

Marching to Good Laws:

The Impact of War, Politics, and International Credit on Reforms in Ukraine

ARTEM KOCHNEV

Artem Kochnev holds a PhD in economics from the Johannes Kepler University, Linz.

The author thanks Alexei Kochnev for fruitful discussions, Tetyana Tyshchuk for thorough comments on the methodology of the iMoRe index, Maria Klochikhina for a careful assistance in classifying the avalanche of Reuters' news, and Katheryna Krynytska for kindly agreeing to postpone the job start so the author could spend the last two weeks of his student life doing a contribution to social sciences.

Abstract

The paper investigates determinants of investments in state capacity and institutional change in contemporary Ukraine. After formulating a simple sequential two-stage model of investments in state capacity, the paper estimates autoregressive distributed lag and vector autoregressive models to verify its predictions. The paper finds little evidence for the impact of conflict intensity and access to international credit on the pace of reform progress. It finds a statistically significant effect for the intensity of political competition and changes of real wages, albeit these results are sensitive to robustness checks

Keywords: cost of war, political cycles, transition economics, Ukraine crisis, political economy, state capacity

JEL classification: D74, E01, E20, F51

CONTENTS

1.	Introduction	9
2.	Theory and previous contributions	11
2.1.	Previous contributions.....	11
2.2.	A stylized model.....	16
3.	Context	23
4.	Data	25
4.1.	iMoRe.....	26
4.2.	UAF casualties.....	28
4.3.	IMF tone.....	29
4.4.	Popularity measures	29
4.5.	Real wages	31
4.6.	Stationarity	31
5.	Estimations	32
5.1.	Models and methods.....	32
5.2.	Results	37
5.3.	Robustness checks.....	39
5.4.	Discussion.....	46
6.	Conclusion	47
	References	49
A	Mathematical Appendix	57
A.1	Proof of Proposition 1	57
B	Datasets	64
B.1	Tone of the IMF communication	64
B.2	Final classification.....	73
B.3	Measures of electoral competition	75
C	Tables	78

TABLES AND FIGURES

Table 1: Summary statistics: Variables in levels	26
Table 2: Pipeline of the score assignment to the normative acts for the iMoRe index.....	27
Table 3: Dickey-Fuller Test: Variables in levels	33
Table 4: Dickey-Fuller Test: First differences.....	34
Table 5: Procedure of adopting a bill in the Ukrainian parliament.....	36
Table 6: ARDL Estimations of Impact of Fatalities on Reform Progress in Ukraine. Variables in Levels.....	40
Table 7: ARDL Estimations of Impact of Fatalities on Reform Progress in Ukraine. Variables in First Differences	41
Table 8: ARDL Estimations of Impact of Fatalities on Reform Progress in Ukraine. Variables in Levels. No outliers.....	42
Table 9: Distribution of assigned tones to Reuters.com articles	69
Table 10: Distribution of poll results done by survey-organizations	76
Table 11: Summary statistics: Deseasoned variables in levels	78
Figure 1: Graph of the game	19
Figure 2: Fatalities of the Ukrainian Armed Forces: 2014 – 2019.....	24
Figure 3: VAR: orthogonal impulse-response functions	38
Figure 4: VAR: orthogonal impulse-response functions. Adjusted sample	43
Figure 5: VAR: orthogonal impulse-response functions. Variables in firstdifferences.....	44
Figure 6: Correlation between the popularity of the ruling party and the iMoRe index. First differences.	46
Figure 7: Accuracy of the classification algorithms: count-vectorized sample	71
Figure 8: Accuracy of the classification algorithms: TFIDF-sample	71
Figure 9: Accuracy of Naïve Bayes classifier: count-vectorized sample.....	73
Figure 10: Accuracy of Naïve Bayes classifier: TFIDF-sample.....	74
Figure 11: Estimated tone of the IMF communication.....	74
Figure 12: Measures of electoral competition	77

IMPRESSUM

Herausgeber, Verleger, Eigentümer und Hersteller:

Verein „Wiener Institut für Internationale Wirtschaftsvergleiche“ (wiiw),
Wien 6, Rahlgasse 3

ZVR-Zahl: 329995655

Postanschrift: A 1060 Wien, Rahlgasse 3, Tel: [+431] 533 66 10, Telefax: [+431] 533 66 10 50
Internet Homepage: www.wiiw.ac.at

Nachdruck nur auszugsweise und mit genauer Quellenangabe gestattet.

Offenlegung nach § 25 Mediengesetz: Medieninhaber (Verleger): Verein "Wiener Institut für Internationale Wirtschaftsvergleiche", A 1060 Wien, Rahlgasse 3. Vereinszweck: Analyse der wirtschaftlichen Entwicklung der zentral- und osteuropäischen Länder sowie anderer Transformationswirtschaften sowohl mittels empirischer als auch theoretischer Studien und ihre Veröffentlichung; Erbringung von Beratungsleistungen für Regierungs- und Verwaltungsstellen, Firmen und Institutionen.