



# Liberalism in Ukraine

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[LINK TO ABSTRACT](#)

Ukraine is an ex-Soviet industrialized nation with about 44 million people, 30 percent of the world's most fertile farmland, and one of the most repressed economies in the world. This article belongs to a [series](#) which has treated several ex-Soviet-bloc countries—Poland (Machaj 2015), The Czech Republic (Šíma and Nikodym 2015), and the ex-Yugoslav nations (Prokopijević and Tasić 2015). The Ukraine story fits broad patterns for ex-Soviet regions.

Central to (classical) liberalism is the idea of liberty, others not messing with one's stuff, along the lines of John Locke and Adam Smith. But liberalism understands that central idea as something defeasible, as something everywhere with some unique contours from a unique history, and as something always embedded within jural and institutional systems, themselves coexisting with a societal system of morals and culture. Liberalism gains coherence when it can reasonably suppose a suitable social constitution—a national identity, a reasonable degree of jural integrity ('rule of law'), stable and reasonably honest political institutions, and liberal virtues in the populace.

But such a liberal matrix was never strong in the regions that came under the Soviets. Prior to such domination, those regions had only modest numbers of liberal-oriented intellectuals and political figures, who should not be forgotten. With Stalin, all such activity was squashed or driven underground. Then, after Soviet domination, the countries made some transition, and liberalized somewhat, but without high stability in the political order, and never with a social constitution of much liberal maturity. The transition period has left many unsatisfied; some say that the reforms were corrupt, incompetent, incomplete. Be that as it may, one

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needs to understand that in such countries the social matrix for liberal functioning has always been weak, and it remains so. Corruption, privilege, and protectionism remain the norm, and any liberal developments something to be explained. Since the 1990s the regions have sprouted some liberal activity, such as centers and think tanks, and a few academics and public intellectuals.

We offer a chronological account of liberal thought in Ukraine, from the nineteenth century down to 2017, but first provide some general socio-economic background about Ukraine. Quotations presented here in English from non-English sources are of our own translating.

## Some background about Ukraine



A map of modern Ukraine (*Source: CIA World Factbook 2017*)

Since the earliest civilizations, individual farming was more widespread in Ukraine than in Russia because both fertile soil and favorable climate conditions significantly increased individual agricultural productivity in Ukraine (Subtelny 2009; Conquest 1986; Hrushevs'kyi 1941). In Russia, mainly to the north of Ukraine, poor sandy soil and harsh climate made farming more difficult. The growing season was shorter in Russia by at least a month, and Russian peasants historically tended to farm collectively while Ukrainian peasants could often farm individually (Subtelny 2009). In the mid-nineteenth century, over 85 percent of the peasants in Eastern Ukraine (under Russian rule) and almost 70 percent in Western Ukraine (under Austrian rule) worked individual homesteads. By contrast, 95 percent of Russian peasants worked and lived in communes (*ibid.*, 256).

In the late nineteenth century, the Ukrainian socialist revolutionary Mykola

Starodvorsky complained that in Ukraine “matters are different. Our people are bourgeois because they are permeated by the instincts of private ownership” (quoted in Subtelny 2009, 361). Socialists and rural-commune romantics (*narodnyky*) regarded the Ukrainian village as the main obstacle to the spread of their ideas throughout Eastern Europe.<sup>3</sup> Starodvorsky pointed out that the national inclination toward private ownership meant that Ukraine “might serve as a barrier to the spread of the socialist idea in Russia” (ibid.).

For centuries, Ukraine lacked indigenous ruling elite. For several centuries, before the Soviet period, Ukraine developed politically and intellectually under the reign of two empires, the Habsburgs and the Romanovs. The gap in political development was tremendous. The Habsburgs had started emancipation of serfs and mass land reform in the 1780s, and transitioned to constitutional monarchy in the mid-eighteenth century. The Russian monarchy emancipated serfs only in the 1860s, and constitutional monarchy was established only after the “Bloody Sunday” Revolution of 1905 (Subtelny 2009).

## Liberalism in Ukraine before the Soviet period

Very few of the Western-oriented thinkers of pre-Soviet Ukraine are still remembered or even known. Nonetheless, the several decades running up to the First World War witnessed a vibrant ferment of non-Marxist thinkers mixing ideas of liberalism, democracy, nation-formation, and socialism, thinkers such as Mykhaylo Drahomanov, Ivan Franko, Bohdan Kistyakivsky, and Mykhaylo Tugan-Baranovsky. Their thought can be said to have had unifying features in the rejection of Marxist socialism, opposition to imperialism, and a varying embrace of liberal economics. They believed that nation’s gradual social change toward liberalism should be grounded in West European values.

But they also addressed the very important questions of state-building, stable politics, self-determination, and avoiding war, particularly with the Russian empire. These thinkers most certainly did not have the luxury of presupposing a stable polity, insulation from foreign powers, a strong tradition of liberal culture, and so on. East European intellectuals in general developed their thinking in view of the liberalism that unfolded in the Habsburg Empire (Śima and Nikodym 2015; Machaj 2015).

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3. A radical movement of youth intelligentsia, *narodnyky*, emerged in the Russian empire in the 1860s. It idealized the people of peasant and rural communes (*narod*), because the rural social order seemed to demonstrate the peasant’s natural opposition to self-interest and inborn tendency toward socialism (Subtelny 2009).

## Mykhaylo Drahomanov

Mykhaylo Drahomanov (1841–1895) formed the nineteenth-century Ukrainian liberal movement (Tomenko 1996, 74). He was a thought leader, mixing democratic, anarchistic, socialist, and liberal ideas, and whose thinking tended toward rationalism and secularism (Rudnytsky 1952, 71). Drahomanov graduated from and worked as a Docent of Ancient History at Kyiv University until he was dismissed in 1876 for political activity and was forced to leave the Russian empire. In Geneva from 1876 to 1889, he founded the first Ukrainian-language socio-political journal, *Hromada*, lasting 1878 to 1882, which was read in both the Austrian and Russian empires. He spent his last years as a professor of history at Sofia University in Bulgaria. He influenced Ukrainian and Russian liberals of later generations, including Franko, Kistyakivsky, and Sergei Witte, who was the first Russian Imperial Prime Minister (1905–1906) and one of the co-authors of the first Russian Constitution (1905).



Drahomanov

The leitmotif of Drahomanov's thinking, perhaps, is the promulgation of a Europe-spanning ethic against one power dominating and intervening in the affairs of its neighbors. He projected a vision of peaceful, trading, and increasingly cosmopolitan European nations. His political vision revolved around the distinction between government and civil society, the idea of spontaneous forces, and emergent institutions. He rejected the dialectical method of history and criticized Marxist political philosophy. Influenced by Aristotle's idea of corporatism, Drahomanov envisaged a social order as a socially cooperative union of language-based voluntary associations that would establish a socio-political equality among all European nations. That is, he called for a federation of European nations. Social reform should be based on the principles of cultural rationalism, political federalism, and social democracy; social reform should pursue public education, intellectual progress, and secularization (Drahomanov 1937/1878). To Drahomanov, federalization of European nations will lead to a peaceful liberalization of stateless nations such as Ukraine. He saw liberalization as a spontaneously emergent process that evolves in a system of voluntary associations of individuals (i.e., his concept of civil society) and moves from the bottom up by gradually eradicating the state as an institution of coercion. The goal is "to reduce the power of the government and make it subservient to individual and community and to lay down the living rule of law of anarchy, and to free the rule of law from aristocracy and state" (ibid.).

## Ivan Franko and Bohdan Kistyakivsky

Ivan Franko (1856–1916), a disciple of Drahomanov, earned a Ph.D. in History from the University of Vienna in 1893. An educated son of the peasantry, Franko wrote his work in Ukrainian, Polish, Russian, and German. He had good relationships with Polish, German, and Austrian liberals. For ten years he was a member of the editorial board of the Polish newspaper *Kurjer Lwowski* (Rudnytsky 1967, 143). He also contributed to several German-language journals. Franko was a regular correspondent for the Viennese democratic weekly, *Die Zeit*, reporting about conditions and development in Galicia.



Franko

Bohdan Kistyakivsky (1868–1920), another disciple of Drahomanov, received a Ph.D. in History from the University of Strasbourg in 1899, where he studied under the supervision of Wilhelm Windelband (1848–1915). He was a son of Oleksandr Kistyakivsky, a Professor of Law at Kyiv University and an active member of the Hromada of Kyiv, the leading organization of the Ukrainian liberal movement (Tomenko 1996, 74). Both Franko and Bohdan Kistyakivsky were the leading members of the Shevchenko Scientific Society, established in 1873 (*ibid.*, 75). The Shevchenko Society included foreign members such as R. F. Kaindl, an Austrian representative of the German Historical School from the University of Czernowitz.



B. Kistyakivsky

Franko and Kistyakivsky to some extent dissented from the *Social-Politik* trend in Europe, in that they held more liberal views regarding the role of the state in society. To them, social reform served as a means of nation-building to overcome a condition of statelessness. Franko studied the social reforms implemented by the eighteenth-century Austrian rulers Maria Theresa and Joseph II, and he supported active social policy but he advocated limited government. Likewise Kistyakivsky, in his dissertation *State and Individual* (1899), rejected an active social policy, instead proposing to limit government to protecting life, liberty, and property under the rule of law. Notably, both Franko and Kistyakivsky rejected legitimacy of the sovereign's monopoly over coercion and supported universal suffrage.<sup>4</sup>

4. In mid-1800s Western Europe only 'radical' liberals such as John Stuart Mill favored universal suffrage or parliamentary dominance in the king-parliament relationship (Congleton 2010, 230).

Franko had formulated his political theory in *What Is Progress?* (1903), which was in juxtaposition to Vladimir Lenin's 1903 Address to the Congress of the Russian Party of Social Democrats. Contra Lenin, Franko argued that inequality was an integral feature of the driving forces of human progress. Competition was foundational in human nature, and it always and naturally caused inequalities. The division of labor is another essential ingredient of human progress, even though it produced a social hierarchy. Like many East European liberal thinkers, Franko regarded the tension between liberty and outcome-equality as a problem to be managed, calling for judicious balancing. Franko was a strong opponent of Marxist Socialism, which he argued had a natural inclination toward interventionism and totalitarianism:

In general, the omnipotence of communist state, as formulated in all ten points in of Communist Manifesto (1848, 33), would lead to the triumph of new bureaucracy over society and all aspects of social, material, and spiritual life. (Franko 1904)<sup>5</sup>

Franko questioned Marxist political philosophy and its acceptance by East European social democrats:

Trust in an omnipotent state in future society is the main feature of social democracy. According to this belief, every person will be a public employee... the state will give him all necessary things; assign him an occupation; incentivize and reward him; and when he gets older or sick, the state will feed him... Who will guard the guardian? Who will rule the state? Social democrats do not tell us anything ... there would be no exploitation of workers by capitalists but there would be the omnipotence of bureaucrats—it does not matter whether they are aristocrats or elected—who would be in control of millions of citizens. If they hold such a great power for a short period of time, it will be so easy for them to seize it forever! (Franko 1917/1903, 53–54)

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5. Max Weber (1995/1906, 89), who was well-informed about the political situation in Tsarist Russia, shared Franko's concern that Russian socialist revolutionaries would lead Russia on the centralist-bureaucratic path.

## Mykhaylo Tugan-Baranovsky

Mykhaylo Tugan-Baranovsky (1865–1919), born of an aristocratic family in Kharkiv province in Eastern Ukraine, was an historian and political economist, and a representative of pluralist thought (Nove 1970, 246). His study of British industrial development and his theory of business cycles were held in high esteem by scholars such as Joseph Schumpeter (Blaug 1986, 43). Influenced by Marxism as a youth, Tugan-Baranovsky's political thought evolved into an eclectic theory under influence of Neo-Kantianism, Darwinism, and classical economics. He read Carl Menger, used ideas of organic evolution in his work on cooperation, and used marginal-utility theory of value in his critique of Karl Marx's labor theory of value (Kachor 1969). He argued that a combination of marginal-utility and labor theories of value explains a concept of value (Nove 1970, 254).



Tugan-Baranovsky

In his article “Russian Intelligentsia and Socialism” (1910) Tugan-Baranovsky argued that liberalism had no future in Russia because the ruling elite and the peasants held egalitarian and anti-bourgeois beliefs. He wrote that Russian intellectuals demonstrate a backward thinking by regarding institutions of capitalism as artificial and institutions of the “ancient regime,” upholding communal agriculture-based economy, as natural (Nove 1970, 251). Moreover, his eclectic theory of value maintained that proper analysis of surplus value called for an ethical approach. Thus, Tugan-Baranovsky proposed a social order that would keep balance between liberty and equality. Tugan-Baranovsky (1907) called that order “correct socialism” and argued that it would preserve equality, liberty, and market economy. Correct socialism would combine liberal economic principles and socialist political principles. The main instrument of correct socialism is cooperation that joins socialist welfare with private enterprise.

Tugan-Baranovsky was impressed with the wave of the Russian cooperative movement, which started in Kharkiv in 1811 and preceded the Rochdale cooperative in England. Tugan-Baranovsky grew up in the Kharkiv province and graduated from the Kharkiv University (now V. N. Karazin Kharkiv National University), which was established by prominent cooperators Vasily Karazin (1773–1842). In 1854, before Tugan-Baranovsky was born, the biggest agricultural cooperative in the Russian empire was Kharkiv-based cooperative Kharkivskoe Tovarishestvo (Ancyferov 1929). The cooperative started its operations with fourteen regional offices across Ukraine and Russia. In 1912 it grew into the biggest cooperative in Eastern Europe with thirty four regional offices, including a wholesale store in the U.S. city of Minneapolis (ibid.). These developments

influenced Tugan-Baranovsky's thinking on cooperation.

In *Social Foundations of Cooperation* (1916), Tugan-Baranovsky envisioned a free enterprise setting but argued that within such a setting the cooperative, providing a social safety net to its members, would succeed as a profit-maximizing enterprise. He argued that agricultural cooperatives would help individual farmers to utilize economies of scale and jointly increase agricultural output. Tugan-Baranovsky referred to agricultural statistics for the period 1861–1910 that showed that landlords achieved higher harvest yields than peasant households and that the difference between them increased (Nove 1970, 260). He maintained that cooperation (or joint decision-making) could also help to establish a democratic decentralized political system, which would be similar to federalism. Tugan-Baranovsky's work represents an attempt—a desperate one, perhaps—to reconcile the discordant aspirations of political community, political stability, outcome-equality, and free enterprise.

## **Purges against liberal thinkers under Soviet rule**

The tide of the Ukrainian liberalism ebbed in the early twentieth century. Tugan-Baranovsky left his appointment as the chair in political economy at St. Petersburg University after the February Revolution of 1917, became dean of the Faculty of Law at Kyiv University, and served as head of the Ministry of Finance of the Central Rada (1917–1918), a short-lived Ukrainian government (Nove 1970, 247). The Soviet rule eradicated the liberal movement in Ukraine (Pipes 1990). But in the 1920s a Russian classical liberal, Alexander Chayanov (1888–1937), applied Tugan-Baranovsky's private-enterprise theory of cooperation in debate with Lenin (Chayanov 1917; 1919; Lenin 1973/1923). The debate influenced Lenin's decision to replace the War Communism Policy (1918–1921) with the more liberal New Economic Policy.<sup>6</sup> After the death of Lenin in 1924, the Soviet government under Joseph Stalin reversed the New Economic Policy, imprisoned Chayanov for a political crime in 1930, and executed him in 1937. The Soviet government proceeded to prosecute non-Marxist thinkers en masse (Nove 1970, 262). In Soviet Ukraine, farmers resisted the farm collectivization and the nationalization of church property. To suppress an outbreak of resistance, the Soviet government

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6. The New Economic Policy gave peasants usufruct private property rights (i.e., sale and bequest are prohibited) in agricultural land and allowed peasants to utilize farmland, to lease it, and to sell their farm produce at market prices. Joseph Stalin, Lenin's successor, feared that the thriving agricultural economy would lead to the rise of the bourgeois nationalism in the Soviet Ukraine.

implemented the Terror-Famine policies,<sup>7</sup> which in 1932–1933 killed between three and six million Ukrainians (Applebaum 2017; Subtelny 2009; Conquest 1986; Naumenko 2017).

The establishment of a totalitarian communist regime under Soviet rule eradicated in Ukraine the liberal ideas that had been popularized at the beginning of the twentieth century. The Soviet economic system prohibited private ownership of the means of production and free-enterprise economy in general. According to Marx's theory of social order, the economy served as the basis, the political and legal system were the superstructure, and the prohibition of private ownership of the means of production was the building block of the socialist society. Both the 1936 and the 1977 Constitutions of the Soviet Union only recognized "socialist property" (e.g., state enterprise and collective farming) within the socialist economic system.

The Soviet authorities suppressed any academic discussion that supported ideas of economic liberalism, capitalism, and market economy. The Stalinist purges of liberal economists such as Chayanov removed ideas of economic liberalism from the public discourse. The dissident movement of the 1960s and 1970s that mainly consisted of writers, artists, scholars, and journalists was a case in point. While the dissidents advocated for civil liberties, human rights, and protection of ethnic minorities, they avoided any discussion of private property rights and free enterprise (Bazhan 2004). Moreover, the Liberman economic reform that took place in the 1960s, introducing a concept of profit-loss calculation into the socialist economy, never touched on the essential ideas of economic liberalism. The reform focused on changes in the method of economic planning and the incentive system of the Soviet enterprise manager (Pejovich 1969). Ideas of economic liberalism remained as left by pre-Soviet thinkers such as Drahomanov and Franko, if not simply lost and forgotten.

## **The post-Soviet economic and political environment**

As an instance of post-socialist transition in Central and Eastern Europe, Ukraine has been one of the least successful, plagued by state capture and rent-seeking (Hellman 1998; Åslund 2007; Åslund and de Ménéil 2004). Something of an oligarchic elite emerged from the old Communist elite, enriching itself by privatizing what had been state property (Subtelny 2009), setting up monopolized

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7. See Stalin's speech published in *Pravda*, December 27, 1929.

industries, curbing civil liberties, and neglecting the rule of law. The stated main objective of the Ukrainian privatization was to reduce the size of the government sector and to incentivize private sector growth (Paskhaver et al. 2008). The private-sector share of GDP increased from 35 percent to 85 percent between 1994 and 2008, and the private-sector share of the labor force grew from 16.1 percent to almost 86 percent between 1994 and 2008 (World Bank 2017).

The political system has fluctuated between unstable democracy and incoherent authoritarianism (Center for Systemic Peace 2014; Freedom House 2018). Looming over the Ukrainian situation is a general lack of confidence in the permanence and integrity of political institutions. Furthermore, the rules of the game are shaky at the highest constitutional level, and that makes it very hard to create the necessary confidence to invest for the long term and develop a trusting, open commercial culture. In 2007, a public opinion poll reflected public distrust in the government institutions, as 83 percent of Ukrainians stated that the government was thoroughly corrupt (Subtelny 2009). The criminal justice system enjoyed the lowest approval rating, 8 percent. Only 18 percent had trust in the electoral process.

The Hayek-Friedman hypothesis states that economic freedom is a necessary condition for political liberalism (Lawson and Clark 2010). Economic freedom promotes important norms of individual rights, tolerance, and respect for the rule of law. Such norms foster an attitude and expectation of government accountability and moderation (Diamond 1999). But today interventionism is tremendous. For instance, more than 200 laws regulate the agricultural sector in Ukraine (Krasnozhon 2013). In 2015 Ukraine's index of economic freedom ranked 149th out of 159 countries, while other post-socialist countries such as the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, and the Slovak Republic were either in the freest quartile or in the second quartile (Gwartney, Lawson, and Hall 2017). Ukraine is also ranked among the most highly corrupt countries, being 131st out of 176 countries according to Transparency International ([link](#)).

## **Economic liberalism in post-Soviet Ukraine**

A revival of Ukrainian interest in economic liberalism started after the collapse of the Soviet Union. The most influential liberal thinkers today are representatives of the old generation who introduced market reforms in the 1990s: Oleksandr Paskhaver, Viktor Pynzenyk, and Volodymyr Lanovyi. There are also several organizations that promote economic liberal ideas in Ukraine: the Liberal Economic Club, the Bendukidze Free Market Center, and others. Overall,

Ukrainian liberal thinkers share a common vision of economic liberalism that highlights culture as an ingredient in the aspiration for a liberal and politically stable Ukraine. On the whole, however, in public discourse, in government, and in academia, there are few voices in Ukraine articulating the central ideas and long-run vision of classical liberalism. These liberal thinkers are, alas, less well integrated in the European liberal movement than their nineteenth-century predecessors had been.

### **Oleksandr Paskhaver**

Oleksandr Paskhaver (b. 1945) is one of the architects of the Ukrainian privatization. In the early 1990s he left a public-sector think tank, the Institute of Economics at the National Academy of Sciences of Ukraine, where he had served as a senior economist since 1971. Paskhaver then founded a Kyiv-based think tank, the Center for Economic Development. He is a public intellectual who contributes regularly to mass-media outlets. Paskhaver also has served as an economic advisor to several Ukrainian presidents. Paskhaver supports privatization and economic liberalization, but he thinks that wealth inequality can exacerbate problems of political instability.

Paskhaver leads a small group of liberal economists at the Center for Economic Development (CED). The CED mainly monitors privatization. Paskhaver often speaks out in defense of privatization because public opinion strongly opposes any further privatization reform. Since the early 1990s, public support for privatization has drastically decreased in post-Soviet countries; it is said that more than one half of the population in each of the 28 post-socialist countries supports reconsideration of privatization (Denisova et al. 2009). In 2005, a public opinion survey showed that 60 percent of Ukrainians strongly disagreed with the large-scale privatization (Paskhaver and Verkhovodova 2006). Between 1992 and 2006 public approval of land privatization dropped from 65 percent to 25 percent, and in 2006 only 21 percent of Ukrainians strongly supported economic liberalization of the market in agricultural land, as compared to 39 percent in 1992 (Panina 2006).

Paskhaver says that Ukrainians expected to enrich themselves through privatization. The policymakers expected that privatization would incentivize faster transition from command economy to free market economy. Paskhaver and Lidia Verkhovodova (2006) write that privatization produced oligarchs who captured the industrial “commanding heights”—steel, coal, heavy machinery, etc.—and disrupted democratization. Still, argues Paskhaver (2003), the privatization has been movement in the right direction—reducing government control of the economy.

Moreover, privatization and economic liberalization consolidated new Ukrainian ruling elites. Many of the players and networks had been junior members of the former Soviet establishment. Soviet Ukraine had been one of four top steel producers in the world. Steel products constitute about 40 percent of Ukraine's total exports. As a result, the oligarchic elite emerged from industrialized regions of Donetsk and Dnipropetrovsk with steel mills, coal mines, and chemical and heavy machinery factories. In 2002 about 300 of the MPs in the 450-member legislature had personal wealth equivalent to a U.S.-dollar millionaire (Subtelny 2009).

Paskhaver argues that the rise of oligarchs is a result of the institutional path of development in any post-Soviet country with a culture of paternalism and corruption. In Ukraine the erstwhile Soviet apparatchiks who had been de facto owners of public enterprises reclaimed that control. To Paskhaver, it shows that in the socialist economy neither farmers nor workers nor 'the people' were de facto owners of farms and factories—the apparatchiks were.

Paskhaver suggests that post-Soviet countries skipped an essential stage of social contract that would establish rules of the game. Paskhaver argues that neither the citizenry nor the government itself can reach much agreement on what government should do and is able to do because the post-Soviet polity lacks European political culture. By contrast, the state and the citizenry came to an informal understanding or social contract of *noncompliance* with the rule of law (Paskhaver and Verkhovodova 2006, 312). In the 2014 book *Who to Be*, Paskhaver argues that the market reforms in Ukraine had a low degree of institutional stickiness because the necessary cultural values were not deeply rooted in the nucleus of the post-Soviet culture:

Market reforms require European cultural values. (Paskhaver 2014, 12)

Liberty and rule of law, the highest social values, are essential for competitiveness, economic growth, and quality of life. (ibid., 36)

Those who wish to actively promote the Europeanization of Ukraine should not wait for the top-down reforms but they should try to change the situation themselves—by including European social values in a national identity—not from the top down, which is impossible, but at will. (ibid., 98)

## Viktor Pynzenyk

Prior to 1992, Viktor Pynzenyk (b. 1954) had been an academic economist, at the Ivan Franko National University in L'viv, serving as chair of the department of economics and public administration. He would emerge not only as a public intellectual, appearing often on television and in media to espouse economic

freedom and liberal principles, but as the symbol of the economic liberalization of the 1990s. He belongs to the generation of Central and East European market reformers such as Leszek Balcerowicz in Poland and Ivan Mikloš in Slovakia.<sup>8</sup> In 1991 Pynzenyk was elected as the Member of Parliament. Pynzenyk held government positions including Minister of Economy, Vice Prime Minister, and First Vice Prime Minister between 1992 and 1997.

Pynzenyk's political career has been fitful—he has repeatedly entered government in the hope of leading reform, only to exit promptly from frustration and disappointment. As a Minister of Economy, beginning 1992, he advocated shock-therapy economic liberalization, decreasing income-tax rates, decentralization of the state budget, market-based competition for government contracts, direct welfare payments to the poor, and cessation of industry and farm subsidies. In 1993 Pynzenyk resigned from the government, and then in 1994 he returned to the government to continue his efforts to advance market reforms.

In the spring of 1997 Pynzenyk proposed a bill that would cut the number of types of business subjected to licensing by a factor of four, to establish a single-step business licensing scheme, to reduce the number of custom forms to just four documents, to lift all restrictions on money transfers, to cut the tax burden in half, and to reduce the top marginal income tax rate to 32 percent. The bill was aimed at amending more than one hundred laws. But it did not pass a parliamentary vote. Pynzenyk resigned, citing growing conservatism in the government.

In the 1998 parliamentary elections Pynzenyk led a liberal party (Reforms and Order Party), which failed to reach the electoral threshold. Between 2005 and 2009 Pynzenyk returned to the government to serve as Minister of Finance. He twice resigned from the position because his liberal economic policy failed to receive strong support. In 2014 Pynzenyk was elected as the Member of Parliament and joined a pro-presidential party (the Petro Poroshenko Bloc).

In a 2011 essay, "Man and State," Pynzenyk presented his vision of economic liberalism. He writes that the size and scope of "social protection" by government is correlated with the preeminence of bureaucracy, but the post-Soviet public cannot grasp that insight. On the one hand, most citizens believe that the state may do whatever citizens want it to do and that all such state functions are legitimate. On the other hand, citizens are hamstrung and depressed when bureaucracy and government play major roles in their lives. The effect of paternalism is, however, generally unseen by the general public. Pynzenyk (2011, 50) says that a government that does what citizenry wants it to do does not exist. As he argues, political power always corrupts government. Thus, delegation of power from citizenry to state needs to be constrained by a system of checks and balances. "The best way of

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8. In 2014–2015 Balcerowicz and Mikloš served as advisers to the Ukrainian President Petro Poroshenko.

reducing government embezzlement,” Pynzenyk writes, “is to reduce the number of government services and the size of bureaucracy” (ibid., 54).

Pynzenyk (2011) writes that voters seem to ignore the fact that they are taxpayers and they are the main source of government revenues. Citizens pay income tax, value-added tax, sales tax, excise tax, and so on. Pynzenyk recommends simplifications to the tax code, reduction of top rates, anti-corruption measures, and so on. Furthermore, Pynzenyk suggests that basic services that government itself should produce—national defense, foreign affairs, infrastructure, welfare system, environmental protection, and natural disaster relief—should not be commercialized, that is, that they not be financed by user fees (2011, 54–57). But that principle perhaps reflects his desire to keep the government-production sector small and limited. Pynzenyk argues that citizens must pay for education and health care without any government support. He proposes to introduce an income-based, means-tested welfare system to replace the current universal approach to welfare payments. Pynzenyk advocates individual retirement plans in place of the state-run pension system. He writes that the individual should have and learn responsibility for his own financial planning.

### **Volodymyr Lanovyi**

Volodymyr Lanovyi (b. 1952) is a co-founder of the Center for Economic Development, has held several government positions, and has served several terms as MP. He started his political career in the former Soviet Union as the Minister of Property and Entrepreneurship of the Ukrainian Soviet Socialist Republic. As the Minister of Economy of Ukraine, he was a strong supporter of the so-called Washington Consensus and he was one of the architects of the market reforms (Lanovyi 2000). Lanovyi has recently revised his position on the Washington Consensus. He acknowledges that the former apparatchiks controlled the privatization and that the process has produced a sort of oligarchy. Lanovyi (2012) argues that protectionism and economic conservatism was in the interest of those who control the state and receive politically privileged economic rents from their quasi-private ownership of the commanding heights of the Ukrainian economy. He proposes a set of anti-oligarchic economic and administrative reforms, for example greater transparency, openness and accountability to review, monitoring by NGOs, and so on.

### **Liberal organizations**

Besides the Center for Economic Development, there are few organizations that promote ideas of economic liberalism in Ukraine. In 2004 several economists

from L'viv-based academic institutions founded an informal association of liberal economists, the Liberal Economic Club (*Liberal'nyy ekonomichnyy klub*).<sup>9</sup> It popularizes ideas of personal liberty, market competition, and economic liberalism. One of its founders, Viktor Borshchevsky, has been a strong supporter of West Germany's postwar economic reforms, Reaganomics, Thatcherism, the Chilean market experiment, and more recent market reforms in Poland, China, and Georgia. His thinking has been influenced by the German ordoliberals Walter Eucken and Ludwig Erhard, as well as by Ludwig von Mises and Friedrich Hayek. Borshchevsky appears on television and teaches seminars and public courses. He has argued that the Ukrainian government is incapable of reforming itself, and that we should look for broader social change to bring on proper bourgeois and liberal attitudes, which might then make governmental reform possible (Borshchevsky 2015). A bureaucrat, even a diligent one, is incapable of doing what an entrepreneur is capable of: "It takes at least one-third of Ukrainians to realize that populism is full of empty promises and entrepreneurs are the real force behind any economic change." Ukrainians need a cultural change, away from the widespread acceptance of paternalism (Borshchevsky and Zlydnyk 2013).

Vasyl Magas, another co-founder of the Liberal Economic Club, represents one type of character among the young generation of classical liberals. An assistant professor of economics at the Ivan Franko L'viv National University, he is critical of the old generation of liberals such as Pynzenyk and Paskhaver because they were the architects of reforms that purportedly created oligarchy and transferred most of nation's wealth to former apparatchiks. Magas argues that economic policy is protectionist and conservative because oligarchs control it. He points out that bureaucracy has increased since the 1990s while its efficiency has drastically declined, and he asserts that lawmaking is oligarchic in Ukraine. In his view the Ukrainian state is the arena in which business conflicts among oligarchic groups are negotiated and managed, for the benefit of those who are party to the proceedings. The only economic means to weaken the oligarchy are international openness and absence of import tariffs (Magas 2016a). Magas also argues that Christianity and nationalism complement liberalism, and that an ideal social order should combine liberalism, nationalism, and Christianity in order to uphold liberty, individual responsibility, and social cooperation (Magas 2016b).

In 2014 the Kyiv School of Economics-affiliated think tank Bendukidze Free Market Center (henceforth Bendukidze FMC) was founded in honor of Georgian policymaker Kakha Bendukidze (1956–2014). Bendukidze served in the Mikheil Saakashvili administration between 2004 and 2009. The success of the Georgian market reforms is often attributed to him and to his main principle of "everything

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9. Liberal Economic Club has a Ukrainian-language website ([link](#)).

is for sale but conscience.” In 2014 Bendukidze joined the Expert Council of the Ministry of Economy of Ukraine. Several weeks before his death, Bendukidze and a team of international experts, including Daron Acemoglu of MIT and Anders Åslund of the Peterson Institute, prepared a package of market reforms (Acemoglu et al. 2014). One of the co-founders of Bendukidze FMC is Oleksandr Danylyuk, former Deputy Chief of Staff to the President of Ukraine and the current Minister of Finance of Ukraine. The Bendukidze FMC is a member of the Atlas Network and co-organizer of the Free Market Road Show in Ukraine. The center’s mission is “to promote liberty, limited open government and free market” ([link](#)). Saakashvili, the former President of Georgia, is another co-founder of Bendukidze FMC.

Online communities also popularize ideas of economic liberalism. One such community, Austrian School of Economics in Ukrainian ([link](#)), was started by a group of Ukrainian libertarians in 2010. Its Ukrainian-language website provides a free online library that contains translations of works by Mises, Hayek, Murray Rothbard, and several latter-day ‘Austrian’ economists. Another online community is provided by Krayina Liberalna (“Liberal Country”), an NGO launched in 2008 that promotes liberalism and claims to represent the middle class ([link](#)). In its 2011 mission statement, Krayina Liberalna declared that an ideal liberal society should have its foundations in parliamentary republicanism and the common-law system ([link](#)). Krayina Liberalna is a strong supporter of market reforms, including lowering the number of business types requiring licensing to about thirty, complete privatization of public land, liberalization of the market in farmland, and privatization of government services such as health inspection and firefighting.

## Economic liberalism in higher education

Economics education in Ukraine is quite disconnected from philosophy and political science. Economics is taught as an applied business major with a focus on banking, accounting, and computer skills. Ukrainian economics education is also out of touch with economics education in English-speaking countries, because a proficiency in English is not a requirement for a bachelor’s degree. Very few Ukrainian economists can read English-language economics literature. In 2016 the Department of Education added a proficiency in English to the list of requirements in fulfillment of a tenure-track promotion towards associate and full professorships across all disciplines. The number of applications for these ranks subsequently dropped by hundreds.

The Kyiv School of Economics (KSE) and the Kyiv Mohyla Academy (KMA) are the only universities in Ukraine where English is one of the instructional languages. KSE offers two master’s programs jointly with the University of

Houston, such that KSE graduates receive M.A. degrees from the University of Houston. KSE prides itself for being “the only institution in Ukraine at which faculty members hold a Ph.D. degree from reputable Western universities.” Faculty of the KSE mainly teach applied economics. Most of the KSE graduates pursue academic careers outside of Ukraine or work for international companies.

The KMA has some strands of liberal economics. In the early 1990s Professor Yuriy Bajal, chair of Economics, was one of the main advocates of the Washington Consensus. He supported market economy and minimal state intervention. Bajal has changed his research interests from economic liberalization to institutional analysis of economic development with a focus on technological change. He also revised his position on the role of state in economy. Bajal (2000) argues that some government support and protection—tax breaks, subsidies, tariffs on high-tech imports—is needed to boost technology firms and innovation.

To our knowledge, few academic economists in Ukraine articulate the principles of economic liberalism or treat the economic evidence on the matter. One location of liberal scholarship is the L'viv Regional Institute of Public Administration (LRIPA). The political science professor Mykola Bunyk, one of the present authors, teaches a course on bureaucracy, focusing on the work of Mises, John Stuart Mill, and John Locke. LRIPA has hosted a series of conferences dedicated to Mises. The first conference, in 2011, brought together economists, political scientists, philosophers, and mathematicians from eight countries. The conference ended with the unveiling of a plaque at Mises's birthplace, which was discovered by Bunyk, Olga Kotovska, and Roman Skaskiw (Laer 2011; Bunyk and Skaskiw 2011).

Also in L'viv is the Ivan Franko National University, where Magas is an associate professor of economics. He disseminates ideas of liberalism and researches in particular Ukrainian agrarian reform. In L'viv, Borshchevsky is a part-time lecturer at the Ukrainian Catholic University. The main area of his research is agriculture. He advocates for a package of agricultural market reforms, including modernization of infrastructure in rural areas, decentralization of fiscal policy, decentralization of local government, increasing self-governance in rural communities, and qualitative improvement of education in rural areas. Borshchevsky also holds a public office at the Ukrainian National Academy of Sciences and he is an officer at the Dolishny Institute of Regional Studies.

## Some recent developments 2008–2017

In 2013–2014 Ukraine experienced the greatest political crisis in the post-Soviet period. On November 21, 2013, then-President Viktor Yanukovich

rejected the signing of the Association Agreement and Deep and Comprehensive Free Trade Agreement with the European Union. The agreements would have broadened economic and political ties between Ukraine and Europe and would bring Ukraine closer to European economic and political values. By February 2014 a growing protest movement turned into the Revolution of Dignity and led to the fall of the Yanukovich presidency. In March 2014 the government of Russia, which backed the ousted President Yanukovich, annexed the Crimean peninsula—almost five percent of Ukraine’s territory. The political crisis sent Ukrainian economy into recession: Real GDP per capita contracted by a cumulative of 16 percent over the two-year period (World Bank 2017). In March and June 2014, respectively, Ukraine signed the Association Agreement and Deep and Comprehensive Free Trade Agreement with the European Union.

Ukraine is one of very few economies from the post-socialist bloc which has not recovered since the supply-side recession that followed the end of socialism (Shleifer and Treisman 2005). Ukraine’s GDP per capita (PPP) decreased from \$9,564 in 1991 to \$7,668 in 2016 (World Bank 2017). Public opinion surveys demonstrate that government institutions and market reforms receive the lowest approval rating (Subtelny 2009). Forty-three percent of Ukrainians favor renationalization (Denisova et al. 2009). According to the 2015 World Values Survey, residents of western and central Ukraine strongly supported values of individual liberty and individual responsibility; by contrast, paternalism and social welfare enjoyed the highest approval among residents of southern and eastern Ukraine. However, younger respondents (ages 18 to 35) in all regions of Ukraine strongly supported individual liberty.

## **Concluding remark**

Economic freedom in Ukraine has hit rock bottom in the world rankings and it has remained there for years. For the most part, ideas of economic liberalism have fallen on deaf ears. Economic freedom, rule of law, and market economy are essential ingredients of the kind of liberal political change that the government has not yet completed following the collapse of the Soviet Union. Ukraine has gone from one political crisis to another, while other post-socialist countries such as Poland and the Czech Republic have more successfully formed and maintained liberal democracies and market economies.

Still, there is always hope of wiser actions and better fortunes ahead.

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