

"PROMOTING EXCELLENCE IN TEACHING AND RESEARCH IN THE DISCIPLINE OF ECONOMICS"

THE YOUTH KNOWS HOW TO GET THE ECONOMIC CRISIS OVER... NOW THE STATE NEEDS TO REACT.

On April 14-15 an international scientific conference entitled *Welfare Costs of Tariffs, Quotas, Subsidies, and Licensing* took place at the National University of Kiev-Mohyla Academy. It was organized by the Economics Education and Research Consortium (EERC) with additional funding provided by the World Bank (through Nadace CERGE-EI, Prague) and The Pew Charitable Trusts. Experienced scientists, students, government officials, businessmen, and media from Ukraine and other NIS and Western countries met together to discuss issues topical to Ukraine's current development. What interventions are taking place and how do they influence the country's economic development? What are the welfare costs of protectionism and deregulation in Ukraine? How is the tax system doing and how can it be reformed? Should licensing and certification systems be changed? Students from the EERC and other Ukrainian universities and institutions were selected to present their research and results to a wide audience. Three of these students were chosen as outstanding, and below we would like to acquaint the readers with highlights of their presentations.

Taxation Privileges Deplete The State Budget

Dmytro Voloshin, an EERC second year student who received third prize for his paper presentation, spoke on Costs to Society from an Imperfect Tax System. He thinks that one of the main problems in the sphere of Ukrainian public finance today is the constant decrease of tax revenues. Tax avoidance and tax evasion, which is widely practiced in Ukraine, will become the major source of headache for government officials. In 1997 alone, budget losses

ences a sharp lack of funds to cover the most necessary expenditures: for social protection, education, medicine, international activity, etc.

According to Voloshin, the reasons for such a poor situation in the taxation sphere in Ukraine are not economic but



Dmytro Voloshyn, EERC second year student



On the picture (from left to right): Viktor Lysytsky (National Bank of Ukraine), Irina Lukianenko (EERC Faculty), Sergey Afontsev (Institute for World Economy and International Relations (Russia), Olexandra Kuzhel (State Committee for Entrepreneurship Development), Ekaterina Zhuravskaya, Russian European Center for Economic Policy (Russia)

from tax non-payment were about 1.4 billion UAH; budget losses from non-receipt of enterprise profit tax (EPT) and value-added tax (VAT) because of tax privileges were about 7.5 million UAH. In addition, approximately half of all wages were non-taxed and thus part of the shadow economy. As result, Ukraine's budget experi-

administrative in their nature. In his opinion, the Ukrainian taxation system needs to be reformed in the following ways:

First, all unnecessary privileges must be eliminated. **Next**, the national tax legislation should be simplified as much as possible. Gross Sales Tax (GST) should replace VAT, EPT and PT. GST should

apply to all economic transactions within the economy. A rate of 5% for GST, in Voloshyn's opinion, is enough to collect the necessary amount of budget revenues.

It Is Time to Clear Up Ukrainian Certification

The second place winner, EERC second year student Veronika Movchan spoke on Welfare Costs of Certification. In her opinion, the problem with Ukrainian certification seems not to be one of unjustified intervention in the market but rather one

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of poorly organized interference.

According to her, mandatory certification may be justified only for experience and post-experience goods in the asymmetric information environment. For search goods, an obstacle to certification that leads to welfare losses is the possibility of using money for certification over the level at which gains from certification to consumers exceed expenditures. For search goods, it is better to allow the consumer to protect himself or to use other methods like non-state consumer protection agencies. Even for experience goods, certification is not an easy issue due to the possibility of non-compliance. This is particularly important for low-quality goods; the producer, even a producer of high-quality goods, can be deterred by very high costs of certification.

In Ukraine, the certification of search goods is not a highly widespread phenomenon. The major problems of Ukrainian certification, focusing mainly on experience goods, is low certification compliance due to high costs of certification (including double certification), and the existence of a shadow market and, thus, a low probability of detection. Veronika Movchan thinks that the possible remedies seem to be (a) a decrease in certification costs, reducing additional costs of waiting and keeping goods in warehouses by making certification procedures more transparent, quick and user-oriented; (b) the introduction of an alternative to certification procedures of protecting consumers such as a developed legal system and more uniform distribution of information by special and popular editions.

If You Want to Have a Sugar Decrease the State Regulation

According to the research of EERC second year student Dmytro Zhosan, winner of the first place prize, agriculture has historically been a very important sector of the Ukrainian economy. Sugar production, in its turn, became one of the largest



*Dmytro Zhosan,
EERC second year
student*

parts of Ukrainian agriculture with 192 sugar



Veronika Movchan, EERC second year student

refining plants and 120 000 permanent workers in the refining industry alone. Perfect soil and good climate conditions together with government directives in Soviet times made Ukraine the largest sugar producer in the former USSR with the share of white sugar produced in Ukraine exceeding 50% of all white sugar produced in the Soviet Union. Most agricultural enterprises in Ukraine grow at least some amount of sugar beets a year. The closeness of Ukraine to the Black Sea and other transport routes resulted in Soviet times in the building of a large number of sugar processing plants in Ukraine. These plants were oriented not only on processing homegrown raw materials, but also

on processing raw cane sugar, imported from Cuba and other countries. Such orientation led to very large plants and extremely high fixed operating costs. Today the imports of raw cane sugar are almost nonexistent, and, as a result, sugar plants work an average of 40-45 days a year instead of the optimal 90-100 (CPER, 1998). In this situation, the high production costs are transferred onto smaller amounts of domestic sugar produced, thus leading to very high costs of each kilogram of sugar. A hidden government monopoly at the level of sugar refining and government price regulation of retail sugar market has led to the current situation where the consumer prices are much lower than real costs for sugar production. As a result, there are a lot of deadweight losses as for the sugar industry in particular and for society in general. According to the statistical data Zho-



On the picture: Yuri Yekhanurov (Verkhovna Rada), Andrii Pallanutsia (International Centre for Policy Studies), David Tarr (World Bank), Gene Ellis (EERC faculty)

san presented and without taking into account the possible outcomes of international trade, the total sum of such losses from sugar production in Ukraine can be estimated at the level of USD 111.65 mln a year, accounting for 0.19% of GDP.

In Zhosan's opinion, the optimal policy in Ukraine might be a removal of sugar price controls combined with the demopolization of the refining market. Following this, he recommends after four to five years the liberalization of international trade or at least a decrease in the level of protection.

THE LEVEL OF CORRUPTION IN UKRAINE: IT IS TIME TO FIND OUT REAL PICTURE

One of the most important choices one has to make in life is the choice of a future profession. Very few people at a young age know how they would like to earn their living; the majority makes a decision much later in life. One such person is Inna Piven, an EERC Dissertation Fellow, who is studying in the Ph.D. program at the Center for Economic Research and Graduate Education (CERGE). After finishing secondary school in 1991 with a specialization in physics and mathematics, she was more or less indifferent as to which university to enter and what to study. She entered Kiev Technical University (KPI) because many of her relatives studied there. While studying at KPI and working as an interpreter for a private firm, Inna still did not understand what she would like to do in her life.

IP: I very often asked myself what I want to do. Do I want to be a computer scientist? An interpreter? Perhaps the manager of a firm? For quite a long time I had doubts. I first became acquainted with economics while working in a private company, and I began to realize that economics is exactly what I would like to do with my life. Why economics? One reason is because it is one of the things that we did not have in the Soviet Union - it is new and unexplored. Secondly, Ukraine as a young independent state definitely needs to build a real market economy, a process that is impossible without qualified economists. I decided to study economics, but not that kind of economics that had been taught under the communist regime. I wanted to study real economics based on the behavior of

people, not on planes, rules, and slogans. That's why when an application form to CERGE was brought to our office, I understood that this was my chance to get the education I wanted. So, I applied to CERGE and was admitted to the preparatory semester.

EDITOR: Inna, what impressions do you have about your study in Prague?

IP: Difficult. Studying there was really difficult. An unknown country, foreign language, and heavy workload contributed to



Inna Piven

making life hard. But at the same time studying was very exciting. We had the opportunity to study from leading scientists. We felt the pulsation of economic life from all over the world! Of course we had to do our homework which often exceeded 25-30 pages a night. But now I realize that without such training, it is impossible to get a good education.

EDITOR: Tell us a couple words about your research.

IP: At the beginning of the third year we had to choose the topics for our dissertation. I decided to write about Ukraine. This is the country I know the best, all my relatives live here, and perhaps through my research I will be able improve their lives at least a little bit. Then I asked myself:

"What is the biggest problem in Ukraine now?" Ukraine currently has lots of problems. Budget deficit, inadequate legislation, underdeveloped financial markets, foreign debt, etc. But what are the reasons for the miserable condition in which Ukraine finds itself? Why, for example, is Poland so successful in economic development while the Ukrainian GDP after 7 years of transition is still falling? One can say that Ukraine is a very young country and that seventy years of socialism changed the mentality of the people so that they are not ready for the market econo-

my, etc. In my opinion, one of the most important reasons is endemic corruption. So, I decided to write my dissertation thesis on Corruption in Ukraine. In my work I plan to address the history of corruption in Ukraine, its causes, consequences, and what can be done about it. My dissertation will consist of three essays, one of which will be non-mathematical.

The others will describe corruption using mathematical models.

EDITOR: Inna, what concrete question are you working on now?

IP: Currently I am working on data reflecting the perception of corruption by Ukrainians. Surprisingly, the results are quite mild compared to the alarm raised by international organizations and the press. On average, 49.65% of the respondents think that state institutions are either likely to be corrupt or are heavily corrupt. Among the most corrupted institutions are State Medical Establishments, State Auto Inspection, Higher Education Institutions, Militia, Local Government Structures, Ministries and Other Central Executive Bodies.

EDITOR: For whom do you think your research could be useful?

IP: I am sure that my research will be helpful to both Ukrainians and members of international organizations (such as IMF or the World Bank), as well as to foreign investors. It will be beneficial for Ukrainians because many of them lack a clear picture of what corruption is and how a market economy may operate without bribes. Members of international organizations may gain some insight on why corruption is so widespread in Ukraine and what they can do about it. International investors may find some ideas as to how to navigate through all the inconveniences of the Ukrainian market environment. In the end, my research will help Ukraine combat corruption and build a healthier market environment.

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