up was based on the notion of “free labor and employment.”

The political and socio-economic organization of the Ukrainian state at the time was very similar to what economists would eventually come to call “an open-access society” and in very short order became one of the most progressive and effective models in Europe. It was in sharp contrast to society in neighboring Muscovy with its communal-style rural lifestyle, the low place of human freedom and dignity on its scale of values as evidenced in serfdom, and the concentration of all economic and political power in the hands of the self-appointed monarch on whom all subjects were completely dependent and property rights were meaningless.

And so, even after the Ukrainian kozak state was split by the Andrusovo Truce of 1667 along the Dnipro River into Right Bank and Left Bank Ukraine, and the Hetmanate was liquidated in

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1764, farming remained developed in Left Bank Ukraine in the 18th century. Indeed, its economy still showed visible traces of the overall European trend towards greater mechanization in farming, active trading and growing economic ties among markets. With serfdom far less entrenched than in Russia or absent altogether, the free farming of private land parcels, coupled with very fertile soil and ancient agricultural traditions meant that labor productivity was enough to allow a majority of Ukrainians to live without experiencing extreme poverty. But more than anything, it offered them the prospect of joining the cohort of most developed economies at that time.

But things turned out differently. When Ukrainians lost their national state at the end of the 18th century, they lost the opportunity to launch their own movement forward with other ▶

countries around the world in what was the most important global trend being born at that time: **from poverty to prosperity in a nation-state with an open society.**

Instead, the 19th century was marked for Ukraine by a violent transformation into Malorosiya or Little Russia as a part of the Russian empire and the imposed loss of the national elite and the basic features of identity. What was worse, the country shifted to the backward Russian socio-political model of relations in all areas of life, including the introduction of serfdom, rigid centralization of economic and political power, and the elimination of self-government.

Russia's colonial policies on ethnic Ukrainian soil were directed at eliminating any sense of identity and self-awareness among Ukrainians and making it impossible for them to establish a Ukrainian state. The consequences of this included denationalization, stunted spiritual and cultural development, total russification, the decline of the elite, and the distortion of ethno-social, demographic and economic structures in Ukrainian society. The Muscovite state-political and socio-economic matrix into which the colonial policies of Russia's rulers and, later on, soviet leaders used brute force to force Ukrainian society continues to prevent Ukrainians from actively developing and moving from poverty to prosperity because it sits like a phantom in the hearts and minds of the people.

After the reforms of the mid 19th century, industrial manufacturing grew at a fast pace in Russia until the early 20th century. This encouraged some Russian politicians to talk about "Russia's

great contribution" to the economic establishment of Ukraine at that time and to the development of capitalism. The very framing of this issue is absurd as the Ukrainian state in early modern times was far more advanced, both politically and economically, at the time when the 17th century "union" with the Muscovite tsar was agreed. Had Russia's expansionism not led to its decline, Ukraine would have kept up with the general European trend towards economic development and the movement from poverty to prosperity based on the capitalist model that was then emerging in Europe.

Instead, Russia's political and economic system fundamentally changed little even in its post-reform period at the end of the 19th and early 20th centuries. As before, it was based on the access of a select few to the state treasury or to guarantees provided by the government. Access to the throne became an economic factor because it determined access to public funds and preferential treatment.

After 1917, imperial Russian policy continued under the communist leadership. In a planned economy without private ownership, entrepreneurial initiative finally disappeared, having become subject to persecution and repression. Expropriation, militarization, mobilization, forced labor were only the relatively small and most visible aspects of how the communist regime operated. Enterprise and a free labor market were declared unlawful, and the individual was just a cog in the system with only minimal personal property, while the right to the fruits of their labor and to the land belonged exclusively to the

Table 1. Per capita GDP in select countries over 1500–2015, 1990 prices and conditions, based on parity purchasing power (PPP), in USD

Country/ year	1500	1600	1700	1820	1870	1913	1935	1950	1973	1992	2003	2008	2015
Austria	707	837	993	1218	1863	3465	2907	3706	11295	17481	21165	24131	26842
Great Britain	797	906	1028	1234	3190	4921	5799	6939	12025	16133	21461	23742	27066
Holland	761	1381	2130	1838	2757	4049	4929	5996	13081	17747	22237	24695	27038
Denmark	738	875	1039	1274	2003	3912	5480	6943	13945	18949	23089	24621	26805
Italy	1100	1100	1100	1117	1499	2564	3148	3502	10634	16637	19090	19909	20230
Germany	688	791	910	1077	1839	3648	4120	3881	11966	16891	19088	20801	24369
Finland	453	538	638	781	1140	2111	3093	4253	11085	15023	20846	24344	25813
France	688	791	910	1077	1876	3485	4086	5186	12824	17994	20891	22223	24566
Switzerland	632	750	890	1090	2102	4266	5907	9064	18204	20831	22342	25104	27771
Australia	400	400	400	518	3273	51573	5318	7412	12878	17370	23332	25267	28791
New Zealand	100	400	400	400	3100	5152	4959	3456	12424	13343	17482	18653	21627
Canada	400	400	430	904	1695	4447	3951	7291	13838	18139	23409	25267	28791
The US	400	400	527	1257	2445	5301	5467	9561	16689	23298	29074	31178	36067
China	450	600	600	600	530	552	565	448	838	2132	4803	6725	10357
India	450	550	550	533	533	673	680	619	853	1345	2134	2975	4112
Ukraine									4924	4934	3547	5003	5188

Source: <http://www.ggd.net/maddison/oriindex.htm>
For 2015, data from IMF and author calculations.

state, to be managed by a handful of people in the politburo. In relations with the outside world, the main goal of the USSR, like that of the Muscovite kingdom and the Russian empire, continued to be expanding territory, with the aim of world hegemony.

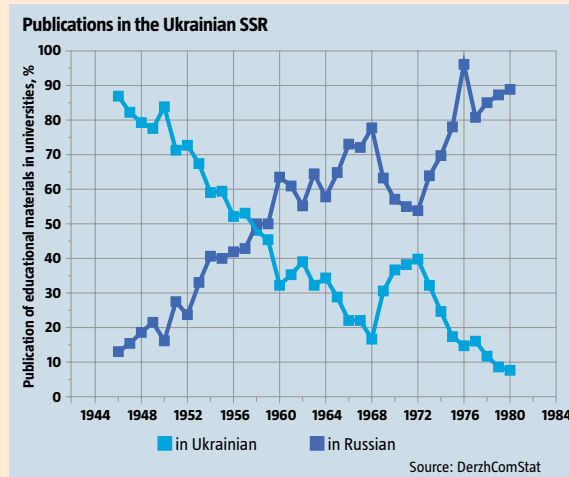
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The economy of this new Russian empire, the USSR, was rigidly centralized, directed from above through “planning,” and based on administrative orders. Its objectives were determined by decision of the upper crust in the party and state managers. Those in power controlled everything that was in the empire “in the name of the people”—including the people themselves. And so shaping the necessary worldview among these people proved to be an extremely difficult task, as the **Publications in the Ukrainian SSR** table shows. As we can see, after WWII, when the threat of protests among Ukrainians was quite high—because of the absorption of western Ukrainian territory by the Soviet Union, because of the resistance of the UPA or Ukrainian insurgent army, and because of social tension in the Ukrainian countryside, which had been devastated by the war and by the famine of 1946-47—nearly 90% of all educational materials for higher institutions were published in Ukrainian. By the 1980s, the reverse was true: 90% of all literature for students at Ukrainian post-secondary institutions was being published in Russian by fiat.

So today, some people still repeat the mantra about the supposed lack of Ukrainian scientific and technological terminology, seemingly unaware of how deliberately everything Ukrainian was destroyed, both in the Russian empire and in the USSR.

The Ukrainian people never accepted the Russian-soviet annexation. The National Liberation struggles of 1917-1921, the hundreds of uprisings in the 1920s and 1930s across Ukraine, the declaration of independent Ukraine in 1941 in Lviv, and the more than dozen years that the UPA continued to fight, almost to the mid-1950s, were only the main milestones in the resistance of Ukrainians to Russo-soviet occupation.

Of course, the battle was uneven, while the West showed little interest in seeing an Independent Ukraine. It was used to the presence of the Russian empire, even in the incarnation of the



“evil empire,” and found this arrangement convenient and safer. History has proved, once more, how naive and flawed this worldview was and remains to this day.

At the beginning of the 1980s, the Secretary General of the Central Committee of the Communist Party of the USSR (CC CPSU), Leonid Brezhnev, summed up “the achievements and victorious path” of communist Russia, announcing grandly: “Our country now has a new human society, the soviet people, and its economy is a unified national economic complex. This complex is managed from a single center, based on directed planning that is the binding on everyone.”

And this was the truth. After a 200-year process directed at completely integrating Ukraine into Russia, Ukraine’s economy, culture and, most importantly, its elite were almost entirely tied to the empire. In the 20th century, the ‘unified national economic complex’ was, as never before, centralized and managed from Moscow by rigid administrative orders based on a ‘unified plan’ that had the weight of law. It was these very components—one people, one national economic complex, one plan, one language, and eventually, one orthodox faith—on which the Russo-soviet socio-political model was built. It was run by a few of the top party nomenclatures and the KGB. What’s more, this small clique influenced the economies and policies of countries in Central and Eastern Europe and the Balkans.

First attempt at transformation

The formal loss of influence of Russia in the world started in November 9, 1989, when the Berlin Wall was torn down and West and East Germany were reunited. In the USSR itself, the Baltics were the first to announce the renewal of independent statehood and an end to their colonial past, starting with Lithuania on March 11, 1990, Latvia on May 4, 1990 and ending with Estonia on August 20, 1990. On July 16, 1990, the First Convocation of

the Verkhovna Rada of Ukraine issued a declaration of sovereignty, and on August 24, 1991, it declared independence. On Dec. 1, 1991, the Act of State Independence of Ukraine was confirmed at a nationwide referendum. The Soviet Union ceased to exist *de facto*, which was confirmed *de jure* on Dec. 8 by the presidents of Ukraine and Russia and the Speaker of the Belarus legislature in Minsk.

The empire fell, but did not die

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Russia's totalitarian political economic and social model never lost its historical "Russian matrix." At the top of the pyramid, new Russian bosses and oligarchs swiftly replaced the old party nomenclature. As earlier, their power depended on a punitive system whose influence and role in Russian society had never disappeared, and on the criminal world connected to it.

The upshot of all these processes, in 1991 when Ukraine restored independent statehood, there was no domestic economy as a consolidated economic system, nor could it have existed, on principle. The economy of the Ukrainian SSR was one component of a unified economic complex oriented on satisfying the economic, military, geopolitical and other needs of the entire Soviet Union. The main thing, however, was that it was not based on market economic relations, as these did not exist in the Soviet Union, but on a system of administrative orders and a management approach based on force and enforcement.

In addition, Ukraine had the most deformed economic structure of all the soviet republics, as the majority of its industrial production was in the heavy industries: metallurgy, chemicals and defense machine-building. This was the root cause of the colossal energy consumed by its industries to this day: in 1990, Ukraine used 13 times more energy per US \$1,000 of GDP than German and 10 times more than France. The lion's share of industrial output was either used in manufacturing or as raw material, semi-finished products and parts that were shipped to Russia. Consumer products then constituted only 13% of industrial output.

But the biggest blow of the soviet system was to the traditional economic activities of Ukrainians: the decades of Russo-soviet annexation, the artificial famines, the forced deportation of the best farmers to Siberia and the Far East, and then total russification in all aspects of day-to-day life, Ukrainians largely lost the habit of self-government and entrepreneurship, as well as respect and understanding of the value of private property.

The fateful challenge was that precisely these sovietized, russified Ukrainians would have to take on enormous, historic changes:

- to transform themselves from the bits and pieces of a "single society" into a Ukrainian nation;
- to turn a former Russian colony—a non-state—into a modern nation-state;
- to take on the transition from a closed totalitarian system with party leaders—and then oligarchs—at its core to an open, democratic society at whose core is the well-being of its citizens;
- to put together a domestic economic complex and a modern market economy with broadly evolved entrepreneurship out of the remains of the closed, non-market soviet economy based on administrative orders.

The tasks facing Ukrainians were both very important and very difficult, not just because world history had no examples of such total transformation but also because these transformations had to be undertaken by a people who themselves were the main link in the Russo-soviet matrix at the beginning.

And so, the transformational process proved complicated, painful and inconclusive. As Czech ex-president and ex-premier Vaclav Klaus put it, "To suggest otherwise is to underestimate, or to forget, the damage that communism wrought. Communism was so evil, so oppressive and so ineffective a system of government that no country which had suffered it could ever hope to move on and create a normally functioning society and economy until it had undergone a comprehensive and painful transformation... Transformation of any society is a complex and dynamic process, not merely an exercise in applied economics or political science." (Klaus on Europe: "So Far, So Good", *The Economist*, September 10, 1994)

To say that someone outside, especially from the West, seriously assisted Ukraine in carrying out these transformations would be an exaggeration of some proportion, but that is a separate discussion. As to Russia, it did and continues to do everything possible not to let Ukraine get out of its predatory grasp. The Russian aggression against the Ukrainian state that began at the end of February 2014 with the annexation of Crimea and war in the Donbas is just the latest—and finally most visible to the entire world—link in a chain that continues to tie Ukraine to the procrustean bed of the Russian matrix from earliest times until now.

In fact, it proved impossible to transform a huge, inefficient imperial part of a planned economy into a modern domestic market-oriented economy in 25 years of independence. Ukraine's domestic economy remains as deformed and monopolized as before, based on raw materials, energy intensive and inefficient.

The only thing that changed radically was the actual ownership of Ukraine's economy. Where previously the state in the shape of the Russo-soviet party nomenclature was the main owner, today it's a handful of oligarchs who variously "gained" ownership, including through criminal means, and who are closely tied to Russian oligarchs, in terms of mentality, assets and their ways of "doing business."

Instead of copying Poland, which quickly and effectively transformed itself without the "intercession" of tycoons, Ukraine's governing elite once again followed in the footsteps of Russia, which managed to establish and entrench its oligarchic class by the mid-1990s—Berezovsky, Khodorkovsky, Abramovich, Potanin, Deripaska, and others. The only thing that changed during Putin's second turn in the presidency since 2012 was the surnames of the oligarchs and the *capo di tutti capi* among them, Vladimir Putin himself. Under Viktor Yanukovich, Ukraine went down this same path and only the Euromaidan of 2013-14 stopped this ruinous return to the swampy past.

The problems that arose with the oligarchic structure of Ukraine's economy—monopolism, inefficiency, uncompetitiveness—are leading to such problems as uncompetitive exports and imports; constant threats of devaluation of the hryvnia and a national default; a catastrophic shortfall of budget resources; steady growth in the national debt; pressure on non-oligarchic businesses; widespread corruption among political parties, prosecutors, judges, government officials and elected representatives; and shrinking public trust in public institutions.

Ultimately, an oligarchic economy can never provide the means for achieving Ukrainian national interests. According to the State Tax Service, in 2014 four oligarchs owned 330 enterprises between them, accounting for more than 50% of Ukraine's exports. What's more, nearly all these exported products are turned into manufactured goods in countries that are not their final consumers. In other words, Ukraine's oligarchs make use of transfer pricing schemes under which as much of 60% of hard currency income remains abroad, typically in offshore zones.

In essence, Ukraine's oligarchic economy first inherited and then instituted, as befits the status of a "younger brother," an unreformed component of the soviet-Russian economy that is now part of the global economy. According to the Illicit Financial Flows study by Global Financial Integrity, an average of around US \$12 billion is expatriated illegally from Ukraine every year, adding up to US \$117bn in the last decade. By comparison, in Russia, around US \$150bn is moved offshore every year, adding up to over US \$1 trillion in the last decade.

The example of the "elder brother," as before, is the determinant. And so, in the 25th year of independence, Ukraine has a Russian-model oligarchic economy rather than a domestic one, which keeps Ukraine in a colonized state and obstructs its path to prosperity. It's not just a matter that oligarchs play too large a role in the

economy, own enormous assets and interfere in politics by controlling political parties. The real problem is that most of their enterprises and facilities operate in those branches and industries that lock Ukraine's economy into the production of raw and low value-added products that bring few profits, leading to poverty and decline, and making it impossible for free entrepreneurship to flourish.

Free entrepreneurship and rule of law remain declarative rather than being instituted in actual practice, and to ensure this state of affairs, oligarchs need to control the government. This gives them control over the president, legislature and Government of Ukraine. As events around the latest Cabinet shuffle amply illustrated, the influence of Akhmetov, Firtash, Kolomoyskiy, Pinchuk, Hryhoryshyn and others on key state decisions remains enormous, and decisions involving influential appointments continue to be based, not on moral and professional qualities, but on the interests of oligarchic businesses or the principle "we don't care who, as long as he's one of ours."

Indeed, Ukraine today has only separate elements of a market economy and what is often called business shows little signs of entrepreneurship. The "Russian matrix" in which Ukraine continues to find itself has no need of a market economy, whether it be the inviolability of private ownership, free enterprise, or equality before the law. And as long as Ukraine remains there, Ukrainians remain doomed to poverty as well.

Can this situation be changed?

Yes, of course. This can be done—by a civil society that continues to make itself felt more and more, and eliminates the "one and only society of the soviet people." Civil society must become the main driver behind the changes that will force those in the upper echelon of government to accept, whether consciously or not, radical political and socio-economic transformations.

World practice shows that this is entirely realistic.

From poverty to prosperity

Again, the standard of living of Europeans began to grow significantly starting in the early 19th century, as nation-states began to establish themselves. From that time on, European countries and the developed world have steadily moved from poverty to prosperity. Still, the high standard of living of ordinary citizens is typical of only a small number of countries today, those with the highest standards of public governance, a high life expectancy, and a very efficient economy. By the mid-20th century, this included the UK, France, Western Germany (FRG), Denmark, Sweden, Holland, and other countries in Old Europe, as well as the US, Canada, Australia, and New Zealand. Soon they were joined by Hong Kong, South Korea, Singapore, Taiwan, and Japan. In the last decade, countries in Central and East-

ern Europe and the Baltic region have been approaching this level: Estonia, Lithuania, Latvia, Poland, Slovenia, Slovakia and the Czech Republic.

Clearly, the list of most successful countries is not limited by geography or culture, although the European factor has historically been the first and the strongest. Today, this list represents different continents and different historical and cultural heritages: from Protestantism to Confucianism, from western civilization to eastern ones.

So what's the secret of this success? Why are some countries poor while others are rich? What do Ukrainians need to do for Ukraine and its citizens to become prosperous and successful?

One answer to this question can be found in Douglas North (1920-2015), a Nobel laureate in economics and renowned modern economist. In ▶

his opinion, the success of a country depends, not on its available resources and not even on the pace of growth of its economy, but with the way the society is predominantly organized. Among the qualitative features of this kind of organization, the main ones are:

1. The nature of the **institutions** typical of this society and the essence of the “**rules of the game**” these institutions have established in order to support the most varied forms of human activity. According to North, institutions are formal and informal restrictions and rules developed by people in a society—constitutions, laws, agreements, customs, voluntarily adopted codes of behavior—as well as the obligations and restrictions that structure the interaction of the people within that society. This includes rules of moral and ethical behavior of people in the society as a whole, including when generating and growing wealth. Such institutions shape the motivational and a limiting structure of a society.

Limited-access social orders

In countries with limited-access societies, the established “rules of the game” work so that people **don’t have complete access to opportunities** that would allow them to participate in a wide range of organizations and associations, such as enterprises, establishments, unions, parties, societies, associations, and other forms of legal entities and informal organizations. Such access individualizes and personifies. Personal relations, especially among individuals in power—who, whose and whence—establish the basis for social relations and cardinal influence both the rules of the game and access to opportunities for people. Similarly, those who hold power want to preserve their monopoly on access to political, economic, social and other opportunities and restrict them for “bystanders”—“others” and “not ours.” Why? In order to ensure rents, which in turn ensures them access to power and a monopoly on opportunities. The main source of these rents is the state budget, natural resources, state property, permits and licenses, monopolism, and the right to form organizations themselves, to set up an organization in “profitable” areas and branches.

This kind of state restricts opportunities for “other” individuals to compete in wealth-creation and fosters “ours,” meaning those who have access to government agencies and manage them. It generally does not reflect the national interest but the much narrower interests of a coalition of forces in power who collaborate for a mutual purpose—collecting rents. In order to preserve its position, those at the top buy off the electorate from time to time with some kind of redistribution of privileges or the broad introduction of subsidies. In short, they buy peace in exchange for a tiny piece of the rents pie, cultivating paternalism and populism among broad swathes of the population.

2. The regulation with the help of the “rules of the game” established by these institutions to **provide citizens with access to a variety of organizational forms**: political, economic, social and so on. Organizational forms can include enterprises, establishments, unions, parties, societies, associations, and other forms of legal entities and informal associations. In human society, it is these kinds of organizations that give citizens the opportunity to realize their aspirations. They are instruments that are used to increase productivity, create and expand wealth, find and establish contacts and relationships, gain political power, coordinate their efforts with the efforts of the group, manage such groups, and even force them.

In analyzing these characteristics, North identified two types of social orders common to the current stage of human development:

- 1) **limited-access societies**
- 2) **open access societies**

A society with limited access is economically oriented, not on **creating** new added value, but on **acquiring** existing value, on searching for new rents and foreign credit, and exploiting resources, while choking competition and engaging in paternalism. This, of course, does little to increase broad-based prosperity—on the contrary. Meanwhile, political and economic competition is either very weak or non-existent altogether.

For much of history, human civilizations have known only states built on highly restricted access. Economist Douglas North talks about the “natural state,” which appeared as an attempt to curb violence within the society and provide the opportunity for people to interact economically and socially among once small, hostile clans. The redistribution of resources to the benefit of the warlords and the monopoly of the leadership over rents were the “natural” condition of such a state and rents the “natural” recompense of the elite for its role as Arbitrator in conflicts among individuals and for a certain level of security.

And so, we see that countries with limited-access societies have a number of common features:

- a political regime that is not based on society-wide consensus;
- a relatively small and not very varied number of organizations to which only the select few have free access and the rest are kept outside;
- a highly centralized government and undeveloped self-government;
- social relations that are dominated by those based on personal connections, including privileges, and position in the social hierarchy;
- unprotected property rights;
- corruption with an unjust court system and laws that are applied selectively;
- a slow-growing economy that is vulnerable to shocks;

- a weak civil society, widespread public distrust, and poor-quality governance and administration.

Despite the fact that the main features of a limited-access society can be found even today, historically societies go through three major phases during the limited-access stage:

1. *the fragile phase*: the society's "elites" are effectively on the edge of or actually engaged in an internal power struggle nearly all the time and the access to opportunities, resources and monopoly over rents that it represents;

2. *the normal phase*: power belongs exclusively to the elite and offers access only to those individuals and organizations connected to the "elite" and "its" state. This kind of phase can be seen in Russia today or Ukraine under Leonid Kuchma and Yanukovich;

3. *the mature phase*: the range of opportunities that are available to all citizens remains limited but slowly expands, steadily becoming broader. This process we can see in Ukraine today.

Each phase, history shows, has several sub-phases with varying levels of access to opportunities. However, given the inherent instability of societies with closed access, the transitions between phases can go in the direction of improvement or of worsening, such as we see in Russia today: with Putin's second coming to the presidency, the transition has been a regression, from the partly *mature phase* to the *stable phase*.

In countries whose social order offers limited access, the role of the main Arbiter is very im-

portant, whether that be a monarch, president, premier, secretary-general, and so on. In effect, this individual controls the main sources of rents and has, together with those in his inner circle, the greatest influence over their redistribution, through the use of appointments. If the Arbiter's actions are directed to maximize rents, the regime becomes autocratic or plutocratic. Its top priority becomes rents, while governing is merely the means to acquire them. Regimes that maximize power become totalitarian. For these regimes, power is the top priority and rents are merely a "natural" consequence.

In this sense, there is little difference between the Russian Empire, the Somoza dictatorship, the Yanukovich regime, or Putin's *Russki mir*. In all of these societies, access to economic and political opportunities went, not to those with an education, talent, experience who fairly won in a competition, but to those who with the necessary privileges, personal connections, and access to the "throne." In Ukraine, as in Russia, this meant, first of all, the oligarchs, who have the most capital, and individuals who are personally dedicated to the Arbiter.

In a country dominated by a limited-access social order, personal ties, wealth and privilege outweigh rights and rules. Moreover, this is no anomaly. Such countries are not "sick" with corruption, unjust courts, poor governance and administration, poverty, and violated human rights. This is actually their "natural state" as a society with restricted access.

An open-access society

The world continued to have closed-access social orders until the start of the 19th century, when the kind of situation that North called an open-access society began to emerge. The primary condition necessary for a society to switch to this kind of order was the **nation state**.

In addition, a society with open access has such features as broad social conviction that citizens must be included in social processes; no restrictions on economic, political, religious or educational activities; universally open and accessible support for forms of organization for any type of activity; universally available rule of law. In open access societies, personal connections remain significant, but in their daily lives, citizens no longer need to be solely oriented towards them. The influence of the individual is defined by a set of **impersonal characteristics**.

Both social orders—the open and the limited kind—have both public and private organizations, but in the second kind, the state restricts access to these organizations to the "elite" of the society, whereas in the first, it does not. This leads to greater public trust, in both institutions, including public ones, and in those who represent these institutions and organizations. For instance, people trust their doctors, their cops, their state or municipal officials, bankers as a

group—and not because we know them personally and "whose" they are.

This is sometimes called "natural" trust.

Countries with an open-access social order also tend to have a strong, dynamic civil society with a large number of organizations, decentralized governing power, self-government, broad-based impersonal trusting relations, rule of law, protected ownership rights, and, as a consequence, stable political and economic development. Historically, the homeland of open-access social order was the United Kingdom, a situation that was fostered by a combination of free market and centuries of democratic traditions. Today, we can see stable economic development and a high level of per capita income in countries that are open-access societies (**see Table 2, Per capita GDP in the 30 wealthiest countries**).

Incidentally, stable growth based on open access should not be confused with rapid economic growth based on exploiting cheap human (China) or natural (Arabic Gulf countries, Russia) resources. Resource wealth can, in fact, be a trap. The resources are exhausted or prices plummet, and being dependent on them means that economic potential also becomes exhausted. In some cases, the country can even collapse, as we saw with the USSR and Venezuela. And we will undoubtedly see more of this.

Table 2. Per capita GDP in 30 wealthiest countries, 2015, in current prices, USD (IMF data)

Rank	Country	\$ per capita	Rank	Country	\$ per capita
1	Luxembourg	103,187	16	Austria	43,547
2	Switzerland	87,178	17	Finland	42,159
3	Qatar*	78,829	18	Hong Kong	42,097
4	Norway	76,266	19	Germany	41,267
5	The US	55,904	20	Belgium	40,456
6	Singapore	53,224	21	France	37,728
7	Australia	51,642	22	New Zealand	35,966
8	Denmark	51,424	23	Israel	35,702
9	Iceland	51,068	24	OAE (Emirates)*	35,392
10	San Marino	49,139	25	Japan	32,481
11	Sweden	48,966	26	Kuwait*	29,983
12	Ireland	48,940	27	Italy	29,847
13	Holland	44,333	28	Brunei*	27,759
14	Great Britain	44,118	29	South Korea	27,513
15	Canada	43,935	30	Spain	26,327

*Oil-producing countries with closed societies whose GDP is largely based on petroleum exports.

Ukraine: Restricted access

Ukraine is predominantly a limited-access society. Although its civil society has become much stronger, the country has only shifted from the *stable phase* of the limited-access social order under Yanukovich, where only organizations connected to the “Family,” were supported, to the *mature phase*, when the circle of supported organizations has become quite broad. Recently data was published about the 75 legal entities that were completely controlled by the Family, 50 of which were registered abroad, mostly in offshore zones. It was through them that the concluding stage of the multi-billion dollar operation of removing rents from Ukraine took place: transfers involving budget funds, the public debt, illegal incomes from money taken at Customs and the Tax Administration, National Bank of Ukraine resources, and more.

After the Euromaidan and the Revolution of Dignity, the concentration of corruption among those in power and the level of rigid force in social and economic relations went down, but they did not disappear. The system has continued to function in limited-access mode. The persistence of this kind of order keeps the electoral, political and economic systems opaque, the application of the law arbitrary, property rights insecure, government corruption “diversified,” justice selective, power both visibly and invisibly oligarchic, and loyalty among civil servants to the Arbiter or the party controlled by the oligarchs and not the country. Legislation is deliberately written to be overly severe, inconsistent, complicated or am-

biguous, so that it is impossible to adhere to it. Either that or the law has been designed for those in charge to “interpret” the rules or make subjective rulings or decision based on their “minder’s” preferences—the “minder” being yet another institutional hangover from the limited access model in Ukraine today.

The upshot is that a country formally founded on law is actually based, not on rule of law, but on personified relations and privileges that operate through minders in the regions, branches and in enterprises. Their purpose is to distribute financial flows among their own. This kind of government threatens the reluctant or rebellious with reprisals, and often acts on it, whenever someone tries to break out of the limits of the restricted-access system. In friends, we trust; all others obey the law.

This kind of split reality—supposedly market-based and competitive but in fact using enforcers to ensure monopoly—leads to the government in a limited-access society inevitably making public decisions in back rooms and then constantly dissembling in public about its policies. Meanwhile the media—press, papers and electronic publications—is needed by the oligarchs, not so much to satisfy their vanity or launder money, but to establish and maintain a particular image of reality, to play up to voters and to manipulate the primitive instincts of the poor.

And so economic relations in a limited-access society are based on an illusion among its citizens that profits are ensured through force, not

Table 3. Per capita GDP in Ukraine over 2010–2015, USD

	2010	2011	2012	2013	2014	2015
Per capita GDP	2,983	3,590	3,883	4,435	3,014	2,109
Per capita GDP based on PPP	7,712	8,328	8,541	9,697	8,681	7,990

Source: IMF

through mutual activities. To take from those who have something instead of making something newer and better together. Predation and deceit are the main ways of getting rich, both for those who engage in business and for broader society. **This destroys morality, trust and security**, without which neither a market economy nor generating added value is possible. The inevitable outcome is poverty. By per capita GDP, Ukraine ranks among countries with low incomes. What's more, over 2014-2015, they began to go down even further, even when converting the figures to purchase power parity (PPP), which levels out values across different countries (see Table 3, *Per capita GDP in Ukraine for 2010-2015*).

Under such circumstances, the main factors for people to survive and move up the social ladder are corruption and "protection." With the help of these two means, people hope to protect themselves from poverty and tyranny, and to gain access to opportunities that are personally open only to those who are privileged. Enormous effort goes into this that could otherwise be put to improving the quality of life.

The lack of entrenched rules or their volatility leads to shortsighted planning and poor quality public administration. The power "elite" doesn't bother itself over how its decisions today will affect the well-being and opportunities of future generations: the huge debt hole, lack of incentives for business, lack of investment and cutting edge solutions in the fields of education,

healthcare and pension funding. One example of this is pension reform, which was started back in 1998 but still hasn't been completed. These are all strategic issues that affect not just every citizen but the financial security of the very country.

The "ASAP" mentality makes it possible to get rich quickly but it fosters a reluctance to develop and carry out real strategies and to establish long-term rules, because their absence makes it easier for the power "elite" and the oligarchs that form part of it to abuse their positions and take rents in return for access to power.

The limited-access social order that still dominates in Ukraine makes it impossible for the general population to break out of poverty while being highly durable, able to protect and reproduce itself even with the coming of new people to power, as we can see today. After the social explosion of 2013-14, the Euromaidan and Revolution of Dignity, the war in the East, the "positive pressure" of the West, the nature of limited access did not change radically: we still have a closed-access society in which the main opportunities are available only to insiders.

If it wants to survive, Ukraine must switch to an open-access society. Otherwise, development and progress will be replaced, not just by mutated regimes and a change of surnames among the "elite," but by a decline to the level of third-world countries, to being a raw material producer and, what's worse, a failed state.

The question is, how to do it?

Second attempt: Preconditions and realities

As we all know, the main indicator of a successful state is the ability to protect not just its sovereignty but to control violence in all areas of society—in politics, economics, the military and domestic affairs—to entrench rule of law, and to offer quality public administration. This kind of effectiveness can only be achieved in an open-access society.

The key condition for a country to switch to an open-access social order is being a **nation state with sovereign domestic and foreign policy**. This kind of state is the key element that is sorely missing in Ukraine today. This is the historical opportunity that Ukrainians lost in the 18th century, and then again in the early 20th century. This is what Ukrainians should have been fighting for above all, and building for the last 25 years of independence. The reality proved completely differ-

ent because the soviet nomenclature took over the place of the social elite in Ukraine in 1991, one that, despite dyeing itself the colors of the new blue-and-yellow flag, thought only within the coordinates of a colony of a great empire—Russian or soviet, it mattered not. At the same time, those few representatives of genuinely Ukrainian forces in politics and government had neither governing experience nor management skill, nor business smarts, nor the ability to act effectively in opposition to the painted-over nomenclature. And so the first attempt, in the early 1990s, to transform Ukraine into an open-access society and build a fully independent state did not succeed.

Any fundamental changes in a society are always difficult and lengthy. Even in stable countries with open-access institutions adopt the new and transform themselves at different speeds¹. And so, ▶

¹ Alvin Toffler (b. October 4, 1928, American philosopher, sociologist, author of the concept of postindustrial society) proposed, in order to imagine the different paces of change among different institutions, imagining a highway where nine cars are driving at different speeds, each of them symbolizing one contemporary American institution. Enterprise is moving the fastest, meaning business companies, going, say, 100 mph, because they change and transform rapidly, being very responsive to innovation. Behind them is civil society with all its variety, fast-changing non-government, volunteer-based human rights organizations, and associations, going, let's say, 90 mph. Third, oddly enough, is the "family" car, going 60 mph. Behind it at quite some distance are the trade unions going 30 mph. And behind them, you can see the government bureaucracy and legal institutions, puttering along at 25 mph. Finally, the education system, going 10 mph. International organizations like the UN, IMF, WB and WTO travel at most around 5 mph, and that's hardly surprising. What's surprising is to see political institutions, from the Congress and White House to political parties, barely moving at 3 mph. Trailing at the very back is legislation, at 1 mph. The pace of transformation among Ukrainian institutions these last 25 years, even if it is the transition from a totalitarian to a democratic society, isn't much different from what Toffler described. Except that Ukraine's oligarchic business, which has become ingrown with the government and political parties, is travelling at 3mph, not 100. But entrepreneurship and market business is travelling along with civil society, as the Euromaidan demonstrated. Still, both civil society and the domestic and external political situation, as well as our allies in the war with Russia, are demanding that our state leadership and the heads of key institutions change much faster.

based on the circumstances in Ukraine today, the **subjective factor** has major significance: the human individual, especially an individual given legitimate power.

When he won in 2014, the president gained a huge vote of confidence from Ukrainian voters under the Constitution, and having won in the first round, his victory was effectively equal to a nationwide referendum. Had he wished to change the country, he should have firstly grounded his actions in the active part of civil society, which adapts to innovations better and wants to see transformations, and not on oligarchs and “buddy-buddies” who merely dragged him back into the murky past. A man who found himself heading the Ukrainian state at such a responsible moment should have, first of all, proposed a development strategy based on the principle of competitive personnel selection using the criteria of professionalism, decency and patriotism, and not their personal loyalty and business partnership. He should also have started an open dialog between the government and the people, eliminated the practice of back-room deals in government that only reduce public trust in government institutions, and eventually to the state as such.

And even if not everything went as planned for such a president, because the situation today in Ukraine has no equivalent, he would have found enormous support and would have been forgiven mere mistakes. What’s more, the main thing in a transition period is not large-scale phenomena, not the number of reforms, but the quality: new, healthy and understandable pathways to the future.

Of course, what is being said applies not just to the president, but to all individuals who have been given power in the name of the people. How they interact with society will determine the pace and direction of changes, and therefore the transition to an open-access society and a modern, efficient economy. That makes it extremely important for Ukrainians to build a new electoral system at all levels so that those who come to power are the best to govern, elected, not by buying votes with buckwheat and cheating at the polls, but based on their personal qualities and real achievements.

A key factor in transforming Ukraine into a modern state with an open-access society is to **make it impossible to discriminate against the Ukrainian nation**. Our partners and friends in the West often underestimate the vital importance of this issue, and cannot always understand the insistence of Ukrainians on establishing their national identity. Nations whose identity has never been threatened—except perhaps in recent years as pressure from Islam builds—find it hard to imagine a situation in the 21st century where, thanks to a long colonial past, the indigenous nation faces discrimination within its own state.

For this reason, only legislated Ukrainianization can not only protect the titular nation but also guarantee the rights of ethnic minorities. The rights of Crimean Tatars must be protected separately. Beyond this, only the Ukrainianization of Ukraine, the identification of national interests

and state priorities can make the economy healthy, provide instruments for overcoming systemic corruption, remove the oligarchs from public administration, and make the country a full-fledged member of the international community.

For the transition from poverty to prosperity is impossible without a transition to an open-access society—which can only function in an established modern national state. As they say, this is not against any other nation, but simply in favor of a better life and further progress in the world trend from poverty to prosperity for all citizens of Ukraine, regardless of their nationality.

Other conditions for Ukraine to transform into a society with open access include:

- 1) entrenching the rule of law (especially for the elite);
- 2) promoting impersonal relations among the elites;
- 3) providing positive and negative incentive for the elite to embrace change;
- 4) encouraging the aspirations of ordinary citizens to seek opportunities that lead to change and put pressure on those at the top of the power pyramid;
- 5) establishing conditions in society for carrying out changes both among the elites and ordinary citizens.

The law is the decisive factor in the effectiveness of a state and establishing the rule of law in a society begins with those who have access to both opportunities and privileges. This means that a responsible attitude towards laws and rules has to become a cultural norm, and they themselves must be logical, easy-to-understand, binding on everyone, and reflect traditions and positive practice as much as possible. Rules and laws require that all stakeholders be persuaded of their need. If there is no agreement, then they have to be changed based on the social contract. Put otherwise, the rules have to be perceived as positive, not negative, because they are being established in order to restrict those in power and prevent conflict inside the society, not just to regulate for the sake of regulating. This means voters need to be able to trust lawmakers, who are the main drivers behind legislative initiatives, to be confident that they are acting, not in their personal or corporative interests but in the national one.

* * *

The experience of other countries has shown that the transition to an open-access society takes more than mere good will on the part of the political elite, although this offers the best and simplest pathway, especially for them. Often elites are forced to agree to change, either because of the complexity of the objectives and challenges facing their countries and them personally, under pressure from civil society, or under pressure from a revolution or military loss. Today, it seems that this moment of truth has arrived in Ukraine.

Before going further, it’s important to note that open access does not necessarily mean democracy. In fact, many countries have made the transition to a social order with open access under authoritar-

ian regimes. Democracy is not a fundamental condition for this transition. It's more like a key result and a decisive element in the further economic and cultural development of the society. In Western countries, the transition to an open-access society historically coincided with the shift from agriculture to manufacturing in the 19th century. Ukraine lost the chance for such a development path back at the end of the 18th century, together with independent statehood, with the establishment of the Russian economic model, meaning effectively Asian despotism, on Ukrainian soil.

The Russian empire, whether in the vestments of the Romanovs or of the soviets, kept Ukraine completely colonized for over two centuries and historically arose as the model of a closed-access society and has always remained so. And so, the rise of capitalism, the build-up of industry and industrial development took place with any transition to open access. By contrast, Ukraine historically was drawn to an individualistic, com-

petitive, and therefore more open economic and social model. Since 1991, Ukraine has experienced a quarter-century of democratization and several years of strong economic growth in the late 1990s and early 2000s, the Orange Revolution in 2004 and the Euromaidan in 2014. Altogether, this offers the conditions necessary for Ukraine to move towards an open-access social order.

History and theories about the hierarchy of human needs have shown that the transition to an open-access society is tied to the movement of its citizens from the values of survival to the values of self-realization. This means that one of the most important and urgent issues is a rising standard of living, because a poor person who spends every day looking for the means to survive is easy to manipulate and extremely dependent on those in power. The battle to increase the real incomes of households is not just populism as some like to say, but a practical issue that makes it possible to move to a better social order.

The Ukrainian way: Creative destruction as opportunity

The transition to an open-access social order proves the conditions necessary for dynamic development in a country. They are necessary, but not sufficient for sustainable economic growth and a high standard of living among the country's citizens. At the center of the economic component in an open-access society is the entrepreneur. As economist Joseph Schumpeter (1881-1950), who happened to live for three years in Chernivtsi and taught at the university there, once put it, the entrepreneur is the key figure in capitalism. Toffler also showed that entrepreneurs, enterprises and market-based business are those institutions that accept novelties the most quickly and transform themselves. And so, the generation of new wealth in a country depends entirely on how much practical economic policy in a given country is aimed at business development and its healthy relations with the social environment.

In a market economy, regardless of the kind of activity, the entrepreneur is, in essence, the driver of social development and an innovator, because it is their nature:

1. to make new material goods for consumers or improve existing goods with new qualities;
2. to seek and introduce new production methods that have not been used in that particular branch before;
3. to enter new markets or take more market share in an existing market;
4. to use new types of raw materials or semi-finished products that may or may not been known before;
5. to develop new ways of organizing a business.

Such objectives are key to the effective functioning and survival of a market-oriented, com-

petitive business. Yet they are not on the agenda for most oligarchic businesses, which have mostly been built on the basis of being close to the seat of power and therefore access to resources and rents.

According to Schumpeter, entrepreneurs are always innovators and organizers in a market economy, that is, those who see new opportunities for goods, processes and markets and know how to make use of them, setting up new organizations and changing the structures of old ones. Schumpeter calls this “**creative destruction.**” One important point here: “creative destruction” does require **open access** to organizational forms and stable, open and understandable rules of play.

In a limited-access society, those in power have no interest in and no desire to support “creative destruction,” because the emergence of new forms of organization directly threaten the existing economic organizations of the elite and their way of getting rents. And so, in a country where national economic and political interests have not been established, where **civil society** is weak and those in power don't feel dependent on it in any way, the government either doesn't support SMEs or merely pretends to do so.

The process of “creative destruction” is the very heart of modern capitalism. The opening of new markets, the development of commercial organizations from small firms to huge corporations illustrates the process of economic growth that directly revolutionizes economic structures from within, ruining the old and creating the new. It is this “creative destruction” that guarantees a state sustainable growth and ensures that the economy is being structurally rebuilt.

This is precisely the key role of entrepreneurship and the entrepreneur. Although the ▶

entrepreneur in Ukraine is most commonly associated with the issue of unemployment: (any kind of) job creation and forming the middle class. Mantras about the development of a middle class are worthless without properly-conceived, practical economic policy, at the core of which is understanding the significance of entrepreneurship.

Many are of the opinion that major corporations are technologically more efficient than small companies because of their resource potential. However, in open access countries that are truly successful, the main role is played by small and medium enterprises. It is SMEs who create that “vital broth” of technological, economic and organizational solutions on which new companies and big corporations can grow and, in turn, determine the pathways and prospects for structuring the economy. The greatest economic impact for a developed country comes from big corporations who grew out of small companies.

On the other hand, conglomerates based on a slew of varied, unintegrated assets, much like we see among Ukrainian oligarchs—what kind of business is there that Akhmetov, Pinchuk or Kolomoyskyi do not own: steel mills and paper mills, shipping vessels, banks, energy companies, football clubs...—tend to be unviable and inefficient when it comes to competing internationally. They are also ineffective on the domestic market, so their oligarch owners use their access to those in power to crush honest competition and prevent real entrepreneurship from flourishing. The conclusion is obvious: the top priority in the Ukrainian Government’s economic policy has to be active, institutional support for the development of SMEs. This kind of economic policy provides the answer to the question: where can a poor country find money for economic development?

Typically, the Government’s response has been: first we need to progress in the manufacturing structures that we have, accumulate capital, and then after that direct investments into them for restructuring. And of course, they can borrow money abroad. However, real practice shows that this approach is quite wrong: financial resources aren’t accumulating, the investment process is dying down, the state debt keeps growing, the oligarchs flourish, and ordinary Ukrainians grow poorer by the day.

Schumpeter’s answer is fundamentally different: constant “creative destruction” of the old, the development of entrepreneurship, generating new wealth and purchasing power, and of course foreign investment, including large-scale ones, never hurt. It’s been that way in all countries that have become prosperous.

* * *

Time to summarize things briefly.

The closed-access social order that dominates in Ukraine for now is not some kind of “plague from God.” It’s the result of historical

circumstances: the forced transition of Ukrainian society from a European, competitive model of development to an Asiatic despotism that took place at the end of the 18th century and start of the 19th century. And so, in the 21st century, Job 1 has to be to establish the necessary conditions to be able to shift to another social order. The rest will follow, one by one. The key links on Ukraine’s path to an open-access society should be:

1. A strong, contemporary **Ukrainian state** with sovereign internal and external policies based on national interests, not the interests of any groups or clans. Rule of law and proper control over violence in every area of society.

2. A well-developed **civil society** in every possible aspect, with self-government and self-organization enshrined everywhere where they are possible and effective.

3. State policy that maximally **fosters market, non-oligarchic business**: entrepreneurship, entrepreneurs and enterprises. Entrench an open-access, market economy that is protected by society and the state.

The strategic goal of this Ukrainian path is for Ukraine to rise like a country of the first world: a whole, independent, strong state that is a regional leader with weight and influence in the world. To reach this goal, the country should undertake simultaneous transformations in a number of aspects already today:

1. from the Russian concept of “one society” to a Ukrainian nation;

2. from colony to nation state;

3. from the remnant of an imperial economy to an integral domestic economic complex;

4. from a centrally planned economy to a market one;

* * *

from a totalitarian regime to democracy.

Today, Ukraine is a closed-access society. It is an economic semi-colony that predominantly exports raw materials and semi-finished products with little added value—along with talented individuals and profits earned in Ukraine. It imports finished products with high added value and international financial aid.

The key condition for switching to an open-access society is a contemporary, effective nation state with sovereign internal and external policies. Only an economically viable state can effectively ensure the inviolability of its borders, its national identity, its authority in the international arena, as well as its educational, scientific and cultural development, social stability, and the prosperity and happiness of its citizens. The path to a powerful domestic economy lies through the transition to an open-access society and highly productive use of domestic resources. The effectiveness of public administration can be seen in high income levels among ordinary citizens and profits that the owners of the capital earn, as well as in the system of transfers among local and central budgets.

Economic patriotism should foster the transition to an open-access society and greater economic growth in Ukraine. At the heart of economic patriotism are **Ukraine-centeredness, proactiveness** and **professionalism**, especially a strategic understanding of socio-economic processes, and causes and effects.

The role of state policy in economic rises and falls of any country is decisive. Today's economic lag is the result of mostly passive and sometimes anti-Ukrainian state policies while the Russian socio-economic model continues to hold sway, and the unsatisfactory pace of transformations. A properly conscious and active, Ukraine-centric state policy, rather than laissez-fair principles, is the foundation for economic growth. There has been no example of a country achieving a systemic economic leap into sustainable development just like that: it was always the result of state policy during the transition to a state with an open-access society.

The rate of development and the living standards in the country depend on whether its economic policy is oriented at practical support for businessmen and enterprises. A more proactive and effective state policy focused on

developing a powerful economy means, among other things, intense support to enterprises and business-oriented people, creation of attractive environment and incentives for them through tax, lending, infrastructure, regulatory, socio-cultural and other tools.

The balance between private and state property has been one of the key issues in Ukraine in the past 25 years. The success of privatization processes is defined by the adequate understanding of the nuances of this balance. The more private property the country has, the better: all enterprises that are not crucial for Ukraine's strategic and vital functions of the state, such as its defense capability, should be privatized.

When a larger part of the country's economy is in private hands, the state plays a particular role in management: its regulatory functions should be separated from economic management of the state and communal property. The state and local self-governing authorities should retain only the regulatory function. The management responsibilities should go to professional accountable teams of managers through corporatization of state and community-owned enterprises and involvement of private co-investors.

PS: Moving faster than others

There are a number of important comments to be added to this analysis in order to explain its purpose. It is not intended to reveal something previously unknown to economists. On the one hand, the purpose of this analysis is to inform the public in Ukraine who are interested in shaping their future, about challenges faced by the country today in terms of its economic development. On the other hand, this analysis is intended to tell those in power that civil society is perfectly capable of properly assessing the essence of the conflicts and interests that are currently threatening Ukraine's existence as such.

It is always easier to recommend or criticize something as an observer. Implementing initiatives and being held accountable for the result is far more difficult. Ukrainian audience is perfectly aware of this. However, below are some general comments and recommendations that Ukrainian leaders may find interesting and helpful. After Ukraine's transition to the open access social order, its entry to the list of top 40 countries by GDP per capita (in 2015 this was at least \$12,000) can be considered as a quite realistic goal for its economic development. Achieving this goal would put Ukraine on one level with countries such as Poland, Czech Republic, Estonia, Lithuania, Latvia and, later, also Great Britain, France, Germany, Finland, Israel, Ireland, etc. (top 20) based on the economic development and welfare of its citizens.

However, to accomplish this, Ukraine has to grow at a much higher pace than the other

countries. If we have the same dynamics as the developed European or Asian countries, we will fail to achieve the target level of economic development and catch up with them because of the "low base" effect (each percentage point of growth in a small economy is incomparable to that in a large one). Two things Ukraine needs to accomplish sufficient growth is early transition to the open access order and, secondly, the utmost active state and public support to entrepreneurship and businessmen who are the drivers of economic development and the change of the country's production structure.

Economic growth rates depend directly on the structure of the national economy. "The economy of the past" dominated by low-technology facilities cannot ensure **outstripping** growth. Ukraine needs a structure of the economy that could ensure the fastest achievement of the target level of economic development, the transition from poverty to wealth. The "creative destruction" carried out daily by entrepreneurs is one of the most important factors in such a restructuring process.

The state looking to the restructuring of the economy cannot and should not in any case treat equally various economic sectors and activities, since they don't have the same potential as a source of development. There are industries and activities that can bring the country to a new orbit of economic growth, and therefore should be a priority for the state technologically, socially and economically. The ▶

state must recognize their priority, and the civil society should support such decisions.

It is necessary to stimulate in every way the development of the enterprises and entrepreneurs working in the sectors and industries with: 1) high workforce productivity (revenue per employee); 2) high added value (the difference between the cost of the finished product and the resources used to make it); and 3) increasing efficiency (economies of scale leading to cost reduction).

Activities that are less desirable for the state include: 1) primary industries (exports of grain or minerals); 2) labor emigration (permanent emigration of scientists, IT professionals, etc.); 3) migrant workers (builders, workers, academics temporarily leaving to work abroad).

Activities that are more desirable for the state include making: 1) an intellect-intensive intangible product (engineering, industrial design); 2) science-intensive intangible product (research and development, etc.); 3) high-tech material product (military-industrial complex, aerospace industry, microelectronics, precision engineering); and 4) consumer goods and food industries.

Jobs in different industries have different value not only for the enterprises and the workers themselves, but also for the society. Quality jobs are most widespread in the priority sectors; they ensure high profits to employers, adequate salaries to employees, and regular tax revenues to the state and local communities.

The state must collect the "rent" from raw material and low-tech industries to provide for the present day, and systematically encourage the establishment and development of priority sector businesses if it wants to focus on building the desired future for its citizens.

State subsidies may be provided to companies from certain sectors or industries from the state budget only as a short-term, temporary measure. When given out from year to year, they destroy the country's economy by diverting resources from the development of priority sectors. Compensation should give way to stimulation: Ukraine should support not the weakest industries and sectors, but the most promising companies and entrepreneurs capable of quickly driving the economy to a new level.

In the context of limited resources, it is crucial to invest the necessary effort not only to priority areas, but also to specific production. It is better to foster the creation of something "small" and then create more and more, than to plan everything at once on the national scale and achieve nothing.

Attitude towards resident enterprises with Ukrainian and foreign capital should be the same and have no impact on government incentives. The main justification of support should be the type of activity and its priority for Ukraine. In case of the competition between multinational companies and local oligarchs, it is inadmissible to simply replace one with the other.

Capital infusions of international financial institutions, when targeted not into large-scale investment projects and reforms, but into "patching budget holes", are like giving "fish instead of a fishing rod." Such "assistance" only conceals and accelerates the degradation of the Ukrainian economy, creating a new form of hidden colonial dependence. The best option for international financial assistance would be joint development and implementation of a large-scale plan to support entrepreneurship and entrepreneurs in Ukraine based on the German (1950s) and Polish (1990s) experience.

* * *

The modern world economy integrates deeply interconnected national economies, and in this sense it is global. Under these conditions, the crisis in a number of major economies inevitably results in a global economic crisis. The task of regulating the global economy and avoiding the global economic crisis is imposed on international financial institutions, such as the International Monetary Fund, World Bank, and World Trade Organization. Hence their requirements to the governments' economic policies: tight monetary policy and liberalization of exchange rates, external relations and pricing. It should be noted that these requirements apply to both the economies of advanced countries, such as US, Japan, or the EU, and the developing countries or transition economies. Compliance by the states with these requirements does not in itself create factors for economic development or degradation. They are just a framework outlining certain limits for regulatory policies. Within these limits the economies that are regulated on the basis of national interests have all the conditions for a long-term crisis-free development. Those regulated on the ad-hoc basis or based on oligarchs interests are doomed to continuous decline. The lowest point of their decline, according to many prominent economists, does not in fact exist.

So, if we want Ukrainian economy to be part of the global one, we must view cooperation with the IMF, WB and WTO as an integral part of reality. However, within the limits of such cooperation, the government has the opportunity and the obligation to implement positive economic transformations.

The "new economy" enterprises (carrying out intellectually and scientifically-intensive activities), as well as new production plants should pay much lower taxes than raw materials industries and the existing low-tech production. They should also be lower than the respective taxes paid by such business in other countries.

The same applies to the customs policy: it is advisable to impose high custom rates on raw materials and low-tech commodity exports, minimize such rates on exports of high-tech products, and exempt from duties the import of industrial and scientific equipment to Ukraine.

With respect to the lending policy, the state should provide lending to priority sectors, including long-term investment, in the national currency at minimal interest rate (let's say, at 1% per annum). Entrepreneurs from other industries (that are not priority today) should also have quality access to lending.

Aiming at accelerated and balanced development by supporting entrepreneurial initiative, the state must ensure, within the open access framework, the non-discriminatory access to investment and other opportunities to small and medium-size enterprises. Conscious support for small and medium businesses is the key to healthy, dynamic and successful development from poverty to wealth.

Market regulation of the economy can work effectively in the "automatic mode" only when subject to the country's rule of law. Market economy fundamentals, such as freedom of enterprise, freedom from interference, freedom of association, freedom of contract, and freedom of competition, should be protected legislatively. An inherent function of the state is to protect from unlawful interference of individuals and the state, to stimulate competition, and to regulate economic processes in protecting public interests and reducing inequality.

Market economy is not a panacea for all human weaknesses and economic hardships. It can also give rise to unfairness in the distribution of wealth. However, an effective state that takes care of its national interests and protects its citizens should have in place the mechanisms to correct injustice by legal means (taxation, pensions, insurance, labor safety, budget subsidies to low-income individuals, etc.).

Opposing market competition and economic leverage to administrative and regulatory government measures is speculative. In practice, these two sides are complementary. No matter what means are used to implement the right decision taken on the basis of economic calculations and academically grounded forecasts, it will still increase the economy's revenues and foster its development.

* * *

After restoring independence in 1991, Ukraine began its transition from one historical system to another: from a former Russian colony (a "non-state") to the modern nation-state; from a fragment of a "unified political and cultural entity" to the Ukrainian political nation; from closed totalitarian regime centered on party leaders (and later oligarchs) to open democratic social system focused on individual well-being; from a fragment of the economic complex and the non-market command economy of the USSR to the national economic complex and the modern market economy with comprehensively developed entrepreneurship; from limited access social order to open access social order.

The process of "creative destruction" of the old historical order and the establishment of the new one was long, difficult and controversial, which is not surprising given the scale of the transformations, the virtual nonexistence at the beginning of the transition of its main performer, a crystallized Ukrainian nation, and purposeful anti-Ukrainian actions of Russia and its fifth column within the country.

So, when looking for the answer to the question of whether we have already passed the "point of no return" or what reforms need to be implemented for Ukraine not to become a failed state, one should first of all **consider the level at which the main preconditions** of transition to the open access order are formed and to identify the trends that lead to such transition. Such preconditions, on the one hand, accumulate social transformations and are the "precursor" to the transition. On the other hand, they in themselves are the key reforms, whose implementation can secure against returning to the gloomy past or becoming a failed state.

As mentioned above, there are three main preconditions for Ukraine's transition from the current limited access social order to open access social order:

- 1) effective Ukrainian state, rule of law and responsible governance;
- 2) developed civil society, self-government and self-management;
- 3) sustainable policy of maximum support for non-oligarchic businesses and entrepreneurship development.

Expert assessment of the current level of these preconditions and their development trends (positive, neutral, negative) on a scale from 0 to 100, where 0 is the complete absence of a phenomenon, 100 is its complete presence, 50 is a point of equilibrium, and 75 is the point of no return, has demonstrated the following:

- 1) First precondition: "effective Ukrainian state." The score for the current state of this precondition for transition to open access order is 60, development trend is neutral;
- 2) Second premise: "civil society." Score 77 with a positive development trend;
- 3) Third precondition: "entrepreneurship promotion." The score for the current implementation of this precondition is 44, with negative development trend.

In this way, **we have not yet passed the point of no return, and the key issues to be overcome still are the inefficient Ukrainian state and the underdeveloped, stalemated Ukrainian business.**

Another precondition — the developed civil society — is already past the point of no return, and the positive trend of its development gives hope that this component, remaining the main driver of social transformations, will encourage the development of other preconditions that will also pass the point of no return.

How soon this will happen, depends entirely on each of us.