

# People First: The latest in the watch on Ukrainian democracy

By Viktor Tkachuk. Published Sept. 30, 2012 at 6:43 pm




 An elderly woman sells her shoes as she asks for alms in Kiev on Sept. 10, 2012. AFP PHOTO/ SERGEI SUPINSKY

Photo by AFP

## The final days of the middle class in Ukraine

Ukrainian sociologists claim that less than 5 percent of the population enjoys a quality of life comparable with the average level of the European middle class. According to their research, this social strata is made up of entrepreneurs and top management of large companies exclusively. At the same time, only 1 percent of the population can be considered rich.

Today the remaining portion of the population spends most of their income on food (53 percent); it should be noted that inflation is increasing the price for food without improving the quality. Besides food, families spend a lot of money on education and medical care, despite the fact that these services are supposedly free in Ukraine. Most Ukrainians are left with almost no funds for recreation or cultural development.

Ukrainian scientists illustrate that while in European societies the share of middle class is on average 60-65 percent, in Ukraine the great stratification of the population is deepening. It is believed that stable democratic development requires at least 50 percent of a population to belong to the middle class. In Ukraine, as in most post-Soviet countries, the majority of highly-qualified specialists do not belong to middle class in terms of their income. At the same time almost 17 percent of the population survives on less money than the minimum subsistence level (about \$130 per month). It is hard to hope for positive democratic developments in Ukraine when the middle class – the basis of democracy – is being watering down further and further.

People First Comment: There are a number of reasons why the Ukrainian middle class is diminishing. The first is that anybody with

any brains has already moved their wealth and their families out to countries that are less hostile to the concept of middle class wealth. The second reason is the almost wonton destruction of the small and medium sized business sector through crippling taxation and the rapacious demands of the tax police. Those in power really do seem to be under the illusion that all wealth generated in this country belongs to the state... that is apart from their wealth.

In most successful economies small business is the backbone of the nation contributing the lion's share of the tax revenue and also the majority of the national growth however in Ukraine the regime see it more as a singular source of taxation to prop up their failing economic policies. Thus the middle class are simply voting with their feet; after all, why should anybody who has worked hard and made enough money to be comfortable risk losing it to the bandits who manipulate the tax revenue service. The standard system here appears to be if you make any money at all here they will tax you mercilessly to a point where there is no point working hard.

It is a sad reality that it is simply better to leave Ukraine and move to somewhere, anywhere, where the rule of law and justice have real meaning. Sadly, Ukrainians today have more civil rights living, even illegally, in Europe or in North America than they do living in Ukraine such is the current state of Ukrainian society.

### Yanukovych U-turns on Ukraine's European future

In his address to the Ukrainian people on the 21st anniversary of Ukraine's independence (Aug. 24) President Viktor Yanukovych said that European integration must not come at the cost of intrusion into

the country's internal affairs. In his words, integration into the EU at the cost of losing independence, making economic and territorial concessions, and having internal affairs intruded into is absolutely unacceptable. At the same time Yanukovich stated that processes of integration into Commonwealth of Independent States will not be left outside of Ukraine's attention; it is after all one of the largest market for Ukrainian exporters.

Right after reassuring the Ukrainian people of his intention to protect state interests Yanukovich left for his second meeting in six weeks with Russian President Vladimir Putin in Sochi.

This meeting turned out quite unexpectedly for journalists and experts, since no breakthrough agreements between the two countries were reached. At the same time the President of Ukraine stated that Ukraine aims to become an observer in the Shanghai Cooperation Organisation (SCO), to further develop Eastern vectors of economic cooperation. These statements about reversing integration into the EU at any cost and the simultaneous request to gain observer's status in the SCO suggest Yanukovich is re-orientating from European integration to Eurasian, despite many months political rhetoric to the opposite.

People First Comment: The problem with European integration for the regime is that if they join the EU they will have to obey the rules, something in Ukraine they seem singularly unable to do up until now. Since coming to power they have bent the Constitution, change the whole basis of democracy within the Verkhovna Rada, written laws specifically to suit their purpose, rewritten the entire electoral system and corrupted the judiciary to a point where many would rightly claim that Ukraine no longer has a functioning legal system or a working democracy. And the critics would be right. In two

years the boys in blue have undone a fledgling democracy and in its place built a neo-Soviet criminocracy. So their penny has finally dropped... joining the European family is not a good idea... Not a good idea for whom?

In joining the EU Ukraine would have to build a functioning democratic system controlled by the will of the people and backed by a function legislature. Corruption would be much more difficult as the EU has standardised systems of control and functioning accounting systems that would make blatant theft so obvious that even the blind would see. Monopolies would be illegal and take-overs would have to be legal as opposed to men in masks backed up by the tax police... in fact Ukraine would have to build a truly functioning democratic society in which the hospitals would work properly, children would get a sound education, the small business would flourish, salaries would rise and as would the standards of living. This is not Utopia; this is the reality of the European system, but this is not what the regime considers to be in the national interest...

So now they turn toward China as if the Chinese are going to allow them to play their games without any sort of penalty. As many African nations have found to their cost, nothing that comes from China comes for free. Everything has its price and perhaps the regime ought to take note that in China the price of high level corruption, is your life.

Financial, currency risks growing

With the October elections drawing near the experts and population hold a growing fear of a significant devaluation for the national currency. Another destabilising factor is that Ukrainian banks and importers are resorting more and more to speculation: making



money on currency reselling(5). Experts underline the danger of the current tendencies in Ukraine's economy and state finances. Particularly, ex-Minister of Finance Viktor Pynzenyk has said that the Ukrainian economy has no stimulus towards growth. The reasons for this are the decreasing demand for Ukrainian products on external markets and the absence of any serious positive changes on the internal market that might stimulate investment and domestic demand.

Another factor that is worsening instability are measures implemented to stop currency bleed from Ukraine, introduced by the National Bank of Ukraine. Meanwhile, import of foreign currency is going through a process of deregulation, with the requirement to prove where imported cash has been withdrawn from being removed as of Aug. 31. Experts highlight that the policy is likely to attract large quantities of questionably-sourced (black) cash which will be invested in Ukraine's high interest deposit accounts; interest rates currently reach up to 20 percent in hryvnia. Not only will this increase the shadow sector of the Ukrainian economy, but the risks of currency and financial speculations will grow as well.

The population has already increased the rates of currency buying (July saw growth of 26% compared to June) and some banks have started limiting credit in UAH. At the same time Prime Minister M. Azarov repeatedly states that the government together with the National Bank will prevent the national currency from being devalued and will not permit use of the "printing press". Only 33% of Ukrainians believe him, whilst 39% are certain that the national currency rates will fall significantly, even before the end of the year(8).

People First Comment: When bank interest rates rise above 20 percent you can bet your bottom dollar that the nation and its entire

banking system is in real trouble. Currently some banks are offering interest on deposits of 25 and 26%, fine for the investor willing to take a punt but very risky indeed for the average citizen looking for a safe haven for their life savings. This is not the first time we have seen the Ukrainian currency go more than a bit wobbly.

How many of you can remember the karbovanets... Funny money designed by the National Bank as an interim between the ruble and the hryvnia. In fact, it was a very slick method of making a few people very rich indeed. You see they borrowed money from the banks... which at that time happened to be the state in dollars but repaid it in hryvnia at fixed interest rates. By manipulating the exchange rates and causing rampant inflation, their dollar loans were repaid at a fraction of the real cost allowing them to pocket the difference. They got very rich but any poor Ukrainian with savings in Karbovanets saw them evaporate.

Successive regimes, rather than grow the economy, have been using the national currency reserves for years to support the value of the hryvnia and peg it to the US dollar. A wise move you might think until you realise that this is totally false accounting because the national currency reserves are not infinite. Now the piggy bank is almost empty and try as they might the value of the hryvnia is slowly falling. It will most likely slip gently before the October election but afterwards it could easily go into freefall once again wiping out the savings of ordinary people.

How do you fight it? Hold your money in foreign currency at home in a very strong safe until Ukraine gets a government that cares about your welfare and decent legislation to control the banking system.

Informal giving is a positive surprise for Ukraine

Ukrainians, inspired by the Italian tradition of *caffè sospeso* or coffee “in suspense,” whereby people buying coffee anonymously pay for the next customer's coffee. The tradition is proving so effective that it is bleeding over into other spheres of life. Specifically, well-to-do Kyiv residents are buying drugs in pharmacies and leaving them for those in need. These drugs become drugs “in suspense” and they are listed on a special board. Obviously only non-prescription drugs are distributed in this way. Currently this movement is spreading in Kyiv, 6 pharmacies to date, whilst other Ukrainian cities are likely to follow. The drugs are mostly consumed by impoverished senior citizens(9).

Ukrainians seem to enjoy playing charity: the new movement quickly spread from cafés to pharmacies and even to dry cleaners and yoga studios. This mechanism circumvents bureaucratic barriers and the general distrust of big charity funds. These new charity initiatives are being promoted heavily on social networks. Giving a present to an unknown person by buying him or her medicine, coffee or services is simple and pleasant act. So, Ukraine demonstrates new ways of building communication bridges between people. It might come as a surprise, but Ukrainians are clearly much better at generating social capital than they think of themselves(10).

People First Comment: Ukrainians are wonderfully caring and charitable people only it's a secret. Herein lies a very powerful social conundrum that if Ukrainians declare their wealth and use it for social good, they get hammered by the tax police. Rather than donate to the lost cause of government taxation they go about their charity quietly, without fuss or publicity. To the outside world it may appear that Ukrainians are heartless and uncaring but exactly the opposite is true. Children's homes get flooded with clothes, books, used



computers, toys and worst of all fluffy animals, this new phase of buying over the counter drugs for those least able to afford them is just an extension of their inherent generosity.

The sad part about it is that if the parliament were to pass sensible charities legislation to enable real charities to operate freely then the cost of State social support would drop appreciably. What many democratic societies have found is that if you allow the free market to operate properly those that have acquired even a little wealth want to share it with those who have nothing; it is simply a part of their humanity. When people can choose which worthy cause to support, all sorts of social good prevails in areas that governments really have nothing to do with. Organisations such as the World Wide Fund for Nature, Save the Children and Medicine Sans Frontier are entirely supported by private and corporate charity. In the UK the lifeboat maritime rescue service is financed entirely by private donations whilst in Ukraine what search and rescue services that do exist are part of the military and run at government cost... assuming of course that they have the fuel to fly helicopters and run rescue boats.

Charity is an integral part of any humane society. The suppression of Ukrainian charity by this government and frankly those that have preceded it, through their short-sightedness and callous attitudes is just another example of how far behind the times and out of touch Ukrainian leaders really are.

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