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*Igor POMERANSKY*

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# SOME ASPECTS OF REGULATING UKRAINE'S ECONOMY DURING SPECIAL PERIOD

Igor POMERANSKYI<sup>1</sup>

## Abstract

*Most scholars generally agree that Ukraine has been in extraordinary conditions since the end of 2013. The war has become the reason for it. On April 14, 2014, our country announced the Antiterrorist Operation in its eastern territories. The latter fact has been confirmed by the President's Decree of April 14, 2014 № 405/2014. Till that time, to be more precise, since March 17, 2014, Ukraine has kept to the so-called Special Period. That is how this period was defined by the President's Decree of March 17, 2014 № 303/2014 "On Partial Mobilization". The Special Period is continuing till now.*

*The article under discussion does not reveal the reasons that gave a start to the war with the neighboring state, the latter constantly concealing its participation in the hostilities and trying to use various war configurations. That is why the war has acquired its present-day hybrid nature. In other words, it applies different methods, forms and means of waging. Particular emphasis has been laid on the issues of economic regulation, which are to be faced directly by the correspondent experts.*

*First, it is necessary to refocus the national economy towards defense industry, thus stipulating economic development of the country. Another very important issue is a dialectic combination of economic dictatorship at the macroeconomic level and deregulation at the level of communities. It is a complicated process of reforming the whole system of economic management under the conditions of the hostilities. It should be oriented to create the most favorable business environment, whereby the market laws will do their best making up for the efficient work of various business entities and enabling the state to acquire a prevailing regulatory function.*

## Keywords:

*economy, Special Period, the forms and means of regulating economy, the mechanisms of regulating business activities.*

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<sup>1</sup> Associate Professor at the Department of Private Law of Law Faculty of Yuriy Fedkovych Chernivtsi National University, PhD, i.pomeranskyi@chnu.edu.ua

## **1. Introduction.**

Even after four years of the war, there have been determined neither adequate and sufficient correlation of the forms and methods of affecting economy, nor distinct ways and tools that might be applied at micro- and macro levels in order to obtain the best possible economic results. The research, carried out recently, enables to conclude that experts in the fields of state governing and commercial law have to join their efforts as quick as possible to work out and introduce some organizational-legal mechanism. The latter has to be able to strengthen the state's role and powers in regulating its economy on the one hand, and to increase the market potential as a complex system of the innovative development of all the participants of economic relations – on the other.

## **2. Theoretical Background**

Such outstanding scholars as K. Schmidt, V.M. Gessen, Y.M. Magaziner, and V.F. Deriuzhinskiy have investigated the universal theoretical issues of the state of economic emergency. However, there has been no complex investigation of the issue of legal regulation of economic relations during special periods by the contemporary Ukrainian scientists (except for I. Mykhasiuk and V. Chaus). The scholars of Lviv National University come up with the idea of establishing the economic dictatorship at the state level and de-regulating the market at the micro level, due to the fact that Ukraine has found itself in extreme conditions. Nevertheless, none of the scientists presents any arguments for these conclusions.

## **3. Argument of the paper**

The author of the article has been trying to lay particular emphasis on the problem of reforming the national economy of Ukraine in extraordinary conditions. He claims that it is necessary to consider all pros and contras, as well as the experience of other countries that have already been or still are in similar situation. It is very important to minimize the effect of various negative factors, standing in the way of the market development. Firstly, it is absolute dominance of monopolies, which have embraced the whole branches of economy and hinder their dynamic development. Secondly, it is corruption, which is a logical continuation of monopoly abuses. When these problems are at least partially solved, it will be necessary to introduce the legal mechanism, which would considerably

increase the production efficiency in extreme conditions. It is high time to start working out such a mechanism. There is a lack of time; otherwise, the consequences may be unpredictable.

The year 2010 has been marked with a very rapid exacerbation of contradictions between the society and the highest bodies of state power. There has appeared a considerable property and ideology gap between the insignificant in its number apparatus (apparat [1]), which actually directed the major processes in the country, and other social layers, engaged in everyday labor. The latter activity contains a generally recognized beneficial effect for the state. To this category belong people, who professionally produce goods and services that have some monetary value, as well as those who organize this systematic activity and manage it. In fact, a majority of local bodies of self-government also joined those who controlled such crucial for economy notions as freedom and justice. It happened so because they were removed from the mechanism of real government and were only nominally enrolled there. Consequently, all the bodies, representing local communities, have lost the opportunity of making decisions that could have the slightest impact on the social and economic constituents of the state. What is more, individuals, known as “caretakers” (people, delegated by criminals to maintain their interests) in the criminal world, controlled the regional authorities.

Meantime, those who regarded themselves as the country’s elite (without any grounds), were concentrated on achieving a specific goal, which has turned into the essence of their lives: accumulating their financial well-being at the expense of the hard work of the rest of the society by actively applying their powers and means of production. The enterprises that belonged to these individuals directly or indirectly have been used as the tools for achieving mercenary goals [2]. After goods have been sold on the market, there appear huge cash flows. Due to some illegal techniques [3], their bigger part avoids taxation and, later on, is withdrawn from the usual production cycle, causing, through the mechanisms of classical economy, the redistribution of finance in the favor of satisfying some public interests [4]. Here arises a rather logical question: what happens to the obtained income? Some part of it is spent on the items of luxury, which merely satisfies family, clan and property needs, very close to those of cave and animal origin [5]. The rest of the income is exchanged into foreign currency and is immediately transferred to foreign banks, where it serves for the economic development of other states. In fact, the process of accumulating the private property in land plots, relatives’ houses, bank accounts and safes has

acquired incessant and unmeasurable character. It is apparent that when a very small part of citizens enriches their fortunes, this enrichment takes place at the expense of others, who, in compliance with stern economic laws, get poorer and poorer.

Such a miserable economic, social, and political state of relations does not provide any opportunities to explain, why most social output has been rendered into possession of those, who work less than others and, what is more, do considerable harm to the state. The rest of the citizens may only hope for insignificant "leftovers" of the resources, which are hardly sufficient to satisfy their mere physiological needs. To crown it all, the miserable living standards of Ukrainian pensioners make everything look absolutely sad. Besides, everyone understands that those, who have imputed the results of others' labor, have neither talents nor profound scientific knowledge. They are not able to perform the simplest beneficial functions in any organizational system. Their ethic qualities are extremely poor. All this inevitably leads to the inconsistency between simple integrity and democratic law on the one side, and the real conduct of the individuals, who took over the role of society's leaders – on the other side. The authority and those serving it, feel neither fear nor danger: they keep acting impudently, without paying attention to the elementary behavioral standards, envisaged for the officials, parliamentarians and judges in European countries. The fetishists believed that public institutions, together with the opposition parties, were not able to resist the powerful state machine that had chosen the algorithm of its actions once and for good. It should be admitted that society was actually disorganized: it has suffered some serious losses and could not influence the processes that took place at the macro level. Some opposition leaders received awards from their "sworn" enemies for imitating parliamentary battles. Getting another tranche in some secret places, they put their signatures in the documents, thus proving the inviolability of their friendship and cooperation with the authority.

However, the insults, inflicted to the civil society, have generated quite different consequences. The continuous hatred to injustice, laid down in Ukrainians at their genetic level, has reached its highest point. Society intuitively felt the change of the constitutional order and began grouping around the European values. The latter have exercised informational and value-orientation impact on the citizens' consciousness, as well as somehow regulated their conduct and coordinated their actions. The representatives of the highest bodies of state power, in their turn, behaved themselves like

kleptomaniacs, completely incapable of performing their duties and making adequate decisions.

This could not last for a long time, and at the first opportunity, a set of extraordinary events began in Ukraine once again – it was another social revolutionary explosion. It was a logical and inevitable ending of a certain stage of the development of Ukrainian society. The author of the article is convinced that this revolution should be perceived as a global civilizational conflict of ideas, which ended up in the victory of the progressive revolutionary forces [6]. The existence of the highest bodies of executive power was brought to an end. What is more, it has been done in a shameful and unusual way – by fleeing from the country. Even authority's closest apologists could not forgive their "masters" this escape. They started urgently joining other political parties and influential groups.

The changes within Ukrainian power took place under extreme conditions and circumstances. In March 2014, the neighboring state invaded the Crimean peninsula, a part of sovereign Ukraine's territory. On April 12, 2014, it started a military operation, aimed at invading the eastern area of Ukraine. The article under studies will not consider the reasons that have generated the aggressive actions on the part of this neighboring state, except for mentioning the fact that on April 14, 2014, Ukraine's military counteractions in the east of the country were called Anti-terrorist Operation [7]. Until the above date (to be more specific, starting with March 17, 2014), Ukraine functioned within a new regime, known as *Special Period*. This is how it was called in the President's Decree of 17.03.2014 № 303/2014 "On the Partial Mobilization". This Special Period has been still in progress. As the Ministry of Defense of Ukraine has explained it in its letter of 01.10.2015 № 322/2/8417, the President will cancel *Special Period* only after the situation in the east of the country gets completely stable. It proves that the state admits the existence the highest-level threats, as well as the need for the transition to the state of forced (but at the same time necessary in such cases) defense in all fields. What is *Special Period*? What is its difference from other regimes, like *Martial State*, *Emergency Situation*, and *State of Emergency*? These questions are difficult to answer, since they require some thorough investigation.

Returning to the economic issues, particular attention should be drawn to the following interrelated problems.

Under the conditions of extraordinary state, national economy ought to be oriented to country's defense from the enemies. It is very essential to prevent the war from becoming a cause for economic decline, and on the

contrary, to make it a powerful factor of economic development. There are some examples in history. Besides, the state is to play a leading role in defense industry, at the level of the military-industrial complex.

The State Corporation “Ukroboronprom” (Ukrainian Defense Industry) is the leader in the defense industry of Ukraine. This mega-centralized economic union comprises 21 enterprises. Therefore, it seems quite expedient to found some central body of executive power and to confer it with the authorities to manage the work of all state enterprises and scientific-research institutions of the defense industry. It is also very essential to take into consideration the Recommendations of the Organization on Economic Cooperation and Development, which presuppose that the functions of the state-owner have to be set apart from those of the state-regulator. The present-day situation generates a conflict of interests: the state-owner lobbies the benefits of state companies and completely ignores the interests of private businesses. In compliance with the Ukrainian Law “On the Central Bodies of Executive Power”, only ministries may perform different regulating functions. Nevertheless, no ministry is authorized to pursue and implement the policy of defense. Consequently, there is no doubt that it is necessary to make up a competitive medium for the sake of efficient activities of the enterprises, working for national defense. The sector of defense procurement is marked with a lack of transparency and abundance of classified information. This leads to certain difficulties in controlling the distribution of budgetary funds. There also arise high corruption risks, which, in its turn, does irreparable harm to the state's security. Some economists come up with the idea that the Ministry of Economic Development should be commissioned to work out defense policy of Ukraine.

Two highly important state programs have been approved at the level of the main executive body, which stands responsible for the state's economic development. These programs are: “The Reformation and Development of the Defense Industry of Ukraine by 2020”, approved by the Cabinet of Ministers of Ukraine on January 20, 2016 № 19-p and “The Creation and Development of the Production of Ammunition and Special Chemicals by 2021”, approved by the Cabinet of Ministers of Ukraine on May 24, 2017. However, the anomaly of the situation lies in the fact that no body of government is responsible for the implementation of the above normative-regulatory acts.

Thus, the defense industry requires the formation of some responsible central body of executive power, as well as the de-regulation of

the market of the enterprises that take part in procurement with the purpose of providing the defense needs.

It is also crucial that the state should integrate itself into various regional and international organizations of the European Community in the fastest possible way.

Certain fiscal and monetary measures are to coordinate each other. This will enable to reduce the State Budget considerably, as well as to stop a rapid growth of the state debts and expenditures, necessary for its maintenance. Today, the state faces an urgent necessity to review the issue of significant contraction of officials at all governmental levels. There is no point preserving technically, technologically and morally outdated Soviet production. All attempts to reanimate it may cause negative consequences, such as errors in priorities, irrational use of resources, and distortion of competition. Each economy evolves in compliance with its own objective laws; so it takes no mercy on anyone and anything. The world, made up by economy, has its beginning and its end. It will terminate its existence one day and will be substituted by evolution and scientific-technical progress. There is no way resisting or opposing this inevitable process.

In spite of all economic difficulties, if Ukraine keeps heading up for socially oriented economy, it should rely on private property, free prices, rigid anti-monopoly regulation, and sparing taxes. It should adequately combine state regulation and market freedom. Unfortunately, there arises a complicated problem on the way to economic success. It is a clan-oligarchic system that holds to its position at any cost. Why is it essential to remove oligarchs from the bodies of state power? They regard politics, economics and social sphere as something that belongs to them and might bring profits or reputational advantages.

A weird distribution of national wealth in favor of certain individuals began in the mid-80s of the XX century. To tell the truth, this process was amazingly fast and it occurred not due to high labor efficiency or introduction of new ideas and technologies into production. Ukraine became a sovereign state on August 24, 1991, when the Verkhovna Rada of Ukraine proclaimed the Act of Independence. Therefore, it is high time to take some drastic measures; otherwise, we will never get out of the swamp, where we found ourselves long ago. Society has to take control over monopolies and secret cartels in order to revive the competition. Economy is to rest on certain philosophy. After all, progress and economic growth do not depend on investments, enterprises, equipment, and machinery, but on the free

people possessing knowledge, enthusiasm and abilities to open new horizons.

As soon as corruption-free Ukraine, in compliance with universally fixed rules, starts up its markets, they will attract lots of foreign investments. The global division of labor will inevitably affect these markets, and, consequently, the global economic space will cover the state's economy, with all its advantages and disadvantages. These are great risks and we have to be ready for them. Hopefully, proper economic policy will make the advantages of the globalization process dominate its setbacks on the account of additionally attained wealth. To reduce financial dependence on international financial institutions, it is expedient to elaborate an efficient mechanism for managing and monitoring Ukraine's external debts. Particular emphasis should be laid on the fact that Ukraine, living today in extraordinary conditions of Special Period, is to win its most important battle in the economic field, which will have a positive impact on the living standards of its citizens. This might make up for achievements in other spheres, including the military one, and will inevitably lead to the de-occupation of the Ukrainian territories, as well as will prove that the European values- and independence oriented road, chosen by Ukraine on its way to prosperity, undoubtedly had no alternatives.

A great number of experts will reasonably indicate that such advice is rather good, but the problem lies in its practical implementation. Today, as never before in its new history, Ukraine faces Hamlet's dilemma: "to be or not to be". To secure the country from its two greatest and indissoluble evils – corruption and clan-oligarchic system - it is necessary to take the following steps:

- to find experienced experts in the fields of economics and commercial or trade law, who would represent the same school and share the same ideas, though may have different opinions as to the methods, applied for achieving their common goals;

- to elaborate strategic and prospective programs regarding the reformation of the economic mechanisms, as well as to work out organizational, technical and legal algorithms that will allow to reduce the negative effects in the process of introduction of these programs;

- to have open discussions with society and to make the latter familiar with the strategic plan of economic reforms, as well as with the difficulties to be faced, the results to be expected and the time to wait for positive changes.

It is good to realize that society is ready for the breach of the entire economic system. This chance is not to be wasted. Ukrainians are tired of uncertainty and stumbling. The fewer material, financial and natural resources are at state's disposal, the more limited it is in selecting the ways of reforming economy. It is to be understood that there is no time to waste anymore.

The legal matter has to become the very form of ensuring economic reforms. That is why the highest state bodies should act strongly and coherently, without long breaks and aimless discussions. Each stage of reforms should be accompanied with open reports on successes and losses. Top officials shall learn to admit their mistakes and know how to correct them. They shall be ready to quit management activities in case of necessity (not regard their resignation as the tragedy of their lives) and not try to preserve their positions at any cost.

Another positive thing is that our economists are aware of the methods and techniques, which were used for reforming the economies of other countries and which stipulated a considerable improvement of shortcomings and even failures.

The author does not point out any specific ways of Ukraine's economic progress. The article just offers analysis and assessment of a few possible versions of successful economic reforms, implemented in the countries that have passed through extraordinary conditions. In this respect, Ukraine is getting closer to the above countries and may need their experience of economic changes. On the other hand, each society is unique in its own way. It has its distinctive features, its level of the production forces development, its place in the system of the global labor division, its way of distributing and implementing the state power, its individual and collective consciousness, its individuals' spiritual world, cultural values, etc. There is no ideal economic system in the whole world. Economy is an indispensable part of our not ideal life and everyone should realize it.

Here are the basic transformations that laid foundation for the revival of the post-war Germany, which, as everybody knows, was in a terrible economic state:

- maximum freedom in entrepreneurship and its active stimulation;
- restriction of state expenditures to the necessary minimum;
- absolutely new technical and technological bases, due to the well-known Marshall Plan;
- land reform;

- continuous transition to free prices, parallel monetary reform, strengthening of national currency – the Deutsche Mark;
- combination of non-liberal and social-market economic models. In other words, some smart economic compromise;
- state's significant role in all managerial and regulating processes.

These economic reforms were initiated by Ludwig Erhard and implemented by the Chancellor Konrad Adenauer. Undoubtedly, some external factors have also played a positive role in the restoration of Germany's economic potential, but the internal ones were of greater value: the Germans were craving for worthy life and worked persistently for the sake of this desire.

Another example of successful economic reforms is a small Asian state of Singapore in the 60-s of the XX century. Its economy and other spheres of livelihood were in a very miserable state. The country was facing direct economic and military threats from the nearest neighbors. The population was mostly composed of beggars, corruption was prospering, and there were serious conflicts between different social layers within the country. Here, the major landmarks of reforms were:

- the national idea, based on a rational pragmatism and the desire to live in abundance, to live a worthy life by law and justice;
- authoritarian management of reforms;
- encouragement of foreign investments;
- simplified taxation legislature, relatively low taxes;
- automation and computerization of practically all important processes;
- the best experts headed all managerial links, the former's constant learning and encouragement;
- high wages for judges;
- merciless and uncompromising struggle against corruption.

The implementation of the reforms was ensured by the Prime Minister Lee Kuan Yew.

It would also be rather interesting to get familiar with the reform experience of South Korea. The transformations took place in the 60-s of the XX century. At that time, the country was in the state of a military conflict with North Korea. It had illiterate population, no oil, gas and other raw resources. The basic approaches to the economic reforms were as follows:

- export increase and subordination of business interests to state goals and tasks;

- the government supported all subjects of economy that were able to ensure the extension of international markets, where they could sell Korean goods;

- particular emphasis on the country's potential. People are the main resource. All efforts were directed to the improvement of education and professional training. Soon, the state managed to give relevant training to a great number of highly qualified engineers and other specialists, who became a moving force of the economic growth;

- foreign investments promoted the development of such industries as metallurgy, shipbuilding, production of chemicals. The reforms received a political backup from the President Park Chung-hee.

#### **4. Arguments to support the thesis**

Undoubtedly, the most crucial task Ukraine is to fulfil in the shortest possible time is to preserve the manageability of its economy during the special period. In this respect, it is very important to minimize the threats and risks, which occur in state's economy throughout the state of emergency. We suppose it would be expedient to elaborate a comprehensive governmental program, which would point out the basic directions of the development of various economic processes during the special period. At the same time, it is necessary to adopt some legislative act at the level of the Verkhovna Rada of Ukraine, which would regulate economic relations under new conditions.

#### **5. Arguments to argue the thesis**

Some economists come up with the idea that legislative confirmation of the state of emergency might cause dictatorship. There exist certain risks that once introduced, it will drastically change social life. The state of emergency may really result in adopting some minor normative-regulatory acts. Apart from it, it will be very difficult to return society in its original position. What is more, the norms of law usually affect consciousness, creating certain habits and stereotypes. On the other hand, there arises a quite logical point emphasizing that extraordinary conditions require extraordinary actions, which are sometimes difficult to predict. It refers to the field of economy as well. Therefore, it is impossible to adopt any efficient normative-regulatory acts as long as it is impossible to simulate the behavior.

## 6. Conclusions

Reforms, based only on the economic constituent, do not work properly. Their basic factors are the wish for worthy life and the possibility to prove to the surrounding world (particularly to those, under whose influence and oppression the country has been or still is, or with whom the country is in a state of war) that we are able to be efficient in all respects. The government should create economic conditions, which would enable technological goods (not only agricultural ones) and services of the Ukrainian producers to be competitive on the external sales markets, as well as to find their own niches. It is obvious that export of capital resources lacks state control. Ukraine has to turn into a “production site” for European Union. It is also very essential to improve the quality of education at all levels, drawing particular attention to professional training of those, who produce tangible goods, but not distribute them. The state resources, invested in education and improvement of professional training, will be more beneficial than revival (reanimation) of the inefficient enterprises and branches of industry, founded in the first half of the XX century.

## References

- [1] The term “apparatus” (apparat) does not refer to some specific state body, but to a group of various citizens, which was artificially and illegally formed beyond the official governmental system. This group clandestinely comprises the individuals from different state bodies and business groupings, who have imputed the legitimate powers of the existing systems and imposed their will on others, demanding to fix it officially.
- [2] Unfortunately, the changes in these delicate issues have not acquired an irreversible nature. The same problems start being accumulated today, which can lead to similar consequences in the long run.
- [3] These techniques have been worked out with participation of the lawyers, who occupy their positions at the levels, where important decisions are made. Judicial branch on the whole, and the system of the Courts of Specialization in particular, deserve peculiar attention. What is more, the latter courts deserve to be eliminated at all.
- [4] In this way, they reduce tension between social classes and various groups of society in the countries with highly developed economy.

- [5] Animal advocates may get insulted and come up with an absolutely fair hypothesis that animals behave themselves differently. Here, the term “animal” is used in a somewhat different meaning.
- [6] However, it does not mean that some progressive force, which succeeded in winning the power in the course of revolutionary events, will always remain progressive. Historical process is constantly moving forwards, changing the world, economy and society, as well as correcting the priorities. Therefore, the power mechanisms, which may have been regarded as rather acceptable at some stage, may lose all their positive features, due to different reasons, and require some drastic changes in the same revolutionary way.
- [7] On the Decision of the National Security and Defense Council of Ukraine of April 13, 2014 “On the Urgent Measures Regarding Terroristic Threats and Preservation of the Territorial Indivisibility of Ukraine”: President’s Decree of April 14, 2014 № 405/2014 [e-source]. – Access: [http:// zakon2.rada.gov.ua](http://zakon2.rada.gov.ua).