



times the size a département, and if you look at big cities, the entire administration there is 66,500 people. When you actually look at some of the Ministries it becomes virtually unbelievable. The entire Ministry of Justice in Ukraine, for example, has 130 people working for it. The Ministry of Health has 230 people that work for it. The largest ministry is the Ministry of Finance and they increased it so that now it has somewhere between 750-800 people. Well, the Ministry of Finance in France employs if I'm not mistaken between 5,000-8,000. I don't know how many people work in Ministry of Finance in Ottawa, but I suspect it's about 1,500-2,000. **The point is that you physically cannot possibly do the things that a State is supposed to do when you have 130 people working in a Ministry of Justice.** It begs the question then, why was the state so numerically weak?

Let's look at the qualitative side. Well, what's happening now is that you have a definition of what the state is, of what society is. But basically the totalitarian state, the communist system did not need a government. The Central Committee and the Politburo made the decisions, and the government was a Post Office Box to which you sent the decisions to implement. You had a society that was a non-market economy where 98% of the population worked in state enterprises, so that society was totally undifferentiated and everybody was basically in the same boat. It was so-called planning that was a very simple thing to administer. You set a price, you set a price. You build a bridge, you build a bridge.

The second aspect, of course, is that a totalitarian state had no rules or regulations, which meant that there was no need to have an apparatus to administer rules and regulations. You want to build a factory, you just build a factory. The most important function of a government official was to ensure that the materials arrived on time and were not stolen along the way. **Nobody thought about environmental impact, environmental review, zoning, planning --- all these things were not important.** So if you have no anti-monopoly laws, you don't need an anti-monopoly committee. If you have no environmental legislation, you don't need a Ministry of the Environment. And so on and so forth. If you don't have justice, then you don't need a Ministry of Justice. Now, of

course for the state to play its function of a regulator of society, in a democratic society, again paradoxically what you have to do is actually start building up a bureaucracy. One can say that really in the last year or so the first steps have been made in that direction.

Finally, of course, Ukraine was a colony and that too had an enormous impact. As late as about 2 or 3 years ago 93-94% of all economic activity in Ukraine was directly controlled by Moscow. Not only did a totalitarian society not breed policy reflection by public servants, in the case of Ukraine you were a colony as well. And so all decision-making was done somewhere else. It also meant a tremendous institutional incompleteness. Ukraine had no Central Bank. The Russian Central Bank was not all that great - Harashchenko, the head of the Central Bank was called by the Economist the world's worst Central Banker - but none the less at least there was a Central Bank. Anything involving money, anything involving foreign economic activity, you found that in Ukraine there was absolutely nobody with any experience. So you had to build these institutions starting 2 years ago, from scratch. I remember very well when the Ministry of Foreign Economic Relations was in one room with 2 people, with one desk for the Minister and one desk for the Deputy Minister, when the Ministry of Defence had 7 people working for it. This was only 2 years ago. This institutional incompleteness is very important. It was only last year that Ukraine's Ministry of Finance did its budget on its own for the first time in the history of Ukraine, and they had tremendous problems because they didn't even have a statistical base since all the statistics were in Moscow.

This tells you something about the great difficulties of implementing decisions, and it also says an awful lot about the low policy-making capacity. This low capacity is something that many Western advisors, especially economists from the international organizations don't always take this into account. I remember having a big discussion with somebody from the IMF who talked about tax reform. It's wonderful to talk about tax reform, but the fact is that Ukraine does not have any tax officials. France has 150,000 people that work as tax officials; Ukraine has under 15,000, and 800 offices of which half have 1 PC in it. So that it's not just

a question of giving people lessons on how to do tax reform, you have to ensure that you have an institution develop that can actually do these things. And so you have this institutional weakness and low capacity in a situation where the tasks facing the state are absolutely enormous. **I don't know of a single government in the world today that is facing the same sort of enormous tasks that the Ukrainian state is facing, from monetary reform, to major security issues, to an energy crisis, to the restructuring of industry.**

The totalitarian regime also left a structure of government that was wrong. Ministries are structured in a certain way that is not commensurate with a democratic market economy. The very organizational chart of government is also a result of the old days. Let me give you some examples. You have this institution called the Deputy Prime Minister, and there are 8 Deputy Prime Ministers in Ukraine. What this is all about is the parallel between the Politburo, the Central Committee, and the population. In other words, somebody does the thinking, and the Ministers do the implementation. So you have eight Deputy Prime Ministers and 60 Ministries and State Committees. Basically you have 60 Ministers that do not talk to each other except through their Deputy Prime Minister. On the other hand, the Deputy Minister can make a decision but is not responsible for implementing it. This is a recipe for disaster. A very big task right now is administrative reform, to get the machinery of government right and commensurate with the tasks. You have for example something called the Ministry of the Economy which is, of course, the old State Planning Commission. It duplicates absolutely every single other Ministry. It's the one that gathers data and does economic forecasting, not the Ministry of Finance. The Ministry of Finance makes economic budgeting decisions without having any economic forecasting ability whatsoever. It's not even in its Ministry. Of course, the question is how can you do economic forecasting with 100% inflation a month, but of course that's another story. This is an impossible situation. **You also have a**