

Post-War Reconstruction of Ukraine – Parallels of the Post-War Reconstruction of Germany

W. Müller¹, O. M. Khrystoforova², Vyacheslav Lyashenko³

¹AWG Treuhand GmbH & Co. KG, Audit firm, Germany

²Department of management, business and professional communication, Educational and Scientific Institute “Karazin banking University” of V. N. Karazin Kharkiv National University, Ukraine

³Department of Media Systems and Technology, Kharkiv National University of Radio Electronics, Ukraine

Abstract: *Post-war reconstruction is one of the key elements of the rebirth of a new life in economic, social, political and cultural aspects. At the same time, the main role in such processes is given to economic recovery. In this aspect, it is taxation that can be the driving force behind economic revival. The paper examines the parallels of economic recovery in post-war Germany, outlines the basic principles for building an equitable and effective taxation system.*

Keywords—Ukraine; war, principles; taxation; post-war reconstruction

1. INTRODUCTION

War is the event that radically changes the economic and political development of the country; in fact, such development slows down, if not stops. War breaks the fate of people, the democratic path of development. The war significantly affects the change in the economic progress achieved, the natural movement of financial flows as the basis of the market development path is disrupted [1].

On February 24, 2022, Russia launched a full-scale war against Ukraine. Assessing the impact of this event on the change in the geopolitical and economic picture of the modern world today is not completely possible, since this process is incomplete. The unequivocal fact is that she will never be the same as before this day. Destruction and losses from air bombardments, artillery attacks, tank battles and the use of other types of weapons turned flourishing cities and villages in many regions of Ukraine into ruins and conflagrations.

The total damage to the Ukrainian economy from the war with Russia, according to preliminary estimates, is \$600 billion and such damage is only growing, extending to other countries [2]-[4]. Ukraine will win, and even today issues related to determining ways to restore the economy are becoming extremely relevant - from the urgent creation of housing for temporarily displaced citizens to the global restoration of villages, cities, and the entire country. Drawing historical parallels, studying positive experience and mistakes made, draws our attention to Germany, a country that successfully emerged from the consequences of the Second World War.

However, before proceeding to such a presentation, we note several works that discuss various aspects of the war against Ukraine.

2. SOME RELATED WORKS

It should be noted that the relevant studies concern both the impact of the war against Ukraine on its immediate development, and the impact of this war on the overall world economic development. Therefore, an important aspect is the post-war restoration of Ukraine, a description of the basic principles of this process. This is ultimately the main goal of our work.

D. Rawtani, G. Gupta, N. Khatri, P. K Rao and C. M. Hussain consider the issues of environmental damage due to the war against Ukraine [5]. The authors note that the war has irreparable consequences for water, air, soil and ecosystems. At the same time, damage to the overall ecosystem leads to the loss of biodiversity and the food chain [5]. Damage to industrial and commercial infrastructure leads to pollution of water sources, which can be hazardous to human health and the ecosystem. Therefore, new norms are needed to protect the environment during such conflicts, which is also one of the components of post-war reconstruction.

E. Kismödi and E. Pitchforth explore the problems of health, law and justice in the war against Ukraine [6]. The authors note that these problems cover the processes of forced migration and the emergence of possible conflicts, which also affects the post-war recovery. Therefore, attention to such issues must be turned now, in the context of the war against Ukraine, and international and national obligations must be invoked to protect the most vulnerable segments of the population.

J. Requate analyzes the problem of communication strategies and its challenges for European historiography [7]. The author emphasizes that this war prompts to reconsider some concepts and approaches to their consideration. In particular, this concerns the clarification of the concept of democracy, which is often taken for granted [7]. Nevertheless,

it is precisely the presence of democracy and its development that can be an effective stimulus for post-war reconstruction.

P. S. Magdalena explores the impact of the consequences of the war against Ukraine on cultural heritage [8]. The work notes the negative impact of the war against Ukraine, both on cultural heritage and on the opportunity to engage in various areas of culture: artists and specialists in the field of culture and heritage cannot engage in their activities. At the same time, since Russia's war is also fought on cultural grounds, and the cultural front is very important, it is also necessary to promote modern Ukrainian culture, which can be a moral support for the population and the basis of the post-war reconstruction process.

T. Korn and H. Stemmler explore the issue of changing global supply chains [9]. However, the authors note that such changes may be permanent. This is due to the fact that the war causes "development in the opposite direction" and such a development in the opposite direction is now taking place in Ukraine [9]. There is a failure of economic exchange. This makes it important to quickly implement the post-war recovery of the Ukrainian economy. It is important to form positive expectations regarding the economic future of Ukraine.

M. A. Ruiz Estrada considers how the war against Ukraine generates chains of economic recession around the world [10]. The author generalizes the economic destruction in Ukraine to the failure of economic exchanges and, accordingly, the overall (worldwide) rate of economic decline. Thus, the author emphasizes the importance of the Ukrainian economy, the need for its restoration.

N. Angrist, S. Djankov, P. Goldberg and H. Patrinos explore the problem of loss of human capital in Ukraine [11]. The authors note that before the war Ukraine worked on a par with its regional neighbors in Eastern Europe, including Bulgaria and Croatia. However, the war changed everything. Many in Ukraine have lost their jobs, and consumer demand has declined. At the same time, a number of European countries have replenished with potential labor force. Thus, the restoration of Ukraine will entail a new redistribution of human capital.

M. Bezpartochnyi, I. Britchenko and O. Bezpartochna assess the financial losses of the agrarian sector of Ukraine and the impact of these losses on food security [12]. Therefore, targeted support for Ukrainian agricultural exports can be considered one of the key areas of post-war recovery.

In general, it should be noted that all authors emphasize the role and importance of Ukraine in the global processes of economic development. This is especially evident in the area of food security. The war against Ukraine also affects the pricing policy regarding the main energy resources, the environment. All this makes it important to consider the main directions of post-war reconstruction.

3. SOME PARALLELS WITH POST-WAR GERMANY

On 8 May 1945, the German Reich signed the unconditional surrender and was liberated from war and National Socialism. As part of the Potsdam Conference, Germany was divided into four occupation zones. Each occupation zone was administered by an Allied power.

The three western occupation zones joined forces in the period 1945-49 and led to the founding of the Federal Republic of Germany. A statute of occupation with extensive powers of intervention was enacted between the Allied powers and the newly founded Federal Republic of Germany. The coordination of the Allies was taken over by the so-called Allied Control Council. In 1955, the Occupation Statute was repealed by the Treaty of Germany and the Federal Republic of Germany regained its state sovereignty. In the Soviet occupation zone, a separate state, the German Democratic Republic, was founded. Until reunification in 1990, there were thus two independent states on German soil.

After the end of the Second World War, Germany was largely destroyed by the war. Food ration cards were issued to ensure that the population could be fed. The Allies, especially the USA, wanted to transform Germany into an agricultural state. Later, the American government at the time revised its plan and saw in the western occupation zones an opportunity to help rebuild its own economy through corresponding exports.

Within the framework of the so-called Marshall Plan, the USA at the time made extensive credit funds available to the German economy. These loans were administered by the Kreditanstalt für Wiederaufbau until today.

With the help of these loans, loans for companies and private households are refinanced to this day. In order for the Federal Republic of Germany to overcome the economy of scarcity as quickly as possible, German university professors and politicians were commissioned to develop a model to rebuild Germany.

The goal of the social market economy was the principle of combining the freedom of the market with social balance. In 1948, a currency reform was carried out. The currency of the time, the German Reichsmark, was devalued one to ten. Certain prices, especially for basic foodstuffs, were not liberalized after the currency reform. In addition, workers' rights were considerably strengthened through free trade unions and autonomy in collective bargaining. Subsequently, the production of various products has increased very rapidly and with the increase in supply, prices have leveled out.

With this policy, Germany was able to rebuild the cities in the 1950s. In addition to the strengthening of workers' rights by the collective bargaining parties, social housing construction was also promoted by the state until 1990. Important companies in the energy supply, credit and telecommunications sectors remained in state hands. The health care system was only gradually liberalized much later, after 1972.

A main point of criticism from today's perspective is the original tax system. From 1950-2000, Germany had a relatively narrow tax base for income taxes and relatively high tax rates. Until the end of the 1990s, a wealth tax was also levied, which was later suspended for constitutional reasons. It was not until 2000 that international pressure led to a substantial reduction in corporate income tax and also to a cap on income tax at 45 %.

VAT was originally designed as a gross sales tax, which was reformed into a net sales tax in 1968 within the framework of the EU. In 1993, the turnover tax was again significantly reformed due to the abolition of intra-European border controls. In addition to the non-optimal tax system, some rules of the social market economy were later disregarded.

The success of the social market economy depends on the existence of functioning markets. This should be guaranteed by the anti-trust authority. Unfortunately, to this day oligopolies have emerged in more and more sectors of the economy. These include auditing, the petroleum industry, the food industry and other important sectors.

In addition, various state enterprises such as communications and energy supply were privatized. Here, too, no functioning markets have emerged, as only oligopolies have emerged due to the high capital intensity. This is also the reason for the high dependence on energy imports from Russia, for example. Here, too, politics has always been significantly involved.

4. THE MISTAKES OF GERMAN POLITICS

A main point of criticism from today's perspective is the original tax system, which was desired by the Allies at the time. From 1950-2000, Germany had a relatively narrow tax base for income taxes and relatively high tax rates. Until the end of the 1990s, a wealth tax was also levied, which was later suspended for constitutional reasons. It was not until 2000 that international pressure led to a substantial reduction in corporate income tax and also to a cap on income tax at 45% [13].

VAT was originally designed as a gross sales tax, which was reformed into a net sales tax in 1968 within the framework of the EU. In 1993, the turnover tax was again significantly reformed due to the abolition of intra-European border controls.

In addition to the non-optimal tax system, some rules of the social market economy were later disregarded. The success of the social market economy depends on the existence of functioning markets. This should be guaranteed by the anti-trust authority. Unfortunately, to this day oligopolies have emerged in more and more sectors of the economy. These include auditing, the petroleum industry, the food industry and other important sectors [14].

Moreover, various state enterprises such as communications and energy supply were privatized. Here, too, no functioning markets have emerged, as only oligopolies have emerged due to the high capital intensity. This is also the reason for the high dependence on energy imports from Russia,

for example. Here, too, politics has always been significantly involved.

The health sector was also privatized as part of this policy. However, it turns out time and again that the health sector cannot only be run in a market economy, as was shown in the pandemic.

In this respect, the social market economy in Germany needs a comprehensive reorganization, which, however, is very difficult in my eyes. Politicians tend to enact laws that promote concentration processes in the economy.

5. PROPOSALS FOR IMPROVING THE ECONOMIC FRAMEWORK CONDITIONS WITH SPECIAL REGARD TO TAX LAW

First of all, we note that we consider taxation as the basis of economic activity and the basis for the future recovery and development of the Ukrainian economy. This is based on the fact that taxation affects all areas of economic activity, the continuous movement of the corresponding financial flows (Fig. 1).

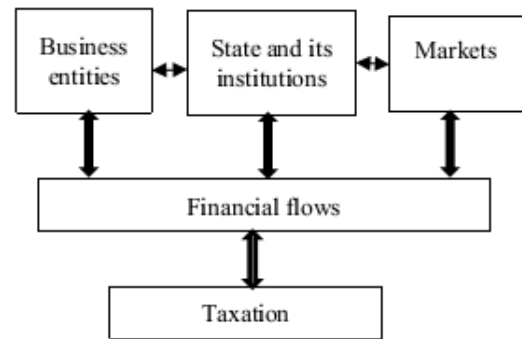


Figure 1: Taxation as a central element of the economy

The following principles must be observed: principle of equality in taxation, individual livelihood security, fundamental rights of freedom as limits to tax access, rule of law principle.

Requirements for tax law from business tax theory: legal form neutrality, minimum taxation in the international area

Income taxation should comply with the principle of equality of taxation, i.e. equal circumstances should be taxed equally and unequal circumstances unequally [15]-[19].

Taxes should be aligned in such a way that the welfare state principle is observed; this means that the necessary individual subsistence minimum must remain exempt from income tax.

Taxes must be designed in such a way that there is no strangulation here. This means that the amount of taxes must be capped.

The principle of the rule of law states that tax legislation must be adopted at an early stage so that the population can adjust to the new tax laws. The fiscal administration is thereby

legally bound to these tax laws. Fiscal jurisdiction must ensure that the tax citizen is protected accordingly here.

6. PRINCIPLES OF TAXATION

The design of taxation is based on the following principles:

Ability-to-pay principle.

This principle is also referred to as the principle of taxation according to personal ability to pay.

This includes the following principles:

- a) equal taxation for citizens of an almost identical income (horizontal equal treatment);
- b) different taxation for different incomes (vertical - equal treatment);
- c) actual taxation
- d) Application of the objective and subjective net principle.

The legislator has a wide scope of action in the standardization of tax law. It is thus entitled to pursue non-fiscal promotion and steering goals and it is authorized to simplify and standardize. In doing so, however, it must implement the burden decision once it has been made in a consistent manner in the sense of equality of burden.

The principle of equal taxation (horizontal tax justice) is intended to prevent distortions of the individual types of income. This principle finds concrete expression in the various tax concessions for the individual types of income. Actual taxation precludes the taxation of hypothetical circumstances. Unlike turnover tax, there is no target taxation.

When determining income, the objective net principle prescribes the unrestricted deduction of income-related expenses that are causally connected to a source of income. Losses are also taken into account, as they reduce the taxpayer's ability to pay. This also includes the deduction of business expenses or income-related expenses as well as the forms of loss compensation.

The subjective net principle ensures the deduction of expenses that secure one's existence (basic allowance, special expenses, extraordinary burdens). Here, circumstances are taken into accounts which lie exclusively in the private sphere of the taxpayer.

Principle of individual taxation.

The principle of individual taxation is a subset of the ability-to-pay principle. It states that the basis of assessment and the progressive income tax rate must be related to the individual natural person.

It further follows from the principle of individual taxation that each person must pay tax on the income he or she has earned. The income is allocated personally. This principle is only broken in exceptional cases, e.g. in the event of the death of the taxpayer. His income must be taxed by the legal successor (heir).

Market income principle.

The market income principle covers all 7 types of income. However, only income that is open to the market leads to a taxable event. Income from the private sphere and without a market (inheritance, gifts) is therefore not subject to income tax.

Principle of sectional taxation.

The principle of sectional taxation is not an outgrowth of the ability-to-pay principle, but a fiscal necessity. The state is dependent on continuous tax revenues in order to be able to fulfil its tasks. In order to ensure a uniform tax revenue, the income tax rate has been designed as an annual rate.

Principle of single taxation.

The ability-to-pay principle covers all tax-relevant income – at least once, but not more than once. This principle is of practical importance especially in avoiding double taxation.

Business taxation has developed two further principles that are, in my opinion, very important:

- a) The different legal forms of companies should be taxed as equally as possible. Equal taxation avoids, above all, the abuse of tax structuring possibilities.
- b) In international tax law, it should be ensured that every company pays a minimum tax and thus also makes an appropriate contribution to financing the infrastructure in the states in which it operates.

Historical developments have shown that a system organized in a market economy leads more quickly to development than a planned economy. However, even in a market economy system, the state needs corresponding revenues to protect the market economy, e.g. through a functioning legal system, or to intervene in certain areas to ensure social balance, sustainable economic activity, security, education and research.

Principles of constitutional law.

Consequently, the state is dependent on receiving corresponding tax revenues, which should, however, comply with certain basic principles of constitutional law. The following types of taxes are possible in principle:

Income taxation of individuals and corporate tax entities.

Within the framework of income taxation, an assessment base is to be defined for private individuals and corporations, which is then charged with a tax rate. The legal structure should comply with the constitutional and economic principles outlined under point 4.

Wealth taxation.

For wealth taxation, a tax base must first be determined, whereby the problem must be overcome here of how to value the corresponding assets. The valuation of companies and real estate is of particular importance here. These problems have also not been sensibly regulated in Germany to date. A low tax

rate should generally be applied to the assessment basis, as this is purely a taxation of assets.

Sales taxation.

VAT in the European Union is regulated accordingly by a directive. In order to ensure rapid accession to the European Union, Ukrainian VAT law should be aligned with European VAT law. There are also considerable problems with tax evasion in European VAT law. Within the framework of the new legislation, care should be taken to close such loopholes from the outset.

7. CONCLUDING REMARKS

To support and help citizens, deregulate and liberalize business, to stimulate the economy in the current environment, Ukraine has already taken a number of measures, including significant changes to the legislation.

For the social protection of citizens during martial law in the country, a system of payments to individuals has been built and is functioning, which are carried out using the state mobile application "Diya".

To restore the economy, changes were made to the Tax Code of Ukraine, as a result of which a simplified taxation system with specific features was put into effect. Ukraine should introduce a market economy system, equivalent to the social market economy, to ensure reconstruction and avoid social injustice. The market should be protected by a strong anti-trust authority to prevent takeovers by non-EU investors in important sectors of the economy.

The Western states must provide Ukraine with money for start-up financing along the lines of the Marshall Plan.

Tax law should observe the corresponding principles so that there are no distortions of competition. Certain areas should remain in state hands or be regulated under state control.

8. REFERENCES

- [1] Kuzemin, A., & et al.. (2005). Analysis of movement of financial flows of economical agents as the basis for designing the system of economical security (general conception). In Third international conference «Information research, applications, and education, 27-30.
- [2] Загальні втрати економіки України через війну - <https://www.ukrinform.ua/rubric-economy/3455669-zagalni-vtrati-ekonomiki-ukraini-cerez-vijnu-sagaut-do-600-milardiv.html>
- [3] Rawtani, D., & et al.. (2022). Environmental damages due to war in Ukraine: A perspective. *Science of The Total Environment*, 850, 157932.
- [4] Khudaykulova, M., Yuanqiong, H., & Khudaykulov, A. (2022). Economic Consequences and Implications of the Ukraine-Russia War. *International Journal of Management Science and Business Administration*, 8(4), 44-52.
- [5] Rawtani, D., & et al.. (2022). Environmental damages due to war in Ukraine: A perspective. *Science of The Total Environment*, 850, 157932.
- [6] Kismödi, E., & Pitchforth, E. (2022). Sexual and reproductive health, rights and justice in the war against

- Ukraine 2022. *Sexual and Reproductive Health Matters*, 30(1), 2052459.
- [7] Requate, J. (2022). The War against Ukraine, the Problem of Communication Strategies, and Its Challenges for European Historiography. *Ab Imperio*, 2022(1), 85-90.
- [8] Magdalena, P. S. (2022). European Cultural Heritage Days: Russia's cultural war against Ukraine.
- [9] Korn, T., & Stemmler, H. (2022). Russia's war against Ukraine might persistently shift global supply chains. *VoxEU.org*, 31.
- [10] Ruiz Estrada, M. A. (2022). How the Russo-Ukrainian War is Generating Economic Desgrowth Chains (-ðchains) Worldwide?. Available at SSRN.
- [11] Angrist, N., & et al.. (2022). The loss of human capital in Ukraine. *Global Economic Consequences of the War in Ukraine Sanctions, Supply Chains and Sustainability*, 26.
- [12] Bezpartochnyi, M., Britchenco, I., & Bezpartochna, O. (2022). Financial losses of Ukraine's agricultural exports and ensuring food security during martial law. *VUZF Review*, 7(2), 193.
- [13] Johannesen, N. (2022). The Global Minimum Tax (No. 22-01). University of Copenhagen. Department of Economics. The Center for Economic Behavior and Inequality (CEBI).
- [14] Maciejewski, T. (2022). Der Entwurf einer DEBRA-Richtlinie: Veränderte steuerliche Rahmenbedingungen für die Unternehmensfinanzierung?–Teil 1 von 2. *UuG-Die Unternehmensbesteuerung*, 15(9), 453-460.
- [15] Kiprotich, B. A. (2016). Principles of taxation. *governance*, 5(7), 341-352.
- [16] Gluschenko, V. V., Lyashenko, V. V., & Somova, V. V. (2013). Components of a comparative analysis of the efficiency of the tax burden on income: application of stochastic frontier analysis. *International Journals of Marketing and Technology*, 3(10), 136-145.
- [17] Gluschenko, V., Lyashenko, V. V., & Somova, V. V. (2013). Analysis of the Population Income Tax Burden, Using the Method of Stochastic Limits. *European Researcher*, 40(2-1), 286-292.
- [18] Du Preez, H. (2015). A construction of the fundamental principles of taxation (Doctoral dissertation, University of Pretoria).
- [19] Sadiq, K., & et al.. (2018). Principles of taxation law 2018. Thomson Reuters (Professional) Australia Limited.