

US client Yushchenko to assume Ukraine presidency

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Nothing now stands in the way of a change of power in Ukraine following decisions by both the Ukrainian Supreme Court and central electoral committee rejecting objections raised to the result of the repeated presidential election of December 26. The defeated candidate, Viktor Yanukovich, resigned from his post as prime minister on New Year's Eve. Officiating president, Leonid Kuchma, who has held the post for the past decade, also accepted the election result.

According to the official result, the opposition leader Viktor Yushchenko, supported by the US and the European Union, clearly won the election, polling 52 percent of the vote. Yanukovich, the candidate supported by Russia—and who was declared winner of the original ballot, which was later cancelled—polled just 44 percent.

Yanukovich initially contested the result, arguing that 4.8 million predominantly older and handicapped voters were deprived of their right to vote. A new regulation, introduced following pressure from the opposition, permitted this group to cast their votes at home in extreme cases. Two days before the election, the Supreme Court declared this regulation invalid. However, it was then already too late to supply these voters with voting cards. Nevertheless, the Supreme Court has now rejected the objections raised by Yanukovich.

After the election, Yanukovich, who had been accorded holiday leave by President Kuchma to conduct his election campaign, had sought to continue to exercise his office as prime minister. Formally, he was still the head of government, since the president appoints the government, and that can only take place after Yushchenko has been officially confirmed in his post. Yushchenko, however, called upon his supporters to block the seat of government and thereby prevented Yanukovich from returning to his offices. The latter then announced his resignation.

Although Yushchenko has so far remained largely vague about the conception of his future policy, one thing is already clear: his government programme will be committed to the international financial interests that gave him massive support during the election campaign. In interviews with the German magazine *Der Spiegel*, *Time* magazine, the *New York Times* and the *Guardian*, he explained: "Our strategy aims at European integration." Within this framework, he will also closely cooperate with Russia, but only on one condition: "Putin may not block our way into the European Union."

Candidacy for European Union membership means above all strict budgetary consolidation at the expense of social security benefits; the radical privatisation of national industries and services; and the dismantling of subsidies for economic sectors that are not competitive internationally, such as the mining industry and the agricultural sector. Similar conditions were demanded for recent EU members Poland, Hungary and other eastern European countries. The same conditions are applicable for future membership for Turkey. Now, Ukraine is taking the same path—although the completion of EU demands will have devastating social consequences for large parts of the population.

In the Western media, Ukraine has been widely portrayed as a country

that is open to so-called "free market reforms," which for this reason voted by a large majority for Yushchenko—at least in the country's west. If one looks at his election programme, however, a very different picture emerges. To secure electoral support, Yushchenko made a range of extensive social promises that are thoroughly incompatible with his "free market" economic programme. In a short period of time, many of his voters will be bitterly disappointed.

In his programme, for example, Yushchenko promised to create 5 million new jobs with "respectable" wages and pay all pending salaries within a year, while at the same time reducing credit interest repayments and taxes.

His election programme also promised free medical care for all citizens; a public housing development programme; free higher education for the poor; increases in pensions beyond the subsistence level; increased incomes for civil servants, making them no longer dependent on bribes; increases in teacher salaries to the level of average earnings in industry; and, not least, a tenfold increase in state subsidies and free medical care for pregnant mothers.

The network of kindergartens and nurseries is to be revived, with free care provided to the handicapped, and the problems of victims of the Chernobyl reactor tragedy are to be gradually resolved. Speculation in land is to be halted and land ownership returned to those who cultivate it. The productivity of agriculture is to be doubled and the incomes of those working in the sector is to be "sharply" raised.

Drastic reductions of taxes, on the one hand, comprehensive development of the social welfare sector, on the other—and all this in a bitterly poor country—these two aspects of Yushchenko's election programme cannot possibly be reconciled with one another.

According to the annual report of the European Union, the government of Viktor Yanukovich had already introduced a uniform rate of income tax (13 percent) last year and lowered taxes on company profits to 25 percent. At the same time, it had increased property taxes, as well as indirect taxes on commodities such as alcohol, gasoline and cigarettes. Taxes on high incomes in Ukraine are currently a third of the average applicable in western Europe, and the country's tax on profits is also relatively low, with a large proportion of national incomes being financed from indirect taxes, targeted primarily at low-income earners.

There is nothing left, therefore, for social improvements—especially if Yushchenko continues to lower taxes as he has announced.

The *Neue Züricher Zeitung* of December 30 commented: "The new president is certainly not popular with his millions of supporters because he supports more competition and a dismantling of national subsidies. Quite the opposite. The innumerable old and poor persons, whom one repeatedly saw in the course of demonstrations in Kiev, expect very simply under his rule a better life. They remained bitterly poor in the post-Soviet era; with no incomes, they experienced next to nothing of the boom, and for them Yushchenko is the ray of hope who swept away the evil Kuchma, from whom they received practically nothing. Such hopes

are just as unrealistic as the dreams of workers, who believe that the good man Yushchenko will certainly not allow their enterprises to die.”

Yushchenko encouraged these “unrealistic dreams and hopes” for tactical electoral purposes, well aware that they were incompatible with his neo-liberal economic programme. Economic growth in Ukraine is currently running at 10 percent, but is on a par with the country’s rate of inflation. The national budget has a deficit of 4 percent, and public indebtedness averages around 30 percent of gross domestic product.

According to the election programme, the promises of social improvement are to be financed by a “tenfold increase in investments in the Ukraine economy” and measures taken against the country’s oligarchs.

These are just empty words. The whole economy, as well as the parliament and Yushchenko’s own movement, are dominated by oligarchic interests. Yushchenko’s main source of finance is controversial big businessman Petro Poroshenko, who owns numerous companies and a television station, and is regarded as a potential candidate for the post of prime minister. Most of the oligarchs who supported the defeated candidate Yanukovich during the campaign are also making plans to fall in line with the new president.

Yushchenko has advocated that in the future the oligarchs should also be forced to pay taxes. His opposition movement has estimated that half of the Ukrainian economy belongs to the so-called “shadow economy.” In light of the extremely low tax rates and the huge fortunes made by the oligarchs, it should be possible for them to pay such taxes.

However, this point of his programme should not be taken too literally. Yushchenko has also announced plans to abolish the enforcement staff of the revenue office and will reduce tax examinations for enterprises. Under Kuchma such examinations by tax officials were often a means of regulating competition between different cliques of oligarchs or simply as a means of extortion. Yushchenko’s election programme puts the matter rather ingenuously and declares: “If taxes are fair, then all citizens will pay them.”

In return, Yushchenko guarantees that the oligarchs can retain their property. Although it is well known that the privatisation of large state enterprises in the 1990s usually took place through criminal means, Yushchenko expressly excludes any “redistribution of property.”

At best, some of the worst excesses are to be corrected and some money repaid to those forced to sell their property for dumping prices. The election programme states: “Oligarchs must pay the full price for enterprises that are being privatised at “advantageous” prices; billions of *hryvnia* will be redirected towards reimbursing people robbed of their personal savings.”

A prominent example is the state steel company Krivorochstal, which was handed over in June to the oligarchs Viktor Pinchuk (son-in-law of ex-president Kuchma) and Rinat Achmetow for a nominal sum of \$800 million, after the government had excluded other applicants. Upon being questioned about the affair, Yushchenko responded merely by saying that “one will not ignore such cases”—nobody stands over the law, “including the president and his son-in-law.” This leaves it unclear as to whether any legal action is to be taken against Kuchma, or if the Krivorochstal deal is to be cancelled—and this is how Yushchenko wants it.

One thing remains clear: Yushchenko’s programme is aimed at legalising the illegitimately acquired property of the oligarchs and not returning it to its rightful owner—the Ukrainian people. He is not interested in seriously challenging the status of the oligarchs and the old guard still active in the state apparatus. While it is entirely possible for conflicts to arise between Yushchenko and individual cliques of oligarchs, he has made unmistakably clear his determination to protect their property along with the property of international investors.

The oligarchs understood this arrangement very well. Yushchenko’s own electoral success was due in no small part to the switch made by an

influential section of the country’s establishment.

In its edition of December 28, the *Frankfurter Allgemeine Zeitung* wrote: “For a long time the shadow men from the government have made contact with the staff and advisory circles of Yushchenko. Kuchma’s son-in-law Pinchuk, the ‘godfather’ of the industrial city of Dniepropetrovsk, is the most visible example. Pinchuk is considered to be an example of the old-style oligarchs.... Recently, however, he has maintained lively telephone contact with Yushchenko’s devious office manager Oleg Ribachuk, and Yushchenko’s camp remains vague over such issues as the possible cancellation of the sale of Krivoroschstal. It is reported that Pinchuk is amongst those who convinced Kuchma to take up communication with Yushchenko instead of relying on force.”

According to the British *Guardian* newspaper, Oleg Ribathuk is to head the ministry, which Yushchenko plans to establish particularly for preparation by the country for entry into the European Union. There can be no doubt that in this event the “lively telephone contact” by Pinchuk will also continue. The second richest oligarch in Ukraine, who supported Yanukovich at the beginning of the election campaign, will be quite aware of the possibilities opened up for his own interests by participation in the European Union.

Yushchenko will also be expected to repay his debt of gratitude to the US for its substantial financial and diplomatic support in the election campaign. Based on massive popular hostility to the country’s participation in the Iraq war, both election candidates promised to recall Ukrainian troops stationed in Iraq. Now, Yushchenko is also seeking to back-pedal on this pledge.

In response to a question asked during an interview with *Der Spiegel*, “Will you recall your troops in Iraq?”, he responded, “Our participation in the solution of the crisis in Iraq involves Ukrainian interests, we have economic ties and investments there. Our units pursue purely humanitarian goals. It now depends on whether the future national government in Iraq continues to need us. We will, however, also coordinate on the issue with our allies.”



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