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TRANSFORMATION OF UKRAINE'S ECONOMIC SYSTEM AT THE TURN OF THE 1980S AND 1990S: FROM CENTRALISED PLANNING TO FREE MARKET RELATIONS

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Abstract: The article reviews the transition of the Ukrainian economy from a planned to a market at the turn of the 1980s and 1990s. The main reason for the start of reforms was the large-scale crisis in the USSR economy. It could not be overcome using the command-and-control methods familiar to the Soviet authorities. As a result, in 1985, reforms known as 'perestroika' began in the USSR and, subsequently, in the Ukrainian SSR. It is determined that the reason for their failure was that the communist nomenclature was not ready for genuine market transformations. It was necessary to dismantle, rather than save, the planned Soviet economy using market instruments. Instead, 'cosmetic' reforms further deepened the crisis, which eventually spread to the social and political spheres.

The Ukrainian governments of the first years after independence were also unprepared for real reforms, as mainly former communist leaders formed them. The authorities declared reforms, but in practice, they slowed them down and used them for their own enrichment. As a result, by the mid-1990s, the crisis in Ukraine's economy was even greater. Only after Leonid Kuchma became president, the government started to roll out real market reforms. They managed to improve the state of the economy and introduce a stable national currency, the hryvnia. However, the continued growth of the authorities and business prevented the reforms from being fully successful. The transformations in the Ukrainian economy caused it was primarily enterprising people close to the authorities and, in some cases, the criminal world who benefited.

Keywords: 'perestroika', market reforms, economic history, USSR, Ukraine

INTRODUCTION

In the 1980s, the USSR's economy was getting deeper and deeper into crisis. The main reason for this was the economic system itself, which the Soviet elite had created over several decades. The structure of the Soviet economy was unbalanced. The authorities mainly developed the production of means of production (machinery, equipment, raw materials), while too little attention was paid to the development of light and food industries (Danylenko, 2018: 16). For this reason, the standard of living of the inhabitants of the USSR declined. Due to import restrictions, they had to wear uncomfortable, low-quality clothing and eat inferior food, for example. It got to the point where, in the mid-1980s, many regions of the USSR even experienced food shortages (Dzisyak, 2010: 32), and standing in line behind them from dawn became a habitual activity for 'Soviet people.' However, despite of their verbose declarations, the authorities cared little about their citizens. Instead, they provided for their satellite countries and invested in the military-industrial complex: the USSR's total expenditure on 'defence' reached 52% of GDP (Smolnytska, 2011: 499–500).

Planned production and distribution of goods defined the Soviet economy, limiting competition for consumers (Dzisyak, 2010: 95). Both enterprise managers and workers were less and less interested in producing quality products, working instead to fulfil sometimes-absurd plans imposed by the central authorities. The lack of economic initiative increasingly made it impossible to fulfil the plans outlined at party congresses. At the same time, the growing role of the 'shadow economy' exacerbated the problem. It began to saturate the market with scarce essential goods: clothing, footwear, food, etc. (Danylenko, 2018: 16–19).

In the 1980s, all the problems of the Soviet economy came to the surface. These processes accelerated the international failures of the Soviet Union. Initially, in response to the USSR's aggressive actions in Afghanistan and the suppression of the democratic movement in Poland, the United States imposed sanctions in 1981–1982. Moreover, in 1985, not without their assistance, oil prices fell sharply, plunging the USSR into debt: by 1990, it was $80 billion (Danylenko, 2018: 13).

In the mid-1980s, the crisis affected all sectors of the Soviet economy. According to the official data, from 1965 to 1985, annual growth in national income fell on average from 6.5% to 3.6%; in industry—from 8.6% to 3.7%; in agriculture—from 2.3% to 1.1%. In terms of gross domestic product per capita, the USSR ranked 68th in the world in 1985. The main reason for this situation was a sharp decline in labour productivity, which fell by almost half, from 6.1% to 3.1% per year. In fact, taking into account inflation, which the authorities underestimated in official data, the decline was even greater (Danylenko, 2018: 19–20).

The economic crisis could have led to social unrest. Realising the threat of losing their monopoly on political power, the Communist leadership decided to carry out cosmetic reforms in the form of 'perestroika' without affecting the nature of the Soviet mode of production and public ownership of the means of production. The Communist Party elite forced to democratise the social and productive spheres in an attempt to save the planned Soviet economy with the help of market instruments (Chura, 2012: 7).

The aim of this article is to show the reforms in Ukraine at the turn of the 1980s and 1990s, which led to its transition from a planned to a market economy. The article seeks to answer the following research questions:

- What were the reasons for the need to transform the Ukrainian economy?
- What influenced the pace of reform?
- Were the Ukrainian authorities and society ready for the transition from a command to a market economy?
- What measures have the Ukrainian authorities taken to implement market reforms?
- What new social challenges arose because of changes in Ukraine's economy?

'MORE SOCIALISM!' FIRST ATTEMPTS TO REFORM THE SOVIET ECONOMY

During the first stage of reforms in the Soviet economy, often referred to in literature as 'More Socialism', the Soviet leadership attempted to accelerate existing production and avoid 'shock' reforms. It was impossible to achieve a positive result in this way because the USSR's economic capabilities were at their limit. The authorities replaced reforms with slogans, declarations and promises (Chura, 2012: 10).

When Mikhail Gorbachev came to power, the country's economy was already in such a state that it was impossible to conceal it behind empty slogans about building 'developed socialism.' Therefore, in April 1985, the communist leadership initiated a course to accelerate the country's socio-economic development and outlined a programme of reforms aimed at overcoming the crisis. Thus, the central Soviet government began to reform the country's economy from the top down, as was its tradition. Its programme primarily envisaged the intensification of the economy, the acceleration of scientific and technological progress, the restructuring of management and planning, the improvement of structural and investment policy, the enhancement of organisation and discipline, the improvement of working practices, and reasonable personnel changes. The course of reforms adopted in April 1985 named 'perestroika'. The biggest problem at the outset was that the Soviet leadership did not realise the need to change the country as a whole, rather than just 'patching up holes' in the economy; it was in no hurry to 'learn' from Western countries, but acted in its traditional manner. Gorbachev wanted to improve, not to change, the existing system (Boyko, 2002: 20–21; Smoliy and Levenets, 2007: 919; Dzisyak, 2010: 33; Danylenko, 2018: 20).

The Soviet leadership continued to 'think' in terms of plans that were once again difficult to implement. The goals set in 1986 in the 'Main Directions of Economic and Social Development of the USSR for 1986–1990 and for the Period until 2000', which were developed by the Chairman of the Council of Ministers of the USSR Nikolai Ryzhkov, were unrealistic. For example, over five years, they planned to increase gross domestic product by 19–22%; they were to ensure a 21–24% increase in industrial output, a 25% increase in labour productivity, etc. (Chura, 2012: 8–9).

The authorities used coercion to eliminate production shortcomings and improve the quality of manufactured products. Thus, on 12 May 1986, the Council of Ministers of the USSR issued a resolution 'On the approval of the regulations for state acceptance of products in associations and enterprises.' In practice, this decision only increased the shortage of goods, as defective ones were simply removed from further sale. Instead, there were fewer products of the highest category: 15.8% in 1987 and 13.9% in 1989 (Boyko, 2002: 23–24; Bardashevska, 2014: 155).

During the first stage of 'perestroika,' they declared a fight against 'unearned income' (theft of property, bribery, speculation, etc.). In reality, however, the focus was on combating private initiative in the economy. The state demanded that its citizens work efficiently in production, effectively depriving them of any opportunity to improve their financial situation (Bardashevska, 2014: 155; Smolnytska, 2011: 501).

To overcome the shortage of goods for the population and improve the quality of service in trade, the Soviet authorities planned to act in their traditional manner: improve planning, increase monetary incentives and improve management, and strengthen the responsibility of enterprises for the results of their economic activities. This did not lead to the desired results, because the changes proposed to society were gradual and implemented under state supervision. The Soviet leadership could not comprehend the need to change its traditional way of managing the economy (Smolnytska, 2011: 502).

Before the reforms began, Ukraine had some of the best conditions for independent development among the Soviet republics. It had a population of approximately 52 million (sixth in Europe), 15.5% of the main production funds, and produced almost 17.4% of industrial and 22% of agricultural products in the USSR (Danylenko, 2018: 23). The policy of local leaders stood in the way of at least partial independence of the Ukrainian SSR economy. The Ukrainian Communist Party elites were simply not ready to make independent decisions and always looked to the all-Union leadership. On the other hand, controlled from Moscow economic ties between the Soviet republics did not allow this. Domestic production satisfied only 82% of the internal needs of the economy and population of the Ukrainian SSR. In exchange for raw materials and goods that were lacking in the republic, one-sixth of its GDP was exported outside its borders (Boyko, 2002: 17–18; Smoliy and Levenets, 2007: 917; Smolnytska, 2011: 507).

Reforms in Ukraine began slowly because the republic's authorities saw Gorbachev's course as a familiar campaign to restore basic order, change discipline, and increase staff accountability. At the same time, a slight revival in economic growth reinforced utopian hopes for a rapid improvement in living standards through traditional command methods (Boyko, 2002: 21–23; Smoliy and Levenets, 2007: 919).

The situation worsened after April 1986. The accident at the Chernobyl nuclear power plant placed a heavy burden on the economy and became an example of the Soviet government's mismanagement. Moreover, remedying the environmental situation required resources. The direct costs of dealing with the aftermath of the accident alone amounted to more than 20 billion roubles at the prices of the time (Boyko, 2002: 31–32; 2004: 37–39; Smolnytska, 2011: 502–504).

At the beginning of 1987, the crisis became even more acute. For example, industrial production in the USSR fell by 6% compared to December 1986 (Boyko, 2002: 25). This prompted the authorities to take action that is more decisive. In June 1987, they announced a shift from administrative to economic methods of managing the economy. The plan was to expand the independence of enterprises on the principles of self-financing and self-accounting; gradually revive the private sector of the economy; abandon the monopoly on foreign trade and deepen integration into the world market; reduce the number of sectoral ministries and departments and establish partnerships between them (Boyko, 2002: 25; Smoliy and Levenets, 2007: 919; Smolnytska, 2011: 504–505).

'MORE DEMOCRACY!'

Decisions made by senior leadership in June 1987 initiated a different understanding of economic processes. The authorities began to view economic reforms as part of the democratisation of the USSR (Boyko, 2004: 62–63; Smoliy and Levenets, 2007: 922).

From mid-1987, opportunities for economic activity expanded for citizens of the Soviet state. On 1 May, the law 'On Individual Labour Activity', adopted on 19 November 1986, came into force, and on 1 June 1988, the parliament passed a special law 'On Cooperation'. The state and cooperative sectors of the economy were given equal rights. The authorities allowed the creation of cooperatives in trade, industry, services and public catering. This led to an increase in the number of cooperatives and citizens engaged in independent economic activity. While in May 1986 there were only about 400 cooperatives in the Ukrainian SSR, by early 1989 there were over 23,000 (employing 254,000 people), and by early 1991 there were as many as 35,000 (876,000 people). Cooperatives did not and could not influence the improvement of the consumer market, because their activities primarily consisted of accumulating capital through trade and intermediary activities, rather than producing goods that were important to Soviet citizens. Sometimes the activities of cooperatives bordered on speculation: some of them simply resold goods violated pricing rules (exceeding state prices by 2–4 times) and thus received unjustifiably high profits (Boyko, 2002: 24; Smolnytska, 2011: 505–506; 513–514; Bardashevska, 2014: 155–156; Danylenko, 2018: 22). As a result, Soviet society began to despise cooperative leaders. They were considered almost the main culprits for the deterioration of the material situation of the rest of the population (Smolnytska, 2011: 518).

At the same time, the authorities expanded the powers of state-owned enterprises. On 1 January 1988, the Law 'On State-Owned Enterprises (Associations)' came into force, according to which enterprises and associations were transferred to full economic accounting and self-financing, and the limits of their independence were sharply expanded. The government has revised its pricing policy for industrial and food products and services. This was beneficial for producers, but prices rose for consumers (Bardashevska, 2014: 156).

The authorities implemented similar measures in agriculture, which until the mid-1980s was the most neglected sector of the economy: They attempted to introduce new forms of management based on cooperation and agro-industrial integration, to increase the independence of enterprises, and to expand scientific research. Since this did not solve the main problems, in March 1989, the parliament passed a law that created conditions for the development of alternative forms of economic management: farms, various forms of leasing, and cooperatives. During 1989–1990, the process of transforming collective farms into state farms intensified. Agricultural firms were created, small enterprises, agricultural cooperatives, and farms emerged, and in which production relations were based on the principles of self-financing. However, very few peasants took advantage of this law. Apparently, they were not morally ready to run an independent farm, and they needed to have their own agricultural machinery, equipment, and premises for storing products, etc. Thus, in 1991, there were 2,000 farms in the Ukrainian SSR, employing 5,000 people (Smolnytska, 2011: 511–513).

The failure of reforms aimed at expanding the rights to engage in individual economic activity was one of the reasons for the increase in shortages and the deterioration in the supply of essential goods to the population. As early as 1988, the authorities were forced to focus not so much on the quality of goods or expanding the range of products, but on satisfying the population's demand for at least the most essential foodstuffs. Queues at shops grew longer and longer, and the shelves became emptier. The habit of the 'stagnation' era of 'getting things through connections' took on a new meaning: often, the goods most necessary for people did not reach retail outlets because they were simply sold at the places of production (Smolnytska, 2011: 514–515).

In order to save the Soviet economy, the Communist Party leadership had to expand private property relations, but their implementation without dismantling the planning system, on the contrary, led to a noticeable slowdown in the development of the Ukrainian economy. However, in the absence of private property, their implementation had the opposite effect: there was a noticeable slowdown in economic development. Strikes broke out in factories, and criticism of the ruling party intensified.

While pursuing a course of decentralisation of economic life, the USSR leadership attempted in a number of cases to centralise it even further and subordinate it to Moscow. They done it by using command methods, without taking into account regional specifics. The dismissal of experienced personnel and the destruction of their documentation led to chaos and disorganisation in economic management and disrupted links between economic entities. As a result, from 1987 onwards, the republics began to lose the remnants of their jurisdiction over heavy industry. In Ukraine, this affected the electricity and fuel industries, coal, oil refining and petrochemical industries, ferrous and non-ferrous metallurgy, and geology. With the centralisation of management of these industries, it became increasingly difficult for Kyiv to influence the situation, for example in the Donbas (Boyko, 2002: 25; Smoliy and Levenets, 2007: 919–920; Dzisyak, 2010: 69; Smolnytska, 2011: 506; Danylenko, 2018: 23–24).

The economic situation did not improve and in June 1988, the 19th All-Union Party Conference took place. There, for perhaps the first time, they pointed out the need for comprehensive reforms—changes to the political system, the creation of a constitutional state, and parliamentarism (Smoliy and Levenets, 2007: 922; Chura, 2012: 9).

In the summer of 1989, notable breakthroughs in political life contrasted sharply with economic turmoil. Social tensions intensified. A miners' strike broke out. By 21 July 179 out of 252 mines in Ukraine were on strike (Boyko, 2002: 97–103; Smoliy and Levenets, 2007: 923–924).

The financial policy of the Soviet government caused the decline in living standards and the intensification of the strike movement. The government decided to issue not backed by commodities money. The authorities did this to increase wages: between 1986 and 1989, the average monthly wage of workers and employees rose by more than 25%. As a result, according to data from the State Planning Committee of the Ukrainian SSR for November 1989, consumer demand was not met by goods worth 14 billion roubles. This led to a significant increase in domestic public debt, and many workers began to experience delays in their wages. In 1989, the Ukrainian SSR recorded 73,800 cases of late payment of wages amounting to 3.4 billion roubles. The population began to deposit their money in the Savings Bank of the USSR. In the Ukrainian SSR, deposits by urban residents in savings banks increased by 41.79% between 1985 and 1990, amounting to 61.5 billion roubles in 1990 (Dzisyak, 2010: 63, 121; Bardashevska, 2014: 156–157). The shortage of goods began to grow, and queues for goods became longer. People waited months or even years for the opportunity to buy new furniture, refrigerators, televisions, cars, etc. (Danylenko, 2018: 25).

Despite these measures taken by the authorities, wages in the USSR remained very low. For example, in 1988, an hour of labour here cost only \$0.59, while in the USA it was \$30, in Switzerland \$30, and in Germany \$28. At the same time, the level of remuneration in Ukraine was lower than, for example, in Russia. Thus, in 1988, the average monthly wage of workers and employees in the Ukrainian SSR was 200 roubles, while in the Russian Federation it was 235 roubles; the average monthly wage of collective farmers in the Ukrainian SSR was 168 roubles, while in Russia it was 200 roubles (Danylenko, 2018: 37).

Perhaps the biggest problem remained that the Soviet leadership did not intend to change the economic structure of the state. The authorities have made it their priority to support the production of means of production. Instead, capital investments in the production of consumer goods it allocated on a residual basis (Smolnytska, 2011: 507).

Already in 1989, there was a general decline in production: output growth slowed to 3%, contractual obligations were not taken into consideration, and the number of enterprises that failed to meet their plans increased. Outdated technical equipment at enterprises and untimely deliveries exacerbated the situation (Smolnytska, 2011: 508–510).

COLLAPSE OF THE SOVIET ECONOMY

The economic situation in the USSR, and consequently in the Ukrainian SSR, was deteriorating: industrial capacity was declining, inflation was accelerating, the shortage of essential goods was intensifying, the union republics stopped transferring taxes to the centre, and the welfare of the population began to border on poverty. Attempts to remedy the situation without destroying the command-and-control approach to the economy were impossible, and the communist authorities were not ready for this.

To regulate the sale of scarce goods, on 22 October 1990, the Council of Ministers of the Ukrainian SSR adopted a resolution 'On the Protection of the Consumer Market'. In accordance with its provisions, on 1 November 1990, consumer cards with disposable tear-off coupons began to be used in the republic's monetary circulation. They were issued until December 1991 and were used for consumer purposes as a supplement to the Soviet rouble. These one-sided cards had different colours depending on their denomination. Watermarks and stamps from the employer or rural post office were a sign of security. Detachable coupons were issued at the place of work. The buyer paid for food and goods with Soviet roubles and gave the seller the required number of coupons to tear off. Such regulation of trade in essential goods did not bring the desired result, but only testified to the disorder of the Soviet economy (Shust, 2007: 328; Dzisyak, 2010: 125; Bardashevska, 2014: 158).

In 1990, inflation had already reached 10% per annum. The Soviet authorities had to force to resort to unpopular measures. In January 1991, to save the economic situation, they decided to withdraw 50- and 100-ruble notes from circulation and exchange. Officially, the main goal of the reform was to combat the shadow economy, but the hidden goal was to reduce the money supply in the country. Ordinary citizens of the Soviet Union suffered the most from the reform, as they had to withdraw cash from their savings accounts within three days (Bardashevska, 2014: 157; Danylenko, 2018: 25).

In addition, from 2 April 1991, the government doubled all tariffs and prices in force in the country. The aim was to reduce the amount of money in the hands of the population, at the same time stabilise the consumer market, and strengthen the fight against speculation and the 'shadow' economy. However, the shortage of goods increased and inflation rose. In the second half of 1991, it reached 25% per week. The rapid devaluation of the rouble led to the spread of barter (Bardashevska, 2014: 157; Danylenko, 2018: 25).

As a result, the 'perestroika' and the construction, in Gorbachev's words, of 'humane democratic socialism,' failed precisely because of the utopian nature of these plans and their incompatibility with the new political realities. What happened was not a reorganisation of what had been 'built,' but its destruction, because no development project as such had been drawn up. The destructive process engulfed the state with its social relations and values (Dzisyak, 2010: 38–39). The decline in production grew catastrophically. Between 1986 and 1990, coal production fell by 24 million tonnes (13%), natural gas by 14.8 billion cubic metres (35%), and iron ore by 15 million tonnes (12%), tractor production by 30,000 units (22%), and automobile production by 16,000 units (8%). Ukraine's national income fell by 3.67% in 1990 and by another 11.2% in 1991 (Lytvyn, 2001b: 221).

THE BEGINNINGS OF UKRAINE'S ECONOMIC INDEPENDENCE: PRESIDENT LEONID KRAVCHUK'S ATTEMPTS AT REFORM

The fact that Moscow was unable to find ways to improve economic indicators prompted the leadership of the Soviet republics to seek a way out of the difficult situation on their own. Back in March 1990, the Central Committee of the Communist Party of Ukraine adopted a resolution 'On the Political and Economic Sovereignty of Ukraine,' and on 3 August of the same year, they passed a law 'On the Economic Independence of Ukraine.' These documents proclaimed the people's ownership of the republic's national wealth and national income; the diversity and equality of different forms of ownership and their state protection; and full economic independence and freedom of enterprise (Burakovsky and Novytsky, 2003: 75–76; Dzisyak, 2010: 36–37).

With the declaration of Ukraine's independence on 24 August 1991, there was widespread optimism that the country's economic situation would quickly improve. In the early 1990s, analysts from some economic organisations, such as Deutsche Bank, rated Ukraine's prospects as among the best of the Soviet republics (Havrylyshyn, 2014: 243; Wittkowsky, 1998: 83–84). At that time, Ukraine ranked second in the USSR in terms of industrial and scientific-technical potential, behind only Russia (Kasianov, 2011: 523). Ukraine's raw material base includes many metals and coal. Ukrainian deposits account for 5% of global iron ore reserves and 20% of manganese ore reserves. Ukraine has abundant deposits of bauxite, lead, chromium, gold, mercury, nickel, titanium, uranium, zinc, etc. (Wittkowsky, 1998: 88). Ukraine has almost half of the world's black soil, which has earned it the reputation of being the 'breadbasket of Europe' (Wittkowsky, 1998: 84).

The optimistic forecasts did not come true. To achieve success, it was necessary to quickly, and not just declaratively, change the approach to economic management, pay more attention to the production of consumer goods, reduce spending on the military-industrial complex, quickly privatise state-owned enterprises, and try to free oneself from, above all, energy dependence on other former Soviet republics. The old communist nomenclature remained in power in Ukraine (in 1991–2003, 73% of senior officials were former members of the party, Komsomol, and Soviet nomenclature, and almost 80% of regional leaders), which determined the slow pace of market reforms in the early years of independence (Smoliy and Levenets, 2007: 949). Rapid progress towards economic change was not in the interests of Ukraine's communist elite, who sought to retain power in order to have as much time as possible to transform themselves into newly minted capitalists. The old party nomenclature retained control over the work of the state, while delayed economic liberalisation gave them plenty of time to regroup and gradually create favourable conditions for capital accumulation in new private enterprises (Kasianov, 2011: 524; Havrylyshyn, 2014: 252).

Although in 1990–1991, the Ukrainian parliament passed a number of laws that created the legal preconditions for market reforms (Kasianov, 2011: 525). They formed the concept of Ukraine's transition to a market economy (Burakovsky and Novytsky, 2003: 76). The reforms began in early 1992, not on the initiative of Ukraine's own political elite, but following the example of Russia (the government of Yegor Gaidar). Ukraine did not carry out its own market reforms, but merely adapted its economy, which remained completely dependent on the state budget, to the market economies of neighbouring countries (Lytvyn, 2001a: 147).

It was only in March 1992 that the Verkhovna Rada of Ukraine adopted the 'Fundamentals of Ukraine's National Economic Policy'. This document declared the first reforms. Firstly, it provided for the creation of a customs border, a system for regulating the export and import of capital, labour, goods and services, etc. Secondly, the law declared a restructuring of Ukraine's economy by reducing defence industry spending and increasing support for industries that provided for the population. Thirdly, the government had to take measures to form a national monetary and credit system, reform pricing and transition to decentralised commodity circulation. Fourthly, the authorities had to carry out privatisation and land reform. Fifthly, the law provided for changes in the functions of the state with the aim of creating a self-regulating market economy (Burakovsky and Novytsky, 2003: 76–77; Lanovyk and Matysiakevych, 1999: 697–698). Reforms during Kravchuk's presidency were slow. State ownership continued to dominate industry and agriculture. State monopolies were of great importance: in 1993, they produced almost 40% of industrial output (Kasianov, 2011: 526).

On 3 August 1990, the authorities declared the denationalisation of enterprises: the Supreme Soviet of the Ukrainian SSR obliged the Council of Ministers to prepare draft laws on property, land, lease, denationalisation of property, etc. within two months. Consequently, in February 1991, the parliament adopted a law 'On Private Property' (February 1991) and the concept of 'Denationalisation and Privatisation of Enterprises in Ukraine' (Dzisyak, 2010: 86–88). On 31 October 1991, Ukraine developed a Concept for the Denationalisation of Land and Housing, which recognised the right of every citizen of the country to a share of state property, privatised in two ways – free of charge and for money (Burakovsky and Novytsky, 2003: 79). By mid-1992, laws had been passed on the privatisation of state-owned enterprises, the privatisation of small enterprises (small-scale privatisation), privatisation certificates and the leasing of state-owned enterprises (Kasianov, 2011: 531; Havrylyshyn, 2014: 252).

It seemed that authorities would carry out denationalisation quickly, but in the early years, privatisation proceeded very slowly due to the lack of a clear programme and resistance from left-wing factions in parliament. At the same time, the most influential politicians, enterprise directors, regional or partially trade union elites won in it. The parliament passed a law to allow the Ukrainian 'elite' to 'legally' take possession of state property. De facto, there was a merger of power and business. That was when the Ukrainian oligarchy began to emerge. By the end of 1994, only 15% of property had been transferred to private ownership, and most of it was small-scale (Wittkowsky, 1998: 104–105, 126; Kasianov, 2011: 521–522, 532; Burakovsky and Novytsky, 2003: 80; Havrylyshyn, 2014: 252).

There were also some changes in land ownership. Plans to reform agricultural relations were laid down in the Land Code, which was adopted by the Supreme Soviet of the Ukrainian SSR in 1990, and in the spring of 1991, parliament announced the need for land reform. The first concepts of denationalisation and privatisation of land appeared under the influence of Russian reforms. Collective farms were to be transformed into economic societies operating on market principles. Each peasant had the right to leave the collective farm in order to create a farm-type enterprise. Appropriate laws were prepared and adopted under this concept. The authorities declared the possibility of private ownership existing alongside state and collective ownership. In practice, however, the reform moved slowly, and collective and state farms remained an important element of the economic structure of agriculture. Farming developed extremely slowly. Local authorities often slowed down the process of allocating land to farmers and refused to provide them with real assistance. Few peasants wanted to become farmers. They were accustomed to a different form of farming. At the beginning of 1993, there were only 14,600 farms in Ukraine, and in 1999, there were 35,500 (Lytvyn, 2001a: 162–165).

One of the reasons that slowed down the transformation of the Ukrainian economy into a market economy was the significant role played by state orders and state regulation of the domestic market. The system of state orders (40–50% of all production) did not give entrepreneurs the opportunity to take initiative and prevented them from entering the market independently. At the same time, government the state-owned enterprises in industry and collective and state farms in agriculture granted preferential loans and subsidies to fulfil state orders, which, according to the International Monetary Fund, amounted to 8.1% of gross national product in 1992 and at least 10.8% in 1993. This approach only enriched the managers of these enterprises and the intermediary firms close to them. (Wittkowsky, 1998: 103–104, 110–112; Kasianov, 2011: 528–529).

No less of a problem for Ukraine's economic reform was its dependence on other countries, which arose after the collapse of the USSR. As Volodymyr Lytvyn rightly noted, Ukraine's economy became a 'stump' of the single all-Union national complex. It was built on the principle of 'incompleteness' and was deeply integrated into the economic space of the Commonwealth of Independent States. Almost 80% of all production in Ukraine did not have a complete technological cycle, which meant that it depended on imports of components and raw materials. Ukraine produced a lot of semi-finished products and components. Most of its largest enterprises (over 2,000), which were under the control of the central government, worked for consumers in other republics of the USSR, primarily in Russia. With the reduction of contacts with enterprises in the countries of the former USSR, the Ukrainian authorities were unable to establish new ones, which further deepened the crisis (Lytvyn, 2001a: 145; Boyko, 2004: 323).

Many energy-intensive enterprises continued to operate in Ukraine, and the situation in the country's fuel and energy complex had worsened since 1991. The economy needed 50 million tonnes of oil, of which 47 million tonnes had to be imported, and 120 billion cubic metres of natural gas (100 billion cubic metres had to be imported) (Dzisyak, 2010: 99). Ukraine imported more than two-thirds of its oil, gas and refined products, mainly from Russia and Turkmenistan (Kovpak, 2003: 97). This made the country's economy dependent on the prices of imported energy resources. Thus, when in 1992 the prices for Russian gas increased a hundredfold and for oil threefold, Ukrainian energy consumers began to raise the prices of their products, thereby provoking inflation within the country. At the same time, the lack of a currency suitable for commercial transactions in Ukraine led to the revival of barter. This caused the most problems in foreign trade. There were few buyers willing to deal with Ukrainian exporters. For this reason, Ukraine had to export on a barter basis at below-market prices and import at above-market prices. This quickly led to an increase in Ukraine's external debt, which amounted to $7 billion by mid-1994. Most of this debt consisted of unpaid bills for Russian and Turkmen energy resources (Wittkowsky, 1998: 89–90; Lytvyn, 2001a: 148–149).

Another problem facing the Ukrainian economy was what amounted to confiscatory taxation. In 1994, taxes exceeded corporate profits. As a result, a 'shadow' economy began to develop. By 1996, between 60% and 75% of transactions were conducted outside the taxation system (Kasianov, 2011: 526).

The first governments of independent Ukraine set about forming their own banking and monetary system. In 1991, its authorities established the National Bank of Ukraine as the central bank of the state and its issuing centre. The Law of Ukraine 'On Banks and Banking Activities' confirmed its status (Lanovyk and Matysiakevych, 1999: 704). A system of private banks began to develop. Taking advantage of the instability of the country's money market in the early years of independence, they often engaged in speculation: they took out loans in Ukrainian currency from the National Bank of Ukraine, exchanged them for foreign currency, and after six months, by exchanging a small amount, they repaid the loan (Wittkowsky, 1998: 126).

The first step towards creating its own monetary system was the introduction of a temporary currency on 10 January 1992 — the karbovanets, which was a reusable coupon and replaced the rouble in cash transactions. The Ukrainian government had to introduce it by the state budget deficit that arose after the rise in energy prices. The government carried out the introduction of the karbovanets in stages. In the first month after its introduction, it accounted for 25–30% of salaries and pensions, the rest paid in roubles. Gradually, the scope for coupons increased, while the use of the rouble declined. Finally, on 12 November 1992, the Soviet rouble ceased to be valid in Ukraine. Ukraine left the 'rouble zone'. A national currency was created, which was a necessary measure to ensure the real state sovereignty and complete economic independence of Ukraine as a subject of international relations (Wittkowsky, 1998: 77, 80–81; Lytvyn, 2001a: 148; Kovpak, 2003: 103; Shust, 2007: 332).

Any material assets did not back the karbovanets. Its introduction was a necessary temporary measure. The government planned that the karbovanets would remain in circulation for 4 to 6 months, after which it would be replaced by a full-fledged national currency, the hryvnia. However, inflationary processes began to grow as early as 1992. In the autumn of 1992, monthly inflation exceeded 50%. Prices for consumer goods in 1992 rose more than 30 times, and coupons depreciated 20 times. Under these conditions, it was decided that the karbovanets should 'bear the brunt' of inflation. It remained in circulation until 1996. This monetary policy was justified because the situation worsened in the following years. In 1993, inflation rose to a record high, reaching over 9,000%. According to the then head of the World Bank's Kyiv office, it was the highest among countries not at war. The karbovanets continued to depreciate: while at the end of 1992 the exchange rate of the coupon to the dollar was 403:1, in February 1995 it took 116,900 coupon karbovanets to buy a dollar. The National Bank of Ukraine printed coupons with ever-higher denominations (Wittkowsky, 1998: 77, 101; Lytvyn, 2001a: 148).

Despite of attempts to stop the crisis, administrative methods were no longer effective. Failure to fulfil state orders, declining tax revenues, and growing smuggling all pointed to the collapse of the old economic structures and stimulated the shadow economy (Wittkowsky, 1998: 116). The population did not trust the national currency and began to accumulate foreign money, mostly dollars (Kovpak, 2003: 105; Lytvyn, 2001a: 148–149). Those who had accumulated more money took it abroad. According to estimates by foreign and Ukrainian experts, between $25 billion and $50 billion were taken out of Ukraine by the mid-1990s (Kasianov, 2011: 529).

The economic downturn led to social unrest. In 1991, the average current consumption of residents of the Commonwealth of Independent States, including Ukraine (food, transport, services, medicines, housing, etc.), was at the 1972 level, and the share of food expenses in the family budget was 40%. In 1992, current consumption had already fallen to the level of the late 1950s, when per capita meat consumption was only 38 kg, and food expenditure in family income rose to 70–75%. In fact, within a year, the population's standard of living returned back twenty years (Kovpak, 2003: 99).

In 1994, the country's economy was on the verge of collapse. Between 1992 and 1994, GDP fell by 56% according to some estimates and by 62.5% according to others, industrial production fell by 42.1% and agriculture by 24%. This did not take into account the developed 'shadow' economy in Ukraine (Kasianov, 2011: 530). State budget expenditures did not decrease, while revenues from economic activity fell sharply. In the last quarter of 1994, the state budget deficit reached one-fifth of GDP (Lytvyn, 2001a: 149).

Ukraine became the 'leader' among other countries in terms of budget deficit and inflation (in the fourth quarter of 1993, the inflation index reached 166.3% on average per month); in 1994, the inflation rate declined slightly, but this was only an 'artificial achievement' that was not accompanied by profound positive changes in the economy (Kovpak, 2003: 124).

The state was unable to meet the expectations of most of its citizens, who believed that it was the state's responsibility to protect the population from economic hardship. By that time, inflation had completely devalued the population's savings, and the standard of living of most Ukrainian citizens had fallen to a critical level. Understated official statistics showed that real wages fell by 70% between 1991 and 1993. In April 1994, the average wage was almost $19, which was only half of the official subsistence minimum. According to this indicator, the standard of living fell by almost 80% between November 1991 and November 1993 (Wittkowsky, 1998: 133). Compared to 1991, purchasing power decreased almost fivefold and was 2.5 times lower than in Russia (Lytvyn, 2001a: 149). Officially, there was full employment: from July 1991 to April 1994, unemployment rose from 1,400 to 102,600 (0.4%). Hidden unemployment (temporary work, maternity leave and compulsory unpaid leave) was significant. According to World Bank estimates made in March 1995, it reached 35% (Wittkowsky, 1998: 133).

Andreas Wittkowsky explains the failure of market reforms during Kravchuk's presidency by several reasons. First, state institutions were weak and blocked each other due to the uncertain constitutional situation. Second, sector-oriented industrial policy concepts continued to prevail.

Third, there was no agreement on the strategy for transformation and the use of limited state resources. Instead, key players used their influence to avoid reorientation towards market relations and to obtain state-guaranteed profits (Wittkowsky, 1998: 99).

ATTEMPTS AT REAL REFORM IN THE EARLY YEARS OF LEONID KUCHMA'S PRESIDENCY

Economic problems became the main challenges for Ukraine's second president, Leonid Kuchma. In mid-October 1994, he addressed the Verkhovna Rada with a report entitled 'The Path of Radical Market Reforms,' in which he outlined his economic policy programme. Primarily, it provided for an objective analysis of the socio-economic situation in Ukraine. The president was convinced that the continued preservation of administrative regulation would lead to a loss of control over economic processes. In his opinion, in order to improve the economic situation, it was necessary, first, to reduce the budget deficit by giving the National Bank of Ukraine more independence, separating the fiscal and credit systems, reducing state subsidies and forcibly declaring bankruptcy of individual enterprises. Gradual price liberalisation, a broad privatisation programme and an active policy of demonopolisation were to create the necessary institutional foundation for a market economy (Wittkowsky, 1998: 174; Lytvyn, 2001a: 155; Kovpak, 2003: 123; Kasianov, 2011: 539).

Kuchma managed to persuade parliament to adopt his programme, and it seemed that the time had come for genuine reform of the Ukrainian economy (Wittkowsky, 1998: 175). International organisations began to provide financial support, to accelerate Ukraine's transition to a truly market-based economy. Foreign aid increased significantly after Ukraine renounced nuclear weapons and began receiving loans from the United States. Soon, Ukraine ranked the third among the countries receiving US aid. Loans from the US increased the confidence of other institutions in Ukraine. The state received loans from the European Bank for Reconstruction and Development, the International Monetary Fund, and the World Bank. The government provided the loans mainly on the general condition that market reforms would be implemented. Foreign direct investment increased from $484 million in 1994 to $3,122 million in 1999

(Lytvyn, 2001a: 152–154). These funds enabled Ukraine to repay part of its debt to Russia, although in mid-1995 Russia remained Ukraine's largest creditor with a total claim of $4.27 billion (Wittkowsky, 1998: 177).

Kuchma's reforms began with the liberalisation of trade and the domestic market, which involved abandoning many centralised price control measures and gradually adjusting to market prices subsequently set by the state. In January 1995, the authorities abolished state orders for enterprises and allowed to sell their products freely at reduced prices. The liberalisation of prices followed this. Energy prices rose to world levels, and coal prices even higher. Only prices for monopoly goods and basic foodstuffs (bread, baby food), rent, transport and utilities continued to be regulated (Wittkowsky, 1998: 177–178).

Despite of successes in price liberalisation, the Ukrainian authorities failed to liberalise institutions. As a result, commercialisation and partial privatisation led to the emergence of distorted markets. Sectoral ministries continued to have close personal and business ties with enterprises that had been under their control during the planned economy era and protected their business sphere through their regulatory powers. In turn, monopolies continued to exist, complicating market access, especially for new enterprises. The system for obtaining permits for new enterprises was very complex and bureaucratic. Usually, they had to pay bribes for this (Wittkowsky, 1998: 182).

In the mid-1990s, despite of resistance from local authorities in particular, measures were introduced that made it possible to intensify and streamline privatisation. Mass privatisation took place between 1995 and 1998. Broad sections of the population began to be involved in privatisation. However, directors, the political elite and leaders of the criminal world bought up the shares that were available, while ordinary Ukrainians were effectively robbed. By mid-1997, 'small-scale privatisation' had been completed, with 95% (45,000) of small enterprises transferred to private ownership. The privatisation of large enterprises accelerated thanks to the government's elimination of subsidies and grants, as well as support from international financial institutions (which provided a privatisation loan of $300 million) (Wittkowsky, 1998: 183–184; Burakovsky and Novytsky, 2003: 80; Kasianov, 2011: 533–536).

As a result, between 1992 and 1999, the share of state-owned enterprises in the total number of enterprises decreased by 4.7 times, while their share in terms of production volume and number of employees decreased by 2.9 and 4.8 times, respectively (Lytvyn, 2001b: 219). Between 1991 and

1993, 3,600 enterprises changed their form of ownership, and between 1994 and 1999, this figure rose to 61,700. By 2000, non-state enterprises produced more than 70% of industrial output (Lytvyn, 2001a: 157).

Certain changes also took place in the reform of land ownership. For the first time, a comprehensive solution was proposed for the three main problems of land reform: privatisation, valuation and the land market. During 1996, the government completed the first stage of land reform: the denationalisation of land and its transfer to legal entities. The implementation of the second stage began the formation of real landowners and the transfer of land directly to those who cultivate it. Political confrontations prevented the rapid completion of land reform (Lytvyn, 2001a: 165–166).

The most successful result of the reforms during the first years of Kuchma's presidency was the reduction in inflation in 1995 and the first half of 1996. In March 1996, inflation stood at 3%, in April at 2.4%, in May at 0.7% and in July at 0.6% (Kovpak, 2003: 126). This created the conditions for monetary reform. Consequently, on 25 August 1996, the president issued a decree to that effect. The authorities introduced the national currency, the hryvnia, and its hundredth part, the kopeck. The exchange of Ukrainian karbovanets for hryvnia was at a rate of 100,000 to one. The hryvnia-to-dollar exchange rate – 1.8 to 1 – remained unchanged until the autumn of 1998. The Ukrainian economy was provided with a stable national currency, which contributed to the implementation of radical market reforms in the country. The monetary reform was not confiscatory in nature and became one of the most successful measures in the economic transformation programme. The introduction of the hryvnia, lower inflation, a reduction in the budget deficit and a slowdown in the decline in production signalled at least partial macroeconomic stabilisation. At the same time, the need for deeper reforms became apparent (Kovpak, 2003: 126–127; Kasianov, 2011: 541).

During the first two years of Kuchma's presidency, reforms were not yet complete. Although reforms in the economic sphere created decisive preconditions for economic recovery, the decline in production had not yet ended, and the expected growth in prosperity affected only small groups of the population (Wittkowsky, 1998: 197). Because of the rollback of reforms in 1998, the oligarchs flourished (Havrylyshyn, 2014: 269). Under Kuchma, there was a surge in economic crime, and the shadow economy and corruption in the administrative apparatus grew (Wittkowsky, 1998: 129–130; Lytvyn, 2001a: 156).

CONCLUSIONS

By the mid-1980s, the economy of the USSR, and consequently that of the Ukrainian SSR, was in such a state that further delays in reform were impossible. At the same time, the Soviet leadership lacked both the experience and the determination of radically change in the country's economic system. The imbalance in the structure of the economy and the significant costs of supporting satellite countries and the military-industrial complex undermined the USSR's economy. The fact that initially, the 'perestroika' sought only to liberalise the economy, without regard for the need to loosen political control exacerbated the situation. At the same time, the Soviet authorities planned only to introduce some market elements into the planned economy, rather than change it. As a result, the crisis in the USSR's economy deepened and eventually spilled over into the social and political spheres, largely contributing to the collapse of the country.

With the declaration of independence, the economic situation in Ukraine worsened even further. Although Ukraine had some of the best opportunities among the former Soviet republics to remedy the situation, its authorities, and ultimately society, were not fully prepared to take advantage of this chance. The government remained in the hands of former members of the Communist Party and the Komsomol, led by President Leonid Kravchuk, who in the early years of independence declared market reforms but implemented them too slowly and with their own interests in mind rather than those of the state. As a result, during privatisation, they seized most of the state property, which marked the beginning of the formation of a class of Ukrainian oligarchs. On the other hand, the population was not ready for economic initiative and believed that the state should solve all its economic problems.

The rapid transformation of Ukraine's economy into a market economy was hampered by its dependence on other former Soviet republics, which it was unable to quickly overcome due to the lack of energy resources necessary for its economy. This dependence became particularly apparent in 1992 when oil and gas prices suddenly rose, leading to a decline in industrial production, a state budget deficit, a shortage of goods on the domestic market, the devaluation of the Ukrainian currency and, ultimately, galloping inflation. The Ukrainian government was unable to cope with these challenges for a long time.

Real market reforms in Ukraine began in the autumn of 1994, during Leonid Kuchma's presidency. He immediately proclaimed the concept of market reforms and succeeded in attracting foreign investment. By the end of 1995, the government reduced the inflation, allowing for the introduction of a stable national currency, the hryvnia. On the other hand, some negative trends characteristic of the early years of independence continued and even developed in the Ukrainian economy. The authorities continued to use the privatisation as a means of enrichment, which increased the influence of oligarchs and criminals in the state.

The transition from a planned economy to a market economy was very painful for ordinary Ukrainians. Their standard of living declined significantly in the late 1980s and early 1990s. Only a few of the most enterprising and fortunate Ukrainian citizens were able to take advantage of the reforms.

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