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SOCIAL AND INSTITUTIONAL REFORMS IN THE FIRST DECADE OF KAZAKHSTAN STATEHOOD

Following the collapse of the Soviet Union all former socialist countries, including Kazakhstan, entered a phase of major institutional reforms that should become antecedent of desirable social transformations. The needs for broad-based economic, social and institutional reforms were dictated by a sudden disintegration of the systems that bonded the Soviet Republics together. This paper examines the monetary institutional reform carried out by Kazakhstan upon gaining independence, the social-economic impact of the reforms on the lives of the people are also discussed. The author believes that the successful monetary institutional, and other structural reforms performed by Kazakhstan in the first decades of independence became the foundation for Kazakhstan to move from a lower-middle-income country to upper-middle-income in less than two decades. The paper investigates the challenges of social-economic characters that were surmounted and the assessment of the results achieved. It closes with a description of the proposal for a more robust monetary reform that will give Kazakhstan more opportunities to further improve the social-economic conditions of life for the population, and to meet the goals of joining the elite club of the 30 industrialized countries of the world.

Key words: social, institutional, reforms, national bank.

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Қазақстан мемлекетінің алғашқы онжылдықтағы əлеуметтік жəне институционалдық реформалары

Кеңес Одағы ыдырағаннан кейін, барлық бұрынғы социалистік елдер, соның ішінде Қазақстан, маңызды институционалдық реформалардың кезеңіне кірді, бұл қажетті əлеуметтік қайта құрулардың алғышарты болды. Кең экономикалық, əлеуметтік жəне институционалдық реформалардың қажеттілігі мақсатқа лайық болды жəне кеңестік республикаларды ондаған жылдар бойы байланыстырған жүйенің кенеттен құлдырауымен түсіндірілді. Əр түрлі əлеуметтік, экономикалық жəне саяси сын-қатерлерге жауап беру қажеттілігі мемлекеттік институттардан басқа қоғамдық, азаматтық жəне бизнес ұйымдармен серіктестікте жұмыс істеуге дайын болуды талап етеді Бұл мақалада Қазақстан тəуелсіздік алғаннан кейін жүргізген ақша-несиелік жəне институционалдық реформасы қарастырылып, оның əлеуметтік-экономикалық салдары, халықтың əлеуметтік-экономикалық мінез-құлқына əсері талқыланады. Автор Қазақстан тəуелсіздіктің алғашқы жылдарында жүргізген табысты ақша-несиелік жəне институционалдық, басқа да құрылымдық реформалар Қазақстанның жиырма жылдан аз уақыт ішінде орташа табысы төмен елдер мəртебесінен жоғары кірістерге өтуіне негіз болды деп санайды. Сондай-ақ, мақалада реформа барысында шешілген əлеуметтік-экономикалық мəселелер қарастырылып, қол жеткізілген нəтижелер бағаланады. Қорыта айтқанда, ақша-несие реформасы саласындағы өршіл бастамаларға ұсыныс жасалды, бұл халықтың əлеуметтік-экономикалық əл-ауқатына жақсы мүмкіндіктер береді жəне елдің əлемнің 30 дамыған елдерінің элиталық клубына кіру тұжырымдамасын жүзеге асырады.

Түйін сөздер: əлеуметтік, институционалдық, реформалар, Ұлттық банк.

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Социальные и институциональные реформы в первом десятилетии казахстанского государства

После распада Советского Союза все бывшие социалистические страны, включая Казахстан, вступили в фазу крупных институциональных реформ, которые должны стать предпосылкой желаемых социальных преобразований. Необходимость в широких базовых экономических, социальных и институциональных реформах стала целесообразной и была продиктована внезапным распадом системы, которая на протяжении десятилетий связывала советские республики вместе. В данной статье рассматривается денежно-институциональная реформа, проведенная Казахстаном после обретения независимости, обсуждаются ее социально-экономические последствия, воздействие на социально-экономическое поведение населения. Автор полагает, что успешные денежно-институциональные и другие структурные реформы, проведенные Казахстаном в первые годы независимости, стали основой для перехода Казахстана от статуса стран ниже среднего уровня дохода к уровню выше среднего уровня дохода менее чем за два десятилетия. В статье также рассматриваются социально-экономические проблемы в ходе реформы, которые были преодолены, и дается оценка достигнутым результатам. В заключение сформулировано предложение о более масштабных инициативах в области денежной реформы, что даст хорошие возможности для социально-экономического благосостояния населения и реализации концепции вступления страны в элитный клуб 30 промышленно развитых стран мира.

Ключевые слова: социальные, институциональные, реформы, Национальный банк.

Introduction

Following the collapse of the Soviet Union all former socialist countries, including Kazakhstan, entered a phase of major institutional reforms that should become antecedent of desirable social transformations. The need to respond to various social, economic and political challenges requires that public agencies be prepared to work in partnership with other public, civil societies and business organizations (Huque, 2005).

The newly independent Kazakhstan faced enormous challenges not only of economic reform but of state-building in a much broader sense. Chronic shortages of domestic capital, the destruction of pre-existing trade networks, and the difficulty of adapting Soviet enterprises and institutions to market conditions plunged Kazakhstan and its neighbours into a severe recession. This made deep and lasting economic reform more urgent but also more difficult; indeed transforming the economic system in such an environment was rather like rebuilding a ship in the midst of stormy weather. It was the period when Kazakhstan faced the daunting challenges of creating own market-based economy and integrating into networks of global exchange. The leaders of Kazakhstan recognized the fact that development is a co-evolutionary process, whereby states and markets interact and change together over time (Ang, 2016). Successful reform of one institution could influence growth in other sectors. In such circumstances reforming the monetary institutions became expedient. The nation's new leaders were also confronted with a phenomenon described as sharp 'transitional recessions'. These were the result of falling output, rising unemployment, hyperinflation, and vast resource re-allocation, together with processes of widespread social disruption.

The economy of Kazakhstan experienced a severe contraction in the early stages of the market transition. During 1992-1995, real GDP fell by an estimated 31%, inflation surged into triple and quadruple digits (annual consumer price inflation did not fall below 100% until 1996), and the labour market witnessed the destruction of 1.6 million jobs. A weak recovery began in 1996-97, but the impact of the Asian financial crisis of 1997 and the Russian crisis the following year helped to tip the economy back into recession. Growth resumed weakly in 1999 and then began to surge in 2000 as oil prices recovered. From 2000, growth accelerated sharply, reaching an average of 9.4% during 2000-08. Growth slowed sharply in 2009 before rebounding somewhat until the sharp drop in commodity prices in 2014-15, which led to a slowdown, with growth falling to 1% in 2016.

According to the Organisation for Economic Cooperation and Development (OECD) reports, Kazakhstan emerged as an independent state and embarked on its post-communist transformation in extraordinarily difficult circumstances. The Soviet economy from which it emerged was already in free-fall – Soviet GDP fell by somewhere between 8 and 17% in real terms in 1991 – and the newly independent Kazakhstan faced enormous challenges not only of economic reform but of state-building in a much broader sense. Moreover, the newly independent Kazakhstan emerged at a time when the global economy itself was undergoing profound changes. The period since 1991 has been one of rapidly intensifying globalization, involving financial and economic integration and unprecedented development of global value chains. The Internet and other technological changes altered the way businesses were done, while the creation of the World Trade Organization, the emergence of climate change as a global problem and the rapid rise of China and other emerging economies changed the way the world economy functioned.

Kazakhstan in these prevailing unfavorable circumstances had to make its way in a rapidly changing global context (OECD, 2015). The transition to the new market relations not only led to radical changes but also spawned and developed many negative phenomena in society: racketeering, raiding, shadow economy, corruption, etc. Corruption continues to exert a negative impact on the national economy. In order to create order out of the chaotic situations, series of other reform initiatives including a restructuring of public institutions, capacity building, and other measures that demonstrate quality improvements and value in the delivery of government services were also implemented in tandem with a monetary institution. Needless to say, many of these developments brought benefits to Kazakhstan. Global growth accelerated, particularly in emerging economies, opening the doors of new market opportunities, lifting hundreds of millions out of poverty, and contributing to big improvements in human health and life expectancy. For Kazakhstan, this acceleration implied a surge in demand for its primary export commodities from the end of the 1990s, underpinning more than a decade of strong growth. The rise of China, in particular, offered – and continues to offer – important opportunities to Kazakhstan. At the same time, the last 25 years have also witnessed several major financial crises, and the effects of the global crisis of 2008-09 are still being felt. This has served as a reminder that greater integration in the world economy is not without its risks.

Materials and Methods

For this volume, a desk research on the scope and efficacy of the broad based social and institutional reforms during the first decade of Kazakhstan nationhood was carried out. This was helpful for reviewing and analyzing both national and international scientific work on the reforms. Further still, as a research method, a review and analysis of scientific articles on the impact and the characteristics of the reforms was applied. The reports of the International Monetary Fund (IMF) and the Organization for Economic Cooperation and Development (OECD) on Kazakhstan for the period were among the secondary analysis

This study is descriptive and takes its base on the indicators of empirical studies by the author. The study mainly focuses on the scope of the social and institutional reforms, with particular reference to a raft of other structural reforms involved.

The main objective of this volume is to present aspects of the Kazakh transition economy experience between 1993 and 1998. During that period, the newly independent state obtained full economic independence and created the basis for the development of a liberal market economy. It also underwent a severe recession, the consequences of which have only partially been compensated for by subsequent growth. The causes of such dramatic trends have been widely debated, alternatively stressing the negative weight of the Soviet heritage and the costs of the radical reforms approach known as “shock therapy” (Olofsgard, 2018). This article focuses on the outcome of the ‘orthodox’ monetary policies adopted during this period. It examines economic development and wealth redistribution, aiming to verify if and to what extent those policies made or marred the transitional process. It is noteworthy that it was the period that marked the beginning of prosperity and peaceful co-existence that Kazakhstan continues to enjoy till present.

As Granville (2016) puts it, ‘Kazakhstan began to adopt an independent monetary policy in November 1993 following the collapse of the ‘rouble zone’. After the dismemberment of the Soviet Union, the Soviet rouble was automatically inherited by all its successor states. Monetary union, however, was not established according to any specific plan. It emerged as a consequence of a process of disintegration that lacked, among other things, any specific programmes aimed at the resettlement of monetary systems. Further still, the maintenance of a common currency was supported by most international economic institutions such as the IMF who viewed it as a factor easing commercial exchange among the Commonwealth of Independent States (CIS).

A growing monetary base and rapid price deregulation generated hyperinflation (Byung-Yeon, 2002). Hyperinflation in the rouble zone started in 1992. In Russia, after the deregulation in January 1992, there was 250% price inflation for the month of January. By December 1992 prices were 26 times the level of December 1991 (McKinnon, 1991; Orlowski, 1993; IMF, 1995, 1998. Aside from different degrees of dependence on imports of oil and manufactured products from Russia, dissimilar approaches to economic reforms and structural heterogeneities among former Soviet states increased divergent trends, opening the way to centrifugal forces that disintegrated the monetary union from within (Orlowski, 1993). The rouble zone reached its final stage in July 1993, when the CBRF required daily bilateral clearings between Russia and the other post-Soviet states, and made the roubles issued prior to 1993 no longer legal tender in Russia (Snoek, 1999; IMF, 1999; Kornai, 2001). At that point, remaining members of the rouble zone – among them Kazakhstan – had no choice but to leave it and introduce their own currency (Dabrowski, 1995a:20-31, 1995b; Chavin, 1995; Broome, 2010:77-111).

Notwithstanding such a troubled environment, Kazakh authorities, it seemed, were quite surprised by Russia's move, and their first reaction was to explore ways to create a new union. Tight historical links between the two countries, the deep integration of their economies, and the political attitude of the Kazakh leadership – worried by the possible social consequences of a sharp division from Russia in terms of interethnic relations – made it difficult to opt abruptly for separation. On 7 September 1993, Russia, Kazakhstan, Uzbekistan, Tajikistan, Belarus, and Armenia signed a treaty to coordinate monetary policies and stabilise exchange rates. Bilateral-framework agreements intended to maintain a unified monetary system were ratified in the following weeks (Dabrowski, 1995:20-25; Khabarov, 1995:1298-3010; Gleason, 2001; Broome, 2010:77-111; Granville, 2016:19-26).

Meanwhile, old and new Russian notes kept circulating in parallel; the former, however, suffered rapid devaluation. If in July 1993, currency conversion was set at a parity level, by early autumn the respective value had soared to 5:1. The trend highlighted widespread flight from the common currency. The exchange rate of old roubles with the dollar also deteriorated consistently, passing from 2,700 in late October up to 7,000 to 10,000 in early November. As monetary reform was made by the NBK, introducing a Kazakh currency became ever more likely. People and enterprises abandoned roubles altogether, resorting to barter and the use of foreign currency. A trend of progressive "dollarization" – which was to last up to the early 2000s – emerged in parallel to hyperinflation (Dabrowski, 1995:20-31; Kazbekov, 2002:85158; Yilmaz, 2009:1-12). The decision to launch sovereign currency underscored the process that would trigger prosperity for millions of families in Kazakhstan. This timely institutional reform ushered in business and consumer loans that transformed life for millions of the citizens.

On 15 November 1993, the Kazakh government finally introduced the *Tenge* (KZT), the new currency. The circulation of rouble notes was suspended by 18 November. Individuals and legal entities could exchange their roubles by following specific procedures, whereas authorities set up controls to avoid artificial price increases (IMF, 1995:24). Individuals could exchange up to 100,000 roubles in cash per person at the rate of 500 roubles per KZT, exceeding sums having been deposited in special bank accounts that had been frozen for six months. Legal entities followed different rules in relation to their sector of activity and level of involvement in retail trade (IMF, 1995:24). This orthodoxy was not surprising for attentive analysts. During the final months of the rouble zone, the central bank had already started implementing credit policies in order to lower inflation, implementing currency controls to limit the inflow of rouble notes, enhancing foreign reserves, accumulating domestically produced gold, and suspending foreign currency auctions (IMF, 2000:23).

Results and discussion

Monetary Independence. The introduction of the new currency opened the way to independent monetary policy, the implementation of which was committed to the NBK. The Bank was the heir of the State Bank of the Socialist Kazakh Republic, transformed after independence into the National Bank of the Republic of Kazakhstan. Laws of 13 April 1993 and 30 March 1995 defined the Bank's tasks, rules, and objectives. Both acts granted the central bank consistent degrees of independence (Loungani, 1995), with monetary stability as the principal objective. Achieving monetary stability came with attendant stability in the society, particularly in the business sectors. As the reforms opened the doors to both local and foreign direct investments (FDI), politicians tasked themselves with making financial and legal legislations that would create conducive conditions for businesses and make the country more attractive to investors. The government took decisive steps to hunt down criminal elements that were behind marauding, extortions and armed robbery, and a raft of other organized crimes that threatened peaceful coexistence during the 1990s.

In their theoretical architecture, the series of monetary acts mirrored the neoliberal monetarist approaches that were being promoted at both scholarly and institutional levels at the time under the umbrella of the so-called "Washington Consensus" (Aslund, 2001). It is therefore not surprising that policies focused from the very beginning on rapid price stabilization through the control of monetary aggregates (IMF, 1995, 1998). As soon as the KZT was issued, the NBK increased commercial bank reserve requirements from 20% to 30%. Refinance rates passed from 170% in November to 240% in December 1993, reaching 270% on 10 January 1994 (IMF, 1995:25). The currency freely floated on the international market, with minor intervention to smooth – and not control – such trends. The rate was initially set at 5 KZT/USD in November 1993 and had increased to 70 KZT/USD by the end of 1996. Credit from the NBK to commercial banks fell from 25% to less than 10%; broad money increases slowed down from 64% to 25% a year between 1993 and 1994. Inflation gradually diminished, and, by 1994, currency depreciation trends offered signs of stabilization. The trend was abruptly interrupted by the bursting of the so-called 'arrears crisis'.

The credit bubble threatened to jeopardize financial construction in the initial years of independence, while highlighting the side effects of monetary policies focused only on 'inflation targeting'. The credit crunch succeeded, in fact, in curbing inflation. It also substantially contributed to lowering companies' liquidity and gradually increasing their financial burden. In conditions of a chronic shortage of working capital, credit became the essential source for funding ordinary activity – including the import, mainly from Russia, of large sets of vital items. By November 1993, Kazakh enterprises were already suffering a net debtor position of around 260 billion roubles (IMF, 1994). Immediately after the introduction of the national currency, the situation worsened. Anticipating an oncoming crunch, most businesses delayed payments and subscribed new credits, trying to avoid, or simply postpone, bankruptcy. Arrears soared. By the first trimester of 1994, the number of entities in arrears reached such a level that a major financial crisis became ever more likely.

As expected, government reacted with a bailout plan for over 38 billion Tenge to cover the worst-distressed debts. Another share of assets, worth 18 billion Tenge and owed by still-viable net debtor enterprises, was covered by credit at an interest rate of 200% to be paid back by 1994. The operation substantially reduced the risk of major breakdowns. It also increased bank credit, broad money – the latter expanding by 72% in the second quarter of the year – and base money, which registered an increase in the same period of 60%. Inflation soared again, and exchange rates depreciated. Negative expectations of price controls and speculative operations in the domestic and international financial markets contributed to a worsening of these trends (EBRD, 1994:26-27; IMF, 1995:25, 1997:5-7, 29-37).

The NBK renewed restrictive monetary policy, sterilizing the expansionary effect of the 'assets crisis'. The refinance rate was increased to 300% in March 1994, not to be lowered to 270% until September, when inflation started a new decline. Credits to the bank sector were limited to a period of nine, then six, months; their renewal was prohibited; and their granting was limited to 'perspective enterprises'. This last step, justified as a means to eliminate – or at least reduce substantially – the forming of new 'arrears waves', acted as a selection mechanism, sustaining firms that could present credentials of future growth, most of them concentrated in the export-oriented sectors.

By 1996, inflation had finally come under control. Consumer price increases fell from an annual average of 1,892% in 1994 to 176% in 1995, 39.1% in 1996, and 17.4% in 1997 (EBRD, 1994, 2001; Kazbekov, 2002:63). Results were substantial, especially because they had been reached within a framework of capital inflows determined by improvements of the trade balance and net foreign direct investments (EBRD, 2001). Capital outflows lessened as a reaction to a perceived successful stabilization and positive economic perspectives. Monetary policy, as predicted by most experts, had worked out: Inflation lowered, the trade balance improved, and the national currency stabilized its rating in the international market. These results, in turn, should have paved the way for a new era of economic development. Net capital inflow and renewed trust in the country's future were considered early signals of the beginning of a new era (Waikar, 2011). Going by these accounts, it is worth mentioning that monetary reform paved the way for the economic success that Kazakhstan has achieved in the last two decades. Financial independence allowed the country to independently make life-changing decisions, attract investments and embark on other social and political reforms as a truly sovereign state.

Successful and peaceful transition to full-fledged market economy, followed by subsequent economic growth went a long way to win the solidarity of the population toward the government. An important and integral part of the social reforms unveiled by the then President Nazarbayev in his address to the nation in 1997, was the recognition and respect for the cultures and traditions of all the nationalities that make up Kazakhstan. This visionary reform has exemplified Kazakhstan among the countries of the former USSR. Series of legislations were promulgated and enforced to avoid religious and ethnic intolerance which could have otherwise resulted in dis-stabilizing the society. Values like freedom, fairness and justice for every citizen in Kazakhstan became the embodiment of the strategic social reforms in the first decade of Kazakhstan statehood. Needless to say, that these visionary steps taken in the right direction continue to be the mainstays of the Kazakhstan society. Nobody can calculate the economic loss of having uninspiring leaders.

There was noticeable the spirits of patriotism and social uplifting at every turn in the country. Not least, people woke up to see unprecedented social transformations in their cities, towns and hamlets. Electricity, gas, access roads, transport routes, and the penetration of burgeoning internet were literally transforming lives for millions. There was a marked internal migration of people from the provinces to larger cities, mainly in pursuance of nascent qualitative education, job opportunities, businesses as well as entertaining industries that were now booming.

Monetary policy in the transition economy

Kazakh monetary policy presents a high degree of coherence throughout the period of this study. The central bank clearly stated that curbing inflation through monetary base targeting was its first priority, and this goal was actually achieved. Deflections from such a strategy, as in 1994, were short-term adjustments to external shocks and didn’t significantly influence the overall consistency of the NBK’s action. Results, according to most analysts, had met expectations (IMF, 1995b; Broome, 2010:152-184).

Shifting perspective from monetary to broad economic aggregates reveals, however, a more complex and contrasting picture. Following reforms, Kazakhstan experienced not only hyperinflation but also a significant decline in production in all economic sectors. This was accompanied by widespread unemployment, a drop of state receipts, a decrease in the standard of living among the vast majority of the population, and skyrocketing revenue inequalities. Poverty and unemployment nourished criminality, and institutional weakness opened the way to widespread corruption. Recession, instability, and a lack of prospects led to drug and alcohol abuse. Life expectancy significantly diminished and the whole social framework showed dangerous signals of implosion (Kazbekov, 2002:7-8). Yet, in 1999, as economic recovery was consolidated, Kazakh GDP was just 40% of its 1990 level. The country’s ranking in the Human Development Index had fallen from 30th in 1990 to 107th in 1998. Kazakh economic structure had undergone radical transformations, losing a portion of its industrial and agricultural potential in order to concentrate on export-oriented production such as that of oil, gas, and precious metals (Kazbekov, 2002).

Kazakhstan’s market-oriented reforms followed the so-called ‘shock therapy’ model experimented within Russia and were backed at the time by most experts, as well as by the IMF and the World Bank. The approach consisted of a set of standard neoliberal measures of institutional transformation, economic restructuring, and financial stabilization that, acting within a comprehensive framework, should have led to a transition from a planned to a market economy. An initial crisis should have been rapidly followed by recovery and development. As hyperinflation burst out in 1992-1993, the monetary institutional policy became, however, the primary instrument in the transition process, and the central bank became a pivotal actor. Curbing inflation emerged, in fact, as a prerequisite for any subsequent action.

Within this framework, the NBK fought price instability (Amato, 2002). The reasons that led the NBK to embrace extremely orthodox approaches, sticking to them even when they evidently contributed to a deepening recession (Kazbekov, 2002:85-99), are complex and not unequivocally identifiable. Objective stabilization needs, neoliberal theoretical approaches, and the inexperience of NBK directors with market mechanisms might all have played a role. Another major cause, however, may be spotted in the complexity of economic conditions in the early 1990s, coupled with the unexpected results produced by other measures of the reform package. Rapid privatization and liberalization of prices and trade in particular, should have led to the simultaneous formation of market mechanisms. This, in turn, should have paved the way for rapid growth, compensating for the deflationary, recessive, monetary policy. Such a perspective was, however, itself the result of a theoretical oversimplification of the economic environment of the early 1990s.

The disintegration of the Soviet Union as a federal but unified state created new frontiers in which uncertainties arose, contributing to a deepening and already serious ‘transition crisis’. Enterprises faced the breakdown of traditional markets in the context of structurally insufficient working capital. A lack of confidence choked expectations and investments. Crisis diminished tax revenues and weakened government capabilities, severely limiting institutional action. The lack of experience of most actors – public and private alike – led to mismanagement, whereas an absence of clear rules and controls opened the way to widespread illegal practices.

The 'package' supported by the IMF widely ignored such aspects. It was based, in fact, on a purely macroeconomic theoretical framework very distantly suited to the actual conditions of post-Soviet economies. The model forecasted that strict monetary policy necessary to reduce inflation would have been balanced by structural reforms – rapid privatization, price and trade liberalization, a downgrading of the state's presence, and budgetary equilibrium – thereby sustaining and stimulating growth. Of the two pillars of the reform package, however, only the monetary one worked out effectively; structural reforms widely disrupted the old system without creating effective market mechanisms. If up to 1993 the main cause of crisis was the disruption of inter-republic trade, from 1994 onward the strongest vehicle of the recession became 'orthodox monetary policy' undertaken in the absence of balancing factors in the real sector.

Economic growth has been impressive since the end of the 1990s

Price liberalization also proved problematic. It was anticipated that after an initial increase of consumer prices up to three-to-five times initial independence-era levels, stabilization would have followed. This then would rapidly lead to a new equilibrium between supply and demand within a coherent price system and effective market mechanisms. Production would have rapidly soared, pushed by new price levels, pulled by solvent demand, and sustained by the higher competitiveness of privatized firms. In reality, price liberalization led to rapid resource reallocation, shifting investment abruptly toward export-oriented and highly rentable economic branches, the first being raw materials, energy, and trade services. This followed a long-term downscaling of domestic firms operating in consumer-oriented sectors. Consequently, imports rapidly increased for a wide range of products, with negative effects on the balance of trade, the state budget, the value of the currency, and the position of the country in the world economy as a whole.

To counterbalance the increasingly evident import dependency of the Kazakh economy, there was a controlled devaluation of the *Tenge*. This measure should have helped newly privatized firms, giving them an additional competitive advantage in the international market. The Kazakh *Tenge* was introduced with an exchange rate to the USD of 4.64 per dollar. At the end of the first quarter after the introduction, it had fallen to 33.63, reaching 51.05 *Tenge* per dollar by December 1993. The trade deficit actually diminished, passing from 1,546.6 USD in 1993 to 1,398.3 USD the following year. The trend was, however, too small to positively impact the overall economic situation. Besides, it went hand in hand with the structural transformation of the Kazakh economy. In 1994, exports fell 19.1%, but imports fell only 8.3%, which mirrored the emergence of economic dependency paths. Therefore, price liberalization, far from compensating recessionary monetary policy, acted as another multiplier of inflationary trends within a stagnating economy.

Privatization was implemented in an environment lacking an efficient financial market, strong institutions, experienced actors, or a competent entrepreneurial class. Under such conditions, resources could hardly be effectively allocated. Far from enhancing efficiency and boosting supply within a transparent market, privatization swept away entire sectors, enlarging the crisis to include still-competitive firms. Supply diminished, which, in turn, alimented inflation within a stagnant economy. To make matters worse, the Kazakhstan population decreased by around two million due to high emigration during the first decade of independence (Pomfret, 2005).

One research by Meldibekova and Altayev on the structure of the population in Kazakhstan from 1989-2016 reveals that the number of Ukrainians in Kazakhstan decreased from 896240 to 289724, showing a net emigration of 606515 people. The largest reduction in the number of Ukranians in Kazakhstan occurred between 1989 and 1999, resulting in the loss of 349,188 Ukrainians. It is worth mentioning that this unfortunate period witnessed the loss of other highly qualified ethnic specialists in different fields to emigration.

In 1989 ethnic Ukrainians made up 20.2% of the total population of East Kazakhstan, by 2016 their number had fallen to 0.33%. The proportion of ethnic Ukrainians in the Southern region fell dramatically from 2,1% in 1989 to only 0.16% by 2016, (or from 109,1 thousand to just about 9000 people). By 2016 only about 169.4 thousand ethnic Ukrainians live in Northern Kazakhstan, where they make up 5.7%, of the population compared to 9.8% in 1989.

Table 1 - Ethnic Ukrainian population in different parts of Kazakhstan from 1989-2016

	Population of Kazakhstan		Total ethnic Ukrainians		% of ethnic Ukrainians	
	1989	2016	1989	2016	1989	2016
Kazakhstan	16 464,9	17 670,6	832,1	262,6	5,44	1,64
North	4429,6	2956,2	434,2	169,4	9,8	5,7
West	2111,1	2693,1	116,5	36,1	5,5	1,3
East	1765,7	1396,0	356,9	4,660	20,2	0,33
South	5195,3	5783,3	109,1	9,181	2,1	0,16
Centre	1841,2	1384,9	136,6	43,29	7,4	3,1

Source: Meldibekova et al, 2019.

A view for future research

Central Bank Sovereignty Paradigm (CBSP).

In helping to 'manage' the economy of any nation a central bank is effecting choices for that community as a whole. In that function as economic managers, the central banks act with discretionary authority. They set macroeconomic goals (employment/inflation)–which must necessarily affect the community as a whole–and take actions towards achieving those goals–which actions themselves affect the community as a whole (most directly, via interest rates). The goals of the central banks are broadly mandated by the government in establishing a central-bank monetary system, but the discretion of the central bank is sufficiently broad that in the context of the above discussion central banks can be said to be governmental in the *political* sense. As things stand, then, it is fair to say that, functionally, central banks do indeed constitute a "fourth arm" of government–one not specified as such in any nation's formal constitution (Adeleke et al, 2019).

In the paradigm presented herein the role of the central bank regarding the supply of money is envisioned to be purely administrative. It would no longer have any discretionary authority to determine *any* macroeconomic outcomes–but neither would the legislative, executive, or judicial branches of government.

The institution that is most central to both the production and the distribution of goods and services in the modern economy is money. Money is the fuel of that economic system and, the necessary source of social power for participating in it: no member of any society has any choice but to act economically to procure goods and services; in a society with modern economy money is necessary for procuring even the minimum sufficiency of goods and services.

Ultimately, applying this paradigm would also provide the means to eliminate (regardless of the level of total output) unemployment and poverty (at no cost) as well as taxes and public debt (of all kinds and at all levels of government)–though society could choose to have any of those. It would also enhance environmental sustainability (Yearwood, 2004). Changes that would not be required to achieve those outcomes are noteworthy. It would not require any limit on income or property/wealth. There would not be a redistribution of any antecedent anything, nor would any particular form of economic behaviour (altruism, greed, or any other) be required, so no changes in extant economic behaviour would also be required. Additionally, this would never involve tearing down even one piece of the existing institutional structure.

Self-regulating economy, an overview

'Allotted income' is the key to the paradigm. The allotted income would not be paid to everyone, but would be available for an unlimited number of people; a minimum income would be available for every adult member of society and the money for that income would be created as needed by the central bank. It must be stressed that the total of that income would also form the supply of money for the economy. In this context, a supply of money in the form of currency, whether physical or digital is distinguished from the money supply, which includes as well demand deposits resulting from lending–and, in broader definitions of the money supply, various fungible assets.

As in the present system, the money being referred to here would not be 'backed' by anything, i.e. would not be convertible upon demand to any other asset. Unlike the present system, it would not be possible for any entity even to attempt to govern the size of the supply of money. The volume of the supply of money would be determined by our demographics–and only that. In order to prevent the devaluation of money, a portion of it would have to be returned to the point of origin, the CB. This amount of money to be returned to the CB would be determined by the functioning of the economy–and only that; no entity would have any say in what the total amount of money to be returned to its point of origin would be, either. The act of returning money to its point of origin would make the supply of money self-regulating and as a result, a self-regulating supply of money in the form of an income paid to individuals would result in a self-regulating economy.

The supply of money

The basis for this paradigm is providing money for the economy in the form of income paid to certain individuals, an allotted income without any debts incurred. The central bank would supply that allotted income and it would be the same amount for everyone being paid it. The income would also become the national minimum salary. For that matter, it would be paid by the central bank, not employers. By converting to this system every position in the economy being paid by an employer an amount equal to the current minimum wage (in hourly wages or, prorated, as a salary) would now instead be paid by the central bank. The minimum pay would start at that amount and be increased gradually (to prevent inflation) until it equalled the allotted income for retirees and adults too incapacitated to work. As would be expected, employers could designate any position to be a minimum-pay position, to be paid the allotted income. In such cases, a person occupying such a position would have to decide whether or not to continue in it for that income otherwise, someone else might accept that position for that income–or not. Over time though, positions could, in terms of pay, rise out of and fall into that category in the sense that the same job might be minimum-pay in one labour market but not in another, or even with one employer but not another in the same labour market.

Ending unemployment

People unable to find a job in the local economy could be hired by the local government to perform a public service that would require no additional investment by the government while being paid the allotted income. Such jobs would cost the community nothing and to keep the cost of such employment at zero, it would not include any benefits. Such practice would serve an incentive for people employed in such work (if more was needed) to continue to look for a job that did pay benefits of some kind.

The functionality of this monetary system would mean an endlessly circulating stock of money thus, the system would have an endlessly renewed stream of money. Large businesses organizations, as well as individuals, would be able to retain a percentage of their annualized income/profits; any amount over that limit would be collected by the bank.

Funding the government

All levels of government would be funded by the central bank forever at the current *per capita* level of total government spending. All of the government spendings would thereby be determined by the population structures. Any money not spent by the government would be returned to the central bank (Funding government this way implies a permanent freeze on pay for all positions in government; as at present, newly created positions would have to be fit into the existing pay structure). If the amount of money collected by the central bank from individual banks were sufficient to fund the government, no additional money would be needed. Should there be a surplus of money collected, it would be retained by the central bank. If it collected less than was needed to fund the government, it would create the necessary amount of money. That would further stabilize total demand, even in the event of net outflows of money from the economy (Yearwood, 2017).

Addressing inflation

So far with this paradigm in place, the only *possible* macroeconomic problem would be price inflation. However, transitioning to this model by gradually increasing the allotted income, as the minimum wage, from its current level to the full amount of the allotted income would allow for total supply to increase as incomes among lower-paid positions were increasing, reducing pressure on prices. Indeed, as the only possible macroeconomic problem that might ensue, inflation would have our undivided attention. Precluding demand pulled inflation, whatever it took, would be in everyone's self-interest–or at least would not do anyone harm.

Summary/Discussion

Unequivocally, any fiscal, or indeed economic reform is closely linked to other social reforms with the goal to achieve a better standard of living for the people. There can be no difference of opinion in the fact that Kazakhstan has achieved a higher standard of living for the people within a short period of time, thanks to the combined social reforms. No one can deny the fact that as a result of all these reforms, people in Kazakhstan are enjoying a higher standard of living thanks to availability of business loans, mortgages and consumer loans. All of these, thanks to the raft of fiscal and social reforms performed in the 1990s.

In his celebrated address to the nation in 1997, President Nursultan Nazarbayev unveiled the strategic development plans called “Kazakhstan 2030. The document contained a raft of social reforms that would project Kazakhstan from a struggling nation to prosperity. In his words: “we have embarked on large scale social, political and economic reforms” (Nazarbayev, 1997). These strategic development plans were only achievable thanks to fiscal and other institutional reforms of the 1990s. Starting from the beginning of the century Kazakhstan’s Human Development Index Value has been on the increase. According to a UNDP report, Kazakhstan Human Development Index for 2018 is 0.817– which put the country in the very high human development category–positioning it at 50 out of 189 countries and territories. Between 1990 and 2018, Kazakhstan’s HDI value increased from 0.690 to 0.817, an increase of 18.5 percent (UNDP, 2019).

Meanwhile, the course of this research work reveals the Kazakhstan’s experience in transitional economic reforms. It also reveals the potential and the limits of orthodox monetary approaches in helping to achieve macroeconomic stabilization at the price of costly recessionary trends. Recession trends were, as a matter of fact, interrupted by exogenous factors more than by domestic reforms. The sharp rise in the price of many export goods in the early 2000s, such as oil and gold, interrupted the transformational recession by pouring substantial resources into the country. This allowed for investment, which increased the state’s revenues, the standard of living, and consumption, opening a new era of economic growth for Kazakhstan. As a result, the country moved to the upper-middle-income group in 2006. Since 2002, GDP per capita has risen six-fold and poverty incidence has fallen sharply, significantly improving the country’s performance on the World Bank’s indicator of shared prosperity. It remained to be seen whether Kazakhstan would be twice fortunate. As the ex-president Nazarbayev puts it, «We need to look into the past in order to understand the present and foresee the future»

Further still, the course of this research work reveals as well, that Kazakhstan’s experience in transitional economic reforms highlights the shortcomings of the traditional neoliberal model, which oversimplifies reality and fails to take historic, social, and economic specificities into account. It reveals the potential and the limits of orthodox monetary approaches in helping to achieve macroeconomic stabilization at the price of costly recessionary trends. Recession trends were, as a matter of fact, interrupted by exogenous factors more than by domestic reforms. The sharp rise in the price of many export goods in the early 2000s, such as oil and gold, interrupted the transformational recession by pouring substantial resources into the country. This allowed for investment, which increased the state’s revenues, the standard of living, and consumption, opening a new era of economic growth for Kazakhstan. As a result, the country moved to the upper-middle-income group in 2006. Since 2002, GDP per capita has risen six-fold and poverty incidence has fallen sharply, significantly improving the country’s performance on the World Bank’s indicator of shared prosperity. It remained to be seen whether Kazakhstan would be twice fortunate. As the ex-president Nazarbayev puts it, «We need to look into the past in order to understand the present and foresee the future».

By and large, a vast majority of the population testify to the fact that Kazakhstan is on the right social and economic courses. The government of Kazakhstan has not relented in its efforts to maintain a fair distribution of wealth, there continue to be business and consumer loans available to the people, more and improved social amenities are becoming parts of the social life. Improved public services, safety, prosperity and healthy lifestyles have long become everyday life attributes, to the extent that many people now contend that comparatively, their living standards at home, is not worse than in Europe.

Conclusions

Environmental Sustainability**.** There can be no doubt that this new monetary system would make the market-based economy more environmentally sustainable. The economic total output, to include that induced by various government spending, would be governed by demographics and that alone would also reduce sustainability to one problem. In that propitiously, there is enough evidence pointing to the fact that material security encourages people to have fewer children and not more. However, more pointedly with the capitalist economy as it is presently structured, the focus is on maximizing output, the need to maximize employment, and therefore total income, therefore taxes. As notable by all across the board, that mathematically functional approach is grotesquely inefficient both socially and environmentally. Putting this proposed new monetary system in place would result in the dissolution of that functional relationship between output and those other outcomes. In effect every adult would be guaranteed access to a (sufficient) income; the total of that income (combined with demographic-based funding of government) would passively but effectively regulate total output. More pointedly, the greatest boon for Kazakhstan would be sustainability and ultimately, it would make the extant traditional model of development unnecessary for a country like Kazakhstan, given that the current model is a vicious assault on the already long-suffering environment. This would, therefore, help repositioning the nation from resource supplier to an industrial economy.

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