



ROUNDTABLE PROCEEDINGS

**ECONOMIC PROBLEMS
OF THE XXIST CENTURY:
INTERNATIONAL AND UKRAINIAN
DIMENSIONS**

On January 22, 2008, Ternopil National Economic University hosted a Roundtable meeting. The discussion concentrated around the ideas advanced in the multi-authored monograph «**Economic Problems of the XXIst Century: International and Ukrainian Dimensions**» edited by Doctor of Economic Sciences, Professor Serhiy Yuriy and Doctor of Economic Sciences, Professor Yevhen Savelyev and published by the Publishing House «Znannya».

The participants of the Roundtable discussed the following questions:

1. Is Ukrainian economy ready for fundamental reforms?
2. What priorities should be set for economic reforms?
3. What should be the starting point for economic reforms?
4. Does Ukraine have adequate resources for building a new economy?
5. Which industries should become representative of the Ukrainian economy?
6. How can the growth of Ukrainian citizens' life quality be accelerated?
7. Which unpopular measures should be taken during the economic reformation, and how can their negative effects on the society be mitigated?
8. How to mobilize the society for economic reforms?

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The participants debated over the urgent problems and perspectives of the socio-economic development in Ukraine. The meeting was given wide media coverage. The audio transcripts of the Roundtable reports delivered by the participants are presented below.

SAVELYEV Yevhen

Vice-Rector Education and International Relations, TNEU, Head of Department of International Economics, Finance and Credit Relations, and Marketing, Doctor of Economic Sciences, Professor

Dear colleagues! The monograph initiated by Prof. Yuriy and myself has raised quite a number of important questions, which we understood could neither be fully covered nor perfectly solved. However, it was important to emphasize the issues and draw public attention.

I would like to touch upon the challenges we will face in the XXI century in the context of currently aggravated problems. We know that food prices are constantly rising. This is connected with shrinking areas under crops. In its turn, one of the reasons for this phenomenon is the production of bio-energy, which leads to reduction of the areas previously used for growing food products. These problems are global in nature, and each country including Ukraine should learn to manage prices in conditions of the growing role of energy factor in land use.

An important problem for the Ukrainian economy is the need for radical reform. On the whole, as I see it, we have been in the reformation process for at least fifty years. What all the reforms had in common was their non-systematic and halfway character. They say that history is the repetition of the once made mistakes. However, today we have no right to repeat past mistakes. At the moment, there are enough favourable conditions for the new Government, which is not overburdened with old problems, to show itself in systemic reformation. At that, it should be taken into account that not a single reform is popular in its implementation, the more so because taxes have to be extended, life style changed and the existing models of thinking adapted.

KUZMIN Oleh

Director, Educational and Science Institute of Economics and Management, National University «Lviv Polytechnics», Doctor of Economics, Professor

Venturing to proceed with the discussion of economic reformation, I would like to mark that since 1991 there has been practically no reformation. There were only chaotic changes and separate decisions related to privatization or construction of state apparatus. The decisions taken in the area of foreign economic activity have been carrying on the Gorbachov tradition – they opened the borders allowing the «wolves to pounce on sheep». There has been capital outflow from Ukraine, which continues to some extent today as well. In fact, it should be noted that the time has come to launch serious reforms. I agree with Prof. Savelyev in that they will be unpopular. There obviously should appear a force that will not think about the term of remaining in power, but will dedicate certain time to reformation of the country's economy, even under the risk of losing its positions at re-elections.

In my opinion, one should apply the matrix approach that assumes the reformation along several directions matched with time and responsible performers. As this had not been done earlier, the present-day state administration is built according to Soviet principles: instead of the Central Committee of the Communist Party of Soviet Union – Administration of the President, instead of the Council of Ministers – Cabinet of Ministers, etc. Almost all departments and services present during the Soviet Union remained. Let me recall the history, when they spent five years looking for something to replace the State Plan and haven't found that until today. Nevertheless, it is obvious that the state should have such an organ.

As for the tax reform, in my opinion, it should have started with the tax on land and real estate. In fact, all conditions for «land squandering» are created today.

It seems that it is necessary to return to matrix approach – to start all over again, single out strategic directions and reform them, simultaneously creating a concrete system and agreeing the reforms in time. Obviously, only in this case we can succeed.

Separately, I would like to accentuate the need for regional reforms. As before, the budget is built from the top downwards. Governors and mayors come to Kyiv to beg for millions for their regions. It is necessary to switch to federal economic relations. I do not imply federation as such, since some people consider federation as the right of regions to secede. No secession is meant – our country is not that large for the regions to want to go out somewhere. I mean the creation of the rules that allow the regions to earn their living by themselves and pay money to the centre for support of the army, militia, government, etc.

MELNYK Alla

Vice-Rector Research, TNEU, Head of Department of Public and Municipal Administration, Doctor of Economic Sciences, Professor

Dear colleagues! I would like to draw your attention to one problem – the participation of our citizens and our businesses in implementing economic reforms. Five years ago, we held the conference in Foros, where Doctor of Economic Sciences Kryuchkova, today Deputy Minister of Economy, presented very interesting figures on the re-distribution of GDP and national income, which clearly showed that this product concentrated from a small group of population. The conclusion was made that had we had the democratic society created, the development of these processes would have never been tolerated. That is why I will address this problem on three planes:

1. Building the democratic society. If to look at the developed democratic countries, we see that there, along with resources concentration, in the division of income participates the group of the middle class, that is the group of the population which concentrates more than 50% of this income and is willing to protect economic reforms and struggle to make business operate effectively and respective social programmes function. Unfortunately, we do not have that here, in contrast to our Polish neighbours, who say they have already managed to form the middle class.

2. Attracting businesses and citizens to development and realization of programmes. I was involved in the development of several strategies: strategy of the region, strategy of the city. At the level of elaborating the strategy for a city, for example, when people are given an opportunity to be creatively involved, then, undoubtedly, businesses, citizens and representatives of the deputy corpse take a very active part in the development of these documents. However, when the document is already developed, there appears another problem – the lack of public control over the implementation of the planned measures. The authorities seem not to be interested in public intervention on all levels.

3. Building the voluntary sector. In the modern democratic society the voluntary sector is understood somewhat differently. We have always identified voluntary sector with public sector of the economy. Today, we understand it somewhat wider – as communal sector. However, the developed countries also have the third sector – the voluntary (civic) sector, where citizens and businesses join their efforts on the voluntary basis to build a certain object or jointly solve some problem. If we analyse today the manifestations of voluntary sector in Ukraine, we will see that they refer only to construction of churches generously funded by people's donations. Thus, maybe the institution of our territorial community should change, since we still do not perceive ourselves as belonging to a territorial community. Maybe we, as scientists, need to raise this plane, disseminate information and provide consultations by cooperating with authorities at all levels in order to wake up the society. Otherwise, neither business nor people will be interested in actively reacting to everything happening in the public life.

SOKHATSKA Olena

Head of Department of Financial Engineering, TNEU, Doctor of Economic Sciences, Professor

Dear colleagues! I would like to focus your attention on the following question: What should the economic reforms start with? In reading the monograph, one receives evidence that our science does a lot trying to develop the model, or at least approaches to the model, which should be implemented. I completely agree with Professors Yuriy and Kuzmin that our scientific elite lacks comprehensive vision of what we are building. As admitted in the first chapter of the monograph, we need to send our youth abroad to study for the elite to have western view of what is being built. I think that this path is possible, but we also need to implement and realize what we have already begun, i.e. the student exchange programmes. Our students then will be able to see what is learnt in the foreign universities, while foreign students will be able to come to our country and examine the opportunities to realize their business interests in Ukraine. We, together with our post graduate students, have to develop the draft of what we are to build in Ukraine.

In this context, international economists should think well over which model – American or European – it would be feasible to build. Yesterday and today the world observes the next fall of exchange indices. Such fall was recorded on September 11, 2001, when the World Financial Centre collapsed. That is, the stock exchange is undergoing serious correction. The trend is observed in the USA now for the middle class to decrease by 2/3, or even by 1/2 according to more pessimistic forecasts, which implies that the middle class, instead of growing, shrinks in connection with the existing economic situation. Proceeding from the analysis of the situation, we can see that there is a systemic crisis of overproduction in the new economy, since enormous funds were invested in it, and there was no expected return. Thus, the overproduction happened to be extreme.

There is a good saying that CNN stops where Ford easily passes. That is, the world perceives information goods, but not all the world accepts the information product, for example, made by the western world. We also do not fully accept it. In addition, it should be mentioned that the traditional economy is underfinanced, which means that food prices, prices for traditional economy products will continue to grow. We might also need to search for our place in this area, produce ecologically pure products, including those of the food industry. That is, we should be oriented not only at the new economy – the economy of knowledge, though it is necessary, but we also need to think what we can do with our traditional industries in the light of the recent events on the world markets.

There is one other nuance – we also need to think about the structure of business. We have to realize that transnational companies have stopped to work effectively due to their global monopoly. All these questions should be studied and developed in order to correct the model that we are to build. We should reach out to governmental structures to implement the projects which had al-

ready been developed. Scientists often carry on discussions among themselves and undertake various events where they are listened to, but their proposals are not implemented. This must be happening because the people who come to power pursue their own mercantile interests, instead of thinking about the future of the nation. I think the situation will change, since a number of Doctors of Sciences came to power. In fact, this is something we have never had before.

KYRYLENKO Olha

Head of Department of Finance, TNEU, Doctor of Economics, Professor

Throughout the years of Ukraine's sovereignty, we still haven't determined what type of society is being built, what kind of state we would like to have, or what the strategic goal of our development is. At the same time, it is generally recognized that the raised questions can not be solved without proper financial support. In connection with this, we need to thoroughly study the theoretical and practical aspects of public finance that have large influence on the effectiveness of economic and financial policy.

At the present, the modernization of public finance has become the critical issue for Ukraine. This primarily concerns the system of state revenues, which mostly come from taxes, obligatory contributions to state funds-in-trust, and revenues from privatization of state property. No other real ways to increase tax collections are currently available. Thence appear the issues of the effective use of available funds, control over their collection, fight against tax avoidance and corruption in the area of state finance. In addition, a lot of unresolved and complicated problems have accumulated in the sphere of raising and using funds of the state funds-in-trust, those of social orientation in the first place.

The changes taking place recently in public finance have been mostly occasional and fragmentary in nature and touched upon separate narrowly-specialized aspects of public administration. The process of improving tax, budget, pension, and customs systems, as well as other elements of public finance, has usually been directed at solving the specific problems of these links in the financial system and missed out on improving the whole system of state administration. Therefore, it is important to provide for the integrity and all-inclusiveness of the realized reforms. They should not be one-sided, but complex and subjected to one clear goal. Besides, one needs to exact unconditional law abidance and set an effective system of control over law-keeping.

LUTSYSHYN Zoryana

Doctor of Economic Sciences, Professor, Department of World Economy and International Economic Relations, Institute of International Relations, Kyiv T. Shevchenko National University

Dear discussants! Prof. Kyrylenko said that international finance consists of the bricks of national finance. Nevertheless, it is not quite so. Today we have

the paradox situation when the Ukrainian financial sector has by far outpaced the sectors of production and national finance. Our country exhibits the asymmetry and asynchrony of economic development. Moreover, after 17 years of independence, we have no single concept and strategy of integral development of the state – neither strategic nor medium-term nor short-term for five-year period. The priority strategic branches for further development have not been defined either. At last practitioners have started to listen to scientists, and the state concept of capital market modernization is seemingly being created in Ukraine now. On the one hand, it is good, if considered in the light of the data as of 16.01.2008 about the crash on the world stock exchanges. It is only February 22 today, and Russia, unlike Ukraine, has already felt its effects.

We are often advised to use the American model of development. However today, after 70 years, the American model, in particular mortgage lending, has shown all the «delights» of the stage of credit money inconvertibility. This credit basis has popped up so nicely that the powerful American economy cannot cope with it. We can only rejoice that our economy is not that open and globalized to fall under the impact of this crisis. On the other hand, however, what do we have? Today we have a very interesting situation: business is ready to invest money. What into? Securities. We have an underdeveloped securities market. The supply of securities in 2006 was higher than demand. The situation was 43 to 34. What do we have at the end of 2007? Now demand exceeds supply 40 to 27. No one could have expected some years ago the stock market to fall behind demand. What else? We are practicing IPOs on London and other stock exchanges. Thus, we got a good return on invested 200 millions; in 2008 we expect to get 2.5 billions from IPOs on London, Frankfurt and other stock exchanges.

What is the situation in our country? At the moment we have the underdeveloped financial system and securities market. Had the securities market been mobilized, we would have a subject to talk about. I had a conversation with Mr. Milford, who showed interest in knowing when the Head of the NBU would officially announce that our national monetary unit was hryvnya. However, we should formally admit that 40% of our economy is dollarized. We are concerned with that situation and think of the methods to change it, although the official monetary unit is hryvnya. The interesting fact is in our economy we speak of the official dollarization.

There are lots of problems, one of them being that our practitioners do not want to listen to theoreticians. Nevertheless, in some aspects the current economic science has ceased to be what it had been a decade ago. Our scientists are taking an active part in settling the probable critical situations. Fortunately, we have learned, at least on the theoretical level, to forecast what and why could occur. It is due to our foreign language skills which provide us opportunities to read and analyze. And I am happy that the present Minister of Finance is Doctor of Sciences, Professor Pynzenyk. Fortunately, the Ministry of Economy is headed by our colleague Bohdan Danylyshyn. Maybe they will finally listen to researchers, since they themselves co-authored many monographs, theoretical

developments and concepts. The biggest paradox is that everything sooner or later predicted by the scientists does reveal itself on practice. Today, we have to gradually overcome this paradoxicality and asynchrony.

HLADIY Iryna

Doctor of Economic Sciences, Professor, Department of International Economics, Finance and Credit Relations, and Marketing, TNEU

Dear colleagues! Each speaker touched upon such important aspects and needs of scientific research connected with both theory and practice that they could become the topic for separate roundtable discussions. However, since I specialize more in international economics, I would like to continue the small discussion offered by Prof. Lutsyshyn on the asymmetry of development. While working on the chapter on international regionalization of the world economy, I came to a paradoxical conclusion that, indeed, the principal problem which calls for urgent solution in Ukraine is the problem of asymmetry, which reveals itself everywhere – in the financial area, in production sector, and in foreign economic activity. For example, the empirical assessment of the dependence of Ukraine's GDP on its foreign trade flows shows that we practically have no established spatial architecture of the foreign trade space of the country. What does it mean? It means that we have neither the development strategy nor the development priorities. Along with that, the number of reforms is increasing every year. Tell me: is it possible for any economic system to realize governmental decisions if they are changed every year or year and a half? The effects do not even have time to reveal themselves. Thence, we currently have the horrifying asymmetry. It is the asymmetry between the economic policy and the economic system, I mean the micro-level – economic subjects in our country. Consequently, we get the impression that production develops by itself, mostly in the so-called «grey economy», whereas the government manages by itself. Sadly, our governmental structures often serve the interests of certain financial groups. Thus, the contradiction between the top of national economy and its micro-level does not accelerate its development any more, but decelerates it.

Consequently emerges a paradoxical case. It is general knowledge that international economic cooperation provides incentives for the development of national economy. This does not apply to Ukraine any longer. It means only one thing – the motivation of the micro-level has come to contradict the interests and motivation of the macro-level of national economy. That is why, when asked whether the economy of Ukraine is ready for radical reforms, – as long as this imbalance or asymmetry remains, the only answer will be: «Not ready».

Next, I remain the follower of the systemic approach and apply the approaches used in the theory of dynamic systems. In view of this, I believe that Ukraine needs, first, clear identification of strategic priorities, which could perform the functions of bifurcation points. After this needed is strong governmental action by means of short-term economic policy instruments to activate those bifurcation points and create the territories of economic activity, later ensuring the

diffusion of these positive effects. This is if to speak from the standpoint of theory, very shortly.

If to speak from the standpoint of practice and specific instruments, all this needs very serious research. In its time, the European Union took the path, when, say, the Scandinavian countries started to stimulate their national economies by means of a network of clusters, Italy began with industrial regions, etc. The concepts differed, but the idea consisted in the need to provide an opportunity for the territories to develop themselves (I share the opinion with Prof. Melnyk who adheres to that concept). These territories can have the form of an economic region. This can be the centres for localization of economic activity. In fact, in Europe, this process occurs at two levels: the activation of formal regions based on the administrative and territorial division and, at the same time, the separation of localized, i.e. informal, regions. Moreover, what is interesting is that the latest publications of 2006-2007 revealed that this tendency is currently transferring into the sector of innovation process. There, the regional innovation systems turned out to have switched to the local ones. That is why I think that this direction – international regionalization – can become a quite significant element for the elaboration of national, regional and international economic policies. In principle, international institutions also corroborate this idea, stating that the 21st century is not the century of leading countries, it is the century of regions, leading international regions. How many international centres of this type will be established is a point for discussion. In general, most scientists are inclined to think that there will be three of them: NAFTA, the EU, and ASEAN. Thank you for the attention!

KONCHYN Vadym

Candidate of Economic Sciences, Assistant Professor, Department of Finance, Kyiv Institute of Business and Technologies

The priorities that need to be taken during the economic reformation:

1. To take as a basis not separate, but all ten aggregates of the Economic Freedom Index in order to deepen economic liberalization.

2. To assure membership in the WTO and to create a «free trade zone plus» with the EU to enable cardinal changes in the export structure and technological developments in the production processes in view of the needs of the Eurointegration area.

3. To base the realization of Ukraine's Eurointegration policy and the development of long-term programmes on the criteria of real and nominal convergence between the Ukrainian economy and that of the EU in context of the country's progress through the integration phases – from a free trade zone to the economic and monetary union.

4. To enable within a short period of time the process of establishing a common free trade zone together with the countries of the Single Economic Space (Russia, Kazakhstan, Belarus).

5. Pension and tax reforms – to abolish in the short-term payroll taxes, to introduce a uniform social tax for employees and entrepreneurs, and to transform VAT into the turnover tax. Only the distributed income should be subject to tax (lessons of Estonia).

6. To enable the operation of bank subsidiaries and non-bank financial institutions on the territory of Ukraine and abolish capital restrictions and restrictions on income repatriation.

7. Liberalization of employment legislature – to abandon in the mid-term governmentally-fixed minimal wages and delegate the right to fix minimal tariffs to committees of trade unions and employers according to the types of economic activity (sectors) and taking into account the specifics of regional development.

8. Effective regional policy development – to create Euro-regional networks of techno-parks; to introduce the subsidiarity principle.

9. To provide government incentives to introduce the international accounting and financial reporting system at enterprises, to turn middle and big enterprises into open business units.

10. To deepen the integration of the Ukrainian financial sector into the world financial space by improving the mechanisms of accessing international IPOs markets by Ukrainian companies, improving the mechanisms of realizing the right of enterprises to be registered in the world offshore areas, developing the futures operations, improving the mechanisms of merging the national financial capital with transnational financial capital.

KACHAN Yevhen

Dean, Faculty of Economics and Management, TNEU, Candidate of Economic Sciences, Professor

Dear colleagues! The fourth and fifth items suggested for our discussion have drawn my attention. The fourth one reads: «Does Ukraine have adequate resources to build a new economy? We can speak much about international finance and international economy, but the question is whether Ukraine has its own resources to build a new economy. In 1990 we admitted that Ukraine possesses enormous resources, and now we find out that somehow there are not enough of them.

Naturally, we are well aware of the problems with gas and oil. Other problems somehow escape our attention. First of all, I would like to stress that our nuclear power engineering is 100% dependent upon Russia. We mine uranium and enrich it, then we export it to Russia, after that we spend dollars to buy there fuel elements and fill up our nuclear reactors. The nuclear waste is then trans-

ported to Krasnoyarsk at the cost of \$130mn per year. Tell me, please, does Ukraine, as a former large nuclear state, have the right to produce its own fuel elements for its own nuclear power stations? It is a highly disputable question, and many officials have raised it not once. Of course, we are afraid of the IAEA and cannot afford taking this decision independently; neither can we continue to depend on Russia. I think that nuclear power is the alternative to those resources we are lacking.

What concerns the fifth item of our discussion: «Which industries should become representative of the Ukrainian economy?» – I would like to draw your attention to the following industries. First, can you think of a country that, having 37 million hectares of arable land, does not produce its own grain harvester combines?

Second, I would like to draw your attention to consumer goods manufacturing. Just look at your clothes, at your footwear. We produce only Lanos vehicles, and their sales will soon fall because a 20% VAT is imposed on the cars assembled in our country, in Ukraine, from January 1, 2008. In other words, we pay absolutely no attention to consumer goods. We plan to build up steel manufacturing to 40 million tons. How much steel do we use in our economy? The whole 2 million tons; the rest is sold to Asia and Africa at less than fair value, and from there it is exported to Europe.

Another area calling for additional attention is geological exploration. Tell me, how much money is budgeted in our country for exploration of new oil and gas pools and mineral resources deposits? Our country is rich of mineral resources, but not all of them were explored. Numerous maps of natural resources are stored in Moscow and inaccessible. During the years of the Soviet rule, the territory of Ukraine was explored and mapped all the way through, but we do not possess those maps. They were transferred in due time to Russia, and now we have to renew the exploration of resources in Ukraine. But where to get money from? The Shell Company offers to explore the shelf of the Black and Azov seas for 50% off the output, but we are afraid to lose because we do not know how much oil and gas could be there.

What I am telling is that the main focus should be on the development of priority economic sectors in order to take a decent place in the economy of Europe. We strive to join the European community, but we have to see that it does not feed us, send us ploughs and tractors, dress us, and send us medicine. You know that economic security of the country is effective if it provides itself with no less than 70% of goods. Ukraine provides itself with 50% of required medicine, while another 50% is imported from abroad, although there are countries, such as England, USA and Canada, where imports of medicine are forbidden. Therefore, our attention should focus on researching our own, internal problems keeping international challenges in view. Thank you for your attention.

LEBEDYNSKA Lyudmyla

Head Master's Programmes, Faculty of Pre-University, Post-Graduate and Master's Training, TNEU, Candidate of Economic Sciences, Assistant Professor

Today we have debated much about the economy. I would like to focus your attentions on the question: «Does Ukraine have adequate resources for building a new economy?» In my opinion, the main resource – labour – escaped our attention.

The effectiveness of reforms, likewise the development of the economy and society as a whole, depends on how well human resources can manage with this complicated task. This automatically makes it impossible to simply adopt western economic models and calls for the creation of our own managerial structures.

The elaboration of the new manpower and staffing policies flows from the contents of the tasks faced by our state today. We need to develop new ideas, principles and techniques of solving personnel problems that would reflect on the modern state of managerial science, practice and requests of the democratic society.

During the few recent years, the personnel matters, – especially at the level of central authorities, state administrations, defence and law enforcement agencies, – were settled one-sidedly. Top managers are appointed «from the top» and selected according to the party-and-politics criteria. It would be nice to remember, however, that the administrative personnel who are true holders of power determine in many ways the technology and style of all administrative and other activities.

Thus, they are and will remain the in the focus of public concern. The modern manager of any level should be professionally competent – possess the specific knowledge required in a specific process (specialized knowledge, skills and abilities to use certain methods and techniques for solving respective specific problems); be methodologically competent – be able to perceive and interpret information, structure the problem and think systemically; be socially competent – be communicative, cooperative and possess conflict-solving skills; that is, be able to manage the staff members and support external communications.

The stuffing should be carried out according to the criteria of business, professional and moral qualities on the basis of comprehensive and objective evaluation, equality and transparency of solving all personnel issues, and adherence to laws and set norms.

I would also like to draw your attention to numerous unsettled problems in the preparation of specialists in the system of higher education. Today emerges an urgent necessity in the creation of an effective system of preparation, retraining and professional development of specialists. Likewise, Ukraine's entry into the European educational area is still remaining at its initial stage.

ADAMYK Bohdan

Vice-Rector Humanities and Education, TNEU, Candidate of Economic Sciences, Assistant Professor, Department of Banking Business

Dear colleagues! We should concentrate on two aspects that were partly discussed today and that fall among the critical problems of the Ukrainian economic reform.

The first aspect is the political consolidation of the society. Unfortunately, for many years of economic reform, we have got a chance of see neither a united team nor a single line of governance and state-building.

The second aspect, which is more founded and important for us, economists, is the state-wide economic policy of the government. Unfortunately, there is no clear governmental programme and strategy of state-wide economic policy. The latter includes structural policy, privatization, competition, fiscal and monetary policy, economic policy, pricing, etc. During the years of independence, some economic developments have been achieved in result of either a reasonable monetary policy, or «sound money» policy, or favourable export conjuncture when economic growth was supported by exporters. Nevertheless, Ukraine failed to have a clear national economic policy. The truth is that, no matter how good or reasonable this or that strategy is in a certain area, it will not lead to long-term economic growth without a comprehensive plan of economic reformation.

It is also worth to admit that we missed on noticing when the majority of economic industries had been practically monopolized in Ukraine. Where the monopoly or oligopoly exists, the production of new competitive products is rarely observed. The policy of protecting national producers has brought to a situation when the products made in Ukraine have become uncompetitive by practically all criteria; and what concerns price-quality ratio – the prices for Ukraine-made goods has significantly exceeded the world prices. For many years, the protectionist policy has contributed to neither the modernization of production nor decline of product unit cost. Instead, it has only added to justifications of increased prices of products and services.

As for the policy of the Central Bank and its influence on price stability, here we can observe a lot of problems as well. During the last 3 to 4 years, the policy of the National Bank has not significantly changed. One of the most urgent problems is the raising of the transparency of NBU's monetary policy. The National Bank should take measures to strengthen people's trust in national currency. Foreign currency has not been functioning as medium of payment in Ukraine since 1997. Therefore, it is at least strange to price products and services in «conventional» units and in many cases make settlements in foreign currency.

Another problem of the financial and credit system in our country is that we are running close to a systemic crisis of the banking system. The theory knows five crediting principles. The Ukrainian banks, however, have recently

started to ignore one of them – the security of credit. During the recent years we could have observed rapid development of consumer crediting against the background of moderate growth in business crediting. For example, the volume of credits issued to legal persons for expansion of business or creation of an extended product has grown from 30% to 60% per year. At the same time, consumer crediting grows at more than 100% annually. Especially risky are consumer credits issued without requesting clients of presenting individual income references. In their strive for surplus profits, banks simplify the lending procedure, since the real effective interest rate on unsecured loans makes from 60 to 120% per annum and thus covers the risk of non-payment. The proliferation of such lending is the threat to the stability of individual banks and the state banking system as a whole that can lead to a banking crisis in several years.

The mentioned problems call for effective settlement, which cannot be realized unless the society consolidates and the single strategy of national economic development is developed. Along with that, it is important that the reforms are fundamental, even though they do not match the interests of certain economic or political groups. Thank you for your attention!

VLASYUK Oleksandr

First Deputy-Director, National Institute for Strategic Studies, Doctor of Economic Sciences, Professor

Settling of the major social problems in the country is critical for stability and minimization of social risk, which will contribute to decreasing the social tension.

The key task of the state policy is to increase people's economic welfare, which calls for solution of the questions related with populations' income growth, proper wages in all economic areas, state guaranteeing of incomes for socially vulnerable population in the form of social payments based on social standards and employment guarantees as provision of a reliable source of incomes.

An important condition for the improvement of the life quality of a considerable part of the Ukrainian population remains the growth of social guarantees. Ukraine's aspiration for Eurointegration requires that the European level of social standards be reached. This task has especially gained in importance after Ukraine had joined the European Social Charter in 2006. The social standards fixed in the Charter correspond to minimal social norms that guarantee a decent quality of people's life. According to these standards, a minimal wage should be no less than 2.5 subsistence levels, while the minimal wage to average wage ratio should not be less than 1:3. In addition, for considerations of promoting economic growth and productive employment, the growth rate for minimal wages should outrun that for minimal pensions.

The implementation of state social policy requires further increase in the level and quality of life, improvement of income policy, reformation of social security system, overcoming of regional and industry disproportions, further growth

of social guarantees and their convergence with the European level. The practical actions should include the following:

- 1) to gradually bring the minimal wage in equivalence with the subsistence minimum;
- 2) to introduce a new social standard – state-regulated minimal hourly wage;
- 3) to take into account regional differentiation and develop the mechanisms for practical realization of the regional subsistence minimum.

Among the social and humanitarian threats, the Ukrainian Law «About Foundations of National Security in Ukraine» points to aggravation of the demographic crisis, as well as outflow of scientists, specialists and qualified labour force from Ukraine. Thence, the problems of demographic development should become of priority importance. The state should target its action at solving these problems. In the modern demographic realities, one can hardly expect that the dynamising of economic development and increasing the population's welfare will automatically improve the demographic situation. Thus, the effective complex measures are required to overcome the crisis. Moreover, any public decision should be taken only on condition that, eventually, it will positively affect the demographic situation.

The most attention should be paid to slowing down the depopulation and stabilizing its number, proceeding primarily from the fact that the most important criteria of demographic security are the expectancy of life and mortality rate, and thus, protection of health and life, promotion of healthy life style, etc.

The state should employ its entire means to support parenthood, foster the partner relations between parents, and the institution of family. It should create real conditions for women's productive activity and its harmonization with their maternity role. For that, the women's right to work and career growth should be protected in the first place, in particular by introducing comfortable work schedules and creating proper workplace environment.

It is highly unlikely to stop the demographic crisis by means of fast birth rate growth. Therefore, migration regulations should become an important element of the demographic development strategy. The fact that migration can not only compensate for natural losses, but also contribute to population growth was demonstrated during the first years of independence, when owing to repatriation of the Ukrainians and other nationals, the Ukrainian population grew from 51.8 millions in 1990 to 52.2 millions in 1993 in spite of the negative natural reproduction indicators. In the conditions when (by average estimates) the population of Ukraine is expected to reduce by 36% or 17 million people by the year 2050, migration becomes, in fact, the only source for its replenishment. It was estimated that in order to preserve the current population size, we need 300 thousand immigrants per year, whereas to restore the previous indicator of 52 millions, – 500 thousand immigrants per year are needed.

Along with that, we should take into account that, first, Ukraine is currently non – attractive for immigrants, and second, mass immigration is interlinked with social, ethno-cultural and political risks, which requires careful treatment and continuous assessment of its positive and negative consequences.

Among the tasks of migration security, the key one should be to reduce the outflow of our own population, ensure reciprocal migration, and encourage the individuals who had earlier moved out of the country to return to their motherland. With this aim, the government should assist in temporary organized employment of the citizens abroad, protect their rights at the international labour market, and facilitate the transfer of savings to motherland and their effective use for the development and creation of new workplaces.

The risks of intellectual migration can be mitigated primarily by enhancing the prestige of science and education in the society, recognizing their decisive role in the country's development as critical competitive economic resources, and their priority financing.

In addition, it is high time for the introduction of new, more pragmatic approaches to immigration of foreigners, and for changes in the legislature aimed at stimulating the immigration of persons of Ukrainian origin and their descendants, ethnic Ukrainians, highly qualified specialists, and broader categories of immigrants.

MOKIY Anatoliy

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Conceptually, the strategy of institutional and structural reforms and the system of measures and methods of their implementation is distinguished by the inability of the state represented by the legislative, executive and judicial branches of power, as well as political parties and civil society (mass media, religious organizations, NGOs, and associate organizations), to create the institutional basis for structural reformation and to ensure strict adherence to formal and informal rules of economic life, as well as interrelations among the elements of the economic structure.

An important element of structural policy is the development of an optimal structure of industry based on the world structure of economy and the concept of self-sufficient national industrial structure. To determine the optimal industrial structure, it would be reasonable to proceed from the concept of its integration into the world economic structure. The criteria of choosing the priority industries for development in the countries with market economy are diverse. They range from the world market competitiveness to workplace creation to occupation of a market share. The reasons for varying approaches to setting structural priorities are objective. In terms of national security, the major priority sectors for investing are the fuel-and-energy complex (energy safety), agricultural sector (food

safety), and defence industry (defence safety). However, the sizes of their maximal acceptable shares in the national economy (such estimates are not available) and the terms of investing in these industries are the questions that require additional scientific research.

In terms of high-technology priorities, the majority of experts assign top priority to airspace and rocket industry, electronics, information technology sector, biotechnology, and new materials sector, i.e. those where the role of the state, especially at the R&D stage, is rather high. In terms of fixed assets depreciation, the structural and technological reformation should be the first priority for the industries where fixed assets have depreciated by more than 50%. The criterion of the need in foreign currency resources for structural reformation of the economy gives priority to state support of the export-oriented industries.

The evolutionary processes of structural and institutional developments are interrelated. In particular, structural changes in the economy call for the creation of new institutional mechanisms, which will respectively bring to further improvement of the economic structure. Therefore, structural economic developments are impossible without institutional changes, while sustainable growth of the Ukrainian economy will be impossible without substantial deepening of the institutional reforms. Since it is just «the rules of the game» that determine the behaviour of economic agents, the institutional transformation is primary with respect to other lines of reforms, such as structural ones, for example. Although market transformation is under way, the institutional system has not yet become the dominant market institution compared to institutions of the former command economy.

The institutional changes in almost any region include both the creation of new institutions and modernization of the existing ones. The formation of the institutional structure of market economy in the region consists in the creation of formal institutions (established by the state or other subjects) in the first place. The creation of effective non-formal institutions (codes of conduct, business ethics, etc) requires a longer period of time and ousting of counterproductive non-formal institutions (shadow economy, barter, non-payments, etc). The great demand for formal institutions that contribute to establishing order in the economy creates a need for speeding up the development of institutional and legislative norms and encouraging the creation of other formal institutions in the region, especially those which guarantee coordinated action among regional authorities, financial institutions, tax administration, and private businesses.

Among the top priorities of institutional and structural reformation is the need for effective countermeasures against shadowization and criminalization of the economy and society that make any reforms unrealizable, being a major threat to national security.

It is also important to introduce a feasible system of investment incentives and means of state support to structural developments at the regional level (tax and customs preferences; subsidies to R&D, innovation activity, infrastructure development, training and retraining of national staff), taking into account an in-

depth analysis of the performance of special economic zones and territories of priority development, as well as their impact on economic restructuring at the meso – (region, industry) and micro-levels.

In addition, it is necessary to acknowledge that institutional reforms should precede structural reformation measures and cover the relations between the subjects of economic activity (consumers, economic agents, state administration, non-governmental organizations). That is, in the aggregate, the system of structural change measures and their institutional providing is designed to ensure the region's competitiveness on the external markets.

Within the framework of nation-wide Eurointegration strategy and the EU-UA Neighbourhood Policy, it is necessary to intensify and deepen the economic component of trans-border cooperation, especially in the form of long-term, integrative relations in the areas of innovation, exchange of human capital (legal migration, education, health care, recreation, and tourism), services, and investing, especially portfolio and non-stock investing.

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As it was already mentioned, today the formation of an effective structure of market economy in Ukraine cannot be realized without extensive institutional changes, since the performance of certain firms, regions, sectors, and the whole economic complex depends on the speed of institutional renovation. The empirical studies establish the correlation between the weakness of social institutions and the depth of recession in transition economies. Thus, the impact of backward technology, political instability, cultural degradation, and underdeveloped institutions can be even more significant than insufficient financing of investments.

The statistical data analysis permits to discover several important circumstances in the evolution of the economic structure:

1) the share of manufacturing, agriculture and building industry in the GDP has declined, which signifies of new tendencies on the Ukrainian emerging market;

2) the share of such important sectors of socio-productive infrastructure, as transport and communications, has increased; the latter ensure prompt action and good quality of economic relations, which must have positively influenced the intensity of retail and wholesale trade turnover, the two-fold increase of which has put this industry among priority rankings (third place) typical of the countries with developed market economy;

3) science, education, culture, art, health care, social security, – everything that works for the quality of «human capital» remains in severe condition and is so far requested by neither the government nor the market, whereas an

increase in regulation corroborates the thesis about excessive functions of the state;

4) the share of general commercial market activity has increased, but it can hardly be understood how the quality of market environment can be improved if the data-processing services have been brought to a standstill at the minimal value of 0.1-0.2% of GDP, and the shares of such spheres of market activity as finance, credit and insurance have only negligibly increased. On the whole, the structure of the Ukrainian economy has followed a positive vector of changes, but it is not sufficient to meet the more complicated challenges of GDP growth.

In analysing the evolution of Ukraine's economic structure, we can point out that the overall structural changes in its economic complex follow a correct direction, and they will become more significant if the institutional changes do not lag behind, since Ukraine's institutional environment is the weakest link in the process of reformation.

One can assert that the Ukrainian economy has fallen into a so-called «institutional trap»: on the one hand, rejection of informal agreements would completely paralyze its current economic performance; on the other hand, the dominance of such agreements is impeding the processes of sustainable long-term growth. In other words, the economy appeared in a «bad» institutional equilibrium. On the one hand, if preserved, the situation with semi-functional formal regulators contradicts the interests of the majority of «players», so far as displeased with the «disorder» are all – average citizens, businessmen and the government. On the other hand, no one is willing to finance the costs of getting over it as everyone has somehow adapted to the situation and is afraid of losing the *status quo*. Therefore, during the fifteen years of «transition to market economy», the major types of relations that are either deleterious or inconsistent with the principles of competitive market economy or law-abiding community have taken root in Ukraine. The rooting of market relations was spontaneous; the corresponding formation of the institutions of market culture and infrastructure were unsystematic and protracted. Thus, the creation of institutional pre-conditions for long-term economic growth is one of the most important directions of structural reformation of the regional economy. In the mid – and long-run, we should implement a set of actions aimed at building formal and informal institutions, which will contribute to economic openness, in particular:

- to ensure effective ownership rights protection, raise economic freedom and investment attractiveness of the region;
- to form positive business environment and free competition;
- to involve regional economic complex in the system of interregional and international division of labour;
- to adapt regional economy to modern requirements of the globalized world economy.

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Dear colleagues! I think that all of you will agree that during the reformation of our economy we need to think about the perspectives offered by the new century for our country. In connection with this, it is worth mentioning that the 21st century is the epoch of post-industrial system. The latter will not become a phenomenon of several countries, but will affect all mankind. The countries of the «third world» (colonies and dependent countries in the past) will perform a transition to post-industrial society. Similar processes will be occurring as well in the post-socialist countries including Ukraine.

Understandably, the catching up with the countries of «golden billion» will be happening in different ways and times. However, it is unavoidable, since the process of considerable re-configuration of the political, geostrategic and ethno-national global demarcation lines, as well as the gradual progress of the former periphery countries, that had started in the 20th century cannot be stopped. Ukraine cannot lag behind in this process, as it has excellent preconditions for building a post-industrial order. Suffice it to say that at the present, Ukraine holds its position in the upper half of the competitiveness rankings in terms of Higher Education Index (48th out of 121 countries). The availability of the own resource base, sufficient energy providing, fertile lands, sufficiently developed social, transfer and other infrastructures, especially human capital, provide grounds for stating that Ukraine's life should be made comfortable proceeding from the needs of the people, but not from the imaginings and aspirations of separate structures. Ukraine will be in the civilized world.

Catching up with the leaders is a complicated process that needs fundamental development of the strategy and choice of the optimal progression tactics. It might seem that we need an internal model of development in the first place. In the most general approach this is true. However, if we take a detailed look at the situation, we will understand that most important for Ukraine are the external factors of growth, so far as Ukraine is an export-oriented country, and thence it has to find the best and the fastest response to global challenges, starting from the almost found decision of the WTO accession and ending with other acute problems. Nevertheless, I would like to acknowledge that market environment does not know the meaning of such categories as humaneness, sensitivity, openness, warmth, sympathy, and decency.

Had Ukraine fully listened up to all requests and recommendations foisted by separate consultants, it could have ended up exclusively as an exporter of cheap manpower and primitive raw materials with low value added. On the other hand, Ukraine would have been considered as a sales market for the final product produced by the developed countries – illiquid consumer goods that have lost their attractiveness in the eyes of picky customers due to moral obsolescence or overdue period of use. This is why a considerable part of problematic issues

calls for not only a detailed study and monitoring, but also the fundamental research.

It took several centuries for a market economy to develop. It has passed through several stages in its development, having experienced respective qualitative and essential changes. The study and analysis of the economic nature of such changes and adequate decision-making will help Ukraine to determine its way to socio-economic transformation.

Of course, Ukraine must form its «face» in the world economy. When solving this problem, we need to clarify the peculiarities of national development. Along with that, we will need to get determined with using the world experience, to assess its «productivity» in the domestic conditions and to take measures on its «acclimatization» to the Ukrainian socio-economic climate. The elite of our country (political, business, humanitarian, etc) should finally find the constructive mechanisms of adapting and integrating the economy into the world economic space.

The 21st century is the new era that does not fit into the schemes and truths that fostered the soviet-time generation of the «reformers» (or we'd better call them «apology for reformers») who try today to update them. Today, the development is related not with the «dictatorship of the working class», but with creative activity of intelligentsia. It is not the capitalist who is the hegemon, even if he is the world's richest oligarch, – he is not the one to manage production, highly educated professional are. The fundamental truth of the nowadays is that the source of progress is the intellect, while the leading, the main class (not the «layer») of the new society is the intelligentsia. The catchwords like «Support the national intellectual!» – a teacher, a scientist, a doctor, an engineer, a manager, an artist – invite themselves in place of «Support the national producer!». Their material wellbeing must grow at priority rates.

Intelligentsia is the only class, which is the bearer of the all-human element of all elements of the civilization, not of the narrow interests of the class. It is this class that has an organic need for freedom, because without it there can be no creative work. Moreover, intellectual work cannot be alienated: when its results are transferred the giver retains these results as well.

Knowledge economy is the only alternative model, the realization of which can turn out successful in building the welfare society. Knowledge economy is a unique opportunity for Ukraine to enter the circle of countries with large economies. This becomes especially clear, when it is compared with the economy of our Northern neighbour – Russia. In international competition, the latter can count upon its natural resources, – something that was understood well by the great genius of the Russian people Mykhail Lomonosov. Just recollect his prophetic utterance: «The wealth of Russia will grow from Siberia!» This statement is becoming reality at the present times. As for Ukraine, one can assert: «The wealth of the Ukrainian nation will grow from science and education!»

I would also like to draw your attention to one extraordinary event in the life of our National University. In January 2008, our Vice-Rector Education and International Relations, Head of the Department of International Economics, Finance and Credit Relations and Marketing, Doctor of Economic Sciences, Professor, Honoured Worker of Science and Technology of Ukraine, Editor-in-Chief of The Journal of European Economy Yevhen Savelyev celebrated his 70th Birthday. A talented teacher, prominent scientist, expert in international economics, and experienced leader has committed all his strengths and indomitable energy to consolidation and harmonization of the interests of the Ukrainian society in the international sphere.

Professor Savelyev celebrates his anniversary full of creative force, new ideas and achievements. On behalf of the thirty-thousand collective of Ternopil National Economic University, we cordially congratulate our colleague and wish him good health, prosperity, wellbeing, irresistible vitality, and new creative developments!