

COMMENTS ON THE PAPERS SUBMITTED BY DAVID SNELBECKER, VIRA NANIVSKA AND OLIVIER DE LAROUSSILHE

*Alexander Kennaway**

Conflict Studies Research Centre, Royal Military Academy, Sandhurst, UK

David Snelbecker

The Ukraine has been socialised, collectivised and subjected to the Stalinist centralised control system for very much longer than had Poland, Hungary, and the Czech Republic. Poland retained a lot of small-scale, owner-run farms and the consciousness of the methods of private enterprise remained amongst significant numbers of the population. These countries were accustomed to exporting agricultural produce to a discriminating market in Western Europe. The Czechs and Hungarians in particular had a tradition of excellent engineering in some specific branches of industry, which before and during the Second World War were the equal if not better than their West European competitors. This was not true of Ukraine, (nor of Belarus) which are severely handicapped by the continuation of the deeply rooted Soviet mentality and by the limited geographical resources of the country and the obsolete, poorly laid out, poorly designed and managed production, transportation and communication systems.

He rightly draws attention to the ill effects of the system of barter to which one may add the practice of issuing IOUs as a replacement for money. He is probably right in his speculations for the reasons for its continuation. But it did not suddenly come into being with the collapse of the economy and independence. We have to remember that in Soviet times, internal commerce between state owned firms was not based on cash but on book transfers of arbitrarily determined amounts which bore little or no relation to true costs. The Russian Federation and the Ukraine and doubtless most of the other republics in the CIS are still working a largely cashless system, which grew out of the old system. There were two other systems working in parallel:

- External trade with capitalist countries was carried out in cash with the Soviet state taking the benefits, whilst in post-Soviet Russia, Ukraine and the CIS countries a lot of the benefits stay with the oligarchs and their political associates.

* Editor's note. It is with deep regret that we have learned of the sudden death of Professor Alexander "Sasha" Kennaway. A long-term friend and enthusiastic supporter of the work carried out in the Economics Directorate, he will be sadly missed.

- The only part of the system that uses money is that serving the ordinary consumer. In Soviet times the state subsidised most necessities, paying for subsidies from the “surplus value” created within the manufacturing system; it also gained through a sales tax. A certain amount of money was printed and distributed to the populace to buy food and basics, which were also heavily subsidised.

In its last years, the inefficiencies of the Soviet economy resulted in a sharply reducing return on capital investment, a slow inflation and deterioration of the living standards of the people. Gorbachev was the first General Secretary to try to take action as a result of the briefings given to him by his specialists. The failure of his efforts to reform the USSR through a reformed Communist Party accelerated the inevitable breakdown of the economy. The inflation caused by all these inefficiencies and new malpractices is only too visible in the value of money, especially in the three Slav Republics of Russia, Belarus and Ukraine. The oligarchs have exported dollars perhaps to a value of US\$250-300 billion; the populace treats the US dollar as the major currency for internal trade, keeping perhaps US\$50-70 billion in their stockings and under their mattresses. It is ironic to note that this represents an interest free loan to the US Treasury at the same time as the USA is treated to accusations of imperialism! It remains a pious hope for the IMF and for the governments of those countries to demand that taxes be paid in cash until the whole commercial chain abandons the Soviet trading system and uses money for its transactions. Gazprom announced that in 1998 it paid 28% of its taxes in cash, up from 17% in 1997. A totally money based economy ought to lead to a rigorous, open determination of real costs of production and exchange of goods and services. In turn, a culture of cost-effectiveness might begin to grow. But I think this is a pipe dream.

Russia, through its exports of oil, gas and other minerals, earns significant sums in foreign currency, much of which is squandered. The crash of 17th August 1998 made many goods too expensive and has stimulated a modest, unplanned programme of import substitution as well as a reduction in imports. Russia may be able to continue its centuries’ old foreign trade pattern of exporting raw materials to pay for essential technical goods that it is still unable or unwilling to make for itself. Ukraine is not even in this fortunate position.

Many of Dr. Snelbecker’s recommendations for economic reform are sensible. He is right of course that a fundamental change in the economic policies of government is essential but insufficient. He correctly lists the required attitudes in his Table 1. But it is not, as he maintains, **only** “a ruinous economic policy that has prevented the Ukraine from realising its potential over the past eight years.” My comments on Dr Naniwska’s paper apply with full force to Dr. Snelbecker’s argument as well. Fundamental changes in the culture of the firm, management and work force is also required. But I doubt that economists educated in market principles are the right people to do that job, however many are educated and work in Ukraine. Nowhere in successful capitalist countries

are they responsible for success at the level of the firm; they will not wave a Keynesian magic wand. It is harder than that; a whole generation of competent professionals in their own sectors of business who are at the same time good managers is needed. I would also reiterate that to talk of their work force as highly educated is a tragic delusion; they will not perform properly unless they are led by world-class managers.

I would like to make some observations on a few more of his points which to my mind do not take sufficiently into account both the realities of business life in Eastern Europe, and the very stagnation that he observes and which I identify as attitudes frozen in the Soviet past coupled with opportunities to enrich the few rather than the firm and the country. For example, to relax inspection of imports or to accept “blind” the certificates of other countries is to open the doors to poor quality and sometimes dangerous products; there are enough examples of unscrupulous traders importing condemned food from Italy for example.

I also think that much needs to be done to encourage import substitution by domestic manufacture, this ideally needs local manufacture by foreign firms. But in the cheaper ranges, it would be better for the population, for a few years, to have available goods to the old, lower Soviet standards than nothing at all or imports from S.E. Asia through the grey economy. Something must be done to prevent the retention and flight abroad of capital. Ideally of course, the best way is to create the conditions for domestic investors to be confident in making a decent profit by investing in their own country. If they don't, why should foreigners? But we are far from the ideal circumstances where liberal economic policies alone will create the desired results.

Dr. Snelbecker is right to observe that Ukraine - and for that matter Russia - is not a transition economy but one in stagnation, as my own analyses over the past 10 years have consistently pointed out. The three Slav Republics have not taken, as Shakespeare's character Henry V said to his troops at Agincourt “the tide in the affairs of man that when taken at the flood leads to victory”. These economies and governments are led by men who are carried helplessly in a whirlpool constantly driven by the tides of events which they cannot prevent nor harness to the benefit of their country. They remain victims of their own past and of the opportunities presented to the corrupt and greedy by the wrong kind of political-economic policies masquerading as a market economy.

Consequently, Russia will continue to muddle along, probably not returning to a pure Soviet system nor able to take the right steps toward a working market economy. It will probably continue to muddle slowly downward. It can of course afford to do so, given its export of mineral wealth, especially if that is efficiently managed to joint benefit by foreign world class firms. The same is, at best, true for the Ukraine. It would indeed provide an incentive to entrepreneurs if taxes were lower. But in the absence of competent businessmen, this by itself will reduce the income of the state which will almost certainly consider that it

is forced to continue subsidising the loss-making operators as well as trying to maintain a large armed force and to develop its own arms production, particularly to compete in world markets. It is an over-simplification to assert that the USSR was over-industrialised. More accurately, its industry was heavily over-manned and much too orientated to the military. This does not require the range of service industries in finance, distribution and customer service essential for a thriving civilian economy. The defence industry produced good weapons inefficiently and cannot readily be converted to making acceptable civilian goods for many reasons. In a curious way, it received too much investment that was under utilised.

The Ukraine and Belarus with their very limited natural resources cannot afford the current helplessness and corruption. Their survival as independent, unsubsidised states depends upon them making the managerial revolutions that we in Western Europe and the Japanese and South Koreans have made and are still evolving. Without them there is no hope of utilising their “proximity to Western markets”. If the economy continues to decline, Ukraine may not be able to rely on its ethnic homogeneity, which comforts Dr. Snelbecker. This phrase hides some serious divisions which mass poverty and unrest may bring more to the surface. Ukrainians may be Slavs but so are Poles; they both have a long, proud history of distinctively different cultures from that of Russia as well as an equally long history of resisting Russian domination. The population to the east of the Dnieper is largely ethnic Russian while in the Western Ukraine the local population has much more in common with Ruthenians, Poles and other peoples of the former Austro-Hungarian Empire.

Regrettably I think it unlikely that Ukraine will learn how to move toward a more efficient, profitable self-sustaining and reasonably honest economy. There are too many people in high places who do not want to make the changes nor understand how to achieve them. I have explained in my comments on Dr. Naniwska’s paper why I think the forms of Western attempts to help them to learn are wrongly conceived and executed.

The consequences of the likely outcome for Ukraine and for her western neighbours are worse than is the case in Russia. The same is true for Belarus. Russophiles in both countries who may also be nostalgic for the Soviet era may try to reunite these countries with Russia, but they will be an added drain on the overstrained Russian economy.

Vira Naniwska

Dr. Naniwska’s analysis is correct, in that she properly identifies some of the Soviet legacy, wrong assumptions and errors in trying to carry out reform by foreign “advisors” and also by Ukrainians. But we should look more deeply. The economic aspects, particularly, remind one of British failures in the decades that followed the end of the Second World War. We too had a dirigiste economy

as a legacy of war policies, which were followed as a religion by the incoming socialist government. Industrialists also had a similar set of smug assumptions concerning our industrial capabilities, achievements, and managerial and scientific skills. These were unjustified in comparison with the performance of America and Germany.

Experience in Britain and in the former Soviet Union provides ample evidence that a highly educated work-force and graduate population is incapable of adequate performance in manufacturing, agriculture, infrastructure or communications unless it also understands the basic doctrines of a successful market economy and how to apply its education to its achievement and continuous improvement. Until the late 1970s, there was in Britain an almost complete chasm separating academics and graduates in engineering, natural sciences and business from the practice of management and leadership of companies. The former were regarded with suspicion of being mere theoreticians and almost contempt by business managers and directors who themselves had not had a university education and confused knowledge with wisdom. Business leaders tended to be mere accountants. Graduates entering the real industrial world often had to avoid the traps of following out of date practices insisted upon by their seniors whilst learning to challenge them and also to offer workable alternatives. In Britain, it took decades to change the culture of the past. In the former Soviet Union, this process has not even begun. The capture of vast state assets by individuals whose objective has been to enrich themselves rather than to benefit either their company or nation is no advertisement for private enterprise or a substitute for a properly working market economy.

The USSR, including the Ukraine, graduated many thousands of engineers and natural scientists; the theoretical aspects of their courses resemble those of the West but their courses do not integrate theory with application in the multi-disciplinary way that we do. Much of our education provides students throughout their courses with problems that require them to take into account not just theories of mechanics, physics and chemistry, but also the realities of industrial and commercial practice. Our students learn from their professors, who usually have significant industrial experience, and also from practising industrial managers both in the universities and later when they join a company. Young entrants can nowadays learn from their seniors how to work effectively within an environment of constant change and evolution of products, processes and company structure.

This was not the case in the years 1939-1960s, as I and many of my contemporaries knew. But this is still the case in the fSU where factories are dinosaurs designed and built many decades ago and frozen in the mud of Soviet thought and doctrine. Homo Sovieticus and Post-Sovieticus rejects industrial Darwinism! It is afraid of fundamental changes in the Soviet structure believing that it worked before and will work again whilst suspecting that the advocacy

by the West of their own experience is intended to destroy the economic and military base of their countries.

One significant current error made in the fSU is to assume that these old factories are very valuable and are the heart of the national wealth. They are not; the value of assets is only to be measured by the profit that is and can be generated in the future. All but a very few Soviet factories, and then those dedicated to purely military purposes, have any hope of competing, even if they are properly managed. They are badly laid out, with poor and costly materials handling, wasteful of energy, their equipment is often obsolete but even new equipment is frequently misused by management and workers, engineering materials are often of the wrong specification and vary widely from batch to batch. The design of products is too often done without adequate regard for real market requirements, because the design engineers are accustomed only to serving the military where cooperation with the users is good. Designers and production engineers alike are proud of their military work for which they rightly ask respect, but they in turn deny that respect to designers of civilian products because they consider that work too easy and beneath their own skills.

They are wrong; design for a competitive civilian market is actually harder than for the military; I have designed in both fields and that is my experience. Dr. Nativska is right when she says that industrial managers are simply “fire-fighting”, dealing with every emergency such as the lack of a component. By our standards, these factory-based engineers are not doing technical work - they are progress chasers!

In the fSU, one seems to have forgotten Marx’s phrase “theory without practice bears no fruit”. I am afraid that young Ukrainians with a good theoretical education are trapped because their opportunities to learn “practice” is only through their seniors who know only the Soviet past. The figures for employment of graduate engineers and scientists in Russia shows that very few work in factories but in research, administration, government and in other institutes. In the West the exact opposite is the case; such people work where they are most effective. See my paper to the 1994 NATO Economics Colloquium.

The best way to learn good practice is through daily association with competent and experienced seniors on the job. This requires world-class foreign firms to settle in Ukraine, engage young Ukrainians to work with their own senior managers and gradually replace them. No amount of seminars or sitting in business schools is a substitute for this. But the political, legal, fiscal and financial conditions operating in the Ukraine are not attractive to persuade enough firms to settle in Ukraine.

The West, including NATO, makes a fundamental mistake in providing seminars with papers by Ukrainian and foreign experts. The former make set speeches on general lines which are predictable, whilst the latter offer generalisations and sometimes detail which are correct at home but fail to take into account the real circumstances in the Ukraine. Furthermore, no one, not even a person

experienced in the Western system, can apply the suggestions without detailed study and exchange of experiences with practising foreign specialists. We must mount working groups between the Ukrainians who have to acquire new ways of working and the foreign specialists who have to consider the local realities. This will take time; I suggest that a working specialist group should come together for a week or two, leave the participants a month or two to reflect on the problems and recommendations and then reconvene for another two weeks at a later date.

Let me return to the comforting illusion that a large number of educated scientists and engineers will pull the country out of the mire. I give a Ukrainian example. Two years ago I was involved with a seminar in Ukraine to discuss ways of cleaning up the environment. The Ukrainians were mostly from institutes designated as expert in this field. They produced some theoretical papers, but when we put the question - what would you recommend to deal with the specific problems posed by the local administrations? - they retreated into ever more abstruse and irrelevant chemistry. They gave the impression that they had no competence to identify with precision the real problem as it affects the city and certainly they had no idea how best to solve it.

This was reinforced when I visited the water supply system upon which a major city depended. I was given a good analysis of the pollutants in the water. I was then asked whether a British firm could supply a plant to remove them at the well head and at what cost. I replied that it was old, well-known technology and that such a plant might cost around US\$10-15 million. But the radioactivity would remain. We then discussed the problems more generally and the chief engineer mentioned almost in passing that even if such a plant were to be provided - with Western money of course - the water would have to pass through 350 kms of old iron piping to every user of water and that the water would again be polluted by iron oxides, etc. This of course would nullify the point of the plant. I demanded some more data and then suggested that the city should commission small filters to be fitted to lines providing water used for drinking and cooking, leaving bath water to look brown but do no damage to health. This would cost less than US\$1 million and be effective. The engineers would have none of this suggestion; I decided that what they wanted was a new plant which, like a Potemkin Village, would look good and would generate a celebratory party. No one had apparently thought through the total problem until I probed it.

Things are better in the UK, which has been more successful than most European countries in attracting foreign firms. For example, the British factory of the Nissan Car Company is now more productive than its plant in Yokohama; it has fewer rejects and the rate of rework is also lower than in Japan. In Britain it now employs over 3,500 people and only around 20 Japanese. Over 85% of everything in its products are made in UK. Nissan has established its own technical centre, endowed several laboratories in British universities and engages

in cooperative research and development in Britain; it no longer relies on its home base.

Dr Nanivska is absolutely right when she comments that the Ukraine lacked an effective managerial structure since the local authorities were supposed to do what they were told from Moscow, where all the real thinking was done in the Central Committee of the Communist Party. Even today in Russia, the “government” is simply the administrative body that has to carry out the decrees of the Presidential Administration which is an expensive, less effective copy of the old Central Committee! So much the truer in Ukraine, where there was no General Staff for the Armed Forces, no effective governmental body with the experience and capability of strategic integrated thought for government policy, let alone to think through the road from a system commanded by Moscow toward a self-governing, market economy and a politically independent and progressive civil society.

But let us observe that not everything is right with our market economy in the West. It too produces the circumstances for individuals to disregard every interest except their own. Some of their practices in self-enrichment are also outside the law or accepted practice, which unfortunately is itself altered by now social acceptance of such merciless selfish behaviour. Only a deep understanding and personal experience of the Soviet era prevents me from rejecting our current forms of capitalism. We need a free market economy but a properly regulated one in which those who practise anti-social behaviour are caught, dismissed and punished. I can only hope that sooner or later our societies will force a return to the very short periods in our history when we had a more or less ethical business life. History shows that social affairs tend to move in cycles.

Conclusions

I disagree with Dr.Nanivska’s conclusion that the kind of market forces operating in Ukraine are beneficial to its economic development. A grey economy tends to be small scale, involved in trade, often foreign trade, rather than in producing goods that the country requires. Large-scale business such as the production and distribution of oil and gas tends to be in the hands of the oligarchs and does not benefit the country as much as it should and could.

A grey economy does not necessarily convert to a respectable legal one that pays its taxes and contributes properly to society. I agree very strongly with her other conclusions. My comments are meant to reinforce them with more detailed analysis of the situation, problems and possible way forward at the working level. Handicaps to effective economic reform are:

- The absence of a unit of government engaged in strategic thinking, examining the problems in the round and testing every proposed solution against cost-effective measures.

- The fear of change from the old Soviet structures in every branch of the economy, coupled with the suspicion that western suggestions are designed to destroy the security of the State.
- The absence of opportunities to learn through cooperative work with foreign experts. This denies both sides from understanding how to proceed and how it might be possible to use foreign experience in practice. Foreigners should not teach Ukrainians but help them to learn. This process requires that foreigners who may be experts in their own country have to learn how to become experts in Ukrainian circumstances. If they do not, they will properly be labelled as arrogant and unhelpful. I recollect a good Japanese phrase - "there are no professors and students, only students with more experience and those with less".
- The illusions of competence in science, technology and the value of existing industrial structures and factories. The structure needs changing. A commercial firm needs its own R&D department working closely with sales, marketing and technical service organisations; these are also lacking in most firms in the fSU. The old Soviet arrangement of separate Institutes denies them this intimacy, except perhaps in the military sphere.
- Boasting about the nation's wonderful science and technology is unhelpful. Our experience is that even the formerly closed military research institutes have little of value to offer. Mostly they are so isolated from their foreign competitors that they do not know how far behind they are. Blind British boasting led the closure of our shipbuilding industry.
- The absence of legal and financial conditions that would attract foreign firms to settle in Ukraine. This implies not only the passing but also the policing and implementation of laws and tax systems. It also requires the reduction of corrupt practices and the knowledge that these will be prosecuted in the Courts as will the rights of individuals and firms against malpractice by others, including agents of the state.
- Far too much foreign advice has been counter-productive; some of it represents sincere beliefs of macro-economists who lack an understanding of life at the "coal-face" - in other words, at the level of operation of the firm, the farm or the railway and water and sewage plant. Some, indeed, represent nothing more than the opportunity for such people to try out their theories in a country where they are not so subject to challenge as at home. Whatever the reasons, it is obvious that reforms cannot begin by putting in place the superficialities of a free market economy. A stock market is pointless unless one can value real assets, and that requires a proper costing system which allows real profit to be assessed this year and for some years ahead. This does not exist in the fSU.
- A freely convertible currency without exchange controls or limits on export of money leads to the flight of capital that we see everywhere in the fSU. The IMF may desire these freedoms but they should reflect that in UK we

had import controls and exchange controls until the late 1960s and no one accused us of being a totalitarian state to whom the world would not lend money.

Olivier de Laroussilhe

This paper very properly widens the issues beyond those of macroeconomics with which those of Dr. Nanivska and Dr. Snelbecker were concerned and with the micro-issues that I have discussed in my commentaries on those two papers.

Let me say straight away that I share completely all the viewpoints and arguments of M de Laroussilhe's excellent and sobering paper. I shall confine myself to reinforcing some of his points that seem to me those that need the most attention from the Western friends of the Ukraine and from those sincere Ukrainians who are anxious to see workable reforms in the political and economic fields.

I am also pleased to note that the failures of the past 10 years in Russia have caused the Western agencies to review their strategies of assistance. As he so rightly says, foreign aid has not compensated for the internal weaknesses of the Ukraine. I would add that the rush to provide technical and other assistance by the international financial and political bureaucracies produced equally important weaknesses within themselves and contributed heavily to the poor results of such activity. In themselves they were bad enough, but they provoked much justified anti-Western feeling within the fSU which still sours mutual understanding and handicaps the essential work of transfer of professional skills. I have myself more than once published severe criticisms of the waste of such funds, the inutility of many of their projects and the failure to carry out a rigorous audit of cost and benefits. The realities of achievement rarely match stated targets whilst the essential intellectual rigour needed at the outset regarding the aims of a project and of its terms of reference is rarely applied. I have also alluded to the corruption within the Western system and between it and the beneficiaries, but the financial loss due to this is minor compared with the failure to achieve positive results of value within the recipient country. Better late than never!

I also agree with his list of essential areas where reforms are urgently needed. I am especially glad that he and I have both highlighted some critical issues and have not been afraid to call things by their right names, as one says in Russian, to make blunt criticisms. We both observe that there indeed lies a very long road ahead before we could expect a legislative and executive regime which supports and brings into being a civic society, creates the conditions for a sound market economy and allows the Ukraine to play a positive role in its geographic and strategic position between East and West, and I will add, between north and south. I will not comment on the unfortunate and well-known deficiencies of the present government and of Ukrainian society itself, which not only allows

but positively stimulates malpractices that harm the Ukrainian population as well as relations with its neighbours.

Highlights

Identifying and preserving the identity and unity of the Ukraine. The paper asserts that we may be encouraged by progress in this respect. We surely owe it to ourselves to define our criteria by which we judge that position and then examine progress toward achieving those criteria.

Stalin asserted for his own purposes rather than for those of the Ukraine that Ukraine and Belarus were separate states within the United Nations. It is therefore difficult for Russia to find legal grounds for a return to the status quo ante the agreement to dissolve the USSR arrived at the Belovezhchaya Pushcha in 1991. This itself was brought about primarily by Ukrainian nationalists followed by the Belarusians who realised that a declaration of independence by them would not be followed by retribution from Russia, now or in the future. Khrushchev transferred in 1954 the Crimea from the jurisdiction of the RSFSR to the Ukrainian SSR. But this has been the subject of much rhetoric and demands for its return from several chauvinistic quarters in Russia. Ukraine successfully defended its position, but it would be unwise to assume that such demands will not reoccur.

The lengthy arguments over the division of the Black Sea Fleet and the uses of the naval bases and dock yards in Crimean and Ukrainian territory have been long, acrimonious and may also represent unfinished business. Both sides have regarded the Fleet as symbols essential to their national status in spite of the inappropriateness of much of it to the real current defence needs in the adjacent waters. These form an attractive route for smugglers, gangsters and illegal immigration not to mention the prospect of landings by terrorists. A more effective defence against such threats than these old capital ships lies in a squadron of fast patrol boats such as those used by the Swedish navy and by the fishery protection vessels of the Royal Navy used in the turbulent waters of the Irish Sea and the area north-west and east of Scotland, the Orkneys and the Shetland Islands. Added to which it is very costly to maintain in good order so many large and old ships. A frank study of cost and effectiveness would add to the security of the Ukraine as well as benefit its economy.

If the economy worsens much more, the resulting poverty may well provoke thoughts of separatism amongst the ethnic minorities. Western Ukraine was probably better off under the Austro-Hungarian Empire than at any other modern period of its history. There are signs of a laudable rapprochement between Romania, Bulgaria, Slovakia and Poland in regional security matters, problems of ethnic rights and education and in joint economic moves to facilitate their applications to join the European Union. It is not impossible that such moves may embrace the Ukraine, or at least its western parts.

The Crimean Tartars need very sympathetic treatment if they are to be fully integrated after their appalling treatment by the Soviet regime. If these people are not handled sensitively they may well remember their roots and look once more to Turkic States. Monsieur Laroussilhe quotes D. Huntingdon's book "The Clash of Civilisations". Zhuganov, the leader of the Russian Communist Party, relied extensively on this book to support his argument that Russia is a unique civilisation and that this justifies its place as a superpower that can go its own way in a post-industrial world. This appeal is too reminiscent of the Hitler-Himmler myth of German-Aryan uniqueness and superiority to let it go unchallenged. Russia and the Slav nations do have a different mix of attributes that provide the basis for the concept of nationhood, but the claim to a unique civilisation is erroneous and dangerous, especially if Great Russia is to incorporate both Little and White Russia once more. Is eastern Ukraine to become Russia's Sudetenland? The thesis should be challenged intellectually before it is supported by force of arms.

Economic Aspects

Relations with Russia also follow ethnic divides, which are made worse by the economic weakness of Ukraine and its dependence on Russian, especially for energy. The debts mount and are balanced by giving up equity in Ukrainian companies, effectively giving economic sovereignty to Russia. Ukraine needs to carry out an energy audit and economy drive in the use of energy. This has been very successful over 50 years in the United Kingdom which has an excellent agency capable of working in Ukraine and transferring its expertise. Ukrainian coalmines are old, all but a few are incapable of making a profit and therefore consume huge subsidies. There are 80 times more fatal accidents to miners per tonne of coal extracted than there were in the United Kingdom. Mines in France, Holland and Britain have closed, new industries brought in and miners retrained in them. This process took some years supported by a strong economy. Present policies reduce the Ukraine to conditions from which it is impossible to rescue it without serious social problems. Such circumstances produce demands to return to "order, discipline, sacrifice"; democracy becomes an early casualty. So do ethnic minorities who are easy to blame.

The Structure of Government

Laroussilhe is right to point to the lack of structure and experience of government in the Ukraine. But I am not sure that it is necessarily a bad thing that "the Ukrainian President has a weaker constitutional position than in Russia and cannot govern without Parliament". It is true that the Russian constitution in this respect is based on the French model, but Russia lacks the long traditions of French political organisation. The Russian President can and does govern

by caprice and decree; his is a Super-Presidency which can make war without the consent of the so-called government or the Parliament. December 1994 saw the first such assault on Chechnya and we are now witnessing another. His administrative office is a close and extremely expensive copy of the old Central Committee of the Communist Party; it does such strategic thinking as is done in Russia, makes the decisions which the “Ministers” are supposed to carry out. They are more like the Soviet ministers than British ones who form a cabinet and act according to a common policy. No wonder Russia survives frequent changes of prime minister and ministers who are functionaries rather than strategists and decision-makers.

The Ukraine should strengthen the competence and strategic roles of their executive ministers. They should subject their actions to stronger challenge, audit and approval or otherwise by the Parliament rather than strengthen the powers of the President. People who are interested in the history of the structure of government in Russia may care to look at my recent paper, “Continuity and Conflict in the Government of Russia”.

Additional Comments

Countries in the fSU suffer the disadvantages of not only the structure and mentality of Homo Sovieticus but also that of the Tsarist Empire. This inheritance left them in 1991 without any of the essential requirements of a modern state, which would make possible the transition from an inefficient command economy to one that might aspire to compete and survive in a competitive world.

The last decades of the USSR provided through its internal contradictions and weaknesses the basis for the conditions we have seen since its collapse. The progress towards anarchy has been accelerated by the inappropriate advice and pressures from Western and international financial institutions and macro-economists. The real economies of these countries, especially Russia and Ukraine, essentially remain in their Soviet condition but barely produce anything and are actually worthless and bankrupt. At the same time, the predictions of Marx have come true in the fSU, namely that under capitalism the gap between rich and poor will widen. The few rich have seized the opportunities to grab lucrative businesses from the state and to defend huge personal wealth with their coterie of people in power at every level. They do not benefit the economy. It is wrong to talk of transition to a market economy; neither the state nor business have put in place the essential bases to avoid drowning in the socialist mud mixed with robber baron capitalism. Random swimming has no direction.

There is no simple or single solution. The weaknesses are all inter-connected, so it is not possible to improve any one of them by itself. Furthermore it is not in the interests of the people of power and the oligarchs, or of those who aspire to join or replace them, to do so either. For example, you cannot monetarise the economy and thus pay taxes instead of firms using barter and vexels because

that would bankrupt the firms. Bankruptcy would require social support for the unemployed and retraining, but there is no money. Therefore you continue to subsidise loss makers without money so you do not move to a profitable industry, and so on! How do you get out of this trap? What is required is a total change of culture. Experience in Britain after 1945 shows that it took at least 30 years to become a member of the world's top level economic performers. And our industry is still not of the best.

I suggest that the positive basis of British society, law, democracy and openness to foreign expertise, markets and competition enables us to survive and control and reduce to an acceptable minimum the negative factors which the fSU also suffers from, but to a far greater extent. The Tsarist and Soviet empires never had those basic virtues. It is a miracle that Russia has a government at all. It certainly is not a sovereign state if it cannot impose its legal currency as the only means of settling legal commercial debts and establish a proper rule of law for honest business and citizens. Nor is it a democracy ruled by the people for the people if the oligarchs and politicians at every level rule in their own personal interest. The Ukraine suffers even more than Russia because independence left the Ukraine with no structure of government or people with experience of exercising authority responsible to their own nation. This situation is similar to that of the colonies of some Western powers. The present trend to remilitarise will only worsen the economy still more. Russia faces no external military threats, a large visible, powerful army is needed only by the emotional needs of nationalists to "respect themselves". The West would respect Russia more if it developed a strong economy.

Perhaps one way is to start small, with one city or region. Use it as a model for others to copy. It can be done with an enlightened, dedicated, competent, honest governor, mayor and council, industrialists, agriculturists and academics. They can create the right conditions to attract domestic and foreign investment and world class industries into the real economy. They could create a monetarised economy; pay taxes; support the needy; close the hopeless, loss making firms; support and retrain the unemployed; and pay pensions on time. At least one city in Russia claims to have done that. If truly reported we should all go to study it.