

Ukraine: Free market will not win the war - British researcher criticises Kyiv's economic policy

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Warring countries usually centralise their economies, as the countries that fought World War II did. In this way, investment, labour and all the country's economic resources are devoted to the ultimate goal of winning the war. Ukraine is doing the opposite, which could undermine its war effort and even risk fragmenting the state and society, says political scientist Luke Cooper.

In a recent [report, "A Market Economy in a Global War?"](#) A researcher at the London School of Economics (LSE) think tank LSE IDEAS criticises the economic policies of the Ukrainian government, which, in his view, rely too much on free market ideology and disregard the lessons of previous conventional wars - that centralised planning, close cooperation with trade unions, and the social protection of workers are necessary to keep the society mobilised and to avoid economic and social collapse.

Key Messages

- States fighting conventional wars tend to centralise their economies in order to direct resources, investment and labour to where they are needed to win the war. Ukraine does the opposite.
- The Ukrainian Government has suspended a large part of workers' rights, even though it should at this very moment be seeking closer social dialogue with the trade unions and the workers, who will have to bear a heavy burden in order to win the war and rebuild the country after it.
- The extensive privatisation programme undertaken by the Ukrainian Government threatens to repeat the mistakes made after the collapse of the Soviet Union.
- The sharp economic downturn, increased unemployment, regional imbalances and lack of opportunities increase the risk of fragmentation of society and the state. In other war zones, similar conditions and the wide availability of weapons have sometimes led to civil conflicts, violent outbreaks and state collapse.
- A strong state role in the economy will be essential not only for Ukraine to win the war, but also to rebuild the country after it. Private investors and liberalised markets will not do it.
- Ukraine's membership of the European Union is unlikely in the short or even medium term, and would hardly be in its interest. However, the EU could support Ukraine's reconstruction with grants - not loans - and preferential trade terms: allowing it to export Ukrainian goods to the EU, but shielding its industry from competition from stronger Western firms.

Ukraine's economy has fallen into a deep recession this year due to the war, with the World Bank forecasting a contraction of one-third of GDP this year. Unemployment in the country topped 28% in October. Even the incomes of many workers have fallen considerably due to wage cuts and high

inflation.

The Ukrainian authorities have undertaken labour market reforms: the war has suspended much of the Labour Code and the rights of workers enshrined therein. Ukrainians working in companies with fewer than 250 employees - around 70% of the country's workforce - can easily be dismissed, forced to work overtime, and are no longer able to bargain collectively with their trade unions.

At the same time, the government has embarked on an extensive privatisation programme, offering 420 state-owned enterprises to investors during the war. Mr Cooper believes that now is not a good time to sell state assets and that Ukraine is repeating "the mistakes made after the collapse of the Soviet Union".

In an interview with LRT.lt, the researcher argues that a strong role of the Ukrainian state in the economy will be necessary both in the war and in the reconstruction of the country after the war.

- How would you describe Ukraine's economic policy during the war?

- To begin with, states fighting conventional wars, as Ukraine is now, are usually forced to take a large part of their economies into their own hands in order to divert capital, labour, business to the war effort. So the economy becomes quite centralised.

This is necessary because a market economy cannot function normally during wartime. For example, insurance does not work in the same way as it does in peacetime; private insurers simply cannot take on the risk when a country is bombed.

And that is why states fighting conventional wars have always resorted to massive interventions in the economy to counterbalance collapsing private demand and possible recession. This usually creates war-related demand - for weapons, for food for soldiers, for economic activity - and so the economy is unlikely to collapse. Surprisingly, economies often grow during war.

In Ukraine, unfortunately, we do not see a conventional war economy. We see a mixture of different elements. GDP has collapsed by more than a third this year, Ukraine is in a very severe recession and unemployment has increased. Of course, a large number of workers have left the country or have become refugees within the country, and their unemployment is a particular problem.

A free market economy in a time of total war, I think, poses very serious risks to the Ukrainian war effort.

It is true that Ukraine's economic policy has elements of centralisation. The state has taken over some of the businesses needed for the war, and not only from Russian-linked oligarchs. This is a good sign.

There is also a programme to send the unemployed to build the necessary humanitarian and military infrastructure. The army is also taking part in this new programme, which only started in October. The question remains whether Ukraine will have the resources to implement it on a large enough scale.

So there are elements of centralisation, but I am afraid that the rest is just deregulation of the economy and the free market. A free market economy in a time of total war, I believe, poses very serious risks to the Ukrainian war effort.

It is worrying that Ukraine has abolished a large part of the worker protection measures and labour laws at the very time when a strong social partnership is needed with the people working in the

industries needed for war.

So from my perspective, and from the perspective of those who support Ukraine, everything is being done in the opposite way to what it should be. We want Ukraine to win, and to do that it needs an effective war economy that builds the resilience of the entire population at this difficult time. Unfortunately, this is not the case at the moment.

- How is this suspension of some workers' rights justified?

- The justification is, in my opinion, rather weak. Before the escalation of the war, the Ukrainian Government made it clear that it wanted to get rid of workers' rights, because it believed that this would lead to a more dynamic market economy. Even before the war, it had already drawn up a number of labour market reforms, but at that time the trade unions staged major protests and successfully blocked them.

- Are these reforms now being introduced as a wartime measure rather than as permanent changes?

- True. Most were presented as temporary measures. It remains to be seen whether the previous labour laws will be reinstated when the war is over. <...>

But in any case, workers need even stronger social protection during wartime than before. And most of all, during wartime, dialogue with the trade unions representing workers is needed, because sacrifices will be demanded of them.

The Ukrainian Government has made it clear that it wants to get rid of workers' rights because it believes that this will lead to a more dynamic market economy.

The war is a terrible situation, a humanitarian crisis, and Ukraine is facing an infrastructure crisis. The burden on the population will be terrible. And in this situation, it is important to talk to the working classes and the trade unions, to negotiate what that burden will be, so that they feel part of the state.

That is why these labour market reforms are the most worrying for me. The trade unions have not been consulted - the government has even boasted that it is ignoring the collective structures of worker representation, which is bad in itself. The idea that workers should only negotiate individually with their employers, which was bandied about when these measures were introduced, is very problematic.

- What is driving Kyiv to pursue such a radical liberalisation policy? Is part of the elite simply using the war to push through the reforms that they have always wanted, or does the country's government genuinely believe that such measures will help win the war?

- I am an outsider, speaking from London, but I have spent a lot of time interacting with Ukrainians. From what people have said, I have the impression that the Ukrainian Government is ideologically firmly committed to the vision of a small state, which we could perhaps call neoliberal, and that it genuinely believes that this is the best way to safeguard democracy.

This seems to stem from the perspective that any economic centralisation is associated with the Soviet Union and decentralised markets with democracy. I can understand that. However, I would say that this approach lacks nuance, especially now that many societies around the world are beginning to rethink the logic of the free market. Just look at the Biden administration in the US - there is no longer a 'Washington Consensus' on free markets. The prevailing view now is that the

state must intervene and create a strong social safety net for all, because we are living in times of crisis and we want to build a sustainable, green future.

Of course, there is a lot of debate about how to achieve this in concrete terms, but there is a new consensus, which cuts across both left and right, that free markets left unattended will not do it.

It seems to me that Ukraine, or part of the intellectual elite pushing these reforms, is somewhat behind the tide of political and economic thinking on this issue. Although ordinary Ukrainians, it seems to me, are closer to it.

- The liberalisation advocates argue that the Ukrainian state is simply too corrupt and too weak to be able to adopt an active policy of economic diversion. Do you find these arguments valid?

- I have no doubt that they are identifying the real problem. I do not doubt the analysis that shows that there is a problem of corruption in state-owned enterprises and in the Ukrainian State in general.

However, such an analysis, which says that it will be a great challenge for this country to establish a state-regulated war economy, does not negate the fact that all the countries that have successfully fought conventional wars have had state-regulated war economies.

However, instead of saying that, although it will be very difficult to achieve what is needed, it is nevertheless necessary to try, they say: we will do things in a completely different way, even though we know that this is unlikely to work. I find that problematic.

- In your report, you also write that if Ukraine continues with its current economic policies, it faces the risk of fragmentation of society and the state, and in an extreme case it could even become a failed state. Can you explain?

- Some context is needed. In the LSE programme I'm part of, I work with a Ukrainian team. My colleagues are also looking at Somalia, Sudan, South Sudan, Syria. They are all very different from Ukraine, which is mired in situations of intractable violence that could be described as civil wars, but where there are many different sides fighting.

Ukraine is very different - it is fighting a "normal" conventional war. What is happening in Ukraine is terrible, but if it remains a conventional war, we know from history that all conventional wars end in some kind of agreement. Unconventional wars, unfortunately, often end in the collapse of the state and the emergence of a few actors with a political and economic interest in maintaining the cycle of violence. This is essentially what has happened in Syria, in South Sudan and in many other places.

Usually, this situation arises when there is a mixture of factors - very rapid economic liberalisation, recession, widespread availability of weapons, sectarian politics and authoritarianism.

For conflict analysts, the widespread availability of weapons, combined with a lack of economic opportunities and jobs, the weakening and potentially even collapse of the state, are alarm bells.

Not all of these factors are present in Ukraine, and I hope they will not be. However, if the government continues to liberalise, it will lead to rising unemployment, emigration, major imbalances - unemployment is much more widespread among men at the moment, because women and children have been allowed to leave. For conflict analysts, the widespread availability of weapons, combined with the lack of economic opportunities and jobs, the weakening and potentially

even collapse of the state, are alarm bells. All of this would be very bad for Ukraine, creating the preconditions for an outbreak of unrestrained violence.

Of course, there are also countervailing trends - the incredible support of Ukrainians for their country, the resistance, are also serious countervailing factors. So I am not saying that it will happen. I am just saying that it is worth bearing in mind the specific risks and making sure that everybody has a decent job, a roof over their head, as far as possible, to work in areas that contribute to the country's war effort. That is the best way to prevent the risk of fragmentation and weakening of the state.

- And what kind of economic policy will Ukraine need to rebuild the country after the war?

- It will need enormous economic support, much more than it receives now. One thing we have not talked about yet is internal taxation. Ukraine should collect much more taxes from its population, both for the current war effort and for future reconstruction.

At the moment, it has a proportional tax system, with income tax for the self-employed dropping to 5%. There is also an additional war tax, but this is also proportional. So progressive taxation will also be very important for the reconstruction of Ukraine. The higher earners will have to pay more, and the incomes of the lowest earners will have to be protected as much as possible.

And there is also a huge job ahead to rebuild the infrastructure that has been destroyed. <...> Thinking about how to rebuild better should look to the EU's New Green Deal, the new sustainable energy and infrastructure and so on.

I think one of the more difficult questions is how to get the balance of regional development right. At the moment, the government is encouraging companies to retreat from the more war-affected eastern regions, and this is perfectly logical. However, during the reconstruction period, there is a risk that western Ukraine will do well and eastern Ukraine will do worse, that regional inequality will grow.

This is relatively easy to avoid. What is needed is an effective policy of redistribution between regions, measures to combat regional and social inequalities.

- What kind of balance between state intervention and the free market would be needed?

- I think the state will have a huge role to play in the reconstruction. Even if there is a peace agreement, or perhaps just a ceasefire, the situation for private investment will be very precarious, and private investors are risk-averse because their main motivation is a secure return, which is understandable.

But this means that there is a link between the war economy and post-war reconstruction, because both phases require a strong state that defends the public interest, mobilises resources, provides employment, effective regional policies and sustainable development. The state will therefore play a key role.

And yes, this will mean higher taxes, reforms in state-owned enterprises, although probably not privatisation. Of course, Ukraine has a large number of state-owned enterprises and there is room for privatisation, but the question is whether it will be possible to get an adequate price for these assets now or during the reconstruction period. I think not, because the situation is too unstable, and there is a risk of giving away valuable state assets for a low price.

This would also undermine the Government's anti-corruption objectives and repeat some of the

mistakes made after the collapse of the Soviet Union.

- Yet, on reconstruction, Ukraine has high hopes for EU membership. Is this a realistic ambition?

- I think it is realistic, but not in the short term. It will probably take several decades.

It seems to me that the EU Member States can be divided into two groups that do not really agree on this issue. One group is the countries that support enlargement to Eastern Europe, but only if the EU's decision-making mechanism is reformed to reduce the role of the veto and qualified majority voting. This group consists mainly of the larger EU members.

The other group is made up of countries that support enlargement to Eastern Europe, but are not so keen to change the EU's decision-making mechanisms. These are mostly smaller states, which I believe includes the Baltic States.

So the European Union has to reach some kind of compromise. I think an agreement is possible, but it may take time. So I doubt that Ukraine will join the EU any time soon.

There is no way that Ukraine could compete in the common market on an equal footing with the much richer and non-belligerent European countries.

Its membership would also require geopolitical stability. Will Ukraine need a peace treaty with Russia to meet the membership criteria, or would a ceasefire be sufficient? Will we wait for a change of government in Moscow before signing a peace agreement? This is a really difficult question.

So I think that Ukraine should now seek as much influence as possible in shaping European integration policy and as much support as possible from EU countries for the development of its economy. It needs grants, not loans, and it needs as much support as possible for reconstruction.

- EU membership might not be an entirely positive thing - on the one hand, Ukraine would receive financial and institutional support, but, on the other hand, its industry would be open to competition from stronger Western European companies, and it would probably experience a significant outflow of manpower. What could be the balance between the advantages and the possible negative consequences of membership?

- Yes, I completely agree with the question.

Recently, the ECFR think-tank produced a report entitled '[Survive and Thrive](#)', which calls for Ukraine to be admitted to the Single Market without waiting for anything. There are many useful things in this report - such as a partnership between the West and Ukrainian arms manufacturers - but the basic proposal for Ukraine to join the EU single market immediately is deeply flawed.

First of all, the entry of a country at war into what appears to be the world's second largest, but certainly the most closely integrated, free trade area is unprecedented, neither in Europe nor the world.

And there is no way that Ukraine could compete on an equal footing in the common market with the much richer and non-warring European countries. Such a relationship would inevitably lead to radical liberalisation and market-driven reconstruction - exactly as I warned earlier.

It is therefore a well-intentioned but flawed proposal. It would not be in Ukraine's own interests to join the single European market without waiting for anything.

Instead, Ukraine needs preferential treatment. The EU could say to Ukraine: "We have a fairly open free trade agreement at the moment, but we will allow you to impose tariffs on EU goods in areas where you feel it necessary to protect your internal market. Normally we would impose retaliatory duties in such cases, but this time we will not do so because we understand your particular circumstances."

I think the European Union could consider something like this - individual, tailor-made, smart economic conditions for Ukraine.

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