

Overweight public expenditures keep Ukrainian economy from growing, expert admits

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Money and natural resources can't guarantee that the country's economy will grow, said Andrey Illarionov, former economic advisor to Russian President Vladimir Putin and an expert for the Cato Institute in Washington D.C., during a Dec. 1 presentation in Kyiv.

A devoted critic of Putin's current regime, Illarionov pointed to resource-rich Russia and Ukraine's multibillion bail-out program to support the statement.

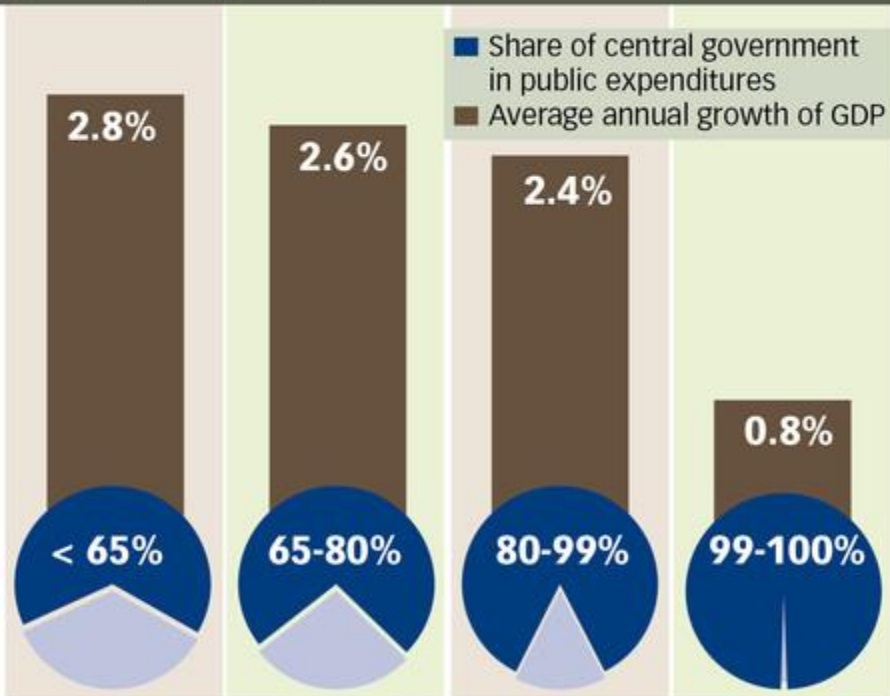
"Just because you've received the financial support from the International Monetary Fund - it won't necessarily make Ukraine a rapidly developing country," he emphasized.

Cutting the public expenditures by 60-70 percent is much more important, an economist thinks. A decrease in public spending by 10 percent among the members of Organization for Economic Cooperation and Development, a club of rich countries, led on average to an additional 1 percentage point of gross domestic product growth.

Illarionov believes that Ukraine's steps towards a parliamentary republic will ultimately benefit the economy, as empirical evidence for 1951-2004 suggests that while economies of the countries run as presidential republics grow by 1.19 percent a year, those that are managed through larger involvement of parliament grow by 2.23 percent.

Moreover, the bigger popularity of the ruling party is - the better is the economic performance. Meanwhile, decentralization is also seen as a positive factor for economic development as GDP is likely to grow faster in the countries with biggest share in public expenditures going to regional governments.

Relation of central government's expenditures to economic growth, global prospect, 1980-2004



Source: Institute of Economic Analysis in Moscow

Decentralization seems to be good for the country's economic performance, according to the empirical data.

If rebel-held territory of the Donbas, Ukraine's major coal and steel making region that leans towards decentralization, stays in its current status, its economy will develop similarly to the economies of unrecognized republics of Transnistria and South Ossetia, Illarionov admits. Both depend on Russian subsidies and are barely present on the global scene as nobody accepts any of their official documents, whose stamps seem to be nothing but ink, carrying no legal power.

Illarionov doesn't think choosing certain sectors of economy for applying any kind of stimulus could be a right strategy. "When Augusto Pinochet, a Chilean dictator, asked his economic advisors, better known as Chicago boys for their top-notch U.S. education, what sectors of Chilean economy should be stimulated - they said that they don't know," Illarionov explained. "Nobody knows this, and those who say they know - they're lying."

Afterwards, it was Chilean wine that became country's major exports product. However, in 1975, when Pinochet was asking his experts on what the economic strategy should be, Chile produced almost no wine at all.