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David Dalton

THE UKRAINIAN OLIGARCHY AFTER THE EUROMAIDAN

How Ukraine's Political Economy Regime Survived the Crisis

With a foreword by Andrew Wilson

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Abstract

This book examines the process of reproduction of the modern Ukrainian oligarchy, and its survival as an evolving political economy institution across the "critical juncture" of the Euromaidan revolt of 2013/14 by way of its "extractive" political and economic practices, focusing on the role played by material resource power (wealth). Covering capacities and practices central to the reproduction process, the empirical chapters describe, analyse and explain the dynamics of the wealth of the Ukrainian super-rich in relation to Ukrainian society in 2006-17, and its political implications; the conversion of wealth into political influence through vote-buying in the Ukrainian parliament; and elite rent-extraction schemes in the Ukrainian gas sector, illustrating one means of conversion of political influence back into wealth. A key argument is that continuity in informal practices between the Yanukovych and Poroshenko presidencies, and of the elite political-economic networks that conduct them, signals continuity in the dominant political economy regime across the two periods. The main economic effects of the continuation of the informal practices of the Ukrainian oligarchy since its inception in the 1990s have been to undermine state capacity and investment, helping to explain Ukraine's perennially poor economic performance and low average income. Although this will not surprise close observers of Ukraine's post-Soviet economic development, what is new in this study is that it shows concretely some ways in which poor national economic outcomes can be connected to specific political-material processes of reproduction of Ukraine's governance structures. Based on the empirical investigations, the book proposes a novel way of envisaging the interconnection between the capacities, practices and processes of the Ukrainian oligarchy at a more general level, represented as a "currency flow", or circuit, of wealth and power. To the academic literature on the dynamics of informally dominated post-communist political and political economy regimes, the study adds, therefore, a detailed, integrated, and internally comparative case study of Ukraine.

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The first people I have to thank are my PhD supervisors, Professor Andrew Wilson and Dr Peter Duncan, not only for their invaluable guidance, support and feedback while I was doing the research for this book, but also for letting me onto the PhD programme at UCL SSEES in the first place. Also, Joan Hoey of the EIU and the late Professor Alan Smith, who gave me references.

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Most of all, in lieu of a dedication, I want to thank and acknowledge the contribution of my wife, Inna, who strongly encouraged me to return to study for a doctorate—which is considerable income foregone, as an economist might say. She helped me to put together the thesis at the end, and undertook most of the proofreading for this book. It's a lot to ask. Before the onset of the war with Russia in early 2014, we spent many happy holidays in Ukraine, especially in Donetsk and Crimea; and, after that, more often in Kyiv and Poltava. May it soon be so again. So, to all of the above, and to others whom I have failed to mention, I say: До зустрічі на морі в Криму!

Foreword

David Dalton's excellent book advances research in four key areas. First, it builds on the analysis of Oleh Havrylyshyn (2017) and others that has shown how slow or partial economic reform after communism was not only less successful, but created cycles of self-perpetuation. Since the 1990s, Ukraine has been stuck in the "post-Soviet" condition; not just as a label for neo-colonialism and Russian influence, but as a unique sub-type of political economy and politics that proved resistant to reform. Dalton explains that this was why Ukraine's attempts so far at catch-up reform had only limited effects. Certainly, before the Russian invasion of February 2022, Ukraine's main problem was oligarchy and corruption.

Dalton's second key area of focus is on comparative oligarchy. He looks at oligarchy in the West and in the developing world, drawing on the work of Jeffrey A. Winters (2011). But the post-Soviet region is where oligarchy is such a key term and problem. Dalton produces key insights in comparative oligarchy studies: on Alena Ledeneva's work on informal politics (2013), on what Henry Hale (2015) calls single versus competitive pyramids (networks of influence), on the role of the state and key actors like the president. Dalton shows both what Ukrainian oligarchy shares with oligarchy in other post-Soviet states, and what is distinct.

Third, Dalton's most original contribution is his detailed examination of oligarchs' self-defence mechanisms, looking at the way in which Ukrainian oligarchs have proven adept at surviving, shape-shifting and defending their interests—despite two would-be revolutions. A Marxist analysis might look only at oligarchs' material wealth. Dalton provides the data on this, but also shows how this wealth is then used to own media, to use that media to sell parties and politicians, and to penetrate state institutions like parliament to defend their interests. There is an abundance of empirical detail in the book looking at how modes of influence in parliament work, and how legislation and financial flows are shaped to serve oligarchic interests. Dalton's case studies also show how oligarchs buy influence and fight each other in the courts.

Fourth, Dalton looks at oligarchy as a key reason for Ukraine's economic underperformance since 1991. A famous Deutsche Bank report on the eve of Ukrainian independence argued it was one of the best-placed Soviet Republics for future growth. Although Ukraine and Poland started in roughly the same place, the Polish economy is now three times as big. Dalton shows how oligarchy is not just a symptom and general cause of lower growth; he explains exactly how this works. Oligarchic networks weaken the state institutionally; so it is less able to collect tax, spend and administer effectively. Oligarchic wealth leads to offshorisation, which weakens the state financially. Offshorisation means there is less fixed capital investment; so Ukraine remains stuck in a low-wage, low-productivity economy. The final indirect stage in what Dalton calls this "negative feedback loop" is that low living standards encourage migration, weighing on Ukraine's long-term growth.

Finally, Dalton's book is an invaluable guide to what might happen next. What effect will the latest phase of the war with Russia have on Ukraine's oligarchy? It may provide a shock to the system stronger than the Revolution of Dignity of 2013/14. Most oligarchs have lost wealth and physical assets. Their media is now part of the state-supervised wartime "United News Marathon". The president, Volodymyr Zelenskyi, who came to office in 2019, is much more his own man now than when his government's "de-oligarchisation" law was passed in 2021. Parliament sits, but sessions are necessarily minimal and business-like. State power is stronger in the regions, where oligarchs used to build local fiefdoms. As well as being a highly informative study of independent Ukraine's first thirty years of economics and politics, therefore, Dalton's book is an invaluable guide to how these factors might affect oligarchy's future in Ukraine.

Andrew Wilson, Professor of Ukrainian Studies, UCL SSEES.

1 Introduction

1.1 Topic, basic definitions and approach

This book is about the contemporary Ukrainian oligarchy. It sets out some of the main political and economic capacities and practices by which the oligarchy is reproduced as an institution, drawing attention also to key economic outcomes of this process. My use of the term "oligarchy" for this institution reflects local convention, but also aims to underline a focus on the material dimension of its reproduction. With modern Ukraine as a detailed case study of a post-communist political economy regime dominated by informal modes of operation, the framework developed here offers a fresh angle on the development problems of countries in which the economic and political realms of social life have not undergone the same process of separation as in the liberal democratic West (Magyar and Madlovics, 2020, p. 8).

But who counts as an oligarch, and what is an oligarchy? In *The Politics*, Aristotle defines oligarchs as the wealthy few and oligarchy as the self-interested form of their rule, reserving the term "aristocracy" for the version of minority rule of the rich that is better able to balance the interests of all social groups (Aristotle, 1996, pp. 71-72). In modern Ukraine, oligarchs may be described, adapting the definitions of Winters (2011) and Pleines (2016a), as the very rich heads of business conglomerates who are involved in national politics to protect and augment wealth, their characteristic "resource power". But they are only one set of actors in a larger institutional structure to which their group lends its name, with "structure" here indicating a repeating pattern of group activity, somewhat independent of its individual membership, that is relatively stable over time. As a first step, therefore, I will define the Ukrainian oligarchy relationally, as a system of elite rule that links oligarchs and their business networks in a sometimes rivalrous, but often mutually beneficial relationship with electorally successful politicians and their networks in the state apparatus.

Mainly a work of political economy, this book draws also on the disciplines of politics, political sociology, economic sociology and macroeconomics. Political economy can be distinguished by its adoption of a social science approach to the study of economics (Stilwell, 2012, p. 8), as opposed to attempting to emulate the natural sciences. But if political economy is the study of the relation of the political and economic realms of social life to one another, it is also the study of how different schools of thought have conceived of this. Although the approach of this book is somewhat eclectic in this respect, it is closest to the institutional school. That is, my investigation takes as one of its starting points a "new" institutional theory of economic development. In the final empirical chapter, however, on elite rent-extraction schemes in the Ukrainian energy sector, my approach takes its cue more from "old" institutionalism, with its concepts of habit and evolution, and an emphasis on descriptive contextualisation. One reason for this is that "old" institutionalism better aligns with the "informality" approach to political analysis outlined in my examination of voting patterns in the Verkhovna Rada, Ukraine's parliament (chapter 5).

1.2 What is the link between regime resilience and low standards of living?

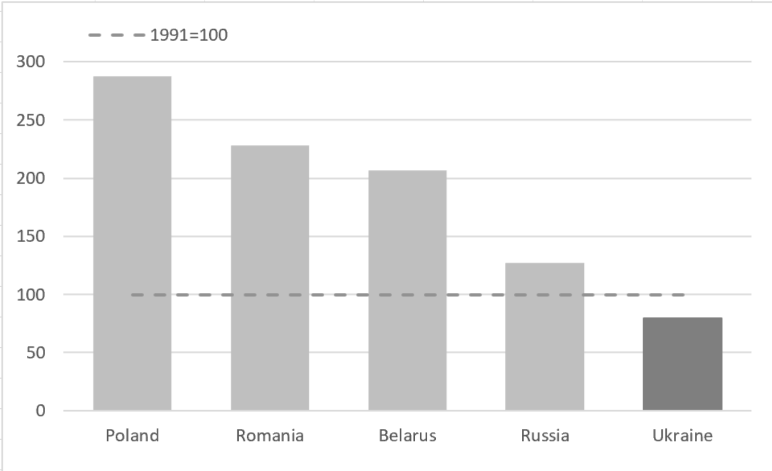
1.2.1 Origin and resilience of the Ukrainian oligarchy vs Ukraine's chronic economic underperformance

The essential components of the oligarchy as a political economy institution emerged in Ukraine in the early to mid-1990s, following its declaration of independence in 1991 from an ailing Soviet Union, and crystallised towards the end of the same decade. Since then, it has come through two major domestic political upheavals (the Orange Revolution of 2004/05 and the Euromaidan Revolution of 2013/14), as well as military conflict with Russia, more or less intact. Early on in my research, therefore, it became apparent that the Ukrainian oligarchy is a resilient institution which, following a number of episodes of serious political disjuncture, has so far been able to pick itself up and carry on much as before.

The original motivation for this project, however, was Ukraine's chronic macroeconomic underperformance in the independence era. A basic stylisation of regional economic development since the early 1990s is that the former communist countries of central eastern Europe (and the Baltic states) generally did much better than those of the former Soviet Union (excluding the Baltic states). In particular, economies in the first group tended to record shallower and shorter "transition" recessions, and to recover more quickly (Turley and Luke, 2011, pp. 72-74; Douarin and Mickiewicz, 2017, pp. 5-6; Roaf et al, 2014).

In Ukraine, by contrast, economic performance has been weak even by the standards of other former Soviet economies, so that by 2017 Ukraine's real GDP per head, as a general measure of living standards, was still 20% below its level at the time of the break-up of the Soviet Union in 1991, according to IMF data. This is shown in Figure 1.1 below, which uses simple indices of real GDP per head, with 1991 as the base year. Ukraine's real output per head in 2017 is represented by the height of darker grey bar on the right-hand side of the chart relative to a 1991 starting level of 100, represented by the dashed, grey horizontal line. The use of a real purchasing power parity (PPP) measure allows comparison of living standards between countries over time by taking into account the differential rates of change in living costs. The better economic performance of some of Ukraine's former communist neighbours is indicated by the height of their 2017 output bars relative to the starting line in 1991. On this measure, therefore, while Ukraine's output per person remained below the starting line, the average standard of living in Poland rose almost threefold over the interim, and more than doubled in Romania and Belarus. Even for Russia, annual output in 2017 was 27% higher than in 1991. The difference in economic performance is more striking because the starting points for Poland and Romania in 1991 were similar to that of Ukraine, while for Belarus, real GDP per head was a little lower. As a result, Ukraine in 2017 found itself close to the bottom of the European income rankings, alongside Moldova and Kosovo, when measured by GNI (gross national income) per head (World Bank DataBank).

Figure 1.1: Real GDP per head index for selected east European countries, 2017



Sources: IMF, World Economic Outlook (WEO) Database, October 2019. Available: https://www.imf.org/en/Publications/WEO/weo-database/2019/October.
Note: Own calculations, based on data in 2011 US dollars, PPP.

1.2.2 Was Ukraine's GDP growth really so poor?

There has been much dispute about the veracity of east European economic growth data, especially regarding the scale of the falls in officially recorded output in the 1990s. Anders Aslund (2001) brings together a number of such concerns, including over conceptual and measurement problems, as well as a failure to take into account the size of the informal economy, which is the part of economic activity that goes on, untaxed, beneath the authorities' radar.

In Ukraine, the informal economy ballooned in this period. Based on an IMF report, Marko Bojcun suggests that, by 1995, it may have accounted for up to half of all Ukrainian economic activity (Bojcun, 2020, p. 187), higher than for Russia or Lithuania, where it is estimated to have peaked at around 40% of official GDP. The country's informal economy remains substantial, according to the Ministry of Economic Development, at an estimated 33% of official GDP in the first nine months of 2017 (Burakovsky et al, 2018, p. 15).

Taking into account the range of flaws in official statistics that he notes, Aslund re-estimates real GDP (rather than real GDP per head) for the transition economies at the end of the 1990s, concluding that only the war-torn former Soviet republics, such as Georgia or Tajikistan, really suffered very large production losses. For the economies of central eastern Europe and the Baltics, he argues, no real drop in output occurred. In the case of Ukraine, rather than falling by more than half, as official statistics indicate, he estimates a fall in real output of just 15% from 1991 to its nadir towards the end of that decade (Aslund, 2001, p. 15).

Some of these data criticisms appear valid, especially those concerning the change of reporting incentives, with overreporting encouraged during the socialist era by production targets, and underreporting since the move towards a market-based system linked both to the desire to avoid paying taxes to enrich corrupt state elites and to the failure to capture the growth of new private businesses (Havrylyshyn et al, 2016).

Nevertheless, the scale of Aslund's proposed readjustment of the official numbers is problematic. In Ukraine's case, for example, if output had declined by just 15% cumulatively in the 1990s, or about the same as in 2009 owing to the global financial crisis, then it might be expected that the impact on indicators of life expectancy and poverty would be similar. So, by the middle of the 1990s average life expectancy at birth in Ukraine had dropped by 1.7 years for women, to 72.5 years, and by 3.4 years for men, to 61.2, both compared with 1991 (World Bank DataBank, *World Development Indicators*). Over the same period, the share of Ukrainians living on less than US$3.90 per day—a measure of the incidence of poverty—peaked at just over one-fifth of the population. Towards the end of the first decade of the current century, by contrast, no such sharp deteriorations were recorded. Even on Aslund's revised GDP estimates, however, Ukraine's performance remains very poor in regional comparison, and it is this relatively worse position that is one of the two main research puzzles behind my investigation.

1.2.3 Ukraine's socio-economic performance in wider comparative perspective

Taking a wider view of Ukraine's economic and social development over the past three decades, following Oleh Havrylyshyn (2017, pp. 35-60), only confirms this picture of Ukraine's relatively worse performance, even in post-Soviet comparison.

Table 1.1 below shows 2017 World Bank data for the stock of inward foreign direct investment (FDI) for some east European countries. Inward FDI is investment into domestic companies from abroad, usually implying a degree of enterprise control. Its economic significance is not only that it provides additional demand for home-produced goods and services, but that it also tends to raise production and export capacity over the longer term, without adding to foreign debt, as would borrowing from abroad. A notable feature of the data is the large absolute volume of investment accumulated in Russia (US$400bn) and Poland (US$240bn) since the onset of economic transition (World Bank DataBank, *World Development Indicators*). However, both as a share of 2017 GDP and by head of population, the stock of inward FDI is considerably lower for the eastern Slavic countries (Russia, Ukraine and Belarus) than for the former centrally planned economies to their west (Poland, Slovakia and Estonia). In the first group, accumulated inward FDI was equal to 20-40% of 2017 GDP, or US$1,000-3,000 per head; in the second group, it was equal to 45-90% of GDP, or US$6,000-18,000 per head. A common explanation for this is the differences in investment climate, or how welcoming, in terms of policy and regulation, each economy is perceived to be by foreign investors. By 2017 Ukraine's total FDI stock, of US$43bn, was relatively high as a share of its 2017 GDP, following the battering of the Ukrainian economy by war and recession in 2014-15. Its stock of inward FDI per head, however, at less than US$1,000 per person over 26 years, was below even that of Belarus, which did not really begin to consider significant market reforms until 2014 (IMF, 2016b; Dalton, 2016).

Table 1.1: Stock of inward FDI for selected east European countries by 2017

	FDI (US$ bn)	Share 2017 GDP (%)	FDI per head (US$)
Ukraine	43.3	38.6	972
Russia	441.1	27.9	3,031
Belarus	12.8	23.4	1,358
Poland	238.5	45.3	6,284
Slovakia	59.5	62.3	10,923
Estonia	23.9	89.1	18,135

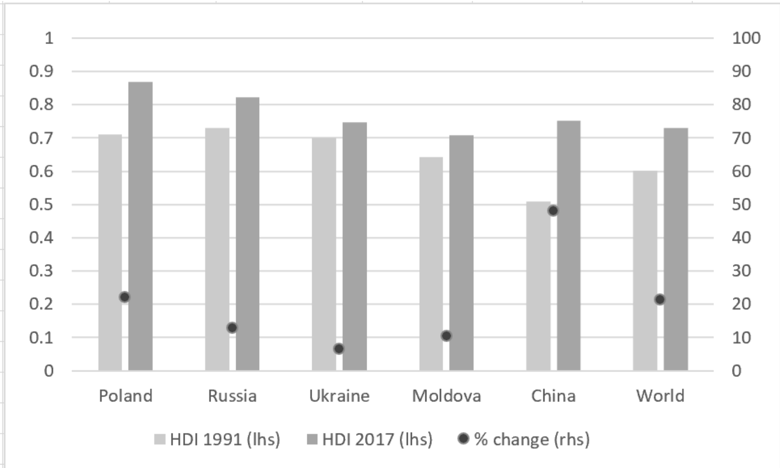
Source: World Bank DataBank, *World Development Indicators*. Available: https://databank.worldbank.org/source/world-development-indicators.

Finally, the UN's Human Development Index (HDI) endeavours to produce a more rounded indicator of socio-economic progress and well-being than given by GDP alone (UNDP, Human Development Data Center). It combines assessments of levels of income (GNI per head), education (adult literacy rates and enrolment ratios) and heath (life expectancy at birth) into a single number between 0 and 1, with 1 as the best outcome. Figure 1.2 below shows the change in the HDI index number for several east European countries (and China) between 1991 and 2017, presented alongside the average change in the HDI across the world over the same period, depicted as the two bars on the right-hand side of the chart.

Reading these bars against the left-hand scale, the world average index number rose from 0.6 in 1991 to just above 0.7 in 2017, or by about 20%. This is indicated on the chart by a black dot between the bars, to be read against the right-hand scale. In eastern Europe, while the pace of improvement for Poland is a little above the world average, it is considerably below this for Russia and Moldova.

In contrast to Russia and Poland, but in common with Moldova, by 2017 Ukraine remained among the countries considered to be of "medium" level in terms of human development (that is, with scores of 0.5-0.8), its index number rising to just 0.747, from 0.701 in 1991. The improvement over this period in Ukraine, of just 6.6%, is therefore the least impressive of the countries shown here. By contrast, the index number for China shot up by close to 50% over the same quarter of a century.

Figure 1.2: Human Development Index (HDI) for some east European countries & China, 1991-2017



Sources: United Nations Development Programme (UNDP), Human Development Data Center. UNDP, *Human Development Reports*. Available: http://www.hdr.undp.org/en/data. Own calculations.

On all these counts, therefore—standard of living, foreign investment, life expectancy and educational levels—Ukraine's socio-economic performance in the post-communist era has been worse than most of its near neighbours, while its sub-optimal political economy regime has nonetheless remained intact.

1.3 What explains Ukraine's poor record on economic growth, other than oligarchy?

1.3.1 Initial conditions, macroeconomic stabilisation, market reforms and institution-building

Over the past three decades, a large body of economic research has been developed to account for the marked variation in the patterns of income growth among the post-communist economies of eastern

Europe, proposing numerous explanations for this other than oligarchy. The following thumbnail sketch of these explanations is based mainly on Turley and Luke (2011, pp. 225-264).

One approach has been to distinguish explanations that focus on the unexpectedly severe recessions of the 1990s from those that try to identify the main determinants of growth in transition economies over the longer term. This reflects concerns about the applicability of traditional neoclassical theories of long-term economic growth, based on the accumulation of production factors, such as physical and human capital, and technological change (Douarin and Mickiewicz, 2017, p. 147), to the transition recessions of the 1990s, when issues of resource reallocation by way of systemic transformation came more to the fore.

Two key factors behind the transition recessions of the 1990s are economic shocks from the disintegration of trade links and the disorganisation of supply chains. The disruption of trade was due primarily to the break-up of the CMEA (the Council of Mutual Economic Assistance, a trading bloc dominated by the Soviet Union) and the Soviet rouble zone. On the disordering of supply links between firms, it is argued, most prominently by Oliver Blanchard, that liberalisation offered firms previously locked into planned production relationships the room to bargain with a wider range of buyers on price. With one party in the transaction (the producer) having better information about the product, however, there was no guarantee that the bargaining process would succeed, so that old production relationships broke down, but without new ones taking their place (Turley and Luke, 2011, p. 243).

By now, however, the core economic explanations for the cross-country variations in growth over the long term have been identified by way of a large number of econometric studies and, in particular, of "meta-analyses" of them (for example, Turley and Luke, 2011, pp. 248-260), the aim of which is to iron out methodological errors and inconsistencies between studies and, in light of this, identify valid common patterns and trends. Chief among the determinants of growth so identified are initial conditions, macroeconomic stabilisation, market reforms and institution-building.

Initial conditions include the institutional inheritances carried over from both the communist and pre-communist eras, with institutions understood broadly as sets of socially transmitted rules guiding and constraining individual action. Of the factors carried over from the communist era can be included industrial structure, the degree of trade integration with the CMEA, the extent of macroeconomic imbalance at the start of transition, and length of time under communist rule.

In the post-communist period, dissimilar initial conditions are found to affect the tendency of the different economies to adopt the policies required both to achieve macroeconomic stabilisation and to embed the rules needed for a market economy to work. According to these studies, the length and depth of the 1990s recessions is linked with the timing of adoption of liberalising reforms, which centrally involved the removal of administrative price controls; and on macroeconomic stabilisation, which usually aimed to bring down the high post-communist inflation triggered by price liberalisation, including through control of budget deficits. The message of this is that rapid reformers tended to suffer the least. Alongside structural market reforms, over the longer term, the pace of economic recovery and growth is found to correlate with the adoption of institutional reforms, such as on property rights and the development of appropriate regulatory bodies. Although these were usually politically more difficult everywhere, countries that moved fastest on the first set of liberalising reforms tended to do so also on the second institutional ones.

Two other factors are frequently mentioned in the literature as distinguishing the best east European post-communist economic performers from the worst. These are, respectively, EU membership and regional conflict, under the reasoning that qualification for EU membership imposed an additional degree of reform discipline, whereas war destroyed parts of the labour force, physical assets and the confidence needed among economic actors to drive a sustained expansion in output.

1.3.2 Lagging reform was central in Ukraine's case

Reform lags shown by EBRD transition indicators

Just as macroeconomic stabilisation and the introduction of market reforms are conceived to have set the groundwork for sustained economic growth, so the lag in the introduction of such reforms in Ukraine is frequently identified as a key reason for the depth and duration of the country's transition slump in 1991-98, when output volume fell by 53% from peak to trough (calculated using same IMF data as for Figure 1.1), and for its generally poor economic outcomes since then.

In his overview of the economic growth record of Ukraine, Havrylyshyn, for example, reproduces Ukraine's EBRD "transition indicator" scores on two sets of market economy reforms, liberalisation and institutional development, in regional context up until 2010 (Havrylyshyn, 2017, pp. 39-40). The combined scores for economic liberalisation measures show that Ukraine lagged behind not just the leading reformers such as Poland and other central European states, but, until 2010, other former Soviet countries also. Institutional reforms were often delayed for political reasons across the region. In Ukraine, however, they did not make much headway until the end of the 1990s, with the reforming government of Viktor Yushchenko. In the following decade, although Ukraine overtook other former Soviet states on this indicator, it remained far behind the region's leading reformers.

Why did reforms lag in Ukraine?

This raises questions, however, not only of why progress on the transformation of economic institutions has been slow in Ukraine, even compared with some countries with similar starting conditions, but also of who has been doing the slowing, and how, so that the issue of reform lags appears as an explanation in need of an explanation. This is where a political economy approach—examining the changing incentive structures that face social actors as a result of the evolving relations of political and economic power—comes into its own. Here, we may start with two proximate causes for the delay in reforms. The first is that towards the end of the Soviet era, nascent reformist elements in Ukraine, gathered in the Rukh movement but aware of their own weakness as a national political force, made a "Grand Bargain" with the "nationalising" nomenklatura (the communist-party-controlled political and state economic elite) led by Leonid Kravchuk, Ukraine's first post-Soviet president, allowing them to remain in power in return for their support for Ukrainian independence (Wilson, 2015, pp. 174-175). Kravchuk, in turn, focused on nation-building, neglecting urgent economic reforms, which did not really begin to get under way until 1994. Second, for well-connected actors, the combination of limited property rights introduced in the late Soviet era and the lag in market economic reforms in the early post-communist period produced opportunities for significant wealth accumulation (chapter 3). The most successful of them, dubbed "oligarchs", used the political power conferred by their newfound wealth both to tip the privatisation process in their favour, so boosting the process of wealth concentration still further (chapter 4), and to perpetuate the conditions of incomplete political and economic reform, of which they were the main beneficiaries (Hellman, 1998).

Rather than examining again the impact on Ukraine's economic performance of its institutional inheritance, or of economic shocks from the break-up of the Soviet Union, therefore, the focus of this book is on the establishment of a new kind of post-communist political economy regime—the modern Ukrainian oligarchy—and the ways in which the means of its constitution, regeneration and survival across crises have contributed to the country's perennially poor economic performance. The basic relations of post-communist political-economic power in Ukraine were established during the presidency of Leonid Kuchma in the late 1990s (chapter 3). Although these relations have evolved under successive leaderships, the fundamental modes of operation have remained the same (Matsiyevsky, 2018; Dalton, 2021), which is what I mean here by "regime". It is not, then, just a question of economic winners and losers from the transition process, but more of the kind of resilient institutional structures the winners created that have helped to perpetuate their winning, at the expense of Ukrainian society as a whole.

1.4 Thesis, "national" scope and book structure

1.4.1 Thesis

On this basis, and drawing also on a theory of oligarchy as the politics of wealth defence (chapter 2), I arrived at the central thesis of my investigation. This is that **the process of reproduction of the contemporary Ukrainian political economy model—popularly referred to as the oligarchy—has economic side-effects that help to explain Ukraine's perennially poor economic performance**. One way of putting this is that the means of political influence that the very rich use in Ukraine to protect and enhance their wealth encourages the persistence of institutional norms and behaviours that inhibit the development of economic institutions associated with broad economic prosperity. Seen this way, my two research problems—Ukraine's poor post-independence economic performance, and the resilience of the oligarchy as an institution—appear as two sides of the same research problem.

1.4.2 The national level of institutional reproduction in its broader context

To show how the Ukrainian oligarchy managed to keep going after the Euromaidan Revolution—the most serious domestic "critical juncture" in modern Ukrainian history—the body of my investigation, designed around a comparison of the post-Euromaidan and Yanukovych eras, is organised into three empirical chapters. Each chapter examines a capacity, or political-economic practice, as an exemplifying element in the process of institutional reproduction of the Ukrainian oligarchy at the national level. In turn, an understanding of how these national-level processes fit in with lower-level (regional) and higher-level (international) processes is one of the outcomes of my research. This is depicted in Figure 1.3, below, as a "currency flow" of wealth and power at different planes of institutional reproduction or support to situate my national-level empirical chapters within this broader "process" conception of institutional reproduction. The conception itself, however, is discussed in more detail in the conclusion to this study (chapter 7).

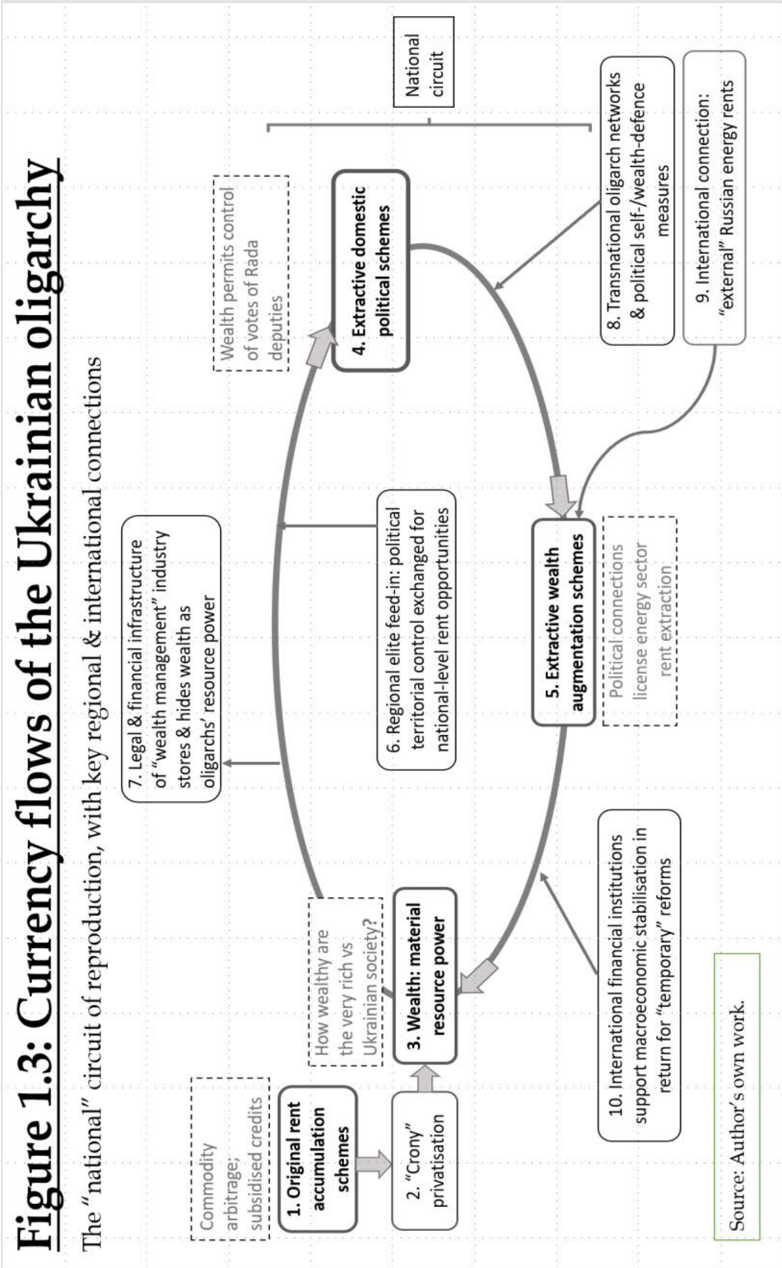


Figure 1.3: Currency flows of the Ukrainian oligarchy

The "national" circuit of reproduction, with key regional & international connections

Source: Author's own work.

1.4.3 Book structure

The first empirical chapter (chapter 4) examines the patterns of wealth concentration and dynamics of Ukraine's economic elite. It addresses the question: Has the wealth of Ukrainian oligarchs since 2014 remained sufficiently concentrated, relative to Ukrainian society, for it still to be considered a major "material resource power" in national politics? The central finding is that in 2010-17 the domestic business wealth of the economic elite fell by half as a share of national wealth. This need not, it is argued, imply a decline of elite, and especially of oligarchic, potential political power. One reason for this is that a steep drop in the hryvnya exchange rate in the economic crisis of 2014-15 is likely to have amplified the material resource power at home of wealth already held abroad.

A second empirical investigation (chapter 5) asks whether voting patterns in the Rada in 2014-17 support the idea that politically active business network leaders (oligarchs) have continued to use their wealth to influence the outcome of political economy reforms. Although the evidence for such a direct relationship proved less robust than it first appeared, this result in itself may express something more basic about the operation of politics in the Rada, as well as about its role in Ukraine's political economy system more widely. This is that a certain "fuzziness" of the organisational forms within parliament and the relative looseness of alignments between them are not incidental features of the operation of the Ukrainian legislature, but rather necessary ones to enable the flexible process of deal negotiation between leaders of business-political networks that is at the heart of contemporary Ukrainian elite politics. A break of factional voting patterns in the Rada in April 2016, a key finding of the chapter, is a striking example of this flexible process in action, appearing to mark the full recreation of the oligarchy as a transactional relation between elites (Dalton, 2021).

The third empirical investigation (chapter 6) examines the adaptation of elite rent-extraction schemes in the energy sector—a traditional source of oligarchs' wealth—to changing political and economic conditions, and energy policy, in the post-Euromaidan period, comparing these with "historical" energy intermediary schemes. The chapter finds that, with opportunities greatly reduced for the operation of traditional gas rent schemes, in the early post-Euromaidan years, the schemes examined tended to become smaller and more regionally confined, but that opportunities for rent extraction began to open up again once the worst of the crisis had passed, and especially following the reintegration of leading "old" oligarchs into post-revolutionary politics from 2016.

Chapter 3 gives a critical account of the political and economic literature on the genesis and operation of the contemporary Ukrainian oligarchy, producing also a synthesised overview of its evolution. Chapter 2, meanwhile, outlines a theoretical framework for conceptualising the links between economic and political power in Ukraine. The choice and ordering of the topics of the empirical chapters are thus conditioned by the theoretical framework of chapter 2, as well as the "currency flow" model depicted in Figure 1.3 above. Specifically, they are conditioned by the ideas of the primacy of political institutions, of political rules affecting economic ones, and of wealth—the power resource characteristic of oligarchs, conceived as the driver and end-goal of the cycle of institutional reproduction—as the concept that, running through the empirical chapters, threads them together. More concretely, a link between the Rada and energy chapters is the implied exchange of a widening of politically licensed rent-extraction opportunities (chapter 6) in return for increased support in the legislature from MPs assumed to be materially linked to leading oligarchs, following the disintegration of the five-party governing coalition in 2015-16 (chapter 5).

The first half of the empirical chapters aims not only to develop the data and make explicit the sources and methods used, but also to situate the analyses of the second half of each in their appropriate intellectual context, indicating thereby the broader academic conversations to which my investigations add. One purpose, therefore, of the brief assessment of Thomas Piketty's *Capital in the Twenty First Century* (2014) early on in chapter 4 is to align my analysis of the wealth of the richest Ukrainians with the relatively recent re-emergence of wealth as a topic of academic study, connected in part to the international success of Piketty's book. In chapter 5, an account of the position of Rada within the Ukrainian political system performs a similar role for my examination of material power as an informal mode of political influence. A brief outline of "old" institutional economics, originally written for chapter 6 with the same goal in mind, was relocated to chapter 2 in order to follow my exposition of a "new" institutionalist theory of prosperity. At the end of each empirical chapter, on the basis of its main findings, I answer the corresponding research question and derive some broader conclusions about the operation of the Ukrainian oligarchy and its economic side-effects.

Concluding that the main economic effect of the institutional production of Ukrainian oligarchy is through the establishment of a persistent negative feedback loop between low state capacity and low investment, the final chapter of the book (chapter 7) depicts and explicates a proposed schematic "model" of the interconnection between the capacities, practices and processes of Ukraine's political economy regime, envisaged as a "currency flow", or circuit, of wealth and power (as in Figure 1.3). A recap and synthesis of the main findings of my research paves the way for a revised definition of the Ukrainian oligarchy as **an institution habitually reproduced by its informal extractive political and economic practices, interconnecting at regional, national and international levels, motivated and facilitated by wealth**. This alternative definition of the oligarchy as a process rather than a relational structure (as at the start of this chapter) is a key result and contribution of this study. At the end of this concluding chapter, I make some suggestions for further research.

1.5 Contribution and wider implications

Overall, to the academic literature on the dynamics of informally dominated post-communist political economy regimes, this monograph adds a detailed, integrated, and internally comparative case study of Ukraine. Individually, the empirical chapters contribute useful original findings and perspectives to the literatures on:

- comparative international wealth inequality;
- the politics of extreme wealth inequality, using the Ukrainian elite as an illustration;
- the operation of parliaments in post-communist regimes, and their systemic role, with the Rada as an example;
- informal economic practices, by way of a detailed, contextualised comparative analysis and taxonomy of rent-extraction schemes in the Ukrainian gas sector.

The cyclical, or "process" conception of institutional reproduction developed here, and represented in the diagram above, offers a fresh angle—of "political" materialism—on the problems of economic and democratic development in societies dominated by wealthy elites, where economic and political activities overlap more extensively than in the liberal democratic West. From a development perspective, an original feature of my analysis is not so much the identification of a negative feedback loop between low state capacity and low investment, as to connect this to key elements of the process of reproduction of Ukraine's dominant political economy governance institution, "the oligarchy". My book suggests that, just as the continuance of the Ukrainian oligarchy is not mainly the outcome of the individual moral failings of its leading beneficiaries, so the inability of successive "de-oligarchisation" drives to dismantle the oligarchy as a ruling institution in Ukraine is not mainly explained by an absence of political will on the part of political leaders, but is rather the outgrowth of long-established elite and societal norms and values that have become institutionalised, habitual, ingrained. This has implications for the formulation and adaptation of reform policy, post-war, especially for reform policy on governance institutions, on which the success of other reconstruction goals will depend. The "combined" theory of oligarchy and institutional prosperity proposed in chapter 2, meanwhile, suggests a possible way of linking this mode of politics to Ukraine's low living standards, by way of the poor economic outcomes that it tends to foster.

Outside of Ukraine and eastern Europe, my study has broader relevance to the study of the interaction of politics and economics.