Ukraine: Hobson’s choice

Saturday 2 April 2022, by ROBERTS Michael (Date first published: 27 February 2014).

The people of Ukraine are left with Hobson’s choice: either go with KGB-led crony capitalism from Russia or go with equally corrupt pro-European ‘democrats’. The majority have opted for the latter because, at least for the moment, it means they can argue, protest and campaign without being kidnapped, shot dead or tortured. But many are well aware that opting for the pro-EU parties does not mean the end of corruption or a further collapse in already pitiful living standards – Ukraine’s GDP is $175bn for a population of 45m, or about $3800 per person. Ireland’s GDP is the same for a population of 6m, or $28,000 per person, eight times as much.

The collapse of the pro-Russian regime of Yanukovych is a big defeat for Russia national interests. Putin sees Ukraine as a satellite of Russian crony capitalism. As he once told the then-US President George Bush: “*Ukraine is not even a state*”. In public, Mr Putin can’t bring himself to call Ukraine anything but a “*krai*”, the Russian word for territory. He was determined to stop Ukraine coming under the wing of German-led European capitalism. But his man, Yanukovych could not deliver.

Now the pro-European bourgeois leaders in Kiev will prostrate themselves before the EU and IMF in order obtain ‘aid’. These politicians are just as much in the hands of Ukraine’s billionaire oligarchs as the ousted pro-Russian government were. As the German journal, Der Spiegel has explained (http://www.spiegel.de/international/europe/how-oligarchs-in-ukraine-prepared-for-the-fall-of-yanukovych-a-955328-2.html), two oligarchs, Akhmetov and Firtash, between them control over 90 MPs in the Ukraine parliament. Akhmetov is worth $15 billion and is head of the holdings company System Capital Management, which controls more than 100 companies with some 300,000 employees. They include metallurgical and pipe factories, banks, real estate firms, mobile phone enterprises and a large media company. He is the de-facto ruler of Donbass, the home of Ukrainian heavy industry and owns the football team Shakhtar Donetsk.

These oligarchs soon realised well before the current crisis that Yanukovych would not be around for much longer. They began carefully looking around for alternatives. Akhmetov opted for controlling the main bourgeois ’orange revolution’ party of imprisoned former prime minister, ‘goldilocks’ Tymoshenko, and is now supporting Arseniy Yatsenyuk, who took over the leadership of her Fatherland alliance when she was incarcerated and is set to be the new prime minister. Firtash, for his part, is backing Vitali Klitschko’s party UDAR. Firtash has placed people in Klitschko’s UDAR Party, a former head of the secret service, for example.

The oligarchs and the parties they are backing are now preparing an emergency plan for Ukraine, which will amount to getting dollars and euros from the IMF and the EU in return for a drastic programme of devaluation, austerity and ‘labour reform’. The nation needs to borrow USD2bn by the end of this month and a further USD9bn by the end of the year just to keep up with government debt repayments. This money was due to come from Russia, which promised a total of USD15bn but, with that promise now off the table, it falls to the West to stave off Ukraine’s looming bankruptcy. The government needs to raise USD9bn to cover payments to Gazprom and the IMF as well as its own maturing Eurobond issuance and loans. Then there is the current account gap of some USD13bn.

And maturing debt from the bank and nonfinancial corporate sector adds a further USD8bn. Totting it all up, 2014 financing needs are around USD30bn, effectively double current FX reserves (see graph of FX reserves and external debt below.

The new government will devalue the Ukraine currency, the hryvnia, further – it has already collapsed – to try boost exports. Mainstream economists and government advisers argue that this is needed to "*restore competitiveness*", which has been eroded by a 9% per annum rise in real wages since 2008 while industrial unit labour costs are up by almost 40% over the same period. In other words, real wages must now be slashed by encouraging a sharp increase in inflation and cuts in employment. The aim is to raise the profitability of Ukraine's key export sectors, agriculture and steel.

What will the IMF demand? It wants a 40% rise in energy prices with government subsidies removed. It complains that these subsidies cost 7% of GDP a year so that Ukraine's residents get cheap gas and heating during the bitter Ukraine winters. It wants an end to that. The IMF recent delegation to Ukraine said "*upfront, meaningful, and broad-based tariff increases are essential for reducing large quasi-fiscal losses, attracting new investments, and improving governance*". It will want to restructure the banks and it wants 'fiscal consolidation' which means "*high budget expenditure should be reduced by rationalizing public procurement, restraining the growth in public sector wages and employment, and limiting pension indexation to inflation.*"

The new government will go along with this. Indeed, the prime minister elect has said that while it will mean hardship for the people and be unpopular, he was prepared to conduct 'suicide politics'. For these leaders, there is no alternative but to agree to the EU-IMF terms. Yatsenyuk has already pledged the country to join the EU.

Ukraine could still stage a financial meltdown and a banking collapse. More likely, the new government will be helped over the next few months with bridging loans until the IMF deal is struck. Then the hardship for the people will really begin in earnest. Ukraine's foreign debt is about to double as it takes on new debt from the IMF and the cost of existing dollar and euro debt jumps as the hyrvnia is devalued. This burden will be on shoulders of Ukrainians for a generation.

All this may be too much for the pro-Russian part of the country, already worried about the takeover by the pro-European Ukrainian politicians in Kiev, who they expect to discriminate against them. As the map shows, in the Crimea and along the Russian border, most people are Russian speaking and supported Yanukovych. Indeed, Crimea was part of Russia until Krushchev handed it over in 1954. The country may yet split along these lines as the austerity and debt servicing bites.

There is an alternative to the Hobson's choice offered by capitalism to Ukraine's people. A real people's government would take over the interests of the oligarchs who stole Ukraine's wealth in the first place. It would seize funds to meet the needs of ordinary people on heating, education and public services. It would revoke the debts owed to Russian and Western banks and demand that the IMF write off its loans so that Ukraine could start without the heavy burden of debt. Ukraine remains a key agricultural exporter and also a low-cost steel producer. If the banks and major export sectors were in the government's hands and not those of oligarchs (and foreign private equity companies in the future), then a national plan could be implemented.

Of course, this is not going to happen as nobody with influence in the country advocates this. Instead, it is Hobson's choice for Ukraine.

ADDENDUM: see this piece for a perceptive and balanced analysis, in my view.

http://peopleandnature.wordpress.com/2014/02/26/ukraine-1-yanukovichs-end-is-a-beginning/

Comment from new Ukraine PM.

> The International Monetary Fund is sending a mission to Kiev for talks on Tuesday with government officials who are seeking a multi-billion-dollar bailout. Arseniy Yatseniuk, Ukraine's prime minister, said: "This government will meet any IMF conditions," including greater exchange rate flexibility and removing unsustainable subsidies on household utility consumption "for a simple reason … we don't have any other options".

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P.S.

Michael Roberts Blog

https://thenextrecession.wordpress.com/2014/02/27/ukraine-hobsons-choice/