

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

REFORMER VIKTOR PYNZENYK: "I HAVE GROUNDS FOR OPTIMISM"

What is going on now in Ukraine and what is waiting for us in the future? Every Ukrainian must be asking these pressing questions today, particularly in view of the economic instability of the last year. Students are also wondering. Perhaps they, more than anyone else, always want to get their questions answered, especially when they get the chance to meet an extraordinary person, an expert in his field, and engage him in a hot debate. Such was the meeting of soon-to-graduate students from the University of Kiev-Mohyla Academy's Masters Program in Economics with the Ukrainian parliamentarian Viktor Pynzenyk. Facing a barrage of questions from the students, Pynzenyk disappointed no one while also holding his own.

During his talk Pynzenyk offered his take on the economic future of Ukraine. "I am amused by the firm assurances of some politicians that all of our financial problems will be resolved by October 1999," he said. "How can I not be when by 1997 the aggregate of our government's foreign and domestic debt, excluding pensions and wage arrears to doctors and teachers, reached 17.5 billion hryvnas. In contrast, government revenues in 1998, of which a considerable portion was supposed to service that debt, stood at a mere 10 billion hryvnas." To illustrate his view of inflation, Pynzenyk made fun of the so-called theory of a quasi-pregnant woman, which assumes that excessive monetary emissions by the Treasury will not get the economy "pregnant with inflation." Such theories were popular six years ago, when the Ukrainian economy was jolted by runaway inflation and living standards fell alarmingly. According to Pynzenyk, there has been no fundamental change in Ukrainian economic policy since the last inflationary crisis in 1998: the budget deficit has remained at a high level while

the investment climate and conditions for entrepreneurial activity have deteriorated consistently.

Pynzenyk thinks that the state needs to take the initiative to create conditions that are conducive to investing. In contrast, he said, recent economic decrees barely allow business enterprises to stay afloat, pointing to the state's indifference toward investments and economic growth.

According to Pynzenyk, recent economic policies mean that Ukraine may not be able to avoid the further collapse of the hryvna. Paradoxically, Pynzenyk expresses optimism precisely because of the economic and political woes gripping Ukraine at the moment. Some of the scenarios he predicts:

First, popular discontent throughout Ukrainian society and particularly among blue-collar workers, students



Viktor Pynzenyk

EDITOR'S NOTE

Ukrainian parliamentarian Viktor Pynzenyk is a professor, an author of 3 books and more than 400 articles. From November 1992 to August 1993 and from November 1994 to April 1997 he held an appointment of the vice-prime minister on economic reform, the minister of economy and the first vice-prime minister of Ukraine.

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and activists, will coalesce into a broad social movement to force economic reform.

Second, the current economic crisis will soon hurt the interests of the all-powerful alliance comprising special interests,



"Further economic deterioration will galvanize the political will for reform through wider segments of Ukrainian society," says Viktor Pynzenyk

favor-bound government officials and the mass media, which remains vehemently opposed to economic reform. And **third**, further economic deterioration will galvanize the political will for reform through wider segments of Ukrainian society.

Today, Viktor Pynzenyk is determined to spread the word on the urgency of adopting long-overdue reform initiatives. One of his chief priorities is the passage of the "Economic Growth" measure, which, according to Pynzenyk, could result in a 2% economic growth. In 1996, the package was voted down by the Verkhovna Rada. A deep tax cut and improved tax collection; administrative and regulatory reforms; leaner government spending. Pynzenyk believes that it will take national solidarity of an unprecedented order to achieve these goals. And yet he insists: "I have grounds for optimism."

EXCESSIVE GOVERNMENT CONSUMPTION IN UKRAINE: ECONOMIC IMPLICATIONS

As the school year draws to a close at the University of Kiev-Mohyla Academy, 31 students in the Masters Program in Economics are preparing to defend their theses and eventually graduate from Ukraine's premiere economics institution. Together, they will represent the second crop of graduates from a landmark program sponsored by the Economics Education and Research Consortium. Through internships at various government agencies, many among the graduating class have already gained experience as economists and analysts. Stanislav Vomovitsky worked as an intern at the National Bank of Ukraine while researching his thesis on government spending. He talked to us about his findings and the implications of government expenditures in Ukraine for the country as a whole.

Q- How does government spending work?

A- Essentially, the government collects value-added and other taxes over a given period so that it can perform its basic functions. Government spending falls into two major categories: consumption and investment. Consumption relates to the amount the government spends on itself in order to stay in business. Objectives include salaries of officials and government-supported institutions like hospitals. Investments, on the other hand, are aimed

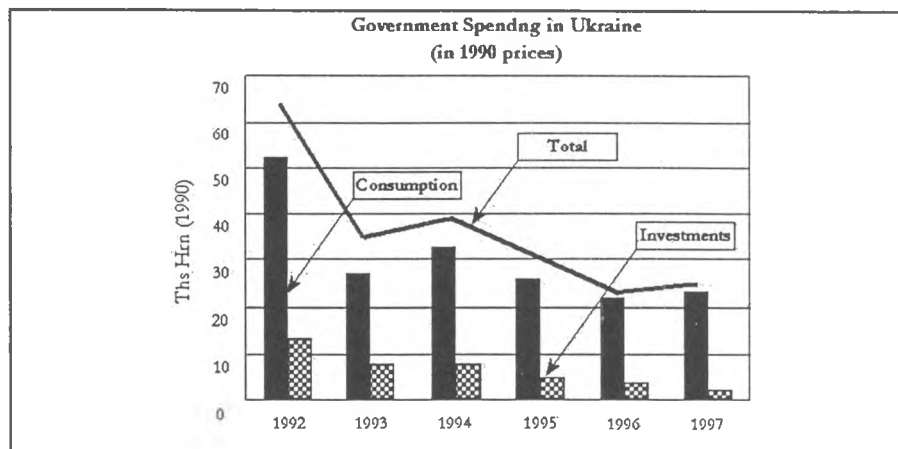
at strengthening the infrastructure of the country in order to ensure economic stability and growth. Construction and maintenance of roads, industrial ports and other public works typically fall into this category.

Q- You claim that Ukraine's budget imbalance has reached a dangerous level at the moment. What do you mean?

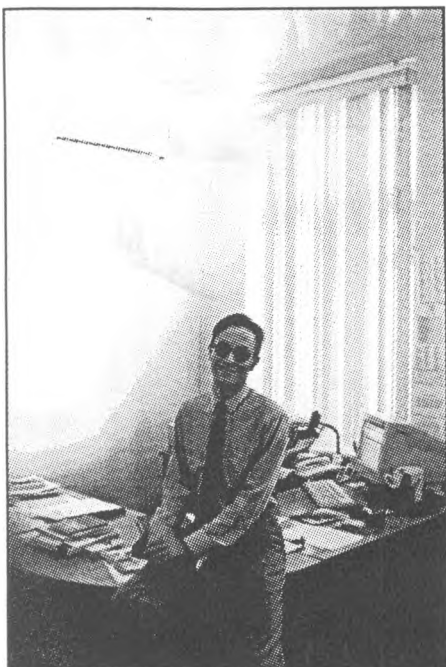
A- The imbalance arises when government consumption is so excessive that it supersedes and depresses infrastructure building, hurting entrepreneurial activity and the general climate for foreign investment in the country. The result is that the government fails to help maintain economic output and actually contributes to stunting economic growth. Since independence six years ago, Ukraine's discrepancy between government consumption and infrastructure investment has widened consistently.

Q- What are the consequences?

A- First and foremost, there is the issue of social welfare and economic growth. They are closely interconnected and both suffer from excessive government consumption: after the government is done spending on itself, there isn't anything left to spend on infrastructure revitalization or other crucial public services. The secondary problem has to do with government



Roundtable on Excessive Government Consumption, National Bank of Ukraine, September 5, 1999.



Stanislav Vornovysky

financing. Consumption that passes the excessiveness threshold, gives rise to high taxes, discouraging economic growth on the one hand, indirectly promoting a shadow sector and criminalization on the other. Explicit borrowing from both domestic and foreign sources can generate substantial costs of debt servicing, especially in countries like Ukraine where unstable macroeconomic performance induces lenders to require high-risk premiums. Implicit borrowing usually takes the form of monetary emissions, viewed as a major cause of hyperinflation, as well as wage and pension arrears.

Q- What are some of the main reasons for this deterioration?

A- As you know, the Socialist style of governance was already plagued by fiscal imbalances. In the late 1980s and throughout the 90s, Ukraine's move to a market-based economic system was supposed to reverse the phenomenon. The idea behind the great economic transition was to introduce new institutions and mechanisms that would correct fiscal imbalances, particularly connected with government consumption, through market-driven means. However, the transition continues to be seriously hampered by the slow pace of government-level reforms that would provide the foundations for economic stability and growth.

CARNEGIE CORPORATION OF NEW YORK AWARDS \$500,000 FOR ECONOMICS EDUCATION IN UKRAINE

Washington, D.C. - The Carnegie Corporation of New York announced a \$500,000 grant to the Eurasia Foundation to support a leading economics education program in Ukraine. The grant supports the Economics Education and Research Consortium (EERC) and its M.A. Program in Economics at Kiev-Mohyla Academy. The grant will bolster efforts to train a new generation of economists to take leadership positions in Ukraine's public and private sectors and falls directly within Carnegie's goals for promoting innovative educational initiatives of global relevance.

"Support from the Carnegie Corporation fulfills two important objectives," said Charles William Maynes, President of the Eurasia Foundation. "On a practical level, it helps us assure the viability of a significant reform program in facilitating Ukraine's transition to a free market economy. And, as importantly, it brings a moral boost to Ukraine's current process of educational reform."

Addressing Ukraine's pressing need for market-oriented economics education, the EERC has established the country's first international-caliber Master's program in economics, in collaboration with the University of Kyiv-Mohyla Academy. The two-year curriculum offers English-language coursework similar to that available in Master's programs in Western Europe or North America. Currently there are some 90 students enrolled in the program. Through the EERC's government internship, job placement, and doctoral education programs, graduates will go on to work effectively as economists in policy-making positions in Ukraine or to pursue further studies abroad.

A longer-term aim of the EERC is to create a local center for economics excel-

lence in Ukraine, enabling graduates to further the economics profession in Ukraine through teaching and research. The ultimate goal of the program is to leave behind a progressive institution that plays a vital role in developing a strong in-country economics profession and in maintaining a healthy domestic economic policy-making process.

"Witnessing the rebirth of modern economics in Ukraine can be an inspiring experience," said Michael Blackman, the Eurasia Foundation's Ukraine Program Director, based in Kyiv. "The University of Kiev-Mohyla Academy's first-ever Master's graduation ceremony last June was a case in point. Having the Carnegie Corporation's trust in the work of the Eurasia Foundation is a matter of great pride for my colleagues and me."

With assistance from the EERC, a number of the University of Kiev-Mohyla Academy's first crop of economics graduates last year have been placed in Ukrainian government ministries and agencies as interns; others have obtained public policy jobs or been placed in Ph.D. programs; still others are working in Ukrainian universities, on economic development projects, or in the private sector. An important objective of the EERC is to attract back young Ukrainian economists currently receiving Ph.D. training abroad to pursue research in Kyiv, taking advantage of the significant faculty, library, and Internet resources available through the EERC community.

Continued on page four

STUDYABROAD... IN KYIV!

THE EERC IN COOPERATION WITH NATIONAL UNIVERSITY "KIEV-MOHYLA ACADEMY" OFFERS A TWO-YEAR M.A. PROGRAM IN ECONOMICS THAT CONFORMS TO THE HIGHEST INTERNATIONAL STANDARDS AND RECEIVED THE HIGHEST LEVEL OF ACCREDITATION FROM THE MINISTRY OF EDUCATION.

THE EERC CHARGES NO TUITION OR FEES AND PROVIDES FREE OF CHARGE:

- ALL TEXTBOOKS AND STUDY MATERIALS;
- INTERNET ACCESS AND E-MAIL ACCOUNTS;
- A MONTHLY LIVING STIPEND;
- HOUSING FOR STUDENTS NOT FROM KYIV.

Applications for admission will be accepted until June 26, 1999

CHECK OUT THESE EERC WEB SITES

EERC Master's Program Home Page:

<http://www.eerc.kiev.ua>

Gateway to Ukraine, the Economics of Transition, and the World of Economics:

<http://intranz.eerc.kiev.ua>

STUDENTS HAVE A REST...

On May 9, 1999 M.A. Program students with the EERC faculty had a "shahlyk party"... A Nice weather, a good mood, a lot of meat - what else is it necessary for a student's happiness?...

