

Privatization, marketization and the private-public dichotomy. The limits of post-socialist transitions: some lessons from Ukraine (1991-2009)

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Drawing on Hernando De Soto works (1989, 2002), this paper enquires the way capitalism has been developing in former soviet republics by presenting the case study of Ukraine after independence. The paper explores the way mushrooming of informal practices, after liberalization and privatization of some segments of the economy, has generated an “economic system within the economic system”.

The phenomenon has grown to a proportion that now the informal sector is well beyond the control of the state. In this respect, it will be suggested that much can be understood by exploring the very motivations behind such transitions, the way capitalism has been introduced into the country and, in particular, the way excessive liberty in some sectors has been matched by strict state control over some others, such as health and education. This, in turn, has caused an uneven development at regional and social level which results into a widespread engagement in informal transactions.

Introduction

Ukraine gained independence in 1991. After an era characterized by nationalist movements, workers' and students' strikes, multi-party elections and an attempted golpe, it seemed clear that only a radical transformation of the country would enable it to survive.

Although a full republic within the USSR, the country still lacked some of the international institutions that a sovereign country needs. The Ministry of Foreign Affairs had been based in Moscow so far as well as the national bank, both of which were to be created *ex novo* and based in Kiev.

In an effort to gain credibility and get international recognition, at domestic and international level, the country, lead by the head of the communist party Leonid Kravchuk, initiated a number of political and economic reforms. As first step, in 1991, the country became a presidential republic and Kravchuk was elected as first president; in addition the communist party was formally banned (though admitted into politics again in 1993), and its property nationalized. However, because no political lustration was carried out, many communists remained in politics, adopting a new political identity (some went into the Socialist Party, which absorbed most of them, some become independent candidates and other distributed in a number of other parties, Polese 2008).

The international dimension of this independence is also very important. Because of Russian proximity and claims (economics on gas and debts, as well as on the Ukrainian territory and attitude towards Russian minorities) international recognition and assistance and support were also sought to counterbalance pressures. The country was accepted into the Council of Europe in 1995 and a partnership and cooperation agreement with the EU entered into force in 1998, a year before than a Common Strategy on Ukraine (and Russia) was put forward by the EU Commission. Programmes of assistance like TACIS or IREX were set up and had Ukraine as a main target; the IMF and World Bank also were welcome to give advice and collaborate with the local government to try to prevent the country to face harsh crises.

The price of this international interest was a strong manipulability, especially with regards to economic

questions, also given the shortage of prepared economists. Ukraine had few economists formed in other than a Marxist Leninist economical theory and most of them were incapable to properly deal with the economic transition the country was experiencing. In addition, foreign assistance, especially from the World Bank and the IMF was granted on the understanding that the country was moving from a central planned economy towards a market one and would comply with the suggestions of international experts. Measures trying to boost fiscal reforms, monetary policy and sustainable economic growth were strongly encouraged (Cornelius and Lenain 1999). However, as it has been suggested recently, the attempt to use a single standard all over the world might not be the best way to deal with a transitional country (Stiglitz 2002) and capitalism, as it is performed in the West, might result inapplicable as it is now (de Soto 2002), especially where the informal sector had been growing more than the formal one in the last years (Kravchuk 2002).

As pressures from the international community to adopt “international standards” continues, and the situation has not improved much, it is the case to stop and reflect. The informal sector, estimated at some 60 percent of total economic activity (Kravchuk 2002: 18) in 1996, is still crucially important for the country. As one teacher put it “according to macroeconomic standards, we should be all dead” meaning that official economic figures do not really mirror the situation of the country.

Whilst there is international pressure to liquidate the informal sector and make Ukraine accountable, some studies have started inquiring the nature of this informal sector, suggesting that only by reckoning with informal transactions we could have a satisfactory picture of the Ukrainian economy and why economic reforms have failed to spread welfare so far (Polese 2008).

Drawing from previous works on “export of Western institutions” into transitional countries, main argument of this paper is that the attempt to introduce a Western-style capitalism into the country has resulted in the spreading of an “informal capitalism” mixing economic liberalization and market oriented reforms with social networking and informal practices that are necessary to a high number of Ukrainians to “survive this transition”. This means that a transition to a market economy that is theoretical rather than practical (that is inspired by general economic theory and Western-laden normative statements), and based on pure macroeconomic data (that is ignoring the role of the formal sector and its significance to the functioning of an economy) is most likely not leading to the expected, and longed, effects.

In other words, economic reforms carried out in the country and constraints imposed by external organizations, that seem to shape not only the local codes but also local morality, have worsened the situation. A mere import of concepts and ideas from the Western world into Ukraine has the problem of neglecting the local perception, and values, of such concepts and ideas locally. Exploring labour relations in a transitional factory of Ivanovo, in Russia, Morrison has shown how economic and technological reforms in a post-Soviet context have a limited impact, for people will adopt only what they understand (2003, 2008). Likewise, democracy export as a whole package has shown to have big limits, for the same word may have different meanings in different contexts (Putnam 1994). Even the capitalist model, that seems to be the dominant economic ideology as of now, has an extremely limited effect when applied to transitional countries (De Soto 2002).

In addition to the appropriateness of the policies, there is also the question to what extent a measure applied to the whole country will be received at local level. From Scott (1984) on there is a tendency to focus on the way human agency receives and modifies instructions from the top, sometimes refusing to comply, if costs are higher than benefits. In Ukraine it has been shown that human agency has a main

role in implementing directions from above, which will be filtered and adapted to the local reality (Polese 2009) to change completely the intentions of the legislator. This means that even “the right measures” have to be understood and passed off to regional and then city offices. In this complex process the original message might get distorted so that “the right measures” might turn out completely different, though sometimes they gained in quality for they became better tailored for local realities (Polese 2009). The other is that policies cannot be decided in a room but have to be based on common practices and performances of the people. Just like, if world tendencies show that fridges are more requested than before, it might be opportune to evaluate an attempt to export fridges to Alaska, it makes no sense to kick street sellers out of the streets, without reckoning that they need an alternative, just because there have been pressures to regulate every economic transactions and street sellers are not controllable.

After almost twenty years of independence, it is quite visible the failure to impose Western standards. For one thing we could look at the role the informal sector plays and try to understand why reforms have failed to liquidate the informal sector. The informal sector, rather than repressed, should be regulated, following historical experiences that suggested to adopt several laws on the basis of pragmatism, that is looking at the situation in a country, and not on the basis of an economic theory deemed universal in time and space (de Soto 2002).

Following this approach this paper wants explore the results of the injection of capitalism in Ukraine. In the rest of this paper I show the way Ukrainians are coping with marketization of their economy and attempts to fully introduce capitalism into the country. While some measures have changed the status of the country and the working conditions, there is a lack of pragmaticity that has been keeping people in the shadow. To register a business is hard, to run a business legally is hard, to find a job is hard, to get a degree is hard.

Thus, the introduction of a Western style capitalism is fomenting an “informal capitalism” that is an alternative way to solve questions that remain unanswered, as long as the government is blindly importing rules and moral codes from abroad to the people.

Lack of matching between reality and laws is only increasing and consolidating informal practices developed during the Soviet period. Practices that capitalism is supposed to wipe away. In this respect the informal sector is the response to lack of pragmaticism of the authorities (and international community) that maintain that, if well implemented, reforms will solve the problem.

By analysing the way capitalism is lived and implemented in Ukraine I intend to illustrate an alternative, based on empirical experience, to the capitalist model that international organizations have tried to impose on the country, showing that the system is decently functioning though not under the control of the state. This, in turn, puts in doubt the existence and worthiness of the state itself in the Ukrainian case and wants to prompt a discussion on the way capitalism and economic transition may be (mis)managed. The next sections gives a theoretical framework and a short overview of the history of Ukraine, before giving a narrative account of how things work in Ukraine.

The informal sector is not the problem...it is the solution!

Agreement to consider the informal sector as relevant for economists is a relatively recent achievement, after years of debates in which international institutions were unable to agree on an attitude towards the informal sector. The informal sector was first defined as unregulated economic enterprises or activities

(Hart 1973) until, in 1993, the International Conference of Labour Statisticians (ICLS) adopted a definition that included all unregistered (or unincorporated) enterprises below a certain size, including: micro-enterprises owned by informal employers who hire one or more employees on a continuing basis; and own-account operations owned by individuals who may employ contributing family workers and employees on an occasional basis.

Far from satisfying everybody, this was a first step. Hoerver critics immediately pointed at the issue that persons engaged in very small-scale or casual self-employment activities may not report in statistical surveys that they are self-employed, or employed at all, although their activity falls within the enterprise-based definition. In addition informal sector statistics, was deemed, may be affected by errors in classifying certain groups of employed persons by status in employment, such as outworkers, subcontractors, free-lancers or other workers whose activity is at the borderline between self-employment and wage employment, with women more likely than men to be engaged in such activities. (CSO/India 2001).

However, a main change in theory has been the fact that informal economies, or the informal sector, are no longer considered transitional and separated from the formal economy (ILO, 1972; Sethuraman, 1976; Tokman, 1978), representing only small scale activities (Moser, 1978; Castells and Portes, 1989) or big enterprises trying to fraud the government (de Soto, 1989). This has meant to consider informal economies not a subject for economic policy (Maloney 2004) but a persisting and lasting part of the national economy, having an impact on the GDP and composed also of non-standard wage workers as well as self employed who should prompt governments to reconsider it when deciding on a political and economic development strategy (Chen, Martha, Joann Vanek and Marilyn Carr. 2004).

Since informal economies is quite broad an expression it might be opportune, thus, to narrow the focus of this paper and define what categories of activities are of interest to this research.

In a first attempt to classify informal economies Feige distinguished: illegal, unreported, unrecorded and informal economies (1990:7). Illegal economies are activities perpetuated in violation of legal statutes defining the scope of legitimate forms of commerce (1990:8) and which, at least in principle, should be of interest for criminologists or law students. Unreported economy consists of activities that circumvent or evade the institutionally established fiscal rules so that tax authorities are not informed of the activity. The unrecorded economy are all those activities that the state does not consider revenue producing but they *de facto* are, like household production. In developed countries it is estimated this accounts for between 25 and 50 percent of the GDP (Feige 1990: 9) and can strongly bias data on unemployment and production.

Finally informal economies, according to Feige, include all those those economic activities that circumvent the costs and are excluded from the benefits and rights incorporated in the laws and administrative rules covering property relationships, commercial licensing, labor contracts, torts, financial credit and social security systems (1990:10).

The boundaries between those theoretical four categories, if we look at the reality, become blurred. Could a good that is illegal in a country temporarily integrate the category of illegal economies? Russia banned Georgian wine after 2006 and Ukrainian meat in 2007 on a political ground. Would it be possible to cluster this with drug trade? Illegal economies may be function of the attitude of a state, and should thus be analysed in dynamic terms, rather than just dividing what is “good” from what is “bad”. Unreported economies also depend on the attitude of a state. Bovi (2001) has shown that desire to pay taxes is directly correlated to benefits the state offers to taxpayers and to the efforts the state makes to spot fiscal fraud.

Unrecorded economies may also be subject to different interpretations. As De Soto put it:

“Individuals are not informal; their actions and activities are. Nor do those who operate informally comprise a precise or static sector of society; they live within a grey area which has a long frontier with the legal world and in which individuals take refuge when the cost of obeying the law outweighs the benefit. Only rarely does informality mean breaking all the laws; most individuals disobey specific legal provisions in a way that shall be described later. There are activities for which the state has created an exceptional legal system through which informals can pursue their activities, although without necessarily acquiring a legal status equivalent to that of people who enjoy the protection and benefits of the entire Peruvian legal system; these are also informal activities.” (1989: 12)

Since such a wide range of transactions is too big for a single paper and because the nature of my research has pushed to focus on a certain kind of informal transactions I shall narrow the scope of this paper for: 1) a too broad focus will affect the quality but also because 2) such different actions fall within different frameworks.

I concentrate herewith on “illegal-legal” (or slightly illegal) transactions. I refer to actions that may be considered illegal in a given context, for they are not regulated, registered, or fully recorded but could be easily considered legal in a different context. It has been shown that the desire to remain in the shadow is often due to the incapacity of the state to invite people to leave the extralegality (de Cornelius and Lenain 1999, de Soto 2002). This means that I shall refer to actions that the state, by modifying a legal framework, might easily transform from illegal into legal.

In this category may fall a businessman who operates in the shadow because the registration procedure is too complex, whilst that same business might be legal in more friendly settings. Conversely, this classification does not focus on if somebody is operating in the shadow because is selling drugs, which would be very difficult to make legal even in by the most liberal government.

Another way of drawing the dividing line might be the following: this paper focuses on actions that, given their illegality in a context, might harm a state but not the fellow citizen. Trafficking, money laundering, drug trading are also part of the shadow sector but they directly harm the fellow citizen or. Petty trade, undeclared activities like sewing at home or piecework are more ambiguous. They might become legal if the context allowed, that is if easier conditions to leave extra-legality were adopted. Furthermore they do not directly harm the fellow citizen but the state (and only indirectly the citizen), hiding taxable revenue.

Where those informal economies originate? The very inception of an informal economy is the lack of a state: as long as there is no institution all the transactions are informal. However, in a world dominated by the concept of the nation state and national sovereignty it is difficult to find a national territory where the state is absent. There might be the case where it is partially absent, in spatial or temporal terms. The state might be absent “sometimes” or “in some places”. I refer here to the possibility that the state, trying to regulate the economic life, might fail to do so in some cases (for some sectors or industries or in some regions) or in some periods (for instance during an economic crisis). Alternatively the state might be unable to boost an even regional development, neglecting some regions and thus encouraging engagement in informal transitions. The more this happens, in temporary and spatial terms, the more the state might be considered a failed state though all real situations may be found in a spectrum between a failed and the perfect state. Even Western countries like Britain, it has been shown, function a lot on informal transitions (Williams 2005)

At the origins of a state failure to boost development, I would suggest, there is the arguable assumption

that institutions and practices can be exported the way they are and, because they work elsewhere, they must necessarily work in others. This is, according to several authors, the very reason why political, economic or social transitions may fail. Putnam showed that democracy export must reckon with local variables and it is function of regional history and development (1994). Recent attempts to export democracy at national level have shown that the problem of democracy export is related to its import (O'Beachain and Polese 2010; McFaul 2007). At a more daily level, Morrison (2004) has shown how technological innovation cannot be imported as a whole package into a factory, for it will be filtered by local beliefs and habits. I have suggested that even the most determined linguistic policies must pass the wall of practices, consolidated over time, before they can be applied (Polese 2009). All this can be summarized in what de Soto suggested that capitalism cannot be exported as it is because it is based on historical experiences and practices that have consolidated in certain settings and new capitalist oriented countries do not possess the same characteristics (2002).

I would suggest, thus that the state has a major role in defining, tacitly or officially, the informal sector and informal economies. By ceding to international pressures and adopting a series of economic reforms based on different experiences (that might not be appropriate for the given country) the state is prompting a reaction by its people to mild the effect of those policies. By totally ignoring a region the state will prompt people to engage in transactions that will not be under state control; by banning a product it will boost its black market availability and price or by denying fiscal benefits to enterprises will foster free-lance employment or employment with no contract.

Informal economies are thus generated either by the lack of a state or by its incompetence. For instance, I have shown that in Ukraine the low amount of money allocated for hospitals has made informal payments the rule rather than the exception and this is the only way doctors and nurses can survive on the wages the state allocates for them, although classified as illegal by international standards (Polese 2006, 2006b, 2008).

In this respect informal transactions are not the disease but the solution, as de Soto (1989, 2002) suggested. The main problem, according to the Peruvian economist, is that Western capitalist models of development, in particular property laws and practices, were drawn from practical experience rather than being blindly imposed to the citizens (when trying to do so the authorities faced open, or hidden, resistance). But those very models, practices and rules, elaborated through historical experience are now imposed to transitional countries in the credo that, as long as they work in the West, they must work everywhere, which leads capitalism to fail.

Recently mainly anthropologists have started questioning the imposition from the top of such normative categories that limit domestic initiatives and are bound to shame politicians or people for failing to line up with capitalist standards. When talking of gift exchange practices in Kazakhstan, hurriedly classified as corruption by Western organizations (Transparency International or the World Bank) it might be useful to compare the definition of international organizations with local and cultural standards as Werner (2003) suggested, to lead a contextually focused analysis (Rasanayagam 2003) and to accept that standards depend on a particular economic situation (Wanner 2005) before trying to separate the formal from the informal, the legal from the illegal.

In a context where decisions are imposed from above, informal economies become a way to react to economic measures with which citizens cannot comply. Once an unorganized struggle challenges an economic policy, by simply failing to comply with the economic instructions of the government, this failure may become a sign, a way to respond to decisions and have a voice in the political arena (Gupta 2005, Thompson 2003, Scott 1977, 1985, Tarrow 2005) to oppose too abstract rules that would make

life impossible to anyone willing to survive.

In a number of countries to register a business following the official legal procedures could take several years and is much more expensive than remaining in the shadow. In Ukraine, as we will see in the next sections, laws often contradict themselves and come to reject social practices that people need to survive. Social and economic interaction, with the subsequent indebtedness, become a way to keep relations and be able to ask for help when needed, as (Lolinka 2002, White 2004). On their side, international organizations, by proposing an international standard to all contexts, sometimes coming to deny historical practices and getting to deny the very social fact of the gift, as Werner (2003) has remarked for the World Bank.

A short economic history of Ukraine

The first years of Ukrainian independence were characterized by strong desire for reform but little deeds. The mix of planned economy and attempts to introduce marketization caused a situation common to most post-soviet republics. Because it was much more convenient to sell goods abroad than to sell them on the domestic market where prices were controlled, shortages of the perestroika period continued and even increased.

Control over domestic prices was deemed to limit inflation, that was already at 200 percent in 1991 and topped 2000 percent in 1992. Because the Soviet Union had collapsed, among others, for economic reasons, economic reforms were given a priority by former communist, improvised nationalist, president Leonid Kravchuk, elected in 1991 and former head of the communist party.

Ukraine planned to introduce reforms also with the help of the international community but international assistance, while granted more money to the country, was rather binding for it encouraged Ukraine to comply with international standards. By 1994 the Ukrainian economy was only minimally liberalized due to persistence and proliferation in central administrative controls over the economy to the inconsistency between fiscal and monetary policies (Kaufmann 1994). Incapacity to carry out enough reforms helped the escalation of Leonid Kuchma, who obliged president Kravchuk to early elections in 1994, which he eventually won. Despite promises, the situation changed little. True that from 1994 international assistance to Ukraine increased and teams of economists helped to form a new generation of Ukrainian economists and the Open Society Institute funded a number of initiatives, with the World Bank and the International Monetary Fund also actively participating in the debate. However, while top politicians and economists were discussing the best way for Ukraine to avoid recession, and while a new class of oligarchs started to emerge doing business in US dollars, common people had to survive and face an overinflation that urged the government to introduce a temporary currency, the karbovanets.

From 1960-89 the unofficial economy had grown in the former USSR by an estimated 3000 percent. In 1996 the unofficial economy was estimated to some 60 percent of total economic activity (Kravchuk 2002: 18). Following a tendency recorded already in the '80s, and favoured by the relative opening up of the country, goods produced for the internal market could be sold on the international one for a higher price. As a result, those who had access to such goods preferred to look beyond the national borders. If we add that devaluation of the national currency made imported goods prohibitively expensive we can make sense of the long queues outside the shops for meat or bread at the beginning of Ukrainian independence.

This was not the case for all goods and, it is useful to remark, the whole region was in economic troubles. Taking advantage from a mobility they had not enjoyed in the past 50 years, common people started petty international trade businesses. Ukrainians would go to Poland to sell goods such as backpacks or camping equipments, furs or gold and would bring back "luxury goods" such as ketchup, dried bananas or electric devices. Poles would do the opposite and every country specialized in a kind of

import with the others.

It is in this period that semi-rigid bags, with square patterns on their plastic sides, offering a decent ratio low-price/long life, were named “kravchukchiki” to mean they were used in the “Kravchuk era”. Ukraine had a solid heavy industry, producing steel and coal; rivers securing hydroelectric energy, and was famous for its airplane factories, corn. However the internal chaos was such that the government could not stop export of such goods, that whoever had the power to do so would sell abroad for a higher price. The main victim were common people who had no chance to sell their goods and were bearing shortages and inflation.

Privatization was another painful point in the history of the country. What should be privatized and how? How to avoid speculations or that patronizing networks outplay the best offers on the market? The privatization of the Metalukr government steel factory sold to a local businessman for an amount dramatically lower than most foreign offers is a good example of how things were managed, recalling the link between democracy and economic prosperity that a scholars like Przewoski (1991) have advocated. This was only the top of the iceberg for an interesting phenomenon was producing, the birth of the post-soviet (or post-socialist) businessman. They could be divided into two main categories: those who started from a prestigious position and those who took advantage of their initiative. In the first category we can put all those who had access to resources, primary material and had the necessary contacts. They had acquired a prestige position during the USSR and were head of an important factory. They were thus able to accumulate capital by selling some assets on the black market and/or privatize some state property. In addition, they were aware of the necessary procedures to follow and had enough contacts to do this relatively quickly.

The other kind of businessman had lived the perestroika period constantly learning from the changes and was resourceful enough to set up a small enterprise and develop it, often leading it to success.

There is another conjunctural element, the lack of rule of law. The nineties in Ukraine saw a dramatic increase in crime. Because property was not fully secure as asset it was possible to steal property and enterprises. In addition, with the currency sinking and people trying to survive, it was easy to bribe a judge or a state fonctionnaire to bypass the law. The only way to stop human greed would be a functioning state, boosting civil conscience of its citizens but Ukraine was unable to do so. First because those same businessmen who would commit crimes were sitting in the parliament and second because when there is nothing to eat it is difficult to maintain order.

There are some measures, however, that seemed to have an effect on the country. Moderate economic reforms coincided with an increasing weight of the IMF to restructure Ukraine's foreign debt (Aslund and Menil 1999) and the fact that from 1996 Viktor Yushchenko was appointed as head of the National Bank. Yushchenko reduced inflation, tried to put a stop to the wild privatization that was happening and, after stabilizing the prices, introduced a new currency, the hryvnia. This was welcomed by the IMF which extended fund facilities and World Bank that granted structural adjustment loans

However, those measures had to be supported by a political will to improve the situation of the country, which was not necessarily the case for “Ukraine's continuing output collapse in the face of substantial macroeconomic stabilization suggests that, at least in Ukraine's case, macro-stabilization is not a sufficient condition to enable growth to occur, suggesting that this is more the result of government failure than unfavorable terms of trade or energy dependence on Russia (World Bank Report 2002)

As a result it was hard for Ukraine even to stick to IMF growing standards after 10 years of independence. When the minister of justice Stepan Holovaty attempted to implement an anti corruption programme proposed by the IMF and WB, political opposition preferred to liquidate the man, rather than corruption. The only motivation to change would be the Asian crisis of 1998 that, after eating out

most of Russian's assets, was feared to move to Ukraine and pressured the political elite to put Yushchenko, who had revealed an experienced economist, at the head of the Cabinet of Ministry. For the first time Ukraine experienced a real growth and fiscal reforms were introduced, along with a VAT reform.

Once the risk of crisis minimized, Yushchenko was sacked and personal interests prevailed over state ones. With the boundaries of private and public extremely fluid, it was difficult to understand what belonged to the state and this was an extremely comfortable situation for those controlling the economy and the institutions. A measure that could have contrasted this would be a democratization of the country, making politicians accountable before the people, but this was still far to come. Conversely from countries like Poland or Czechoslovakia only the party was banned, not its people. This means that former communists simply had to reinvent themselves and create another party to remain in politics. Former communists were the people with the right connections that were making profit during the Soviet Union and those who kept on maintaining the power (Polese 2008). Interestingly enough the Communist Party was allowed again into politics in 1993 and half of the parliament seats were allocated to independent candidates, which had no political affiliation, they were elected supported by a local electorate and were not responsible before a political party but only before an alienated electorate.

With these conditions Ukrainian elites acted following a double standards: they did what they wanted while partially, or theoretically, following the instructions of the international community. They were ready to adopt laws and regulations complying with international standards to make the international community happy but without questioning whether this would work in an Ukrainian context. As a result, Ukraine is deemed to be still trapped between the plan and the market, with main failures in the field of privatization, corporate restructuring, enterprise governance, agricultural reform and creation of an “investor friendly” business climate (Kravchuk 2002: 6). Because elites seemed more interested in their continuation and welfare than in the welfare of the country and its citizens Ukraine has fulfilled many canon reforms whilst still avoiding a genuine transition to the market. It has been striving to meet the criteria imposed by international institutions like the World Bank or the IFM, enough to get loans, but insufficient to get a real transformation of the economy.

Although in recent years, and especially after the 2004 events, the democratization process has made the elites more accountable, and thus interested in effective economic reforms the soviet, and then post-independence, heritage of cumbersome regulations has made extremely difficult for human beings to live a normal professional life. Kubicek suggested that the slow pace of Ukrainian reforms can be due to the difficulty of mobilizing a constituency that supports such reforms (quoted in Kravchuk 2002:9). Lack of political will has thus translated into declarative reforms, rather than real ones, as we shall see in the next section. In addition the economic crisis of 2008 has had a violent effect on the country, with thousands of workers losing their job almost overnight. Further political actions like the monetary policy of the period and the incapacity to contain inflation have also eroded savings and pumped up prices. Most of those who lost their jobs, or savings, still need to survive and, if case the government is unable to protect them, they have to find alternative ways of surviving.

Where will all the babushki be going?

Kiev, a Wednesday afternoon, one of the hundreds of *podzemlyj perekhod* (subterranean passage, they

are used to cross wide roads and while protecting from the weather especially in the winter). Ukrainians are, like often, shopping. Sellers (mainly old ladies but some younger sellers are there) have arrived from the countryside or from the neighbourhoods to sell what they have. Some have a pot of marinated cucumbers, some have collected mushrooms and dried them, some others sell apples. The more organized have a whole stand and have a varier range of products. Some sell clothes, some others biscuits and sweets, some other several kind of nuts.

Perekhody are crossing places, used to go home or to change connection, so that Kievlyans, while busy going home, hurriedly stop at some stands to buy some things they will need for dinner or for the evening. This kind of shopping is not time consuming and can be done in the interconnection between a bus and another.

Suddenly some young police officers come down and ask all the people selling to move away. They have a point: those people are all there with no permission. In addition since Soviet times there is a strong inhibition (and diffidence) when talking with the police so resisting is not an option.

However, conversely from what might happen elsewhere, the police officers are not keen to fine the sellers or confiscate the goods. They simply order them out. Some old ladies will ask for mercy, adding that this is the only way they can make some money and the officers will say they cannot do anything, their job is to implement orders they received from the top.

To an average reader, this situation is perfectly logic. There are some people acting out of the law and some other people are paid to reestablish order and keep things under the control of the state so that the state can get its revenue and take care of its citizens. However, following an approach suggested by Geertz (1973) it might be worth to explore this situation and its context, to understand who are those street sellers and those policemen, why people engage in such transactions and the very meaning of this state attitude against street sellers. The reason why those babushki (grandmothers, elders) are there and the policemen chase them is a main issue in Ukrainian transition nowadays and a main conflict. The old ladies are there because, in most cases, they have no better choice and the policemen go there because the government is pursuing a strategy to crash on informal transactions and increase hygienic standards.

The reasons to regulate, or to be willing to regulate, are several. Informal shops in the street take revenue out of the taxable and every transaction happened there takes some potential revenue from the state budget. In a world where the state has to provide the citizens with some services, money has to come from several sources and with less taxes there is less to provide. Second, this is unfair competition for those who are paying taxes, damaging them for they have higher costs in being in the legality and this could eventually encourage more of them to leave the legal and enter the illegal. Finally there is an issue of quality control. How can the state have a control on the quality of what is offered to the citizens if those sellers, who do not exist officially, buy from unknown producers or produce at home. As far as the state is concerned, the mushrooms and berries sold in those places might have been collected in radioactive areas but once sellers are not registered and stand there only temporarily there is no accountability. Sellers would not have to respond to anybody, should their products damage someone and the state would bear the costs of hospitalization and loss of labour.

Following this logic, Ukrainian politicians, and especially those in charge of Kiev, have started a crusade against unhealthy food, banning shaurma (kebab) and fried cakes on the ground that they are prepared in unhealthy conditions. The same is happening to dairy sections of several bazaars in Kiev where, for fear of unhygienic conditions, the simplest solution has seemed to ban selling of dairy products and push the citizens to buy only in supermarkets.

However, street food is still available in the US and EU countries, provided that the hygienic conditions are met. This means some control can be enforced on them in order to secure decent standards. Why is it not possible apply some control on street food so that people can know what they eat and it is not necessary to deny a job to people? And more, where are all the babushki going after they are kicked out of a passage?

The question would then be why those old ladies are there, why people tend to sell what they have at home and try to do so without a licence. A first point is that, to different degrees, all those living on a state pension have seen both their savings and their income eroded by inflation. It is sufficient to think of all those already retired in 1991 to ask what has happened to their ruble-calculated pension after inflation rocketed up and the national currency was changed. In addition the inflation has been relatively high even after 1996 and depends on the exchange rate, which has revealed highly unstable even in recent years and wages are unable to keep up with the price of life. This is why it is almost impossible to find someone who is quietly living, after a life of hard work, on their state-paid pensions and pensioners have to take up a job to integrate their income. Some work in real estate, some as concierges, some do little jobs and some others sell in the street. If an elder lives alone and has no relatives but needs money, the cost of their labour is extremely low, thus even selling a couple of kilos of self produced apples might make their day.

Registering a business requires an initial capital that most of those people do not have, simply to get a permission or to buy a street place where to sell, not to talk of the bureaucratic complications to register a business, which often those very same state officers will complicate to get some benefits. Not to mention the fact that elders, often having lived most of their life in the USSR, have less capacity to keep up with new regulations and, if nobody is there to assist them, they might get lost in all the steps they need to register a business. But this is something that even the younger and faster learner might get stuck with, as we will see in the next case study.

Alexei is a businessman. During the 80s he finished his PhD in engineering and started working at the university but rapidly understood that this was not leading far. As soon as the country became independent he started his own business with a colleague from the university. His life in the business environment of the 90s reminds pretty much the novel of Andrei Kurkov “the penguin”. He had to hide several times outside the city, often with his own family. Although he was able to register his business, he was often operating between legality and illegality and one day he lost his company. His partner had falsified the documents according to which Alexei had sold his share of the business to his partner and then threatened to harm his family if he attempted any retaliation.

Alexei started from zero again and, moving from one business to the other, slipped so much in illegality that he got arrested and sentenced for some petty crime (he was exchanging money on the black market). This was also due to the fact that somebody was after him and his nice flat in the centre of the city, which he eventually sold to pay the legal fares.

Released from prison he was unable to get a job and started working as a taxi driver. Anybody can work as taxi driver in Ukraine, as long as they have a car. There are registered taxi companies with official fares and private citizens who round up (or make up) their salary by accepting to give lifts to other fellow citizens.

He finally got a job in a communication company and acted as a managing director of a department but got fired after some two years. The story of his employment in the company is a sad but interesting outlook on the business world in Ukraine. Alexei was paid a thousand dollars a month, a pretty decent salary for somebody over forty in Ukraine. However his official stipend was only two hundred dollars

directly on his bank account. The bulk of this money was paid to him in a white envelop. This is also a way not to pay income taxes and dependents often tend to agree, for the services offered by the state in exchange are very poor, but they have little choice in any case.

One of the drawbacks was that, once he applied for a bank loan, he could not prove he was earning enough to pay the loan back and his wife (working for the state and thus declaring the whole of her revenue) had to guarantee for him.

The director of his department was a relative of the company's president and thus almost untouchable, despite his management was far from being honest. When buying electronic components from abroad he would patch up the price and pocket the difference and when the company decided an increase in the salary of the employees he would also pocket the difference, for no control over the white envelop was exercisable. As a result, Alexei and his colleagues had the lowest salary in the company (no incrementation after 2 years) and no right to protest.

In this period Alexei rediscovered his entrepreneur skills and registered a company. This time he used his in-laws as owners and distributed the assets so that it was not possible to steal it as a whole. He started repairing electronic devices that his company would throw away and sell them using his contacts in the company. Several of his colleagues in different Ukrainian cities, unhappy with the salary or the working conditions, helped him to create a national network able to dispatch anywhere in Ukraine. Meanwhile he tried to convince his colleagues to denounce the abuses of their boss to the president. The director, probably gutting that, decided to get rid of him and awaited until Alexei went abroad for a holiday to fire him and forbid his colleagues to talk with him. Alexei could not take any immediate actions and, probably tired of the situation, let things go, also reassured by the fact that his small firm was doing well.

Today he is still struggling to consolidate his position on the market but he is able to survive. He says that the business environment has improved since the 90s and nobody has ever tried to step on his way, not least because his business is too small to bother (which would not have been a deterrent in the 90s). Here is a difference with some years ago. Because the economic situation has improved, and there seem to be more controls, people are less willing to risk for few dollars. If they are to steal, kill somebody or smuggle something, they need to see higher benefits.

If, on the one hand, this seems to be an improvement, on the other is not. Ukraine is an extremely bureaucratic country and very often legal acts are impossible because of the cumbersome bureaucracy. Think of a truck transporting animals or fresh fish at the border. If they have to wait 4-5 days the load is lost. Especially after the 2004 Orange Revolution, the pro-Western direction of Ukraine and the compliance with international standards and control has made people afraid of getting caught. This means truck drivers have to play fair and wait until the custom officers are able to process the documents, which means the food might get rotten. Or because there is more risk involved in accepting informal payments, now officers want you also to pay for their risk (so there is an extra tax on bribes). Either because they have to briber their superior not to report them or because, with higher stakes, prices are also higher.

One illuminating example is what has happened to Alexei once he tried to import from China some electronic components. Because they are trying to expand and produce in Ukraine some electronic devices very expensive to import, he has been looking for a factory that produces some radio components to assemble them in Ukraine and be more competitive on the market. He ordered one component to try to mount it and check whether it would be worth to buy a whole lot. When this was shipped though DHL to Kiev he found himself in a paradoxical situation: to be able to pay the exact custom duty, the product had to be registered by the custom. However to register the product, one had to go to the Ministry of Trade and produce that very same good, so government experts could evaluate

it. How was it possible to enter the country to register a good if, to register a good one had to introduce it into the country?

The custom rejected his parcel and he found more convenient to send it to Moldova, where the DHL office had no trouble with the regulations, then send it to Odessa by bus where the price to pay at the custom is clear and then handle it to a train inspector who, for a little tip took it to him in Kiev.

We could discuss whether Alexei and his colleagues are victims or accomplices, as Miller (et al. 2000) debate, however there are several things that would not happen in a more transparent environment. The problem is not only to pressure on regulations defending the worker. For one thing, eager to attract foreign investments, Ukraine has tried to make some concessions to investors and simplify their life, although this might mean to worsen the workers' one; moreover, even if trade unions are a long time tradition in former Soviet countries, their role was quite ambiguous and they might not be used to really lobby for the good of the workers they claim to represent.

Dimitry is a university professor. Or better teaching at the university is one of his jobs for his salary is not enough to pay his bills. Normally university professors are paid for their teaching hours, having to do research and writing in their leisure time. A salary package would start at 200 US dollars, increasing with the workload (for instance if some administrative or teaching tasks are undertaken). In his case he is willing to do several other jobs at the same time and, when we meet, I usually have to accompany him around the city to meet the most diverse people before we can finally sit to drink a tea and chat.

Dimitry does not deny accepting “presents” from students. He says: “if the student comes to me and wants to pass my exam I know that, if I fail them, they will bounce around until they finally pass another exam. Why shall I complicate things if those people were not born to study? In exchange, if after the exam they want to present me a bottle of kon'yak (brandy) or wine I shall not refuse”.

Dimitry is not alone, most university professors have to face the problem of low salaries and motivation. Some can tap from international programmes like IREX, CEP (now AFP), USAID and more recently Marie Curie. They can get money for traveling or extra money for their research. However the majority of them, and especially those who do not know English, and thus cannot connect with the Western world, are in a more critical situation. They might look for a number of remedies: they might get a second job at a private university, using the prestige of the public one they work for. They might give private lessons to their students. Or they might accept informal payments in different ways and modalities.

Under pressures from the international community, Ukraine has come to outlaw flowers and chocolate, a must present from students to the teachers but equalized to bribes according to a desperate effort to limit corruption in universities. However I have argued that the main problem are low salaries, rather than greedy teachers, for *pecunia non olent* (money does not smell) when is needed (Polese 2008).

A further question, however, would be why a student who does not want to study is at the university. Why hundreds of such cases are findable at the university? The answer is that, with no university degree, it would be extremely hard to find a job that is decently paid. With an high unemployment rate, competition for any kind of job is stiff and to emerge it is necessary to have higher qualifications than the others, even to work in a shop or as cleaner.

Aware of such conditions, parents are willing to do anything to secure their children a future and can invest their savings into an university education. With an increasing number of students willing to enter a university the first consequence is that universities accept more students than they should and classes become overcrowded. Once a limit is reached, the old law of demand and supply applies and prices to enter a university rise. I am not talking of official prices but of the extra costs parents will have to pay to secure a place somewhere.

The most prestigious universities become places where prices are stellar, and even universities with no real perspective on the Ukrainian job market (like ethnography or history) are longed for. Some meritocracy still applies, but which university is not willing to get extra money from the students in times of economic crisis when university expenditures are low?

This also means that students, becoming a source of revenue for the university, are untouchable. To fail a student means to get into much trouble for the professor, who would even risk being fired, and this is an extra motivation to allow cheating at an exam. The result is a huge scam to the state with universities producing unprepared students, professors and faculties receiving extra money and many students entering the job market with a (fake) degree. All this while the state is trying to persuade universities to implement the Bologna process and teachers to use “interactive teaching” methods during their classes. The main loser is the job market. Students might learn a job even with little university education, the problem is that they learn that such behaviours like paying for an exam or cheating are tolerated in the society and might continue this tradition when working.

Ludmila is a doctor that I met when a friend had a problem late at night. The hospital was open, though in very sad conditions, and they checked my friend's eye with devotion and attention, before suggesting the appropriate drugs to take. When leaving we had to slip into her pocket a 20 hryvnia bill (2 Euro) and say “thank you, this is for a coffee”. Would a IMF or World Bank anti-corruption officer, they might have had an heart attack. However, there are several elements that suggests this is not exactly corruption. The doctor did not demand any money but she was happy to receive. This means she gave the service regardless of the final payment and her service was impartial. The other thing is that, without such payments, Ludmila would probably not be there but working somewhere else. The budget for hospitals in Ukraine is so low that machinery is often impossible to buy and doctors are underpaid, with all the disadvantages of underestimating the value of the health service.

When giving a birth or performing an operation it is possible to enter a hospital and ask for the prices, which sounds quite peculiar since in the Ukrainian Constitution is stated that health care is free of service. This is because the prices are not official. When registering for pregnancy control over the months preceding the birth, women are given a list of things they have to bring and this includes notebooks and pencils, for the hospital needs anything. When staying after birth they are requested to bring their own sheets for the hospital does not have them (and most likely there is little budget for washing as well). At the end of the stay it will be necessary to slip an envelop with the agreed sum into the pocket of the doctor. The doctor will not touch the envelop, a way to show they did not really accept but were obliged to. It all looks like a private hospital with the exception that payments are informal and cannot be reinvested into the hospital. If you want to play fair and do not accept payments you will be under pressure from your colleagues. “Everybody takes bribes” so if you do not pay nurses and other assistants after a birth, you will be considered greedy and selfish and might face some hostility.

There are even cases where, to get a job as doctor, you need to pay the hospital. It is an investments for you know you will be able to earn this money back during the first year (depending on how much you work and how generous are your patients).

What would be the effect of successfully enforce the anti-corruption regulations of the country? How many doctors would remain in a hospital? A recent tendency are private hospitals, that are as expensive as public ones (or more, depending on the kind of hospital) but at least payments are official and they have the needed equipment. A difference is that in public hospitals you can still hope to be cured for free if you are very poor, though you would have to wait a lot and the best service is not guaranteed, for people who pay have the priority.

Also in this case there is a total lack of correspondence between theory and reality, for laws show a lack of pragmatism. On the one hand we have a public sector that should take care of the citizens but on the other, because so little money is available for it, this becomes *de facto* private (Polese 2006). To limit the phenomenon the government is constantly adopting anti-corruption regulations but this can work as long as people have a starting salary. Laws are to be adopted from the reality, it is not the reality that should obey the laws. If we have no money in a hospital and people paying all the time, to limit such payments would only harm the system further.

Concluding remarks

When accepting being part of a state (through a social contract) citizens hand out some liberties to the state in exchange for protection (economic, military, political) but the state might not fulfill its promises. One reason is that the state cannot be omnipresent in people's life and the other is that governments are not always capable of taking adequate measures or that those measures are misinterpreted because states are 'peopled' (Jones 2007).

Informal economies are the response of the people to a particular economic and political context from which they cannot benefit enough. Informal transactions can be boosted by an economic crisis or by an incompetent attitude of the government but they subscribe to state-citizenship relations. Social movements and mass protests are a way to inform the government on people's disagreement, however a putting informal economies in a wider framework shows that they also have the potential to express dissent and people renegotiate, at local level, the measures a government has taken (or failed to take) in a particular moment (see Polese 2009 for a political example).

Informal transactions, regardless of whether they are considered legal or illegal by local codes, allow people to survive in environments where the state is failing. Smuggling can help breaking a monopoly imposed to please some politically connected businessmen (Polese 2006, Papava and Kaduri 1997), bribing (technically speaking) can integrate a meager salary or create social recognition (Patino 2002, Polese 2008).

Due to a tendency to deny or not acknowledge the role of the informal sector, this continuously expand and goes out of government control, but the informal sector provides productivity despite potential capital shortages, lower cost apprenticeships for future workers of the formal sector, generates employment by boosting the demand for unskilled and semi-skilled workers, boosts the use of local resources and evens revenue distribution limiting, *de facto*, inequality.

Between the legal and the illegal lay a number of transactions of grey nature, whose essence we might be unable to understand if we do not shift variables. If the state and its attitude is an independent variable, for states are assumed to work properly always and everywhere, then every action that falls out the control of the state is illegal, and harmful to the society as whole. However, if we shift our view and consider the state, and its actions, as a dependent variable we will see that many state behaviours harm people themselves and that illegal acts might serve as a response to those behaviours.

Recalling that 'little corruption does not harm anyone' (Fogarty 2005), one has to consider the attitude of the state, not only of its citizens and even illegal economies are not always illegal. During the 2008 economic crisis the National Bank of Ukraine halved the value of the national currency. Few months later it was discovered that extremely profitable speculation operations allowed some investors to take advantage of this situation, while savings of thousands of people were eroded. Was it not legitimate that they tried to buy foreign currency, to keep savings, on the black market?

We can thus try to coin a working definition of informal economies that would be more appropriate to our case. Informal economies are economic systems generated by an aggregate of informal actions, where for informal action I intend an action that is harming the state but not (directly) the citizen. This is a working definition for it will be necessary, at some point, to define what harms the citizen and what not. When old ladies with no license sell in the metro are they taking away from taxable revenue? And if the state is not creating the condition for them to operate? On the other hand, even in crisis time, a citizen that is trying to earn money by selling LSD or cocaine to people is harming both people and the state and I am more incline to deny the moral ambiguity I reserve for other actions. This is another arguable point because selling alcohol or tobacco is also harming people but the state is allowing it.

Every action that is not under control of the state is potentially bringing damage to the state. Informal payments are not taxable and affect taxation and the money at disposal of the state, dealing with currencies risks to affect monetary policy in the country, smuggling means to introduce goods that are not under control of the state, abusing the public function for a private advantage is also harming the state.

However, smuggling a good that is not available (or available at an expensive price) in the country because the politics-business marriage is afraid of competition, is more likely to benefit fellow citizens, despite harming the state; trading currency in a crisis situation also; thanking a doctor with some money once doctors' wages are too low to survive is also benefiting the two parts (patient and doctor) while harming only the state (Patico 2002; Polese 2008).

This kind of Robin Hood attitude, or Robin Hood transactions, where you steal from the state to benefit the fellow citizen, are very easy to find in failed states, or in regions and sectors where the state is too weak or absent. If the state is absent some situations have more in common with an archaic society, with no state, where a fellow has a direct relationship with another fellow than with a modern one where to get a service, a good you pass through the state. If I need milk I go to my neighbour who has a cow and buy or barter from him or I go to one of those places the state has designated as official selling places of milk and I pay the state a commission. If I need a doctor I go to the village healer or I go to one of those places where the state has parked its doctors. However, if the milk selling or the healing place are obliged to pay the state (taxes, labour) but receive no counterbenefit the state has little reason to be present there.

Informal actions are thus all those allowing citizens to get a service or a good without passing through the state, most likely because the state is absent or unable to manage the situation. This, however, poses a main moral question on the limit between the legal and illegal. Who is 'entitled' not to pay taxes? What is the border line between someone who is not paying taxes or accepting informal payments because needs to survive and someone who does it to increase its gains? I would suggest it is also a matter of benefits (the state can offer to devote citizens) and control (the state can exert on higher revenues) but most of all it depends on whether the state can adopt laws and control the economic life of the citizens in a way that brings benefits. If giving up some liberties and handle it to the state brings more benefits than losses people will be willing to do so but is this always the case? What is the effect of using the same "international standards" for every single country?

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