Paper Title: De-oligarchization in post-soviet transition through the lens of heterodox economics: the tale of Russia and Ukraine

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Using economies of Russia and Ukraine as cases in point, the paper discusses ways out from oligarchic control in historically backward transitional states of Former Soviet Union. It explains that as a result of neoliberal reforms of the 1990s in the context of a highly concentrated industrial structure, privatization of large-scale state property in these countries has resulted in highly concentrated private equity ownership dominated by oligarchic groups. By the end of the 1990s both Russia and Ukraine were characterized as elitist oligarchic states, in which newly rich business tycoons controlled the lion’s share of social surplus and influenced societal choices. In the first half of 2000s, Russian President Vladimir Putin’s authoritarian action restored the state’s control over strategic industries and most of the nation’s resource wealth, turning Russia into state capitalist economy, while in Ukraine oligarchic groups have captured the state to such a degree that even after two pro-democratic and essentially anti-oligarchic revolutions (The Orange Revolution of 2004 and the Euromaidan Revolution of 2014), Ukraine’s politico-administrative organization still remains firmly seized by oligarchic vested interests. The paper thus juxtaposes two ways out of oligarchic capitalism - fortification of neoliberalism - the way that mainstream analysts suggest for post-Euromaidan Ukraine - and state capitalism, and argues that neither neoliberal market reforms nor state capitalism, as it presently exists in Russia, offers a genuine alternative to socially unjust economic orders in post-Soviet transition.

The narrative in this paper is presented in four stages: the first begins with Ukraine, and, using the lens of economic class, discusses power distribution in this country to point out that while the immediate cause of the current turbulent situation in Ukraine is its ongoing tension with neighboring Russia, the foundations of this crisis were laid during the 1990s when, based on rampant corruption, an oligarchic economy was formed and Ukraine’s weak state was captured by oligarchic vested interests; the second explores alternatives for changing the existing system...
of power in Ukraine and demonstrates that current features of Ukrainian society are already too close to the neoliberal template and do not need further fortification; the third analyses re-emergence of powerful centralized state in Russia and argues that Russia’s state capitalism, seemingly fair in its re-nationalization of unfairly appropriated state assets, is not a panacea for unjust development and, therefore, should not remain an end in itself; the fourth, in concluding remarks, outlines my vision for positive societal transformation through state capitalism.

**Class structure and power distribution in modern Ukraine**

I argue that economic class, defined in relation to the degree of its actual, whether fully legal or not, control over an economy’s productive property and, consequently, over organization, appropriation and distribution of social surplus, is a most useful analytical category for identifying the essential features of power distribution in post-Soviet transition, exposing the increasingly neoliberal nature of its social provisioning processes, and envisioning ways for progressive restructuring of post-Soviet economies. Such emphasis on actual control of productive property as a critical characteristic of economic class is very important since it permits an adequate analysis of the distribution of economic power, defined as “the means or capacity by which individuals exercise economic choices” (Dragun 1983, 672). Heterodox literature has long accepted that property rights represent a fundamental form of power and its key source (Samuels 1971, 440; Neale 1991, 469). However, as Howard Sherman rightly asserts, “it is control of the means of production, rather than the legal rights of ownership, that is important” for understanding power distribution (1995, 118). Without laying bare the role of ownership and control of productive wealth, again whether completely legalized or not, in
establishing class structure and determining who is economically powerful and therefore rules, and who is economically powerless and consequently ruled, it is difficult to envision realistic ways of reforming socially unjust economic orders.

This interconnection between control over productive property and power is most evident in the non-Baltic states of the former Soviet Union, historically backward transition economies commonly characterized by missing memory of having a formalized property economy and the rule of law before the start of market transition. Thus, in Ukraine, similarly to Russia, when free market reforms began, state-controlled and heavily concentrated industrial assets, \(^1\) land and natural resources were unlawfully appropriated (through so-called informal privatization) by a select and openly favored few, who consequently, even without proper delineation of property rights, obtained both capacity and opportunity\(^2\) to control the lion’s share of social surplus and influence societal choices. In particular, these newly rich, also known as oligarchs, unchecked by any formal regulations, began to exploit their considerable economic power to “manipulate politicians, shape institutions and control media to advance and protect their own empires at the expense of the social interest” (Hellman et al 2000, 1). In Ukraine, oligarchs own political parties, factions within the national parliament, and key national newspapers (Matuszak 2012; Leschenko 2014). Moreover, political power in Ukraine guarantees parliamentary immunity against possible prosecutions, making, in the words of Andrew Wilson, “public office a gravy train,” with a place on an electoral list costing around “$5 million in bribes to party leaders” (2013, 4). Many analysts acknowledge that in Ukraine even “those politicians who come to power carrying slogans of system change very quickly become part of this system” (Matuszak 2012, 82). By now, oligarchic groups have captured the state legislative, executive, judicial and regulatory apparatus to such a degree that even after two pro-democratic and essentially anti-
oligarchic revolutions (The Orange Revolution of 2004 that brought power only to the competing oligarchic clans and the Euromaidan Revolution of 2014), Ukraine’s politico-administrative organization still remains firmly seized by vested interests and is profoundly corrupt. In 2014, Transparency International considered Ukraine the 146th most corrupt of 175 countries, and the most corrupt of all European countries, with a Corruption Perception Index (CPI) equal to 2.6 (Transparency International). The World Economic Forum’s 2014 Index of Judicial Independence puts Ukraine as 134th out of 142 countries and regards Ukraine’s judiciary as heavily influenced (World Economic Forum 2014). Numerous cases of corporate raiding, particularly during the last decade, clearly signal the complete absence of an independent judiciary in Ukraine (Rojansky 2014).

Oligarchization in Ukraine doesn’t mean simply concentrated control over large-scale production of goods and services and their corresponding income streams. It means also that powerful oligarchic groups control many small and medium-sized businesses, established either as subsidiaries of big oligarch-controlled enterprises or in tight cooperation with high-level managers of those enterprises, and used as channels for oligarchic companies to seize profits and evade taxes. The overall result is a corrupt network of oligarch-connected producers, sheltered from regulation and competition. The biggest accompanying problem is that the established culture of doing business—corruption, lawlessness and non-transparency—is such that independent producers do not survive for long without the protection of becoming part of the system. Foreign investors also are not welcome since oligarchs and their affiliates wish to keep all benefits of market control and consider any increase in competition as a business disadvantage for them all. The oligarchs, state bureaucrats (of all levels) persuaded by oligarchs
into well-paid business partnerships, and the owners of oligarch-connected businesses comprise the economically powerful classes of modern Ukraine.

The role of control over productive property in power distribution is even clearer with respect to the working (labour) class, those who are propertyless. From research in left-wing Sovietology, we know that under socialism, workers were already alienated from control over means of production, which were owned by the state (Gabriel, Resnick and Wolff 2008, 544-546). Consequently, workers were alienated also from organization of social surplus. Nevertheless, they enjoyed considerable social benefits because the goals of society “were public rather than private,” and the “surplus,” in line with the socialist state, was used to achieve “a substantial degree of equity through full employment and state provision of social benefits for all” (Laibman 1978, 25). In post-socialist Ukraine, as again everywhere else, given the demise of the socialist model of social provisioning, the working class has faced dramatic challenges without gaining any power as far as control of productive property and its resultant opportunity to control appropriation and distribution of social surplus is concerned. In essence, the working class is still proletarian.

The same label can be applied to higher income professionals and managers of small and medium enterprises, who altogether are often referred to as the newly emerging middle class. However, since economic class is determined by economic power, not income (Sherman 1995, 115; Dowd 1974, 129), this study considers hired managers and professionals as the upper rank (white-collar) part of the working class. Likewise, small-scale private entrepreneurs, who do own some productive property but use it primarily to pay immediate bills, not for surplus product expropriation, also belong to Ukraine’s working class. A large number of private entrepreneurs still operate informally, with the majority working in microenterprises, especially in agriculture.
Ideologically and politically, Ukraine’s higher income white-collar workers are tied to various pro-market liberal parties, often created and sponsored by competing oligarchic groups (Matuszak 2012; Leschenko 2014). At present, these workers, despite deep dissatisfaction with the existing system of power distribution and resultant absence of opportunities for upward mobility (hence their active participation in the Euromaidan Revolution), still remain weak and incapable of taking over the oligarchic state to make it, if not more socially oriented, then at least more transparent, less corrupt and based on the rule of law. At the same time, the lower ranks of Ukraine’s working class (the blue collar workers) occupy a similarly weakened position because their impoverishment and a continuing assault on trade unions (discussed below) resulted in the absence in modern Ukraine of an influential Left, capable of shaping their aspirations and demanding more progressive and interventionist reforms.

Thus, oligarchs, without ever meeting any organized, strong opposition, could and did take over the entire economic and political edifice of Ukraine, turning lobbyism, rent-seeking and corruption into the core of country’s institutional structure. In the winter of 2013-2014, Ukraine’s oligarchic economy was in a self-perpetuating institutional lock-in with no natural exit (as is well-known from the institutionalist literature (Bush 1987; Klimina 2008) on institutional suboptimal steady-states), except through deliberate exogenous intervention, such as 2014 Euromaidan revolution, aimed at profound improvement in institutional quality.

However, any exogenous intervention by the post-revolutionary government, after the initial confusion of oligarchic control, must be followed, if it is to succeed, by one of two generally acknowledged ways out of oligarchic, crony capitalism. The first one is what mainstream analysts would suggest: implementation of a system of laws designed to secure private property rights, to control privately-owned large assets, and to establish transparency, and
prevent rent-seeking. The other alternative, state capitalism would include nationalization of oligarchic property to deprive oligarchs of their economic power and the reassertion of state control over crucial parts of the economy. Next two sections discuss these scenarios in detail.

**Assessing exits from oligarchic capitalism, scenario I: neoliberal market reforms**

The goal of this section is to demonstrate that neoliberal market reforms do not offer a genuine socio-economic alternative to Ukraine’s current system of class and power. Since it can be difficult to see why this should be so, we need to begin by acknowledging the neoliberal nature of Ukraine’s social provisioning, a task for which the definition of economic class based on control of productive property is invaluable.

The key distinct features of neoliberal market order—deliberate support of highly concentrated market power and opposition to its regulation, acceptance of great inequality in income and opportunity and advancement in societal elitism, attack on labour and discrimination against trade unions—are all already evident in modern Ukraine.

As discussed above, Ukraine’s corrupt economy, dominated by large firms and characterized by concentrated ownership, already favours unrestricted market freedoms for its oligarchic class and allows it to continue the appropriation of the country’s wealth for itself. The years of “stealing the state” through energy subsidies, export permits, tax exemptions, various licences and concessions, and cheap or even interest-free state credits granted to oligarch-controlled businesses at the expense of state budget – alongside with a widespread tax evasion - have resulted in a steady increase in fiscal deficits and government debt. Since the financial crisis of 2007-2008, as GDP has declined and the terms of trade worsened, primarily due to the fall in
world demand for steel, a major export for Ukraine, and a huge increase in the price of natural gas imported from Russia, Ukraine’s budget deficit amounted to 4.5 percent of GDP in 2013, and 12 percent in 2014 (Aslund 2014, 1), while public debt-to-GDP ratio in 2013 has reached almost 70 percent, and external debt-to-GDP ratio - almost 105 percent (IMF 2014, 79). In fact, to avoid a financial collapse caused primarily by the years of “extractive” oligarchic rule, Ukraine, just to survive, needs financial assistance from international financial institutions, the conditionality of which (Aslund 2014) basically replicates the structural adjustment programs much criticized in heterodox economic literature.

The appropriation of the country’s wealth by a select few has also resulted in a large and increasing wealth inequality in Ukraine. According to the 2014 Credit Suisse Global Wealth Databook, wealth inequality in Ukraine is the highest in the world, with wealth Gini coefficient of 91.9 percent, surpassing both Russia (89.7 percent) and the US (84.6 percent) (Credit Suisse 2014, 105); in 2000 the wealth Gini for Ukraine was 66.7 percent (Credit Suisse 2000, 53). Because of tax evasion and the related concealment of incomes (the majority of actual owners of oligarch-controlled productive property are disguised by their various closed joint-stock companies, limited liability trusts and offshore firms, while their profits reported in Ukraine are almost non-taxable due to transfer pricing), the officially stated income Gini coefficient remains relatively low, averaging 28–29 percent in the last decade (World Bank database). However, after adjustment for the effects of both transfer pricing and the shadow economy (the latter in post-Soviet Ukraine steadily averages between 45–50 percent of the official GDP (Schneider et al 2010)), income Gini coefficient for Ukraine since 2000 has fluctuated only slightly between 43–45 percent (Cherenko 2012, 30), which, again, signifies a highly unequal income distribution.
The adjusted ratio of the prosperity of the richest 10 per cent to the most destitute 10 per cent of Ukraine’s citizens averages, for the same period, almost 15 (Tokhtarova 2011, 171-172).

Ukraine’s tax system not only does very little to redistribute income; it is actually regressive since in Ukraine large incomes are usually left unreported (because of tax evasion), while lower incomes (the official part of the economy) are “taxed unnecessarily hard to collect sufficient revenue” (Sutela 2012, 14). According to Ukrainian scholars’ calculations, in the latter half of the 2000s, the richest 10 percent of households actually paid only 20.2 percent of taxes, while the poorest 50 percent of households almost 37 percent (Makarova 2012, 25). In the light of such astonishing income and wealth inequality in Ukraine, the proposals of leading Western analysts to instigate a “flat personal income tax . . . to render Ukraine competitive” (Aslund 2014, 5) can only result in even larger concentration of wealth in the upper strata of society. Potential efforts to decrease poverty will thus be undermined before they can begin.

Likewise, Ukraine’s labour market hardly requires any further deregulation to “increase competitiveness.” The years of neoliberal transition reforms conducted by and for the country’s property-controlling classes have already significantly weakened the power of trade-unions and practically ruined labour market institutional restraints. During just the 2000s, the degree of unionization of Ukraine’s labour force has been reduced almost by half, from 78 percent to 40 percent, and it continues to fall (UNECE 2010, 15–16). Numerous cases of assault on labour, including unsafe working conditions and unreported injuries, unpaid wages, wage arrears and wages below contract pay, and unacceptable retirement provisions have already been noted in Ukraine’s economic literature (Petrova 2014, 2–5; Nizalova 2014). Reapplying David Harvey’s observation about Chinese reforms, this study asserts that “in so far as neoliberalism requires a
large, easily exploited, and relatively powerless labour force” Ukraine “certainly qualifies as a neoliberal economy” (2005, 144).

In such an elitist, neoliberal economy, it is clear that implementing the free-market reform package advocated by mainstream development discourse, complete with emphasis on securing private property rights to legalize all oligopolistic property and accelerate further privatization, will only increase concentration of wealth and power in Ukraine. Furthermore, these reforms, instead of advancing political democracy in the country, may even strengthen authoritarianism in order to suppress opposition to painful social adjustment measures and to keep the oligarchic economy under centralized political control.

**Assessing exits from oligarchic capitalism, scenario II: Russia’s state capitalism**

In economic literature state capitalism is typically denoted as a condition under which a national state controls a substantial part of society’s capital, acts as a significant domestic investor and employer, and directs a considerable portion of international trade and investment (Pollard 2011, pp. 4-5; Wooldridge 2012, pp. 3-6). Defined this way, state capitalism is distinguished from a merely interventionist state because here the state acts as the largest controller of the economy’s means of production and, thus, as the largest appropriator and distributor of economic surplus. Furthermore, this definition also presumes that the state in state capitalist societies possesses considerable power over socio-economic decisions.

In modern Russia, given (similarly to Ukraine) its inherited highly concentrated industrial structure, an equally concentrated ownership of industrial assets has also always been inevitable. At the beginning of Russia’s transition, the large-scale privatization of state property also
resulted in the creation of highly concentrated private equity ownership dominated by oligarchs. From 1998 – 2006, the average fraction of capital held by the principal shareholder in the Russian corporate sector was approximately 50 percent (Vanteeva and Hickson 2012, 188). Then, in the latter half of the 2000s, the re-nationalization of unlawfully acquired oligopolistic property instigated, once again, the expansion of large-scale concentrated state ownership. As Pekka Sutela, a well-known Sovietologist and Russianist, rightly acknowledges, large-scale companies “have to be owned by somebody,” but “the alternatives are few”: since neither oligarchic capitalism nor “dominant foreign ownership of productive assets” is a popular choice in state capitalist Russia, the “country’s only remaining option is to boost state controls along with state ownership” (2005, 4; see also Thompson 2008, 11). By the end of 2013, the level of state ownership in the Russian economy has reached almost 50 percent, with the transport sector at 73 percent, the banking sector at 49 percent, and the oil sector at 45 percent (OECD 2013, 18).

Overall, researchers agree that under state capitalism, state-owned and state-controlled enterprises are often “more capital and knowledge-intensive, more productive and more profitable” than they were under state socialism (Gabriele 2010, 347; Vanteeva and Hickson 2012, 173-175); however, scholars also acknowledge that state-owned firms continue to be characterized by “authoritarian paternalism,” “lack of participatory democracy,” bureaucratic centralism” in management, and perpetual worker separation from power and resources (Schweickart 1992, 31; Xie at al. 2013, 445; Estrin and Bevan 2003).

Currently in Russia it is authoritarian state elites who, directly, through nationalization, and indirectly, through acquiring controlling stakes in the largest corporations, control the economy’s means of production and appropriate most surpluses, while the people remain alienated from power over the production and distribution of nation’s wealth, a power they have
never had, historically. The highly unequal distribution of economic surplus - the level of income inequality in Russia remains persistently high, with Gini coefficient oscillating around 0.41-0.42 since the end of 1990s (Russian Federal State Statistics Service) - further contributes to the growing alienation of labouring Russian society from its elites, a process reflected in many social surveys. Thus, according to Levada-Centre, a Russian non-governmental sociological research organisation, in November 2011 only 4 percent of respondents said that ordinary people influence the state decision process, compared to 7 percent in 2008; and only 24 percent of respondents believed that “the interests of the authorities and the society coincide”; 73 percent of respondents thought that the gap between rich and poor has widened over the last decade (cited in Shevtsova 2012, 215). Despite the fact that between 2000 and 2008 (the last year before the financial crisis) Russia’s economic growth averaged more than 7 percent per year, the ratio of the prosperity of the richest 10 percent to the most destitute 10 percent of Russia’s citizens for the same time period has risen from 14 to 16.8, while the share of labour income in Russia’s GDP remained virtually unchanged, staying at the level of 48-49 percent of GDP (Russian Federal State Statistics Service). At the same time, according to the 2014 Credit Suisse Global Wealth Report, wealth inequality in Russia remains among the highest in the world: 100 billionaires own 30 per cent of all personal assets in Russia, whereas on a global scale billionaires collectively account for less than 2 percent of total household wealth (Credit Suisse Global Wealth Report 2014).

Russia’s tax system also promotes a massive wealth concentration in the upper strata of society. Thus, in 2001 Russia’s government transformed the country’s personal income tax system, replacing a progressive rate structure with a flat tax rate of 13 percent on most income and 9 percent on dividend income (Ivanova et al 2005). In 2007 Russia adopted regressive scales
for social tax (Guriev and Tsyvinski 2010, p. 24). During the period of 2001 - 2008, the
government also implemented a reduction in the corporate profit tax rate, from 35 percent to 20
percent, with a possible further “incentive tax reduction of up to 4.5 percent”, thus making
corporate taxes in Russia quite low (Tax Portal).

Such high levels of income and wealth inequality have led, during the 2000s, to further
weakening of the power of trade-unions, and a decline in the degree of political organization
with an overall political passivity in most of Russia’s people (Ashwin and Clarke 2002;
Bizyukov 2011). Only in the latter half of the 2000s, the union membership in Russia has fallen
from 27.8 million members to 24.2 million members, and it continues to decline (Olimpieva
2011, 2). Alienation, as it exists now, is not sufficient for radicalization; even the mass 2011-
2012 Moscow and St. Petersburg urban protests against election fraud had quite an “amorphous
political content” (Shevtsova 2012, 215). As Marshall Goldman observes, “currently, the
democratic opposition in Russia is marginal, largely repressed or co-opted.” while elections “are
manipulated” and “independent centres of power are suppressed” (2008, 9).

As a further example of the non-democratic character of Russia’s economic order, the
share of small and medium size enterprises (SMEs) in Russia’s GDP remains quite low; in 2011,
only 27 percent of all Russian employees were employed by small and medium size enterprises,
and these enterprises generated only 23 percent of Russian GDP, compared with 60 percent to 81
percent of employment and 48 percent to 71 percent of GDP in most OECD economies (OECD
2013, 90).

When we juxtapose Russia with Ukraine, using the lens of economic class, the neoliberal
nature of the social provisioning process in both countries becomes apparent, whether the
majority of social surplus is controlled by top-ranked bureaucrats as in state-capitalist Russia or
by a few private large-scale owners as in oligarchic Ukraine. In this case it matters little who owns that majority of assets simply because the result has been increasing concentration of income and wealth in the upper strata of society, entrenched power distribution, growing workers’ alienation, and marginalization of trade unions. This, as we have seen, is the current disagreeable reality of not only the Ukrainian but also the Russian economy. As long as the labouring class remains powerless and alienated from control over organization of economic surplus, both Russia and Ukraine remain deeply elitist and profoundly unjust, or, in essence, neoliberal.

**Concluding remarks: imagining the future of state capitalism**

Clearly, state capitalism should not remain an end in itself if the goal is to change the neoliberal nature of the economy to become more equitable and inclusive. However as a transitory condition, as a tool to divest oligarchs of their unlawfully acquired economic power and to subordinate them (e.g. as state-hired managers of large-scale productive assets) to formal regulation, state capitalism is definitely a step in the right direction and as such, should be implemented in Ukraine. After placing former oligarchic property under state control, the post-revolutionary Ukrainian government – as well as current Russia’s government - should focus on state property reform, which means the reform of highly concentrated state ownership of industrial assets. To achieve more equitable power distribution, alleviate income inequality, and attenuate worker alienation from control over surplus, an alienation that exists under private capitalism and has not disappeared under state capitalism, the state should initiate democratic restructuring of large-scale industrial enterprises, not through privatization or forced division into
smaller companies, as large companies and oligopolistic markets will still, due to the nature of technology and market uncertainties, remain a key part of the economy, but through broadening property ownership to include various forms of shared ownership and worker participation in economic decision making. Furthermore, to secure more equitable sharing of economic surplus, “new property” (Reich 1964 term) in social investment (“government-created wealth”) should be generated and secured through state-supported access to jobs, state-guaranteed income programs, and a state-funded, wide-ranging system of social benefits. I have argued elsewhere (Klimina 2014) that since under state capitalism the state acts as the largest controller of the economy’s means of production, such an authoritative position offers the state both capacity and opportunity to promote the power of the citizenry and begin a progressive democratic transformation. When pressured from below by citizens dissatisfied with excessive social inequality, non-democratic polity, and non-transparent bureaucracy, such state can, unlike private capitalist states, use its considerable power over socio-economic decisions to nurture the democratic fundamentals of the economy and to promote a social democratic welfare state. By thus acting as facilitator of “collective action to improve the adjustment of instituted power and status to the fuller unfolding means and purposes of generic humanity” (Stanfield 1991, p. 778), state capitalism can become the agent of both economic and political democratization, and its own social control. I firmly believe that in a post-Soviet Russia and Ukraine, countries with institutional memories of socialism and an appreciation for social justice and greater equality, such state-led changes in the direction of social democracy have every chance of gaining popular support and becoming successful.
Notes

1. At the start of the transition, Ukraine had the highest share of large-scale enterprises and was the second largest industrial producer among the Former Soviet Union (FSU) countries, after Russia. With 3 percent of the USSR territory and 18 percent of its population, Ukraine produced 16.7 percent of the USSR industrial output (Boss; 1993: 3-4).

2. For a discussion of how the oligarchic clans were created see Kuzio and Wilson (1994).

3. Pavlo Sheremeta, the first post-revolutionary (2014) Ukraine’s minister of economy, had to resign after 6 months, acknowledging that “the old ways were so entrenched” that he had “little control” over his own ministry (Economist 2014, 53).

4. In 2012 large enterprises comprised only 0.2 percent of all Ukraine’s enterprises but provided to their owners 39.5 percent of all revenues generated within economy (European Investment Bank Report 2013, 35).


6. Moreover, according to research by the Institute of Demography and Social Studies of Ukraine’s Academy of Sciences, only 5 percent of Ukraine’s population belongs in the middle class according to European income standards (Vasilieva 2013).


8. While there are no official figures for the size of the informal sector in Ukraine, it is estimated to employ over 22 percent of the population (European Investment Bank Report 2013, 15).

9. For a discussion of how the money-laundering schemes worked in Ukraine, see Bullough 2014.

10. In 2010 24 percent of Ukraine’s population were reported as being below poverty line (CIA) but many analysts argue that at present numbers are much higher.
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