ECONOMY AND ECOLOGY 31.01.2024 | Luke Cooper

Ukraine is quietly abandoning neoliberalism

Kyiv's need for self-defence has pushed the country towards the most far-reaching expansion of the state's economic role since independence

With the disappointment of the 2023 counteroffensive and the shift to a brutal attritional war, the mood has darkened in the pro-Ukrainian information space. The West's dramatic isolation over the Israeli war in Gaza is challenging Ukraine's position in the court of global public opinion. As its most important allies stand accused of breath-taking hypocrisy and global attention shifts to the Middle East crisis, opponents of supporting Ukraine's war of self-defence have sensed an opportunity to stop, or at least delay, the flow of military and financial aid.

Against this backdrop, Ukraine has been rethinking its strategy for the 'home front', i.e. how to organise its domestic economy to maximise the resources available for the war effort. So, dramatic are some of these changes that they amount to a quiet revolution in doctrine. Ironically for a government whose president identifies as an 'economic libertarian', Kyiv is now overseeing the most far-reaching expansion of the state's economic role since independence.

Origins of the 'turn'

At the London Ukraine Recovery Conference (URC) in June 2023, there were already signs of this rethinking, but it appeared tentative and inconsistent, lacking, above all, uniform support across government. Indeed, Ukrainian representatives often seemed to put forward quite contradictory proposals. Some were heavily laden with archetypical neoliberal thinking, promising investors further rounds of labour market deregulation, even if it went against the minimum standards required for European Union membership; and a very low tax environment with big expenditures pledged in infrastructure and energy supposedly funded by the growth this would secure.

A number of other speeches, however, were much more circumspect,

emphasising the long road to reconstruction and the urgent priority of calibrating the economy to the needs of fighting the war. Serhiy Marchenko, the Ukrainian Finance Minister, gave a particularly notable intervention that went against the grain of some of his colleagues. He made the case for a development strategy that explicitly prioritised Ukraine's wartime economic needs. 'Traditionally, we were open to any form of money. Now we are not. If you want to invest in Ukraine, you must accept the priorities of Ukraine', he said.

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Ukrainian policy since suggests a victory for these 'sensibles' in Kyiv. Gone for good, it seems, are the proposals of Rostyslav Shurma, the Deputy Head of the Office of the President, to slash corporate, income and VAT to a flat rate of 10 per cent while the war is on-going. Instead, Ukraine's *National Revenue Strategy for 2024–2030* outlines a plan for improved tax collection and an unwinding of the many loopholes introduced in recent years. This will include the return to a progressive income tax scale, the abolition of the widely used fake 'self-employment' system that allows employed workers to access ultra-low rates starting at just two per cent, the introduction of a windfall tax on corporate profits and measures to ensure full compliance with the new global minimum corporation tax rules.

These steps mirror the institutional reforms historically introduced by war-fighting states to centralise and streamline revenue collection efforts (Britain's system for taxing wages in the workplace – 'Pay As You Earn' – was, for example, introduced in 1944). But the revenue strategy also contained interesting criticisms of what might be called the 'liberalisation excesses' of Ukraine's development since the Revolution of Dignity. It describes how the 'simplified taxation system' with ultra-low rates for 'entrepreneurs' (interpreted in a very loose way that could potentially include any tax-paying Ukrainian citizen) not only facilitated avoidance by the wealthy but also enabled smuggling in counterfeit goods, due to the lack of any requirements to keep proper records, and normalised the absence of proper employment relations in a number of sectors.

The development of the Ukrainian war

economy

This fiscal reform has gone alongside a wider shift to economic 'interventionism'. The fiction that markets could be expected to operate in war has been largely abandoned. While industrial strategy and preferential policies towards domestic producers were once taboo, they are now considered vital to Ukraine's wartime resilience. Government of Ukraine representatives have routinely pledged their support to 'insource' the recovery by prioritising domestic industry — a policy that, if challenged legally at the EU or WTO, may require Kyiv to declare a national security exception from its international commitments.

The mood has also shifted among government outriders and influencers in civil society. Anti-corruption activists that in the past tended to see free market liberalisation as a route to transparent governance are radically updating their prescriptions and proposals, drawing on the lessons from World War 2. In one such intervention, the highly respected anti-corruption campaigner Daria Kaleniuk discusses the 'New Deal Democrats', and the work of Harry Hopkins, a close confidant of President Roosevelt throughout the war, advocating the development of a 'victory book' that maps military needs to the resources and productive assets in the economy.

Of all the changes underway in Kyiv, possibly the most encouraging is the holistic approach that Ukrainian government ministers are taking to Ukraine's long-term development. Tetyana Berezhna, the Deputy Minister of Economy of Ukraine, endorsed, for example, a December 2023 International Labour Organisation report that showed Ukraine's seven per cent GDP target growth rate would be very hard to meet without a policy that addressed the gender pay gap and barriers to women's participation in the labour market. In this sense, the success of Ukraine's drive to improve the economy's productive capacity following the war will ultimately be contingent on raising the incomes and social wellbeing of the broad population.

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The simple explanation for Ukraine's quiet move from neoliberalism is the insatiable rise in military expenditures combined with the impact of war-related risk on market activity. Together, this has led to a state-dominated economy. The Centre for Economic Strategy have provisionally estimated that military spending will be 30 per cent of GDP in 2023. Ukraine has spent more on defence in 2023 than its *entire* government expenditures in

Due to the nature of the military industrial complex, where effective state intervention involves strategic planning over price, organisational structure and investment, the radical expansion of Ukraine's military expenditures is necessarily reshaping the country's economic model. Interestingly, however, this is far from a wholly 'statist' system. Ukraine's resistance is making effective use of low cost, easily replicable digital technologies and de-centred production networks. Come Back Alive, for example, the digital fundraising platform, which has a license to import military and dual-use items, actively intervenes as an investor in the production process. This mix of public, private and non-profits appears to be creating an ecosystem that supports innovation and adaptability in the technological race for superiority on the frontline.

Despite this impressive progress, Ukraine is still heavily dependent on external financial assistance. Even if allies deliver all of the promised finance, the Ukrainians will still be dramatically outspent by Russia in 2024. The government will have to manage its complex external ties carefully and robustly pursue its interest in a degree of tension with global institutions where necessary. The International Monetary Fund (IMF), for example, has played an important role in pushing Ukraine away from libertarian taxation policies but has indicated opposition to a preferential insourcing strategy. The European Union membership process is also poorly designed to meet Ukraine's needs, with the process of single market integration potentially exposing a country fighting a war to a 'level playing field' that is evidently not level from the Ukrainian perspective.

Navigating this complex strategic environment will not be easy for Kyiv. But despite the appalling horror of the Russian war and the multitude of cascading crises globally, Ukraine has turned a corner. In this David and Goliath contest, David may yet pull off an unlikely victory.



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