

A letter to the reader



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In your hands you are holding the second issue of the magazine of the Ukrainian Centre for Economic and Political Studies (UCEPS) which deals with the political, economic, social and military aspects of Ukraine's national security.

Today, much hope has been placed in Ukraine's Government led by V. Yushchenko. At the same time, the situation remains complicated, and no evident changes for the better have been observed. UCEPS experts hold reasonable doubts regarding the collection of the Budget-2000 revenues. Only the resolution of fundamental economic and political problems will make it possible to fulfil the budget and create conditions for dynamic economic growth.

On the initiative of the Cabinet of Ministers of Ukraine, Ukraine's Parliament has recently cancelled benefits for different categories of the population. This was a necessary step, as the state's declared social commitments were not backed by funds. However, these measures are unlikely to give authorities added popularity; clear and positive results are required. If the population becomes disappointed in the activity of the Yushchenko Government, this may bring about grave results: people may lose all hope for overcoming the present crisis in Ukraine.

As earlier, our magazine focuses on the problems of the military. The analytical report «Military reform in Ukraine: the Start, or Another False Start?» by UCEPS stirred the interest of the public, the political elite of the state, and Ukraine's foreign partners. The proposals of our experts were actively and critically discussed among military and civilian specialists, politicians, statesmen, in the press, and on radio and TV. The problems of defence reform in Ukraine were discussed during the meetings of NATO Secretary General G. Robertson with Prime Minister V. Yushchenko, Minister of Foreign Affairs B. Tarasiuk, and Minister of Defence General O. Kuzmuk. It is time to begin military reform planning, if we want to take into account the relevant needs of at least the budget for 2001.

UCEPS experts analysed the spirit of officers of Ukraine's Armed Forces whose role in reforming the army is decisive. Unfortunately, the situation is very complex. The decisions cutting social guarantees will further deteriorate the well-being of officers. If the country's leadership is to rely on support for the reform course, it should convince the military and the people that a realistic program of action exists.

Even today it is not too late to make important political decisions that will not require huge funds, but will contribute to the military sector's reform. We propose: (1) reducing the conscript service term to 12 months beginning with the Spring of 2001; (2) publication of the White Book «Ukraine's Defence Policy» in 2000; (3) establishment of the post of First Deputy Minister of Defence (Military Policy), to be filled by a competent civilian executive. The appointment of a civilian Minister of Defence of Ukraine would be still more useful. And, most importantly: the State Commission on military reform should be formed immediately, as narrow-minded departmental approaches have long become discredited.

The turbulent political developments of recent months in Ukraine placed a number of important questions before statesmen, politicians and experts. How do Ukrainian citizens assess the political situation? What is their idea of a renewed government? How much do the present authorities correspond to criteria defined by the people? Will the population resort to protest actions should the situation not improve? How will Ukrainians vote at the referendum? In order to obtain the answers to these questions, large-scale polls of the adult population in all regions of Ukraine were conducted by the UCEPS sociological service between the January 25 and February 5, 2000.

We came to the conclusion that Ukraine's citizens maintain a rather demanding attitude toward the authorities. In their opinion, the authorities should be «responsible» (this view is shared by 98.1% of those polled), «honest» (97.6%), «competent» (96.7%), «democratic» (83.9%) and «predictable» (82%). Among all institutions of state power, the President of Ukraine enjoys the highest support, but even his assessment falls far short of Ukrainian citizens' ideal perception of authority.

According to our forecast, if the referendum is held, the population will respond positively to at least five of the six referendum questions. At the same time, the present authorities should be ready to implement all the decisions taken at the referendum: this view is shared by 53.5% of those polled. Those who support the referendum should take this into account.

The polls demonstrate that today Ukrainian citizens are more concerned about the problems of their survival rather than political battles. The former include wage and pension arrears (60.9% of respondents), the deterioration of living standards (58.9%) and employment problems (44.3%), all of which are dealt with in a separate article in this issue.

The study results demonstrate that despite all social and economic problems, the level of trust in democracy remains relatively high in Ukraine. The population is not disappointed with the form of government, but rather, with the activities of concrete authorities. There are no preconditions within the society for the establishment of an authoritarian regime, let alone a dictatorship. In such conditions, the executive power should take resolute and effective actions, but only within the limits set by the Constitution of Ukraine and applicable legislation.

UCEPS OPINION POLL: nation, power, referendum

*By Andriy Bychenko,
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Over the recent months, Ukraine has been the arena of important political developments that will surely influence both its internal and foreign policies. The most significant events were the re-election of Leonid Kuchma as the «new» president, the appointment of reformer Viktor Yushchenko as the head of the Government, certain limitations placed on the influence of oligarchs (at least in the process of the Government's formation), the split within the Verkhovna Rada into the «majority» and «minority», the declaration of a new stage of administrative reform, the preparation for the all-Ukrainian referendum, etc.

The restructuring of the state's political facade has long been on the agenda. This may bring some positive results in the long run, including within the social and political spheres. Thus far, however, these political games have been played against the background of deteriorating living standards of ordinary citizens: commodity and service prices are up, the population's real incomes are falling, unemployment is on the rise, power supplies to Ukrainian towns and villages are cut with increasing frequency. Another reason for concern lies in the ineffective (inadequate for the present situation) organisation and co-ordination of the power branches: the Government staff, the Verkhovna Rada, the National Security and Defence Council, and the Presidential Administration. Endless reshuffling and administrative campaigns hamper the normal operation of these significant governmental bodies.

How does the average man in the street assess the political situation which has emerged in Ukraine? What is his idea regarding renewed government structures? How are the present Ukrainian authorities meeting the criteria defined by the public? Will the population resort to resolute actions should the situation not improve? Will Ukrainians support President Kuchma's referendum proposals?

In order to answer these questions, between January 25 and February 5, 2000 the sociological service of the Ukrainian Centre for Economic and Political Studies canvassed Ukraine's citizens. In all, 2010 individuals were questioned in all of Ukraine's regions; the sampling structure corresponded to Ukraine's adult population structure. The results of this sociological study performed by UCEPS are presented below.

The diagram shows that Ukraine's citizens hold a rather demanding attitude toward the authorities. In their opinion, the authorities should be «responsible» (this view is shared by 98.1% of those polled¹), «honest» (97.6%), «competent» (96.7%), «democratic» (83.9%) and «predictable» (82%).

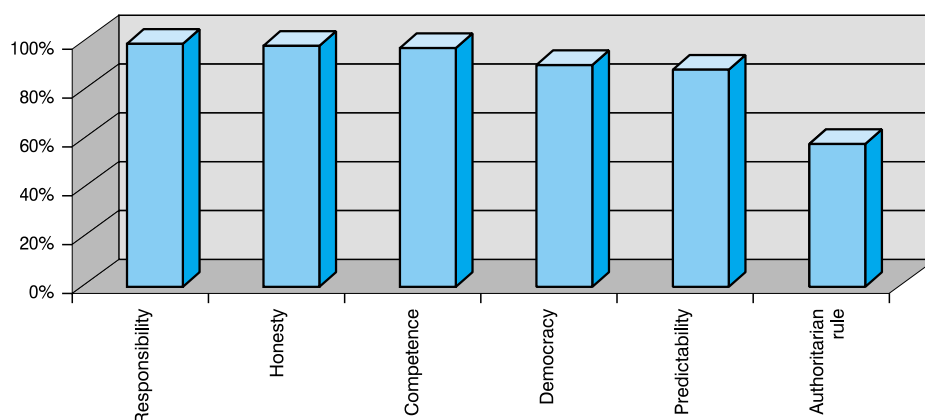
It is evident that the perception of Ukrainians regarding the ideal government is not far different from those of other nations. There are probably certain requisites that never change and are independent of time or country. Even in the 16th century, N. Machiavelli wrote that «in the eyes of the people, a statesman must be compassionate, true to his word, merciful, generous, and pious»². Generally speaking, this would be not a bad frame of reference for the present leaders.

It is also clear that Ukraine's present authorities do not meet the criteria determined by the poll results. What's important is that average citizens and state leaders realise this: more than once President L. Kuchma and the Prime Minister V. Yushchenko both emphasised the need for large-scale administrative reform, the creation of an effective parliamentary majority, a more active struggle against corruption in all power branches and government agencies, and greater transparency in the vital decision-making process.

¹ Respondents who consider the relevant qualities «very important» and «rather important» were counted.

² N. Machiavelli. «Statesman». — Moscow, 1990, p. 53.

What would Ukrainians expect from the authorities?



It is hardly accidental that «democracy» occupies only the fourth rather first position in the overall rating of requirements for authorities. In our opinion, the position held by those polled was influenced by the following factors: (a) a deterioration of the living standards of the majority of the populace which coincided with the period of democratic transformation; (b) a certain degree of unfitness of democratic decision-making mechanisms with respect to Ukrainian society's transitional (critical) status³. Furthermore, a negative attitude toward democracy was expressed by many respondents within the senior citizen age group (above 60)⁴ who lived under the less democratic but more stable Soviet regime.

It is perhaps for these reasons that more than half of those polled (57.7%) believe that «authoritarian» rule should exist in Ukraine. That the establishment of a legal state and the consolidation of civil society will be a lengthy process is understandable. For example, in Great Britain democratic traditions were formed over the centuries; its first parliament was elected as early as 1219. The establishment of effective mechanisms for civil society in Ukraine is hindered not only due to slow institutional change, but also, to a certain extent, to the inertia of the public's conscience⁵.

In general, Ukrainians want their authorities to be responsible, honest, competent, democratic and predictable. A relatively high position of authoritarian rule in this rating may be explained primarily by the hardships of the transitional period when mass consciousness is prepared to support a rule which is strong and dynamic.

HOW DO UKRAINIANS ASSESS UKRAINE'S PRESENT AUTHORITIES?

The UCEPS sociological service proposed that respondents not only define the criteria for assessing authorities (their ideal representation), but also to assess how well Ukraine's

present authorities correspond to those criteria. The general conclusion reached was not difficult to predict: none satisfies the people. At the same time, there are clear differences in the assessments of the activities of the Ukrainian President, the Government, the Verkhovna Rada and local authorities.

³ For many, it is now clear that in a crisis situation it is impractical and inexpedient to take all decisions (and especially operative decisions) on the basis of a consensus between People's Deputies and parliamentary factions through the lengthy process of two or three Verkhovna Rada hearings. It takes months and years, while some decisions should be taken immediately.

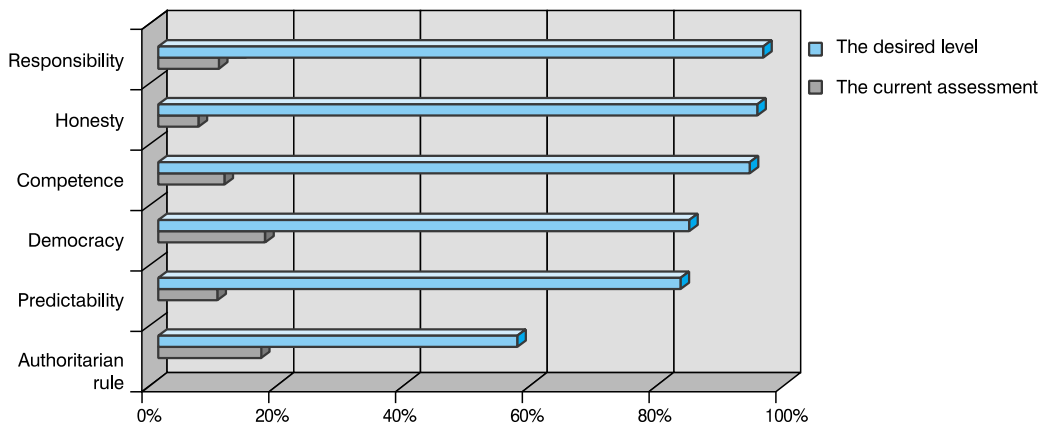
⁴ The thorough analysis of the UCEPS opinion poll results demonstrates this.

⁵ Under the influence of Christian Byzantium, the idea of strong government and the myth of the «beneficent ruler» began its establishment in the political and legal consciousness in Kievan Rus early on. The «Edification» of Volodymyr Monomachos (1096) gave what was probably the first description of the ideal prince, pointing to such qualities as education, hard work for the benefit of the state, care for the «lowlife», strict control over the state machinery (boyars are bad, but the ruler is good). After a short period of Hetman rule with its democratic character, Ukraine became incorporated into the Russian Empire, Poland, Austria-Hungary, and the USSR which events cover a long period of time. This affected Ukrainians' mass consciousness significantly; after centuries, authoritarian sentiments became firmly established.

UKRAINE'S VERKHOVNA RADA

The data obtained (*see Diagram*) show that today's Verkhovna Rada corresponds to the criteria established for the ideal representation of a state power body less than all other authorities do.

Compliance of the Verkhovna Rada with the established criteria of an ideal authority



Only 8.8% of Ukrainians consider the Ukrainian Parliament to be «responsible». An even lesser number of those polled (6.1%) agree that «honesty» is characteristic of Verkhovna Rada activity. Only one in nine polled (11.3%) considers Parliament to be a «competent» body, and one in ten (9.9%) believes that it is «predictable». An unexpectedly small share (15.9%) of Ukrainians are certain that the Parliament is «democratic». Meanwhile, the Verkhovna Rada was elected by Ukraine's population as a representative body.

At the same time, more than half of those polled (59.9%) consider the Ukrainian Parliament to be «corrupt». When compared to all other state power bodies, this is the highest index. Only 17% of those polled feel certain that the Verkhovna Rada's activities are «transparent». One in six respondents (15.1%) pointed to Parliament's «authoritarianism».

UCEPS experts suggest that this generally negative assessment of the Verkhovna Rada's activity is related to consistent disappointment with the work of the legislative body. This opinion was expressed more than once by the head of state, representatives of the executive branch and parliamentary faction leaders; this idea has long been implanted through influential electronic and printed mass media. The reasons for this included a delay in the adoption of vitally important legislation, the inefficiency of parliamentary committees, the use of the Verkhovna Rada's rostrum for propagating party ideas (rather than for diligent legislative work), the barefaced lobbying by People's Deputies of their own business interests, and the split of Parliament into «majority» and «minority» factions. Finally, the

case of Pavlo Lazarenko and the publication of information regarding the illegal activities of other People's Deputies could not but have their effect on the Verkhovna Rada's image.



Nearly 40% of those polled feel certain that «Parliament's existence is a guarantee of democracy», while 28.9% holds the opposite opinion. Approximately two-thirds of the population (61.5%) do not agree that «one of the reasons for a negative attitude toward the Verkhovna Rada is that the population views its activity to be the most transparent».

The results of the studies performed by the Institute of Social and Political Psychology of



the Academy of Pedagogical Sciences of Ukraine⁶ correspond to the conclusions made by UCEPS: 44.4% of those polled feel certain that «the Verkhovna Rada's activity does not contribute to Ukraine's economic and political development, hampers progress in domestic life and economic reform»; another 28.9% believes that «Parliament makes decisions that run contrary to legislation in effect, in defiance of procedural norms».

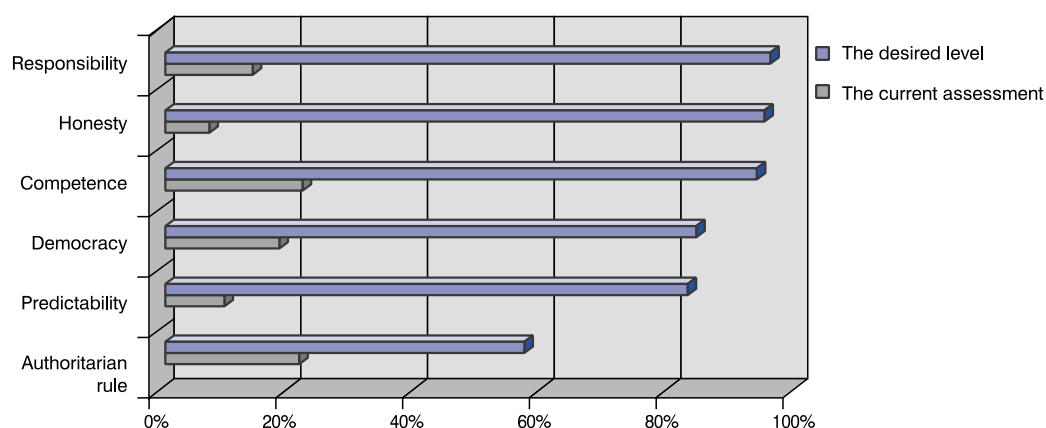
The majority of Ukrainians, therefore, view the Verkhovna Rada's activity rather critically. This generally negative attitude towards People's Deputies emerged several years ago. In 1996, 62% of Ukrainians argued that People's Deputies «are motivated by their own interests», 16% suggested that they contest for their seats «to gain publicity and good berths», 8% considered that their main motive was «to travel around the world». Only 5% of respondents felt certain that People's Deputies «wanted to work for the benefit of society and the people»⁷.

Experts believe that the disappointment in parliamentary practice is specific not only to Ukraine, but for nearly all of the CIS countries. Russian political scientist V. Amelin noted that «increasingly more people are becoming disappointed in such political institutions as representative democracy and elections»⁸. Leaders of some CIS countries (Russia, Kazakhstan, Kirghizia) were timely in channelling their citizens' disappointment

and dissatisfaction with their parliaments (through referendums) in order to expand presidential powers. UCEPS studies show that in the event of the referendum scheduled for April 16, 2000, Ukraine's population will express its distrust in the present Verkhovna Rada, support President Kuchma's proposal to reduce the number of People's Deputies (from 450 to 300) and, under certain conditions, will support Parliament's dissolution.

UCEPS experts suggest that the Verkhovna Rada's early dissolution would not cause mass protests of Ukraine's population. Public consciousness is now prepared for the President to play a greater role in the state's political life. A large share of the population would support an expansion of his powers (and those who have not made up their minds yet may be easily convinced with the assistance of advanced election technologies). Unfortunately, a negative attitude toward the Verkhovna Rada creates a negative perception of parliamentary practice in general. It would be very dangerous should antagonism toward Parliament become established within the mass consciousness as an instrument of the country's political life. Ukraine has embarked on the endeavour of building a democratic state with a clear distribution of competence and responsibility between the branches of powers. We cannot allow for the legislative body's role to diminish, as that would destroy the system of checks and balances important for society's stable progress.

Compliance of the Ukrainian Government with the established criteria of an ideal authority



UKRAINE'S GOVERNMENT

The poll results show that there is a better correspondence between the Ukrainian Government and the representation of ideal authority when compared to Parliament. However, public estimates generally remain low: only one index reached a 20% public support mark (see Diagram). 8.8% of those polled consider the pres-

⁶ Monitoring of people's attitude toward the decisions and actions of the President of Ukraine, the Cabinet of Ministers and the Verkhovna Rada of Ukraine. — The Institute of Social and Political Psychology of the Academy of Pedagogical Sciences of Ukraine, Kyiv, July 1999, p.13.

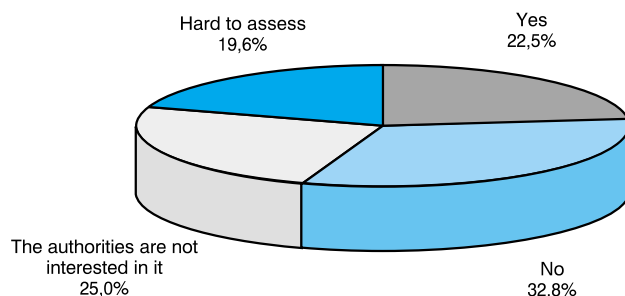
⁷ The Ukrainian Political and Economic Index. — Socis-Gallup, Kyiv, June 1996, p. 12.

⁸ V. Amelin. Impact of representative relations on the election process. Bulletin of the Moscow State University. Series 18. Sociology and Politology. — Moscow, 1998, No. 4, p. 49.

ent Government to be «honest», 13% believe that it is «predictable». The Government surpassed the Verkhovna Rada in the «competence» category and «authoritarianism» (20.5% and 19.8% of respondents, respectively). More than half of the population (54%) considers the Ukrainian Government «corrupt».

As the diagram below makes clear, 32.8% of respondents feel certain that the present authorities «are unable to develop a program of action and implement it in a consistent manner»; another 25% suggest that the authorities «are not interested» in this. This may be unfortunate, but such a conclusion is not without its grounds. Over the years of independence, none of the eight governments has managed to achieve the key goals which it declared. The program of the Cabinet of Ministers headed by Prime Minister V. Pustovoitenko, who was in office longer than any other Government head (over two years), was not even approved by Parliament.

Are the present authorities able to work out and implement a program of action?



Today, much hope is being placed on the new government team headed by V. Yushchenko. The situation, however, remains difficult, and no clear changes for the better are in view. At the same time, Parliament cancelled privileges for many categories of the population on the proposal of the Cabinet of Ministers. This was a necessary step, since the state's declared social commitments were not backed by

resources⁹. The population will have to accept these measures, painful as they may be, and this will not add to the Government's popularity.

According to «Socis-Gallup»¹⁰, 31% of Ukrainians today «entirely trust» V. Yushchenko — the highest mark obtained among Ukrainian politicians. Only 14% of those polled, however, «entirely trust» the Government, on the whole. Today, therefore, the population's trust in the executive authority, an important precondition for economic revival, is low. In his time, President Nixon would say: «A leader must have the will to take unpopular steps when they are necessary... And when he considers it necessary to take unpopular steps, he should explain them to people, gain their support and win backing for his actions»¹¹. Unfortunately, the opinion exists that the present Government has no task-oriented and carefully designed strategy for mass media coverage of its activities.

Trust in Ukraine's Government is generally low. This hinders reform and delays the implementation of the required unpopular steps. Should the population become disappointed in the Yushchenko Government, the consequences will be serious: people may lose hope in the possibility of gradually overcoming the crisis in Ukraine. It should not be ruled out that in such a situation the idea of appointing someone as Prime Minister from within the power structures, and the strengthening of authoritarian tendencies in executive body activities may prevail within the higher echelons of power. The poll performed by UCEPS demonstrates the reluctance of Ukraine's population to accept «military rule»: today, only 7.1% of Ukrainians would support this form of governing.

LOCAL AUTHORITIES

Local authorities are closest to the people. Their activities directly influence the public's attitude toward the country's authorities in general. UCEPS poll data shows that, in general, the public holds a rather critical assessment of the activities of local authorities (*see Diagram*) and, therefore, does not relate hopes for solving personal problems to them.

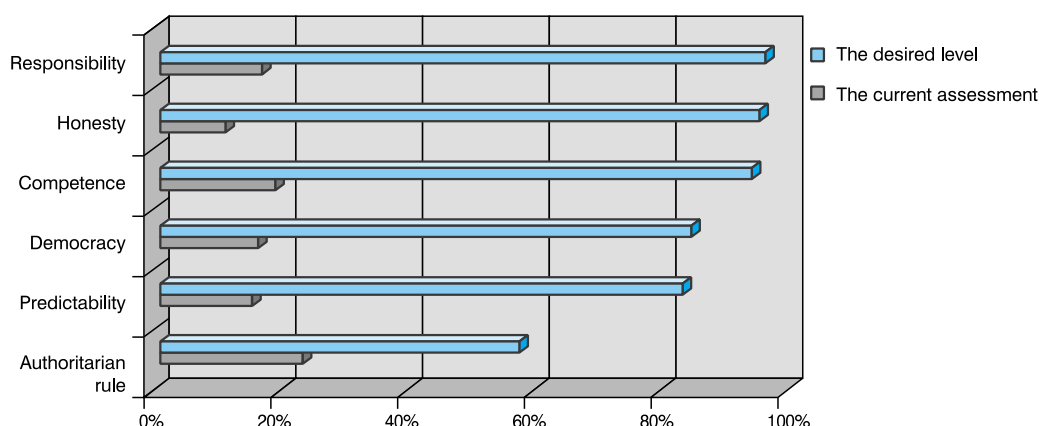
⁹ The problems of the 2000 budget revenues are reviewed in an article by a UCEPS expert V. Skarshevskiy printed in this edition.

¹⁰ Interfax-Ukraine, February 21, 2000.

¹¹ R. Reich. The Power of Public Ideas. — Cambridge, Massachusetts, 1988, p.179.



Compliance of Ukraine's local authorities with the established criteria of an ideal authority



Every fifth respondent (22,2%) feels certain about the «authoritarianism» of the local authorities. Only one in ten (10.7%) describes their activity as «honest». It is disturbing that more than half of polled citizens (54.8%) considers local authorities «corrupt».

UKRAINE'S PRESIDENT

The UCEPS poll shows that the assessment of the President of Ukraine is closer to the criteria of the ideal authority established by respondents, as compared to other power branches. However, only some features of the head of state are assessed positively by more than 30% of those polled (*see Diagram*).

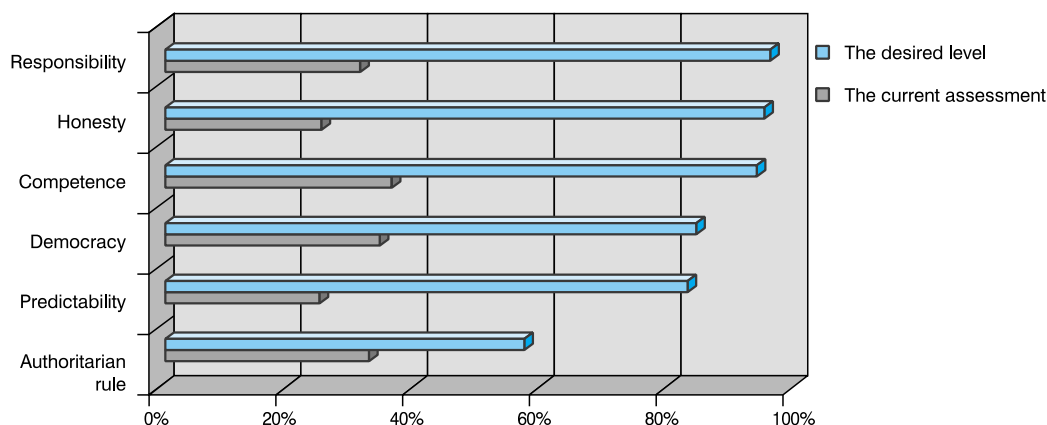
30.3% of respondents consider the present President of Ukraine to be «responsible», 24.3% — «honest», 35.2% — «competent», 33.4% — «democratic», 24% — «predictable», 23% — «transparent». Nearly one-third of those polled (31.7%) feel certain that the head of state is an «authoritarian» leader.

The activities of the President's staff are assessed more negatively: 46.5% of those polled consider the staff of the head of state «corrupt»; far fewer respondents feel certain that its work is «transparent» (15.5%), «honest» (11.3%) and «responsible» (17%).

This distinctive difference in the assessment of the President of Ukraine and his staff (which actually prepares most of the proposals and organises the head of state's activity) may be explained by the following reasons. First: the activity of Ukraine's President is widely covered by the mass media, while the staff works out of the public eye and is not transparent to the average citizen. Second: presidential structures were reshuffled after the elections, and new people unknown to the public were appointed to responsible posts. As far as the high index of the staff's «corruption»

is concerned, this thought was imposed under the influence of printed mass media: almost daily, newspapers write about oligarchs in the President's inner circle, their incomes concealed in foreign banks, the misappropriation of billions of state funds, etc. In one way or another, the public relates these reports (not always convincingly refuted) to the activity of the President's staff.

Compliance of Ukraine's President with established criteria of an ideal authority





Despite a generally low estimate, Ukraine's President best corresponds to the ideal representation of authority in mass consciousness as determined by the polls.

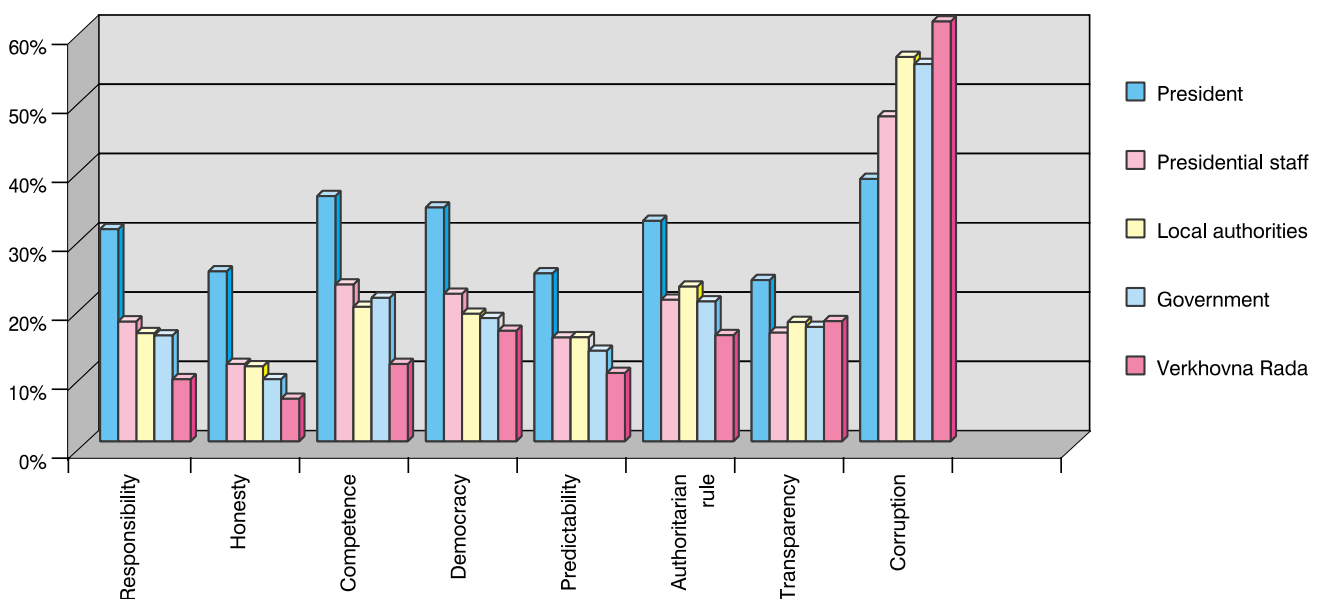
COMPARATIVE ASSESSMENT

The UCEPS poll demonstrated that Ukraine's authorities are still far from the ideal depicted by respondents (*see Diagram*). The public gives the President of Ukraine the highest assessment, but even this corresponds to the ideal image of power in the eyes of no more than one-third of the population.

The Ukrainian population's basis for assessing the activity of state authorities is primarily job availability, the living standard, real incomes, stable economic growth, accessibility to medicine and education, the effectiveness of the fight against crime, etc. The efficiency of this activity has not, thus far, become evident for rank-and-file Ukrainians.

The public's negative attitude toward authorities is further aggravated by numerous facts of corruption, bribery and abuse of power on the part of public servants (political figures). Only 2% of Ukrainians suggest that «almost nobody in the country takes bribes», while the majority of the polled hold the opposite opinion: «almost all take bribes and abuse their powers» — is believed by 12% of respondents; «many do it» — 49%, «some do it» — 29%. The high corruption level of authorities was noted by 35-60% of those polled (*see Diagram*).

Comparative assessment of state authorities





The system power crisis in Ukraine influences the population's mass consciousness: the discrepancy between the qualities of the present authorities and the criteria set by the people is too great. The man on the street most often associates his hopes with the institution of the presidency, which possesses the potential for resolute and dynamic actions that is so needed today by Ukraine to overcome the present crisis.

WHAT RULE WILL PEOPLE SUPPORT?

According to UCEPS poll results, the Ukrainian population supports democratic fundamentals of state power. The overwhelming majority of Ukrainians (61.2%) agree that «the democratic system may be associated with some problems, but it is better than any other rule». However, under social crisis conditions, the formation of democratic values is an uneasy process. A large share of those polled (41.5%) considers that «the democratic system means much talk and little work». In order for the country's democratisation process to become irreversible, resolute administrative reform is needed (suggesting not only structural but also functional changes in government structures), institutions of civil society must be formed, and relations between the authorities and individuals should change radically.

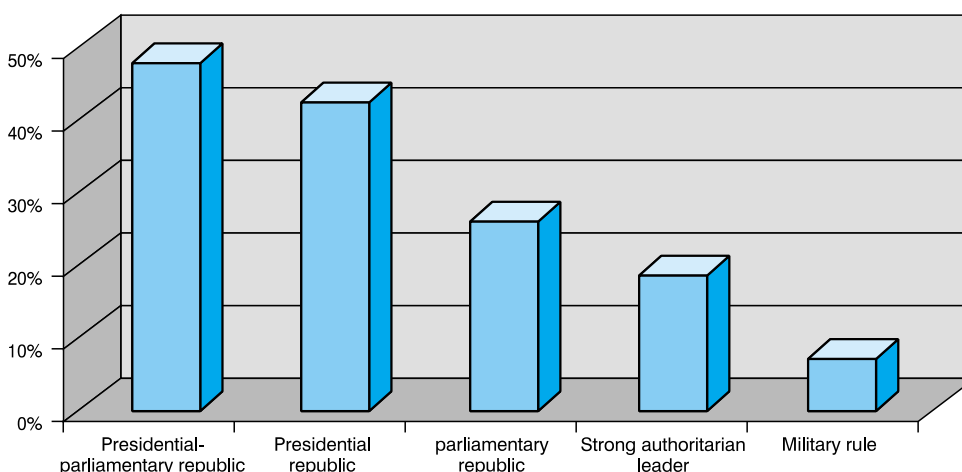
During the poll, respondents were proposed that they assess the acceptability of different forms of government for Ukraine (*the results are presented in the Diagram below*¹²). A large share of the population suggests that a presidential-parliamentary system or presidential republic would be best suited for this country (47.6% and 42.3% of those polled, respectively). A parliamentary republic was supported by 26% of those polled as a possible form of government in Ukraine. Experts believe that, in general, Ukrainian legal consciousness is oriented towards the acceptance of strong power under the limitations of a representative body. In the 17th century, under Hetman rule, a strong head of state (Hetman), the Government, the «black» convention (involving all Cossacks), and the seniors' convention worked together¹³. It was the seniors' convention that restrained authoritarian trends in the Hetman's actions and opposed the ochlocracy of the «black» convention.

Today, Ukraine is a presidential-parliamentary republic — the form supported by nearly one-half of the population (47.6%). Therefore, we may assume that the low estimate of the authorities' activities mentioned above is not a result of the fundamentals of the polity, but of the present state power bodies' low efficiency.

The diagram shows that only 18.6% of those polled support a «strong authoritarian leader unhindered by Parliament or the law». «Military rule» is even less popular: it was supported by only 7.1%. **The important point is that some disappointment on the part of the population in the present government and its low confidence in the authorities have not yet led to a radical change in the public's political frame of reference and to a rise in authoritarian tendencies in the collective consciousness of Ukrainians.**

The UCEPS poll showed that the initiative of the Communist Party of Ukraine to hold a ref-

Assessment of different forms of government by Ukrainians



¹² Respondents who consider this form of government «very good» and «rather good».

¹³ I. Zhdanov. Statehood and legal essence of Cossack conventions as a manifestation of democratic tendencies of the Ukrainian people // Scientific works of the Kamyanskyi Pedagogical University: history — Kamyanskyi, 1999, vol. 3(5), p. 30.

erendum on the cancellation of the institution of the presidency was supported by only 15.6% of the population; 49.4% of those polled were against such an act, while 35% had no firm opinion. These data demonstrate that the population attaches great importance to the President within the system of government in Ukraine¹⁴.

The results of the poll show that despite social and economic difficulties, the level of trust in democracy remains rather high in Ukraine. Authoritarian tendencies in the mass consciousness have not yet become threatening. The population is disappointed not in the form of government, but in the activity of specific power bodies. In the mass consciousness of Ukrainians, the stereotype of a strong power is noticeable; this is presently associated with the institution of the presidency. There are no evident preconditions within the society for the establishment of an authoritarian regime, let alone any form of dictatorship. In such a situation, the head of state must act resolutely and effectively within the framework of the Constitution and applicable legislation.

POLITICS IN THE LIFE OF UKRAINIANS

Despite the turbulent political life in Ukraine (presidential elections, the appoint-

ment of the new Government, an acute parliamentary crisis), political problems are becoming secondary, if not third-rate for the average citizen, and have little impact on his life¹⁵. Only 20% of Ukrainians noted that politics plays an important role in their lives. Among people of retirement age, this index is somewhat higher. In contrast, this indicator does not exceed 14% among people aged between 18 and 28. This signifies that youth is becoming increasingly estranged from politics.

In 1999, the rate of inflation and the fall in GDP slowed down in Ukraine. For the first time in years, industrial output rose (by 4.3%). Little has changed for the better, however, in the life of common people. Compared to 1998, the population's real incomes dropped by 10.9%; real wages — by 5.4%. According to official statistics¹⁶, more than one million Ukrainian families have real per capita incomes of less than UAH 50 (\$9) a month; for 100 thousand families, this indicator is a humiliatingly low — \$4. Undoubtedly, under such conditions Ukrainians are more concerned not with political, but social and economic problems: wage and pension arrears (60.9% of respondents), deterioration of living standards (58.9%) and employment problems (44.3%).

Meanwhile, statesmen and politicians are often concerned with other problems which are less urgent for the population, or to which it is entirely indifferent, such as Ukraine joining the union with Russia and Belarus, accession to NATO, work in the CIS Interparliamentary Assembly, the denunciation of agreements of Ukraine's nuclear-free status, etc. UCEPS polls show that political battles are of little interest for the average citizen. For example, in comparison to other problems, the possibility of joining NATO «concerns most of all» only 1.9% of those polled; the share of respondents concerned about the «possibility of restoring the Soviet Union» is equally low.

In general, the public activity of the Ukrainian population is aimed at solving socio-economic problems. A discrepancy exists between what concerns the people and the problems of the political elite.



¹⁴ Should the referendum occur, its results will be disastrous for communists, and won't improve their authority. According to «Socis-Gallup», a year ago (in March, 1999) 17% of Ukrainians would have voted for cancellation of the presidential post. The present tendency towards a split in the Communist Party of Ukraine and the possibility for the formation of another left party (the Ukrainian Communist Party) will, most probably, make the problem of the referendum a secondary one, while the referendum itself will unlikely occur.

¹⁵ Almost half of the population (48%) believes that political commitments «do not influence» their everyday behaviour, whereas they «moderately influence» the behaviour of 38%, and «strongly influence» the behaviour of only 10% of those polled.

¹⁶ «Interfax Ukraine», February 26, 2000.



THE UKRAINIAN POPULATION POLITICAL PREFERENCES

According to UCEPS polls, 18.5% of Ukrainians described their political views as left-oriented; 29.9% called themselves centrists; 16.8% consider themselves on the right¹⁷. A more detailed review of the results creates the following picture of the political spectrum of public preferences: 9.6% — extreme left; 8.9% — left centrists; 29.9% — centrists; 10.4% — right centrists; 6.4% — extreme right. Therefore, half of the respondents (49.2%) hold left centrist, centrist and right centrist views. The share of centrist-minded people rose over the previous years: February, 1996 — 18%¹⁸, February, 2000 — 29.9%.

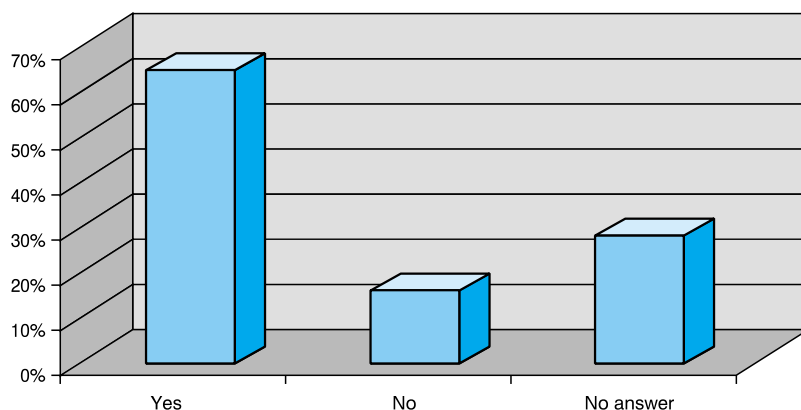
The political portrait of the present Verkhovna Rada noticeably differs from the political preferences of the voters who elected this Parliament. Indeed, two years ago, leftist parties¹⁹ collected 38% of the votes²⁰. Centrist parties²¹ were supported by 23.85% of the voters. This means that the left's representation in the Verkhovna Rada is oversized when

compared with the population's political preferences²².

Today, left political forces in Ukraine are in a difficult situation. They were disheartened by Leonid Kuchma's presidential election victory, and the results of the parliamentary «revolution» of the right majority. The left is scattered and split by internal conflicts. The situation is favourable to a parliamentary election (should such elections be held) victory by parties exploiting centrist ideas and their proximity to the authorities²³. One cannot rule out a repeat of the Russian scenario in Ukraine: the establishment of a stable and influential pro-presidential parliamentary majority, a further weakening of the left and their being pushed aside from solving the most important issues.

The UCEPS poll shows that one-half of Ukrainians now holds left centrist, centrist and right centrist views. This creates a good precondition for the consolidation of centrist parties. Radical political views do not enjoy public support, and the social basis for extremist parties is very weak in Ukraine. In the event of early parliamentary elections, a further decrease in the influence of the left and a higher representation of centrists in the Verkhovna Rada are predictable.

Do you distrust the Verkhovna Rada of Ukraine of the 14th convocation?



FOR CASTED RESULTS OF THE ALL-UKRAINIAN REFERENDUM

According to the UCEPS poll results, 77.1% of Ukrainians are ready to take part in the referendum — a rather high share two months before the voting. The analysis shows that Ukraine's President can count on firm support for five out of six referendum proposals. Presently, the only question that people do not support is the establishment of a two-chambered parliament.

61.8% of respondents²⁴ expressed their distrust in the Verkhovna Rada of the 14th con-

¹⁷ One-third (34.8%) of respondents were unable to define their position.

¹⁸ Monitoring of public opinion of the Ukrainian population. — Centre «Social Monitoring», the Ukrainian Research Institute of Problems of Youth, Kyiv, April, 1997, p. 7.

¹⁹ The Communist Party of Ukraine, the Socialist Party of Ukraine, the Peasant Party of Ukraine and the Progressive Socialist Party of Ukraine.

²⁰ Taking into account «Hromada», supported by a large share of the protesting electorate, this figure will reach 42.7%.

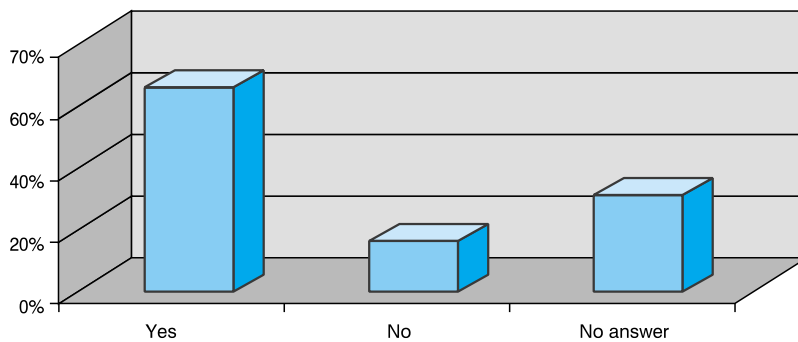
²¹ The People's Rukh of Ukraine, the Popular Democratic Party of Ukraine, the Green Party of Ukraine and the Social Democratic Party of Ukraine (United).

²² This may be explained by the following reasons: (1) the left is supported by protest voters who vote against the acting authorities rather than for the left; (2) unlike the left, the centrist electorate is badly organised; (3) the mixed majority-proportional election system provides additional parliamentary seats for the winning parties at the expense of the losers that did not overcome the 4% barrier. In the latest parliamentary elections, the Communist Party of Ukraine collected 25% of the votes, equivalent to 63 parliamentary mandates, but due to the re-distribution of votes, communists obtained a total of 84 mandates.

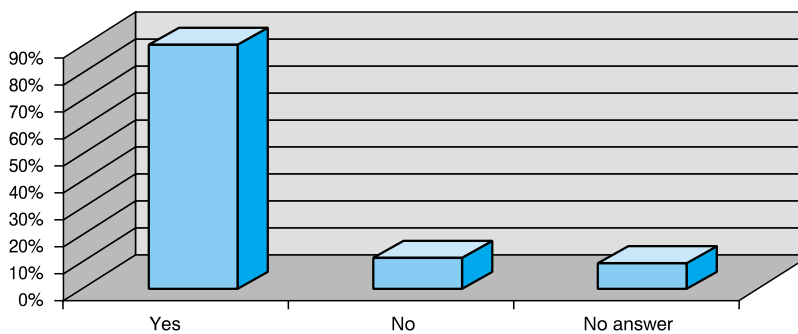
²³ Today there are many candidates for this role: the Democratic Union of Ukraine, the Social Democratic Party of Ukraine (United), the Popular Democratic Party of Ukraine and the «Labour Ukraine» Party.

²⁴ Hereinafter the answers to the questions of the referendum are presented in percentage of respondents ready to take part in the vote.

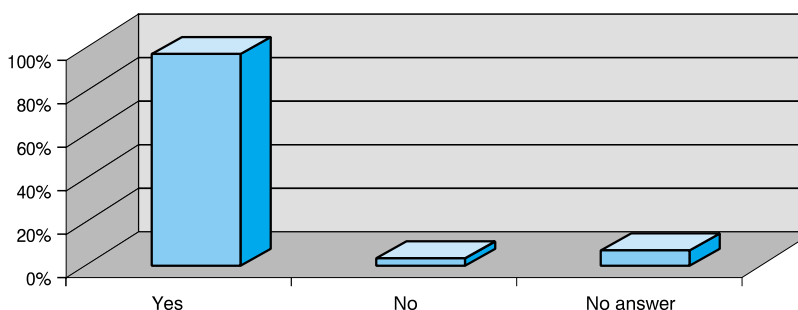
Public support for the proposal to grant President the right to terminate the powers of the Verkhovna Rada



Do you agree that parliamentary immunity of People's Deputies of Ukraine should be limited?



Do you agree with reduction of the total number of People's Deputies from 450 to 300?



vocation, and supported a constitutional provision for a legal mechanism to terminate Parliament's powers on the basis of expressed distrust.

60.7% of those polled believe the Verkhovna Rada's early termination to be possible if it does not manage to create a constructive majority within a month, or fails to approve the budget submitted by the Government within three months.

Limiting Deputy immunity was supported by 84.5%, and the proposal to reduce their total number (from 450 to 300) — by 90.8% of those polled.

Questions regarding the Verkhovna Rada's work were posed against the background of a deep parliamentary crisis. Parliament's temporary inactivity evidently contributed to the low estimate in the eyes of the population. And last but not least: the proposal to reduce the number of People's Deputies was supported for financial reasons, as taxpayers do not want to maintain 450 deputies, in addition to not considering their work effective.

The adoption of the Ukrainian Constitution at an all-Ukrainian referendum is supported by 74.1% of those polled. Public opinion on this issue appears to be stable. According to «Socis-Gallup»²⁵, even in 1996, over half of all Ukrainians (56%) thought that «people should adopt the Constitution at a referendum».

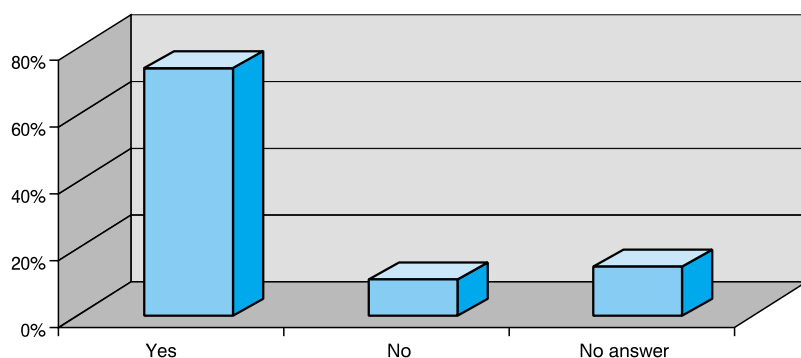
Half of the Ukrainian population (49.9%) suggests that if the Constitution is to be adopted at a referendum, several alternatives of the Basic law should be proposed. It is our hope that this will rule out the path that Russia took in 1993 when B. Yeltsin proposed only one draft of the Constitution, clearly intended to strengthen presidential powers, and the people were left without a choice.

The only proposal that does not enjoy the majority of the population's support is the establishment of a two-chambered parliament: 45% of those polled were in favour, while 24.2% were opposed to the idea (see *Diagram*).

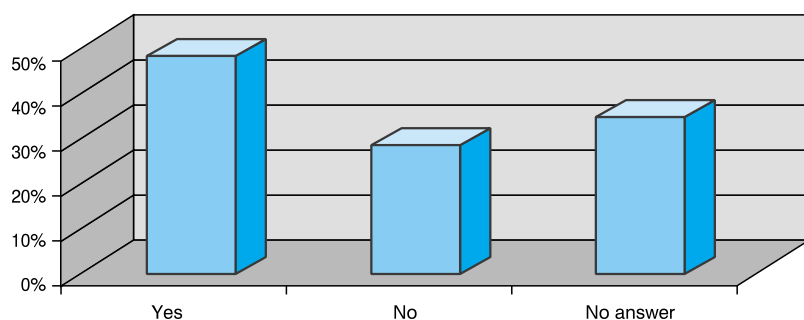
The share of respondents still hesitant about answering any of the proposed referendum questions is relatively high: 24.7% were unable to define their attitude to the Verkhovna Rada; 26.1% did not know whether Parliament was unable to form a con-

²⁵ The Ukrainian Political and Economic Index. — Socis-Gallup, Kyiv, June 1996, p. 18.

Do you agree that the Constitution of Ukraine should be adopted at an all-Ukrainian referendum?



Do you support the establishment of a two-chambered parliament in Ukraine, with the upper chamber representing and promoting the interests of Ukraine's regions?



structive majority and should be dissolved; 30.9% did not express their attitude toward a bicameral parliament. Public opinion, however, has already been formed, and those votes won't significantly influence referendum results.

The authorities should be prepared to put all referendum decisions into practice: this view is shared by 53.5% of polled respondents. This resolute position of the majority demonstrates the need for radical change in the activity of the authorities. We view this as an additional argument against the referendum: in the event that no confidence in Parliament is confirmed (which is the expected outcome, according to opinion polls), it will be difficult for the head of state to explain to the people why he is not dissolving the Verkhovna Rada and scheduling new parliamentary elections²⁶. Meanwhile, factors indicate that not only the parliamentary majority is not interested in the Verkhovna Rada's dissolution (quite understandable), but neither is the President.

Ukraine's President can count on the firm support for five out of the six referendum proposals. Public opinion has already been formed; no great surprises are expected. Parliament's further destiny will depend on its ability to constructively co-operate with the President and Government. The head of state possesses effective mechanisms of influence over Parliament's work.



²⁶ According to the Law of Ukraine «On the All-Ukrainian and Local Referendum», decisions taken at a referendum are obligatory for implementation and do not require additional approval. It is clear that in the event of a reduction in the number of People's Deputies from 450 to 300, Parliament won't be able to work in its present composition.

VOTING MOTIVES: THE IMPACT OF MASS MEDIA

Based on reviewed campaigns «for» and «against» the referendum, UCEPS experts analysed the impact of mass media on the public consciousness of Ukrainian citizens. During the poll, respondents were offered some cliches often used in mass media, such as: «the cancellation of immunity will lead to political pressure on the People's Deputies», or «all people must be equal before the law», etc. Through the use of such cliches, one can understand people's motives that determine their position on the referendum questions.

More than half of those polled (55.1%) supports the referendum, because «authorities should consult the people». At the same time, a quarter of the respondents (25.6%) believes that this is «a waste of public funds»²⁷.

Among those who support the cancellation of People's Deputy immunity, 89.8% are certain that «all people should be equal before the law». Meanwhile, 4.8% of the respondents spoke out against such a decision, as the «cancellation of immunity may be used to place pressure on People's Deputies».

A large share of the population suggests that not only Parliament's responsibility should be increased (as suggested by the referendum's questions), but also that of the

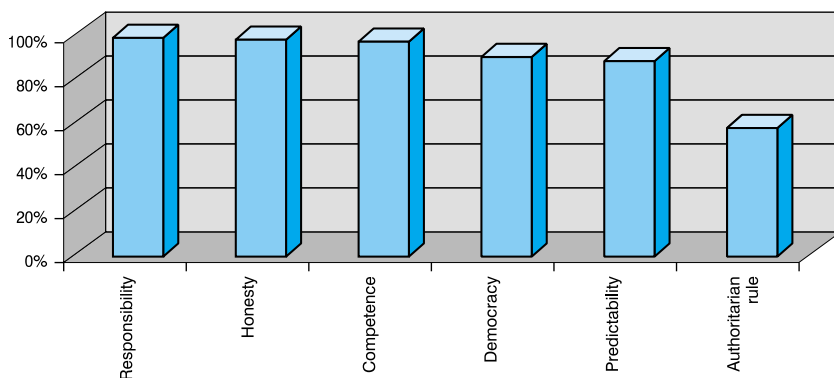
President. According to UCEPS poll results, 43.9% of Ukrainians support simplifying the presidential impeachment procedure, as it is «unreasonably difficult».

As far as arguments in favour of a two-chambered parliament are concerned, 37.4% of respondents consider that «regional interests are not represented in the Verkhovna Rada». Their share is higher in the Crimea and in Ukraine's Western regions. Among those who oppose the idea of creating a two-chambered parliament, 13.1% express their certainty that such a step will «contribute to federalisation and, in the long run, to Ukraine's disintegration». Nearly one-third of Ukrainians (31.1%) was unable to decide on this issue. UCEPS experts suggest that this demonstrates the population's lack of awareness regarding the principles underlying how a two-chambered parliament is formed and works²⁸.

Meanwhile, during discussions regarding Ukraine's draft Constitution in 1996, there were two times less supporters of a bicameral parliament than now; more than half of Ukrainians (56%) could not formulate their position²⁹ (at present, their share is 31.1%). Therefore, employing new election technologies in mass media (including the cliches mentioned above) makes it possible to influence public consciousness quite effectively.

The cliches used in mass media («all people should be equal before the law», «authorities should consult the people», etc.) have become established in the public consciousness and affect the formation of the public's position prior to the referendum. Further significant changes in public opinion in favour of a two-chambered parliament can be predicted if the authorities come to a final decision in this respect (and on the expediency of the referendum in general).

Do you suggest that the procedure of dismissal (impeachment) of President of Ukraine should be simplified?



²⁷ Therefore, the population supports the undertaking of this relatively expensive event (according to the Central Electoral Commission, «consulting the people» will cost taxpayers UAH 50 million; the 2000 budget allocates UAH 30 million).

²⁸ There is most likely no common view on the formation of Parliament's upper chamber in the President's circle (proposals were heard regarding the appointment of its members — to elect them by direct vote, to elect them at regional councils, etc.). It is clear that the appointment of «senators» is unacceptable, if the principle of the division of powers, democratic norms, and the international community's possible negative reaction are taken into account. The upper chamber's election will not only create an additional counterbalance, but also a centre of power that the President will have to deal with. Regional influence will increase, powers will be re-apportioned, and the legislative process will become disorganised for quite some time. To assess the potential powers of Ukraine's «senators», one should turn to Russia (the Federation Council never agreed to the dismissal of the Procurator-General Yu. Skuratov).

²⁹ The Ukrainian Political and Economic Index. — Socis-Gallup, Kyiv, June 1996, p. 17.



WILL THERE BE MASS PROTESTS IN UKRAINE?

Under present conditions, the long-awaited reform will require unpopular steps that will be negatively accepted by a large part of the population. In supporting the Yushchenko Government's initiative, the Verkhovna Rada adopted a number of such decisions aimed at cancelling privileges for many categories of people. An increase in housing and utility tariffs to 100%, transport tariff increases, and other similar steps, lie ahead. How will the population respond to these and other unpopular measures? Will Ukraine turn into an arena of mass protests?



Do the preconditions for a social explosion exist in the country?

UCEPS polls demonstrate that the critical potential for a large-scale social explosion has not gathered strength yet in the mass consciousness of Ukrainian citizens (this possibility concerns only 5.9% of Ukrainians).

Mass protests will take place mainly within the limits of the law.

More than half of Ukrainians (56.2%) «would never take part» even in lawful protests, while 26.6% of respondents are ready for such actions. Every fourth individual polled (25.9%) is prepared to sign petitions — trust in the effectiveness of mass complaints and letters from the working people is still alive in the country. 9% of Ukrainians are

potentially prepared to take part in unlawful protests; 1.4% stated that they already took part in such actions. The seizure of administrative buildings and enterprises might involve 3.7% of those polled.

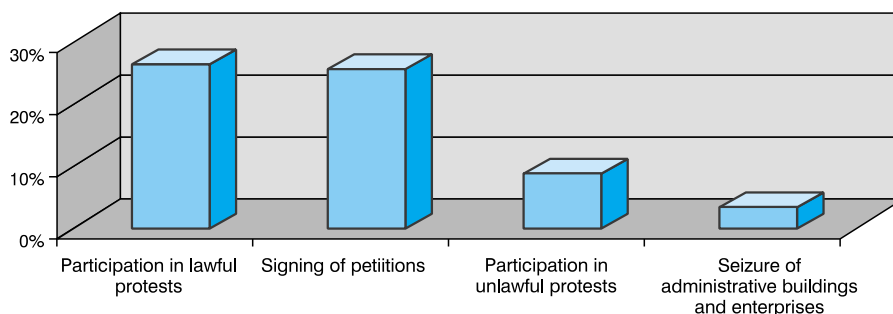
People aged between 29 and 41 appeared to be the most prepared to participate in unlawful actions. People from the same group are also prepared to become the «main driving force» behind the occupation of administrative buildings and enterprises.

According to polls, the highest share of those who are ready to take part in unlawful meetings and demonstrations, and the seizure of administrative buildings and enterprises can be observed in Ukraine's industrial regions. The population of those regions is more «mobile» and better organised and is comprised of miners and large enterprise workers who do not receive their wages for months and suffer economic hardships.

There is a noticeable gap between the potential readiness to take part in protests and actual participation in such actions. When asked «Why didn't you take part in active political actions?», 39.3% of respondents answered that they did not consider «such actions effective, because authorities ignore them, anyway»³⁰. 34.8% of those polled said that there «had been no reason» for participating in protests; the indifference of the polled individual's social circle restrains 8.2%; absence of a leader — 14.2% of those polled. In our view, today there is a real lack in Ukraine of respected leaders able to lead protests throughout the country. Furthermore, Ukrainians mentally tend to resolve their problems through non-violent means.

These data demonstrate the low probability of mass protests in the near future (especially such actions as the seizure of administrative buildings and enterprises, unsanctioned meetings and demonstrations). The people's mass disappointment is gradually transformed into social apathy; people survive, relying on their own strengths and capabilities, without hoping for any serious assistance from the state. Many Ukrainians are certain that no protests will push the authorities to changes for the better. Strikes and meetings mainly under social and economic slogans should be expected in industrial and mining regions.

People's readiness to take part in mass protests



³⁰ The percentage of respondents who did not take part in such protests so far but potentially could participate in them.

CONCLUSIONS

The mass consciousness of Ukrainians reflects the system crisis of the authorities that defines the discrepancy between the desired good image of authorities, on the one hand, and the real assessment of the activities of the present state power bodies and low level of confidence in the institutions of power, on the other. All state institutions are far from the ideal image depicted by the population, but the Verkhovna Rada corresponds to it least of all.

Critical assessments of the Verkhovna Rada condition the generally negative attitude toward parliamentary practice as an institution of democratic government. An early dissolution of the Verkhovna Rada will not cause mass protests; on the contrary, this step on the part of the Ukrainian President will be supported by the overwhelming majority of the population (but not by the People's Deputies).

The level of trust in the authorities, in general, is very low. This complicates and, to a certain extent, hinders radical reform. Unpopular steps taken by the Yushchenko Government may bring about disappointment regarding its activity and a loss of hope by the people for overcoming Ukraine's present economic crisis.

Despite all difficulties, Ukraine's population retains hope in democratically resolving urgent social problems. Authoritarian tendencies in the public consciousness are not yet dangerous; moreover, there are no preconditions for dictatorship in Ukraine.

The Ukrainian population associates its hopes with more resolute actions by Ukraine's President, and tends to support a presidential-parliamentary system or presidential republic as more effective forms of government during the transitional period.

The social basis for radical political forces in Ukraine is insufficient. Favourable conditions exist for a victory of political parties exploiting centrist ideas and for a reduction of the representation of extremist political forces after early parliamentary elections (should such elections be held).

In the event that the referendum is held on April 16, the present head of state will most likely obtain further support after the November 1999 presidential elections. After the referendum, the President of Ukraine will obtain additional mechanisms of influence over the work of Parliament. Last but not least, the referendum's expected results will be conditioned by the extremely negative perception of the Verkhovna Rada's activities and by a mass media propaganda campaign.

The population's political activity will generally stay within the legal limitations. Mass protests will mainly pursue economic purposes, while political actions will remain few.

BUDGET 2000: absence of deficit, the way it is

By Viktor SKARSHEVSKYI

There is no hope in sight
It keeps coming and going suddenly —
And this country that troubles my mind
Seems to never improve finally

Andrey Makarevich, «The Flock»

WHY ALL THIS?

The approval of the deficit-free 2000 budget is closely related to the IMF requirement which conditions the subsequent EFF tranches and, consequently, the renewal of credits from the World Bank.

A deficit-free budget presupposes the country's intent to live within its means, i.e., to spend what it earns. However, when budget revenues are fictitious (unrealistic), the absence of a deficit loses its sense because the state will be unable to fulfil its commitments with regard to budget expenditures.

The analysis of the state budget presented below demonstrates that budget revenues are overestimated by at least UAH 5 billion. It is interesting to note that IMF and World Bank experts have noticed only the acceptable «discrepancy» of half a billion Hryvnias. Most likely, the IMF wishes to present a creditable picture and refinance the return of its own credits (in 2000, Ukraine is to repay some \$850 million to the IMF) — in other words, to grant credits to Ukraine in exactly this amount in 2000 (last year those sums strangely coincided). Otherwise, the world community will learn of the flimsiness of the IMF's policy not only towards remote countries — recipients of international assistance, but also towards Ukraine.

Furthermore, the Deputies who found themselves under the sword of Damocles in the form of the referendum had no way out except to

approve any budget, even to the point of where this went against the interests of some of their number (for example, their consent to terminate privileges for joint ventures, to name just one!). Parliament members did not shy away from giving 228 votes in favour of three evidently incompatible articles in one package: on contributors to the State Innovation Fund, on the cancellation of privileges to different groups of the population, and ... on the procedure of tax administration funding. Vote, MP, or get ready for early elections!

Generally, people got used to the fact that the adoption of a budget was a political, not an economic act. However, politics doesn't keep a man fed. What does the government have in store for us, we may wonder, ordinary taxpayers and budget fund recipients.



* The article was published in the newspaper «Zerkalo nedeli» #7

MACROECONOMIC BASIS FOR THE BUDGET

GDP

The Government could not resist the temptation to forecast economic growth in 2000: real GDP growth was predicted to reach 1%. This comes as no surprise, as different governments have stubbornly predicted economic growth over the last four years.

Industry

Industrial output is to increase by 4.6%, which is a bit higher than in 1999 (4.3%). On the surface, the trend is positive, but this growth is to be achieved at the expense of higher debts (between enterprises and before the budget), i.e., at the expense of the deterioration of the financial standing of enterprises (the volume of late debit industry indebtedness for January-November 1999 rose by UAH 15.5 billion, or 3.8 times greater than for 1998).

Prices

This year, price growth is not to exceed the 1999 level; it is expected to reach 19% (over the year). One can make a guess that the relative low inflation level will be achieved mainly at the expense of a decrease in real incomes of the population (reduction of effective demand), as took place in previous years. For instance, in 1999 real revenues of the population fell by 11.8% as compared to 1998, which led to the reduction in the population's solvent demand, retail turnover (by 5.2%) and the volume of paid services (by 7.8%), and all this despite the large-scale repayment of social debts in a presidential election year.

Exchange rate

The annual average exchange rate is estimated at a level of 5.78 UAH/USD (6.02 UAH/USD by the end of the year). The validity of this forecast primarily depends on two factors: the servicing of foreign debt, and the selected system for the 2000 currency regime. In the event that the Hryvnia is tied to the currency basket (as the President suggested in his draft Address to the Verkhovna Rada), exchange rate jumps are inevitable as in the previous years when the currency corridor was introduced. In this context it should be mentioned that last December the President had already proposed that the National Bank of Ukraine (NBU) consider the possibility of making a transition to a currency board, suggesting that the Hryvnia should be tied to a currency or group of cur-

rencies, but the NBU replied that it considered such steps inexpedient.

It becomes clear that forecasted indices may again be achieved at the expense of enterprises and the deterioration of their financial standing, as well as a decrease in the population's living standards. These forecasts form the basis for the draft 2000 budget.

THE REALITY OF THE BUDGET

Once again we are hearing the Government's assurances regarding the realistic nature of each new budget draft. However, the document's practical nature shows no improvement; but rather, to the contrary.

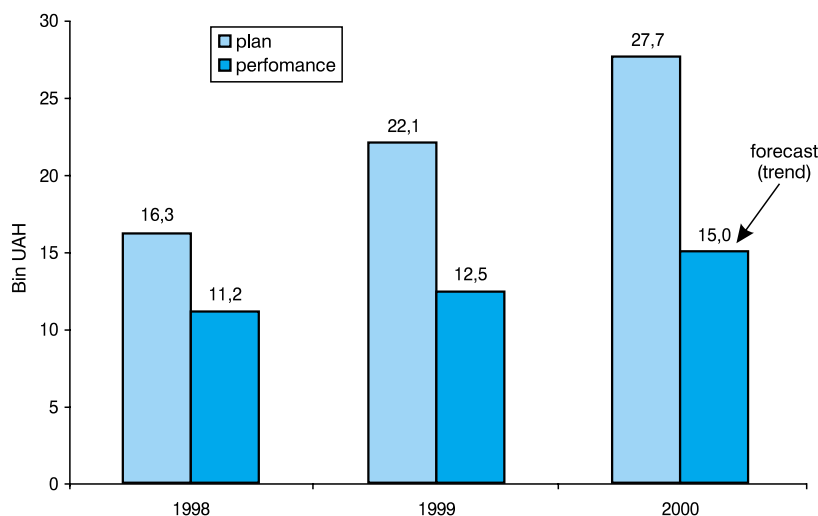
One can judge for oneself. The 2000 State budget revenues are planned at UAH 33.4 billion, which includes the revenues of the State budget's general fund amount UAH 28.7 billion, and the revenues of the special fund — UAH 4.6 billion. Taking into consideration the collection of budget revenues in previous years in the form of «live» money only (excluding non-monetary settlements), the impractical nature of the budget-2000 becomes clear (*Diagram 1*).

As the Diagram makes clear, it is planned to increase state budget revenues in 2000 two-fold when compared to its actual 1999 performance.

Given the expected 19% inflation rate and real GDP growth of 1% (according to Ministry of Economy estimates), State budget monetary revenues should reach UAH 15.0 billion. Assuming that the laws cancelling tax privileges are implemented (first of all, with regard to VAT), some duty rates are raised (primarily excise duties), and other laws aimed at broadening the tax base, this will add another UAH 4.5 billion to budget revenues.

Another UAH 2 billion can be added from the expected increase in proceeds from privatisation in 2000 as compared with the previous year (which figure is hardly achievable). When the UAH 1 billion offset with power structures provided in the draft budget is taken into account, we arrive at a new State budget revenue estimate exceeding the initial one by more than UAH 5 billion (or 18.1%). This means that even in an optimistic scenario (the cancellation of tax privileges, implementation of the privatisation program, real GDP growth, moderate inflation), monetary proceeds will add up to a little more than UAH 22 billion instead of the expected UAH 27.7 billion.

Diagram 1. State budget monetary revenues, excluding target funds



Naturally, the overstated budget revenues will lead to budget payment arrears and, accordingly, to budget indebtedness providing for non-monetary budget settlements (offsets, bills).

Proceeding from the above-stated, there is a high (possibly a 100%) probability of continued non-monetary State budget settlements for 2000 (such precedents have occurred, as shown by just one example of the Cabinet of Ministers of Ukraine Resolution No. 115 of January 24). This will take place despite a number of Government resolutions banning such settlements and the liquidation of the «Ukrspetsfin» State Enterprise which was the main subject of non-monetary settlements.

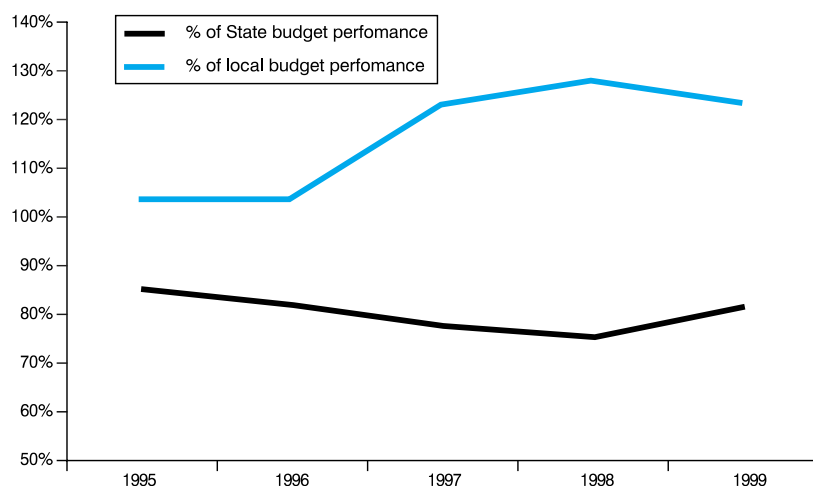
Therefore, the impractical nature of the budget revenues may lead to the following basic consequences:

- accumulation of new budget debts;
- considerable taxpayer pressure for the renewal of non-monetary settlements with the State budget with the emergence of preconditions for such settlements (budget payment arrears and budget debts);
- sequestration during the budget year affecting confidence in the Government and the authorities in general;
- stronger fiscal and administrative pressure on legal enterprises: in 1999 alone, the Tax Militia ensured the collection of an additional UAH 2.3 billion to budgets at all levels.
- stronger fiscal and administrative pressure on legal enterprises: in 1999 alone, the Tax Militia ensured the collection of an additional UAH 2.3 billion to budgets at all levels.

As we have already seen, such consequences run contrary to the Government's declared intentions, primarily with regard to the prohibition of non-monetary budget settlements. In this respect it should be mentioned that the incorporation of the entire profit tax into the budget will not lead to higher budget proceeds, since at the local level the profit tax was paid mainly at the expense of offsets.

Moreover, the budget provides for the offset of energy debts, which will lead to expectations of such offsets and the accumulation of new debts. Generally speaking, debt restructuring is preferable to offsets. The restructuring process, at least, is more transparent and allows for tougher requirements regarding debtors (bankruptcy in the event of non-performance); it also allows for control over the execution of those requirements. Proceeding from the above-stated, the Government should have chosen the latter «evil», i.e., debt restructuring, rather than large-scale offsets.

Diagram 2. Performance of state and local budgets

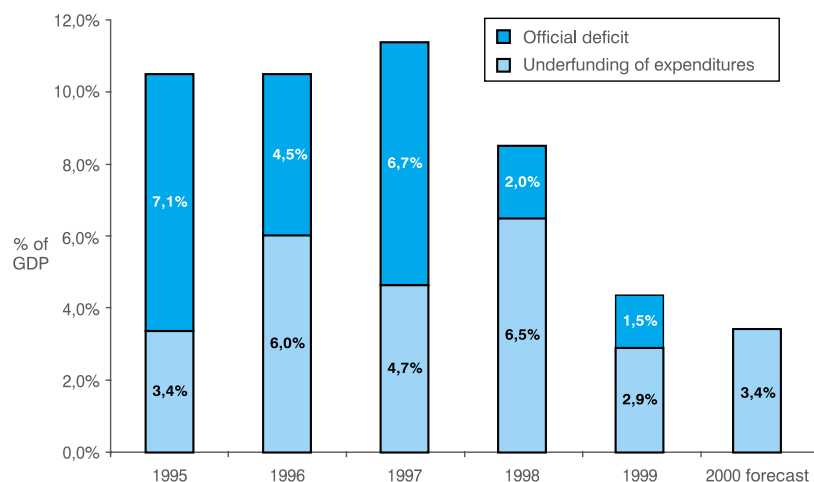


BUDGET DEFICIT

Given the ungrounded overstated State budget revenues (as shown above, at least by UAH 5 billion), for the maintenance of the declared zero budget deficit the Government will, most likely, resort to increasing budget debts, as it did in previous years (Diagram 3).

This means that despite the officially deficit-free budget, there will be a «concealed» budget deficit in the amount of approximately UAH 5 billion, or 3.4% of the GDP (a figure which takes the budget debt increase into account). Therefore, the Cabinet of Ministers

Diagram 3. Declared and actual budget deficit, % of GDP



will not only fail to fully repay social arrears from previous years, but will have to accumulate current budget debts.

The Government's economic memorandum, submitted as part of a package with the 2000 draft budget and adapted for a second reading, argues that thanks to a zero budget deficit (*Diagram 4*) and the National Bank's refusal to finance Government expenditures (through participation in the primary state internal bond market), the banking system's funds will increase by UAH 3.4 billion which, in its turn, will lead to an interest rate reduction and increased crediting of the economic

sector. In reality, the situation is not that simple. In Ukraine's non-market economy, the increase in the banking system's funds has a very limited impact on interest rates, since in the absence of a reliable and profitable alternative, objects for the investment of those funds automatically go to the currency market, exerting pressure on the Hryvnia and devaluing it in the process.

The recent February example is proof of this: an interest rate reduction (from 45 to 35%) and a reserve ratio drop (from 17 to 16%) increased bank reserves by UAH 100 million and led to the devaluation of the official Hryvnia rate by 2.2%.

TAX POLICY

In recent years, nation-wide cross-subsidies (through the budget) contributed to the redistribution of funds taken from effective enterprises in favour of permanently unprofitable enterprises manufacturing unmarketable products. It is widely known that this kind of policy results in stronger tax and administrative pressures on effective enterprises, pushing them into the shadow sector of economy.

The likelihood of a radical shift in the tax policy this year is very low: in 2000, the Tax Administration plans to collect UAH 8 billion (almost 1.5 times) more than the previous year. It is highly likely that this goal will be achieved by relying on the good old methods. This is shown by the continuing practice of issuing government resolutions on additional measures to collect budget revenues, requiring regions and ministries to repay budget arrears. Substantial experience shows that no similar resolutions were implemented in full, but the very process of their implementation caused the further deterioration in the performance of many enterprises, especially those manufacturing marketable goods and possessing current funds (*Diagram 5*), due to the excessively austere actions of the tax administration aimed at fulfilling the plan at any cost.

Next: despite the acute lack of budget funds, some UAH 5-6 billion are annually spent on supporting unprofitable enterprises (in the form of direct budget expenditures and tax privileges).

This year, the Government intends to do away with this mistaken practice. Consequently, we can only venture to guess that this step will be followed by the bankruptcy of unprofitable enterprises and, as a result, by an increase in the official unemployment rate. Indeed, this year official

Diagram 4. Official budget deficit compensation structure

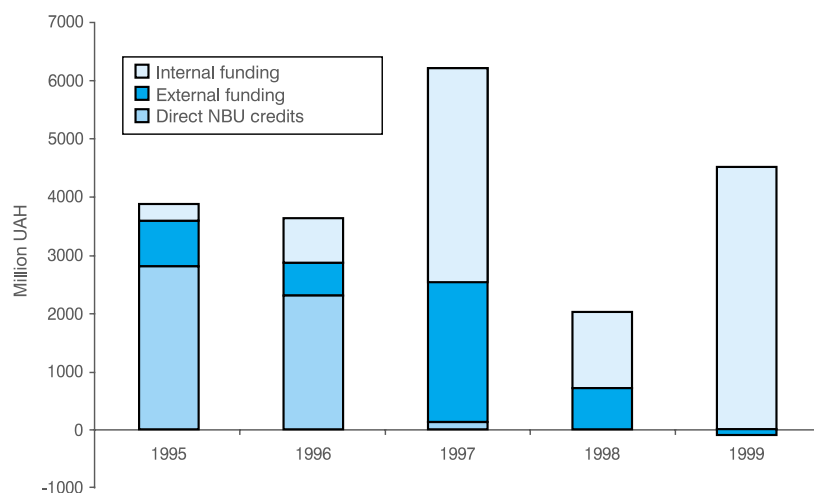
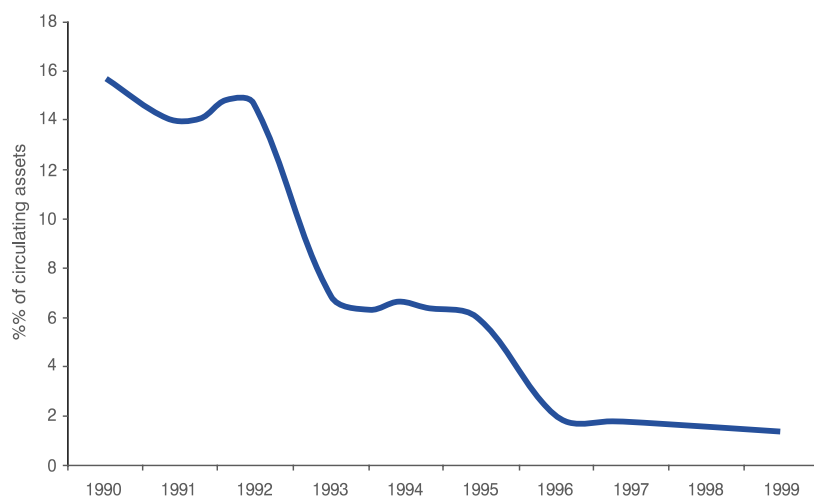




Diagram 5. Circulating enterprise monetary funds



unemployment is expected to rise by 2.2% (to 6.5%), but against the background of actual unemployment (taking hidden unemployment into account) that experts place above 30%, this is not enough to recover the unprofitable sector which officially comprises more than 50% of economy. Moreover, the new Law on Bankruptcy prohibits the bankruptcy of the most ineffective and unprofitable sector — agriculture (85% of all unprofitable enterprises) — until 2004. This casts much doubt on the implementation of the moratorium on tax privileges, restructuring of budget payments, writing off of arrears, etc., declared by the Government.

One cannot help but see the contradictory nature of the domestic tax policy. On the one hand, the Government has declared its adherence to the broadening of the tax base and the subsequent reduction in tax rates. Along with the draft budget, the Government presented a package of bills providing for the cancellation

of tax privileges. However, this cancellation will not lead to an automatic increase in budget revenues, since in many cases those preferences formed the basis for the operation of many ineffective enterprises. In other words, the cancellation of privileges will lead to their termination, and not to higher budget revenues.

On the other hand, pursuing a policy of broadening the tax base creates reasons for doubt. For instance, the draft Presidential Address to the Verkhovna Rada repeatedly mentions the expansion of free economic zones (despite the declared moratorium on their establishment), which by itself suggests the granting of tax privileges to entire regions and, consequently, the limiting of the tax base. A strong feeling exists that the executive power has no consensus position on the problem of tax privileges, and the replacement of some privileges by new ones cannot be ruled out.

PROSPECTS

Given the significant amount of foreign debt repayment and the inefficient structure of industry (approximately 60% comprised of raw and energy consuming branches, and a small share of processing industries), a radical change in the present 2000 budget revenue tendencies should not be expected.

Moreover, taxes can be endlessly reduced, tax privileges cancelled, budget transparency ensured, etc. — these are necessary and long-awaited measures, but none of them will bring the expected results unless the fundamental problems are solved: the protection of property rights (foremost, on income), the implementation of private property in real estate, the bankruptcy of ineffective enterprises, and stable laws. Only then can the budget revenue collection problem be solved, and the preconditions for the dynamic development of the economy be created.

FORMATION OF UNIFIED BUDGET REVENUES

INCOMES	1999 plan	1999 performance	1999 performance %	2000 plan	2000 plan/ 1999 performance, %
Tax revenues	25 345.4	24 808.8	97.9	28 435.1	114.6
Income tax, profit tax, value added tax	8 640.0	10 804.5	125.1	11 665.6	108.0
Income tax on individuals	3 940.0	4 433.8	112.5	4 860.0	109.6
Profit tax on enterprises	4 700.0	6 370.7	135.5	6 805.6	106.8
Property taxes	383.0	296.1	77.3	370.0	125.0
Tax on motor vehicle owners	383.0	296.1	77.3	370.0	125.0
Dues for the use of natural resources	1 832.8	1 449.3	79.1	1 667.1	115.0
Payment for the special use of water resources	238.9	122.8	51.4	170.0	138.5
Payment for land	1 100.0	1 094.4	99.5	1 210.0	110.6
Internal taxes on goods and services	12 396.9	10 448.1	84.3	12 333.4	118.0
Value added tax	8 302.7	8 130.3	97.9	9 716.8	119.5
Excise tax on domestic goods	1 962.7	1 542.1	78.6	1 650.0	107.0
Excise tax on imported goods	859.9	210.4	24.5	400.0	190.1
Licences for entrepreneurial and professional activities	964.1	271.2	28.1	258.5	95.3
Taxes on foreign trade and transactions	1 649.2	1 236.8	75.0	1 759.6	142.3
Import duty	1 587.8	850.3	53.6	1 649.2	194.0
Other taxes	443.4	574.0	129.4	639.3	111.4
Local taxes and duties	425.0	440.5	103.7	460.0	104.4
Single law on entrepreneurial activities	0.0	11.7		50.7	434.3
Non-tax revenues	5 594.5	3 238.5	57.9	9 834.9	303.7
Proceeds from property and entrepreneurial activity	1 216.6	1 403.6	115.4	3 748.0	267.0
Proceeds from the NBU's gross surplus	0.0	0.0		500.0	
Transfer of amount of bank interest for use of temporarily free budget funds to the budget	118.7	102.8	86.6	93.8	91.2
<i>Rent for oil recovered in Ukraine</i>	30.0	7.4	24.8	37.9	509.3
<i>Rent for natural gas recovered in Ukraine</i>	303.7	60.0	19.8	178.2	297.0



INCOMES	1999 plan	1999 performance	1999 performance, %	2000 plan	2000 plan/ 1999 performance, %
Dividends (share of profit) obtained from subjects of entrepreneurial activity established with participation of state-owned enterprises and organisations	0.0	0.0		275.0	
Proceeds from privatisation of state property	720.0	821.7	114.1	2 643.1	321.7
Administrative dues and charges, proceeds from non-commercial and incidental sales	499.3	328.8	65.8	657.3	199.9
Rentals for the lease of enterprise property as part of state or communal property	61.6	58.8	95.5	60.7	103.3
State duty	414.9	257.4	62.0	262.1	101.8
Proceeds from penalties and financial sanctions	146.8	129.4	88.2	156.3	120.8
Other non-tax revenues	3 731.9	1 376.7	36.9	5 273.3	383.0
Proceeds from sale of excessive arms, military and special equipment, other property of the Armed Forces of Ukraine and other legally established military formations and law enforcement bodies	208.0	215.6	103.7	845.1	391.9
<i>Percentage of payment for the transit of natural gas over Ukraine's territory (in 2000 — Proceeds from sale of gas obtained as payment for transit of natural gas over Ukraine's territory)</i>	1 616.3	136.8	8.5	1 005.4	734.8
<i>Proceeds obtained as repayment of debts accumulated as result of legal entities' non-execution of commitments to return and service repayable loans granted by the Government or under government guarantees</i>	300.0	58.8	19.6	100.0	170.2
Revenues of budget entities and organisations				1 729.8	
<i>Special revenues</i>				1 525.9	
Additional pension contributions				756.4	
Proceeds from capital transactions	412.6	435.2	105.5	23.0	5.3
Proceeds from the State Committee of Ukraine for Material Resources	400.0	400.1	100.0	0.0	0.0
Target funds	2 899.5	3 856.5	133.0	3 401.4	88.2
Obligatory social insurance duty payable to the Social Insurance Fund of Ukraine	0.0	0.0		1 304.9	

INCOMES	1999 plan	1999 performance	1999 performance, %	2000 plan	2000 plan/ 1999 performance, %
Duty to the Chernobyl fund	400.0	283.0	70.8	157.9	55.8
Obligatory social insurance against unemployment: duty payable to the State Employment Fund of Ukraine	554.0	550.8	99.4	596.8	108.4
Duty to the State Innovation Fund of Ukraine	739.9	1 065.9	144.1	1 182.9	111.0
Payments to Ukraine's Fund for Social Protection of Disabled Persons	40.0	54.5	136.2	40.0	73.4
Duty for environmental pollution payable to the Environmental Protection Fund	43.6	58.6	134.4	43.6	74.4
Road tax and road charges	1 122.0	1 745.2	155.5	0.0	0.0
TOTAL REVENUES	34 252.0	32 339.6	94.4	41 694.4	128.9

FORMATION OF UNIFIED BUDGET EXPENDITURES

EXPENDITURES	1999 plan	1999 performance	1999 performance, %	2000 plan (general plan fund)*	2000 plan/ 1999 performance, %
State administration	1 159.0	1 495.3	129.0	2 127.2	142.3
Legislative power	71.5	72.7	101.8	77.4	106.4
Executive power	514.5	866.0	168.3	883.9	102.1
Maintenance of the President of Ukraine and his staff	25.2	25.2	100.0	22.9	91.0
Maintenance of financial and fiscal bodies	515.4	497.2	96.5	1 051.0	211.4
Judicial power	132.0	102.1	77.3	195.2	191.3
International activity	549.5	252.8	46.0	702.3	277.9
International co-operation	495.5	245.0	49.4	631.2	257.6
Implementation of international treaties	54.1	7.8	14.4	63.1	813.4
Fundamental research and furthering of scientific and technical progress	511.2	291.3	57.0	506.3	173.8
Fundamental research	237.0	156.4	66.0	214.6	137.2
Development of advanced technologies and priorities of scientific and technical progress	274.2	128.4	46.8	291.8	227.2
National defence	1 702.8	1 529.0	89.8	1 498.7	98.0
Maintenance of the Armed Forces of Ukraine	1 441.1	1 347.5	93.5	1 306.1	96.9
Purchase of military hardware	100.0	67.2	67.2	64.1	95.4
Capital construction	33.0	35.3	107.0	9.9	28.0



EXPENDITURES	1999 plan	1999 performance	1999 performance, %	2000 plan (general plan fund)*	2000 plan/ 1999 performance, %
Law enforcement and state security	1 708.7	1 664.5	97.4	1 766.3	106.1
Bodies of internal affairs	573.7	573.9	100.0	566.4	98.7
Internal Troops of the Ministry of Internal Affairs of Ukraine	78.0	71.5	91.6	126.4	176.8
Border Troops of Ukraine	174.8	161.9	92.7	221.0	136.5
Security Service of Ukraine	238.4	229.8	96.4	247.2	107.6
Education	4 661.8	4 644.8	99.6	5 102.4	109.9
Healthcare	3 927.2	3 777.6	96.2	4 306.2	114.0
Social protection and social security	4 304.3	4 119.5	95.7	6 142.1	149.1
Pensions and allowances	876.0	751.5	85.8	1 899.8	252.8
Preferences for veterans of war and labour	249.0	624.7	x 2.5 times	264.4	42.3
Allowances for families bringing up children	405.9	244.9	60.3	535.0	218.5
Other forms of social assistance (housing and communal services)	1 137.5	954.2	83.9	1 261.6	132.2
Pensions for the military and former servants of the Ministry of Internal Affairs	1 120.0	1 119.9	100.0	1 565.4	139.8
Housing and communal services	294.8	1 190.4	x 4.0 times	460.0	38.6
Housing	100.8	593.4	y 5,9 p.	224.0	37.7
Communal services	194.0	567.0	y 2,9 p.	236.0	41.6
Culture and arts	353.0	410.4	116.3	353.6	86.1
Mass media	156.1	165.9	106.2	137.7	83.0
Physical culture and sports	133.4	202.9	152.1	164.6	81.1
Industry and power engineering	2 105.7	1 831.8	87.0	1 667.0	91.0
Fuel and energy complex	1 596.0	1 616.6	101.3	1 603.0	99.2
Expenditures related to coal industry restructuring	421.0	361.3	85.8	900.0	249.1
State support for coal mining enterprises	1 100.0	1 099.7	100.0	623.0	56.7
Conversion and development of defence and machine-building complex enterprises	90.0	50.6	56.2	45.0	89.0
Construction	1 132.5	1 085.4	95.2	419.0	38.6
Agriculture, forestry, fishing and hunting	527.9	531.2	100.6	521.2	98.1
Water management	193.1	184.9	95.8	201.6	109.0
Agriculture	119.5	139.2	116.4	102.2	73.4

EXPENDITURES	1999 plan	1999 performance	1999 performance, %	2000 plan (general plan fund)*	2000 plan/ 1999 performance, %
Funding of budget-supported institutions of the agricultural complex	82.8	73.8	89.2	88.5	120.0
Transport, road maintenance, communications, telecommunications and information systems	1 165.7	1 974.3	169.4	760.2	38.5
Road maintenance	1 122.0	1 696.7	151.2	489.8	28.9
Other services related to economic activities	161.5	93.3	57.8	476.0	510.2
Measures related to elimination of aftermath of Chornobyl accident and social protection of population	1 746.8	1 445.2	82.7	1 812.7	125.4
Expenditures on social protection of individuals who suffered from Chornobyl disaster	1 310.1	1 118.0	85.3	1 574.2	140.8
Environmental protection and nuclear safety	85.5	59.0	68.9	97.5	165.4
Replenishment of state stocks and reserves	416.8	397.8	95.5	16.0	4.0
Servicing of national debt	3 545.1	3 059.3	86.3	5 957.6	194.7
Servicing of internal national debt	1 536.0	1 250.7	81.4	1 854.0	148.2
Servicing of external national debt	2 009.1	1 808.5	90.0	4 103.5	226.9
Target funds (in 1999 — without Social Insurance Fund)	825.0	963.4	116.8	0.0	0.0
Social Insurance Fund of Ukraine	0.0	0.0		0.0	
State Employment Fund of Ukraine	554.0	521.1	94.1	0.0	0.0
State Innovation Fund of Ukraine	187.4	248.3	132.5	0.0	0.0
Environmental Protection Fund	43.6	50.8	116.7	0.0	0.0
Ukraine's Fund for Social Protection of Disabled Persons	40.0	51.9	129.8	0.0	0.0
Expenditures not included in the basic groups	4 048.7	2 828.7	69.9	691.6	24.4
Expenditures on repayment of arrears related with depreciated deposits of physical persons at the Savings Bank and premiums paid to the former «Ukrderzhstrakh», and buy-out of bonds of the State interest-free target loan of 1990	200.0	10.0	5.0	200.0	1995.2
Expenditures on repayment of budget-supported employee salaries, scholarship and other social allowance arrears accumulated in previous years	2 098.7	1 718.9	81.9	108.2	6.3
TOTAL EXPENDITURES	35 492.0	34 265.8	96.5	36 032.7	105.2

* — to provide comparability with 1999, the Special Fund instituted in 2000 was excluded from the unified budget expenditures. The Special Fund (UAH 5.66 billion) is formed at the expense of three main sources: 1) part of target funds (UAH 2 billion); 2) revenues of budget-supported institutions and organisations (UAH 1.73 billion); 3) sale of excessive armaments (UAH 825 million).

UNEMPLOYMENT IN UKRAINE: estimates and forecasts

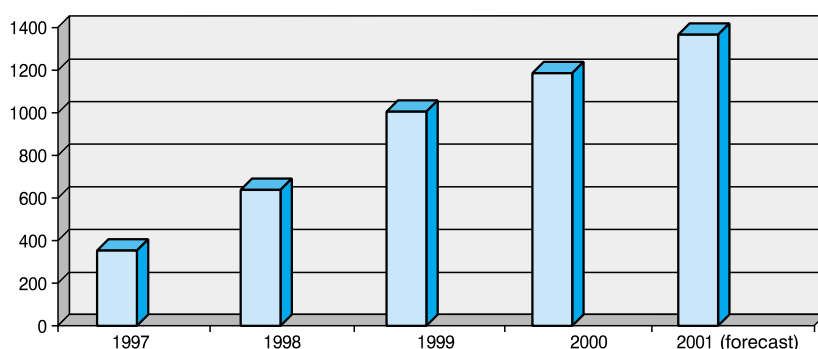
By Oleksandr KORNIYEVSKYI

This article presents an analysis of employment in Ukraine, gives estimated figures of hidden unemployment, and its sources. Basic labour market tendencies are shown, including those for separate regions. It also contains a forecast of the situation at the end of 2000, and recommendations as to a higher rate of employment for the population.

OFFICIAL STATISTICS

The analysis of indices describing the level of unemployment in Ukraine shows a steady tendency towards unemployment growth over the last five years. This negative trend is demonstrated by State Committee of Ukraine for Statistics («Derzhkomstat») data. In 1997–1999, the total number of officially registered unemployed rose from 350 thousand to 1.2 million men and women. As of January 1, 2000, 4.3% of the employable population in Ukraine were unemployed¹.

The number of unemployed (thousands)



The most vulnerable groups within the population are women and youth. Almost two-thirds of the total number of unemployed (62%) are women, while one out of three unemployed individuals (30.5%) is under 28. These are the official statistical data

HIDDEN UNEMPLOYMENT

The actual number of unemployed exceeds the «Derzhkomstat» figures. According to the polls, Ukrainian Centre for Social Studies experts put the level of *hidden* unemployment in Ukraine at 28-32%². According to our estimates, **35-40% of the able-bodied population, or 7-8 million Ukrainians, can be considered unemployed.** These are individuals who have no jobs at all, are on forced long-term leave, or work one or two days a week. It should be noted that many individuals who lost their jobs do not register at employment centres. One of the reasons for this is the low level of state unemployment benefits: on average, in December, 1999 benefits did not exceed \$9.

The transfer of some employees at budget-funded organisations to work at a payment rate of 50% or even 25% of their official rate may be considered another concealed form of unemployment. Of course, official statistics do not account for these population groups, as they are not considered unemployed or jobless according to the criteria provided by the Law of Ukraine «On Employment of the Population»



¹ «The Labour Market in December, 1999», information Bulletin of the State Committee of Ukraine for Statistics.

² O. Yaremenko. Social policy and certain problems of employment in Ukraine. Social policy in Ukraine and the present strategies for adaptation of the population. Scientific digest. — Kyiv, 1998, p.26.

REGIONAL DIMENSION

At the beginning of 2000, there were 1.2 million officially registered unemployed. Experts of the State Employment Centre estimate that at the end of the year their number will reach 3.2 million³. Some experts⁴ give even more pessimistic estimates: in 2000, over 3.6 million people will turn to the State Employment Service, and the registered level of unemployment will reach 6.9% at the end of the year. We estimate this figure to be 5.0–5.5%.

Analysis shows that over the recent years unemployment was on the rise in all of Ukraine's regions. The Dnipropetrovsk region held the unfortunate lead position in this respect (a seven-fold increase in three years), followed by the Donetsk, Sumy, Kharkiv, Cherkasy and Chernihiv regions (a four-fold rise over the same period).

In 1999, the highest level of unemployment was registered in the Chernihiv, Lviv,

Zhytomyr and Rivne regions (over 7%); the lowest level was in the city of Kyiv and in the Odesa region (approx. 1%).

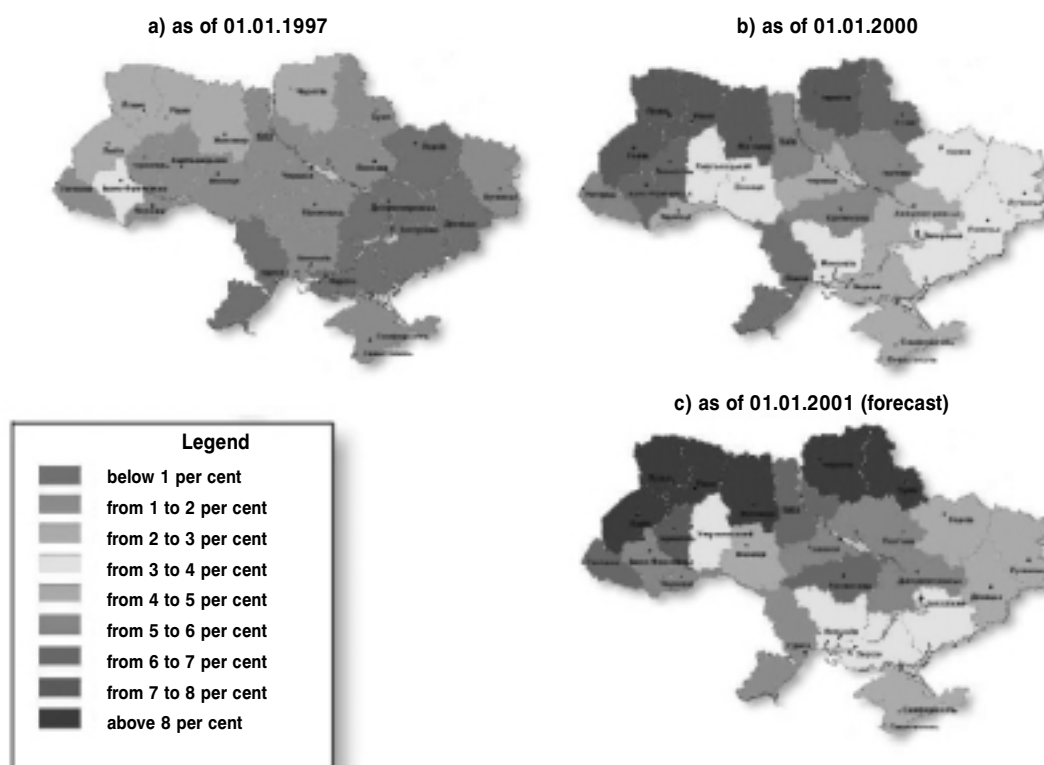
The forecast for 2000 is also pessimistic (*see the maps*). According to our estimates, the problem of unemployment will become even more acute in the Zhytomyr, Lviv, Rivne, Sumy and Chernihiv regions. The level of registered unemployment there may reach 9–10%. Social tensions and the accumulation of «protest» sentiments among the population may be expected in those regions.

The deterioration of the labour market situation aggravates other social problems as well: divorce, suicide, crime, alcoholism and drug addiction statistics, the death rate, etc. Experts argue⁶ that a 1% unemployment increase brings about a 4.2% increase in crime. Experts of Ukraine's Production Forces Study Council assume that in some regions unemployment may get out of control⁷.

Registered level of unemployment⁵

1997	1,3%
1998	2,3%
1999	3,7%
2000	4,3%
2001	5,0–5,5%
(forecast)	

Registered level of unemployment in Ukraine's regions in 1996-2000



³ DINAU report, January 20, 2000.

⁴ S. Harazha. «UNIAN informs.» — Tovarysh, January 1998, p. 3.

⁵ The data of the State Committee of Ukraine for Statistics as of January 1 of each year.

⁶ Ukraine's rural youth in the period of political and economic transformation: sentiments, orientations, expectations. Authors: Ye. Borodin, O. Haniukov, P. Duplenko, et al. — Kyiv, 1998, p. 34.

⁷ V. Pukhlyi. «Now Ukraine has a million unemployed too — and this is not the end!» — Region, February 13, 1999, pp. 12–13.



LABOUR MARKET

Indices dynamics describing Ukraine's labour market are negative. The average job search period as of September, 1998 was nine months, the term of unemployment — 19 months. More than half (58.4%) of the unemployed had no job for over a year. The number of individuals who had no job for more than three years rose dramatically (almost three-fold in 1999).

Labour force demand and supply on the labour market

Year	Demand for employees	Number of candidates per vacancy
1997	35200 persons	10 persons
1998	34800 persons	18 persons
1999	34600 persons	29 persons
2000	50700 persons	24 persons

The gap between the labour force supply and demand is critically large, as the «Derzhkomstat» data presented in the Table makes clear. The situation in the Western Ukrainian regions is especially disturbing: 72 persons compete for each vacancy in the Volyn region, 78 persons — in the Ivano-Frankivsk region, 83 persons in the Ternopil region, 90 persons in the Rivne region, and 102 — in the Lviv region.

For several years, the level of working positions in Ukraine was stable at 30-40 thousand vacancies — inadmissibly low if compared to the millions of unemployed. Last year, the number of vacancies increased, reaching 50.6 thousand as of January 1, 2000. However, over the last three months, enterprise employee demand fell by almost 8000 men as compared to October, 1999. **That the dismissal of hundreds of thousands of employees will accompany the resolute actions of V. Yushchenko's Government aimed at reducing budget expenditures, introducing administrative reform and the bankruptcy of unprofitable enterprises, is not difficult to foresee. The labour market situation will deteriorate further.**

Ukraine is forced to turn into an exporter of qualified labour: scientists,

medics, builders, drivers, agricultural workers, etc. People search for jobs abroad: Russia, the Czech Republic, Poland, Hungary, Italy, Portugal, Israel, the USA⁸.

REASONS FOR AGGRAVATION OF THE SITUATION

Many reasons are the cause for the imbalance between the labour force supply and demand. Among them are the drop in production, enterprise bankruptcies, the breakdown of traditional business contacts, etc. In our view, **one of the main reasons for the sharp unemployment increase was the defeat of the national manufacturer on the internal, domestic market.** Ukraine's shops and markets are filled with imported goods, most of which may be (and until recently, were) manufactured by domestic enterprises, with better quality and at more moderate prices. However, the Ukrainian government's unbalanced customs and tax policy led to a situation where in many domestic market segments the share of foreign goods reaches 90%; meanwhile, the majority of domestic enterprises stand idle, others work at minimum capacity. The 1999 data are significant:

- *the per capita manufacture of meat in Ukraine was 4.5 kg a month, while in 1990, the figure for this index was 80 kg — an 18-fold drop;*
- *the manufacture of domestic footwear managed to supply only 10% of Ukraine's population: there was one pair of shoes for every 4–5 persons, while in 1990, 3–4 pairs were manufactured per capita;*
- *in August, 1999, Ukrainian enterprises produced only 4500 TV sets, 1500 radio sets, 1400 cassette recorders, 15 motorcycles. Those figures are tens and hundreds of times less than ten years earlier⁹.*

Experts of Ukraine's Production Forces Study Council point out other reasons as well conducive to unemployment: the uncontrolled bankruptcy of enterprises that lost the ability to work effectively under market conditions; the serious expansion of the «shadow» economy; the population's low professional and territorial mobility; subconscious hopes for the restoration of full employment by the state¹⁰.



⁸ According to experts, the decrease in the registered unemployment level in the Ivano-Frankivsk region in 1999 (by 1%) may be explained by increased emigration of the labour force out of the region.

⁹ Estimates on the basis of express-information of the State Committee of Ukraine for Statistics «Manufacturing of basic industrial products by months, 1997, 1998 and 1999», September 9, 1999.

¹⁰ V. Pukhlyi..., p. 13.

POSSIBLE STEPS WITHIN THE CONTEXT OF INTERNATIONAL EXPERIENCE

In our view, more attention should be paid to the analysis of international experience in fighting unemployment, applying approaches acceptable for Ukraine. The following possible steps aimed at providing for the population's higher employment deserve attention.

1. The practice of public and seasonal works should be implemented more actively. Against the background of an economic collapse and skyrocketing unemployment during the period of the «great depression» and after World War II, the US implemented a system of public work. At the initiative of President F. Roosevelt, millions of low cost jobs were created in the areas of highway construction, the planting of parks and public gardens, and the beautification of national preserves, etc.

Public work projects do not require costly hi-tech equipment or extensive training. They may be undertaken using materials available in Ukraine (clay, sand, stone, gravel, nursery plants, seeds) and equipment (trucks, tractors, graders). Unemployed individuals would agree to perform public work even for moderate wages (UAH 70-100). In our opinion, the public work program can be supported by monetary emissions: this will not cause additional inflation, as people will bring the money to the shops rather than the exchange offices. There are reasons for counting on the financial support of international institutions: Western partners will support the Ukrainian government's resolute actions aimed at preventing environmental problems and the simultaneous calming of social tensions. Today, only 3000¹¹ Ukrainians, or 0.25% of the total number of the officially registered unemployed partake in public work.

2. Investment in the economic sector should be encouraged. By taking the Chinese experience as a model, for example, special investment funds should be established in rural areas to finance the development of the processing industry, the production of construction materials, clothes, souvenirs, etc. According to expert estimates, about one-third of the rural population can be employed in those sectors¹².

3. The legislative basis should be improved, particularly the Law of Ukraine «On Furthering the Employment of Graduates of Secondary Schools, Vocational Schools, and Higher Educational Establishments» and legislative acts aimed at maintaining the employment of workers during a change of owners, enterprise privatisation, bankruptcy, a change of profile, etc., should be adopted¹³.

4. A market-oriented system of professional education and retraining of the unemployed population should be provided. Flexible (modular) plans and programs of training in professions in demand on the labour market should be implemented. It is widely known that savings on specialist retraining lead to increased terms of unemployment and, finally, to higher volumes of payable unemployment relief.

5. Small business development should be encouraged to support the creation of new jobs, stimulate the flow of spare labour to different sectors, and mitigate the consequences of a change in production nomenclature at state-owned enterprises.

6. The work of the State Employment Service should be reorganised; it should get the necessary funds, and the information basis for monitoring the external and internal labour markets should be improved¹⁴. The population of the free market countries is better prepared for the tragedy than our compatriots, since in those countries they do not save on employment services. In developed countries, the system of social protection for the unemployed is comprised of two subsystems: one is social insurance, the other, social assistance in the event of unemployment¹⁵. Their legal basis is comprised of relevant laws and agreements within the framework of the nation-wide social partnership systems.

7. **The criteria for assessing the activities of the heads of local power bodies should be reviewed. In our opinion, the basic criteria for regional (district) state administration heads should be (1) the number of new working places created after their appointment; (2) the amount of internal and external investments attracted for regional development over the same period. Managers unable to succeed in those two areas should be replaced, since under present conditions their activity will provoke social tensions in the regions, and distrust in Ukraine's state structures in general.**

The resolution of the problems of unemployment depends on the effective actions of all branches of power aimed at an upsurge in Ukraine's economic sector. Success in this area would prevent mass protests and ensure support for market reforms on the part of the Ukrainian population.

¹¹ «The Labour Market in December, 1999», information Bulletin of the State Committee of Ukraine for Statistics.

¹² O. Yaremenko, N. Komarova. Youth on the labour market: some assessments. The youth of Ukraine: status, problems, and ways. 5th issue — Kyiv, 1996, p. 16.

¹³ Ukraine's rural youth in the period of political and economic transformation ... — pp. 40-41.

¹⁴ In 2000, measures aimed at maintaining the employment of the population are meant to cover 816 thousand people. 530 thousand people will obtain permanent jobs, 147 thousand people will be directed toward public work, 18.6 thousand people — toward seasonal work; 139 thousand people are to undergo professional training (information presented by the Deputy Director of the State Employment Centre V. Kucheruk, DINAU, January 20, 2000). However, the planned figures will not be realized due to a lack of funds and a poor material basis.

¹⁵ On the basis of recommendations of the International Labour Organisation, 1988 Convention No. 168.

MILITARY REFORM IN UKRAINE: expert opinion poll

By: Anatoliy GRYTSENKO,
Leonid POLYAKOV,
Mykola SUNHUROVSKYI

The first issue of the magazine contained an analytical report «Military Reform in Ukraine: the Start, or Another False Start?» It presented an analysis of the current situation in the Armed Forces and other military formations of Ukraine as well as the proposals of the Ukrainian Centre for Economic and Political Studies (UCEPS) regarding the possible directions for reforming Ukraine's Military organisation.

The report was the subject for discussion at a Round Table held in the conference-hall of Kyiv's «Rus» hotel on February 4, 2000. The Round Table attracted more than 100 experts, including People's Deputies of the Verkhovna Rada, Presidential Administration representatives, Government and National Security and Defence Council staff, the Ministry of Economics, the Ministry of Foreign Affairs, all power structures, scientists, practitioners, independent experts representing non-governmental analytical centres, diplomats, foreign representative office employees, and journalists from Ukraine's mass media.

A poll was conducted among the experts during the Round Table where each participant was presented a questionnaire entitled «Problem areas of military reform in Ukraine», allowing them to express their attitude toward proposals made by UCEPS experts.

An analysis of the poll results of 50 experts demonstrated support for the basic UCEPS analytical report provisions on the part of the Round Table participants. Furthermore, some interesting alternative proposals were put forward during the course of the discussion on the directions of reforming the military sector, and the content and terms of specific events. All of these proposals deserve the attention of the State Commission for military reform which UCEPS experts suggest should be formed by Ukraine's President without delay.

The main conclusions reached from the discussion of the analytical report «Military Reform in Ukraine: the Start or Another False Start?» are presented below.

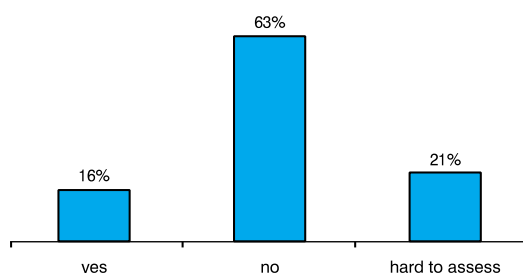


THE NECESSITY FOR MILITARY REFORM IN UKRAINE

From the very start of the meeting it became clear that participants' interest in the Round Table subject made the discussion of the agenda's first item — «Does Ukraine need military reform?» — unnecessary: 100% of those polled gave a positive answer. Round Table participants stressed that this time everything should be done to ensure the success of military reform despite all difficulties, and to avoid another false start. There is no exaggeration in stating that Ukraine's future, to a large extent, depends on the success of the military reform.

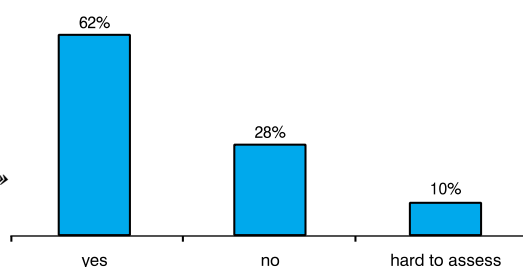
The UCEPS analytical report argues that **the Armed Forces and other military formations of Ukraine are presently unable to defend the nation's sovereignty in the event of a serious military threat. The majority of experts (63% of those polled) agree with this assessment (see Diagram).**

«Military organisation is capable of protecting Ukraine from military threats»



The situation, however, is not hopeless. **The majority of the polled experts (62%) agreed with UCEPS experts that preconditions for successful military reform do exist in Ukraine.**

«There are preconditions for successful implementation of the military exist in Ukraine»

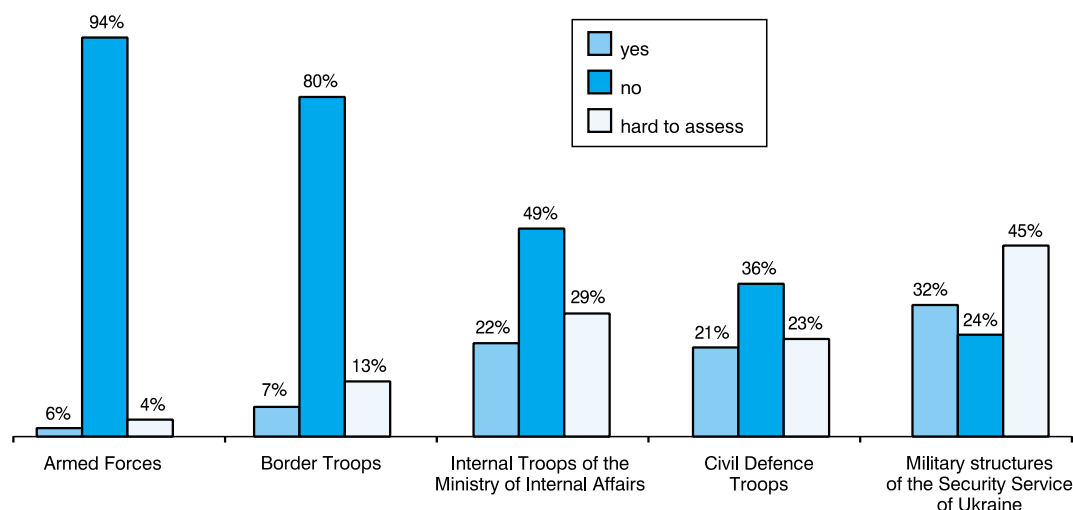


Ukraine's People's Deputies gave assurances that the Verkhovna Rada and specialised parliamentary committees have recently become headed by pragmatic politicians who can provide support for the reform course set by Ukraine's President. **It will not be easy for the military to work with the new leaders because of the latter's responsibility, exacting requirements, economy, and willingness to demand reasonable substantiation for each budget expense item from the military. However, there are reasons to believe that the newly created parliament majority will be able to support military reform in Ukraine more efficiently.**

PROVIDING THE MILITARY ORGANISATION WITH THE NECESSARY RESOURCES

Round Table participants generally assessed the level at which power structures are provided with resources as insufficient. Expert assessments regarding each military formation provisions as presented on the Diagram appear interesting. To a large extent, they coincided with the UCEPS experts' conclusion that «the Security Service and Internal Troops are much better funded, the Armed Forces and Civil Defence Troops are financed at a lower level while the Border Troops get the last drop.» A rather high proportion of experts (23-45%) who found it «hard to assess» the level of funding of power structures assigned with internal functions demonstrates the need for greater transparency of the Ministry of Emergencies' Civil Defence Troops, the Ministry of Internal Affairs' Internal Troops, and the Security Service of Ukraine's military structures.

«Power structures receive adequate resources for performing of their functions»





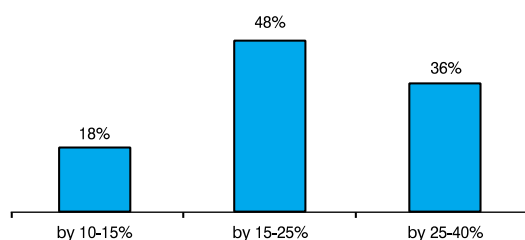
Round Table participants stressed that it would be difficult to discuss reforming the Military organisation without better funding of troops. Some strongly worded statements were made, such as «no one needs the Armed Forces, and they are surviving as guerrillas», «the Ministry of Defence proceeds from the need to keep the potential we used to have, but the State is unable to maintain it», «the military budget gives the implementation of military reform no chances», «no reform without money», etc. The example of Austria was cited where \$1.2 million a year are allocated per unit of military hardware and its personnel, while in Ukraine that figure is only \$31 thousand. A forecast showing Ukraine's inadequate economic potential was mentioned as among the other reasons hampering the implementation of the State Program for the Armed Forces Construction and Development.

The topic of the economic roots of the problem of reform appeared to be popular. Some participants supported the UCEPS position, maintaining that prior to the commencement of military reform state leaders must determine certain critical levels of funding of the power structures. For instance, one of the participants attempted to substantiate Ukraine's minimum defence budget at a level of not less than \$1 billion. NATO representatives also stressed the importance of background data for reform planning: precise data regarding the resources that the state is ready to allocate on reform are needed. Foreign experts expressed the view that Ukraine's national security will primarily be based on economic rather than military security. Ukraine's military scientists see the optimisation of manpower level as the way out, and the reduction and limitation of the tasks of the Armed Forces and other military formations. Where resources are unavailable, manpower should be reduced and the tasks should be adjusted.

NUMERICAL STRENGTH OF THE POWER STRUCTURES

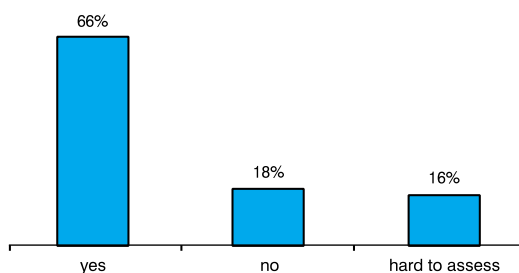
Most participants (66%) agreed with the conclusion of the authors of the analytical report that the numerical strength of Ukraine's Military organisation is excessive (see Diagram).

«Military organisation of Ukraine is overmanned»



None of the Round Table participants cast doubt on the need to reduce the numerical strength of Ukraine's power structures. Only their assessments of the scope of possible reductions were divided as the Diagram below makes clear. More than a third (36%) of those polled supported the quantitative parameters of the Military organisation suggested by UCEPS which provided for the reduction of the power structures' numerical strength by 25–40%. At the same time, nearly one half (48%) of the polled experts support a smaller scope for troop reductions — 15–25%.

It should be noted that if the present Armed Forces reduction rate is preserved (approx. 40 thousand men a year), the Ministry of Defence will achieve the target manpower figure suggested by UCEPS (150–170 thousand military men and 50 thousand civilians in 2005) one year earlier, in 2004. The UCEPS analytical report, therefore, formulated realistic and feasible targets.



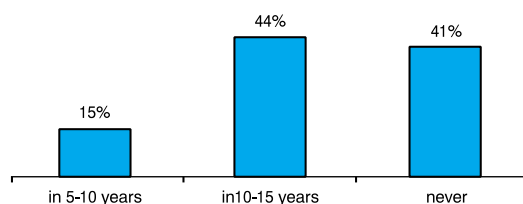
«Personnel of military formations can be reduced»

Discussion of the analytical report demonstrated a general understanding of the fact that the reduction of the Military organisation is not an end in itself, nor the ultimate aim of reform. The principle formulated by UCEPS experts — «during the reform process, the combat efficiency of the power structures must increase or, at least, not decrease» — is shared by both military and civilian experts.

MILITARY REFORM IN UKRAINE: THE EXTERNAL DIMENSION

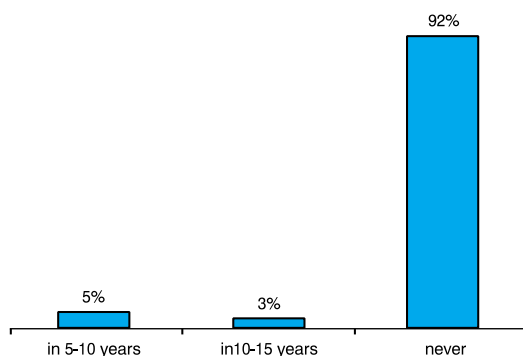
The external aspects of military reform attracted the attention of many Round Table participants. Not everyone agreed with the UCEPS proposal to preserve Ukraine's unaligned status for at least another 10–15 years (this opinion is also supported by 85% of the polled experts, as the Diagram makes clear). At the same time, 15% of those polled consider Ukraine's accession to NATO to be possible within 5–10 years, while the number of experts supporting joining the alliance comes to 59%.

«Ukraine has to join NATO»



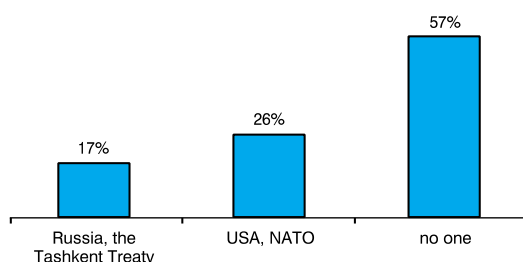
The idea of Ukraine joining the Tashkent Treaty enjoys far less support among the polled experts — only 8%. Instead, the overwhelming majority (92%) sees Ukraine's participation in the CIS collective security system (we expect it to gradually turn into a defensive block) inexpedient even in the more distant future¹.

«Ukraine has to join the Tashkent Treaty»



The thesis of the analytical report's authors, that «Ukraine has no allies; moreover, it doesn't have a single reliable partner» was confirmed by responses to the following statement: In the event of a military threat, Ukraine can rely only on its own forces. Poll results show that this view is shared by 57% of the experts.

«In case of a military threat, Ukraine can rely on military assistance from...»



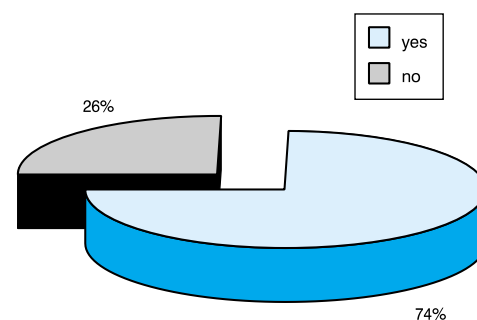
The uncertainty of the priorities of Ukraine's defence (and foreign) policy satisfies neither the authors of the UCEPS analytical report, nor the discussion participants. Reiterated was the urgency of adopting the new Military Doctrine of Ukraine which defines the achievable priorities of the military and military-technical policy, along with the conditions for employing the Armed Forces and other military formations. Participants emphasised the need to raise the impact of the state's leadership on the determination of Ukraine's military and political targets.

Despite the disbelief of the majority of those polled (57%) in the feasibility of military assistance to Ukraine in the event of a threat, the conclusion of UCEPS experts was generally supported: «in the event of an external threat, Ukraine (theoretically) could rely on certain military support on the part of the Russian Federation (17% of those polled) or the USA (26% of polled), depending on the source of the threat».

THE STRENGTHENING OF DEMOCRATIC CIVILIAN CONTROL OVER THE MILITARY SECTOR

The discussion participants shared the UCEPS experts' opinion regarding the need to strengthen democratic civilian control over Ukraine's Military organisation. Statements, such as «the Government and not the military should be held responsible for the absence of reform» were made. 3/4 of those polled supported the UCEPS proposal to appoint a civilian Minister of Defence (see Diagram).

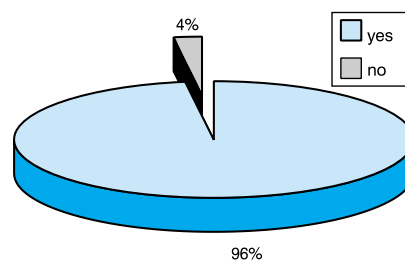
«Defence Minister must be civilian»



¹ During the Round Table discussion, it was repeatedly emphasised that Ukraine fell within the buffer zone between two centres of power, and became the subject of geopolitical bargaining between Russia and the USA.

At the same time, the UCEPS proposal regarding more active involvement on the part of the Chief of the General Staff of Ukraine's Armed Forces in the military and political decision-making process through his introduction into the National Security and Defence Council of Ukraine enjoyed much higher support (96%). Unfortunately, the name of the Chief of the General Staff General V. Shkidchenko was missing from the Decree of the President of Ukraine determining the new personal composition of the NSDC of Ukraine².

«Chief of the General Staff must be a member of the NSDC of Ukraine»

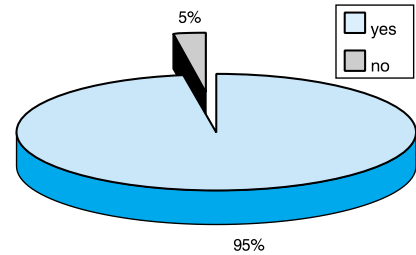


Round Table participants believe that military reform in Ukraine will be successful if there is fruitful co-operation between the Ministry of Defence, other power structures, government agencies, and non-government analytical centres.

Representatives of the General Staff, the General Military Inspectorate, and the NSDC staff pointed out that the Round Table's very organisation, and public discussion of the problems of military construction and publication of detailed information on the status of the power structures prove the military's openness to the public and the expediency of the participation of non-government analytical centre representatives in interdepartmental working groups drafting proposals on military reform.

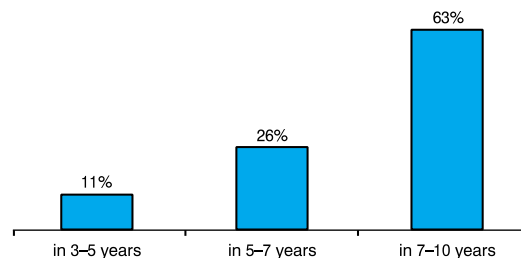
Almost all polled experts (95%) support the UCEPS proposal to issue an annual White Book «Defence Policy of Ukraine» that might become an important link between the military, the Government and society.

«Government must publish the White Book «Defence Policy of Ukraine» annually»



MANNING OF POWER STRUCTURES

Practically all Round Table participants were convinced of the expediency of Ukraine's future transition to the manning of the Armed Forces on a contractual basis. However, there were large differences concerning the period needed to make the transition to a professional armed forces. Representatives of the General Staff defended the position of the military agency (a minimum term of 15 years). One point of interest is that the Round Table participants called into question the General Staff's estimates (*see Diagram*), considering a much earlier transition to a fully professional army to be practical: 63% — in 2007–2010, 26% — in 2005–2007, 11% — in 2003–2005.



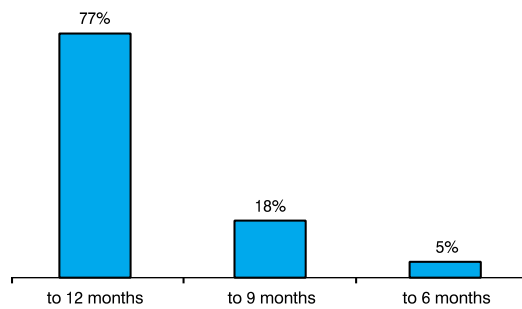
«Ukraine is capable to shift to professional army»

Therefore, the UCEPS proposal on the completion (generally) of the transfer to a professional armed forces in 2005, with the Army remaining a conscript service, may be viewed as a compromise, if one proceeds from the expert polling results.

The UCEPS analytical report suggests a reduction in conscript service to 12 months. This proposal was supported by over 3/4, or 77% of the polled experts. In our opinion, the President of Ukraine could sign a relevant decree as soon as today in order to provide for a transition to a reduced conscript service term beginning next spring.

² The Decree was signed February 2, 2000, or two days before the Round Table. Recent practice shows that NSDC's composition may change, meaning that the possibility of the introduction of the Chief of the General Staff into the NSDC should not be ruled out. UCEPS experts support President Kuchma's decision concerning the introduction of the Border Troops Commander General B. Oleksienko into the NSDC; the analytical report stressed the need for increased attention to this military formation on the part of the head of state.

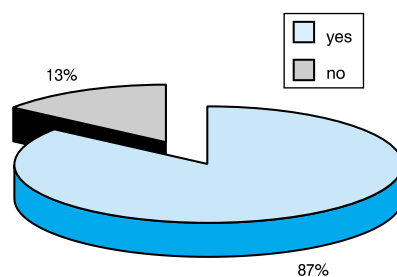
«Service of conscript has to be shortened»



OPTIMISATION OF THE STRUCTURE OF UKRAINE'S MILITARY ORGANISATION

None of the discussion's participants cast doubt on the analytical report's conclusion that the Military organisation of Ukraine is structurally excessive. A representative of the NSDC expressed his opinion that the existence of several state structures performing the same functions does not run contrary to world practice. The experience of the US was noted, where 15 or 23 structures perform similar tasks. This is indeed true, but UCEPS experts think that in the present economic conditions Ukraine cannot afford to maintain excessive parallel structures. The diagrams below show that this idea was shared by more than two-thirds of the polled experts.

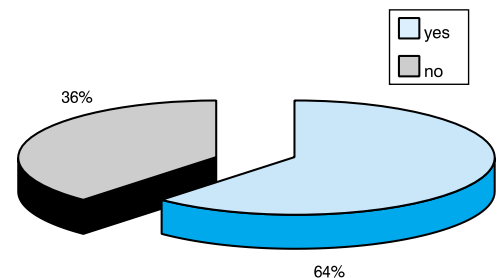
«Air Force and Air Defence Forces are to be united into a single service»



The UCEPS proposal regarding the merger of the Air Force and Air Defence Forces into a single branch of Ukraine's Armed Forces as in almost all other countries, was supported by 87% of those polled. General Staff and MoD representatives did not express their position regarding this step which was so clear to others.

The UCEPS proposal regarding the merger of the two military fleets, the naval units of the Border Troops and the Navy, into the Armed Forces of Ukraine was widely discussed. After the discussion, the majority of the polled experts (64%) supported the UCEPS proposal.

«Navy and the naval units of the Border Troops should be united»



Some participants in the discussion suggested the transfer of the entire Border Troops to the Ministry of Internal Affairs of Ukraine, arguing that such an approach proved to be effective in many European countries.

COMMISSION FOR MILITARY REFORM

The spirit of the discussion, which had been somewhat confrontational in the beginning, gradually became increasingly constructive. Nevertheless, a full consensus was not achieved. In particular, opinions were divided regarding the organisational basis for military reform planning in Ukraine.

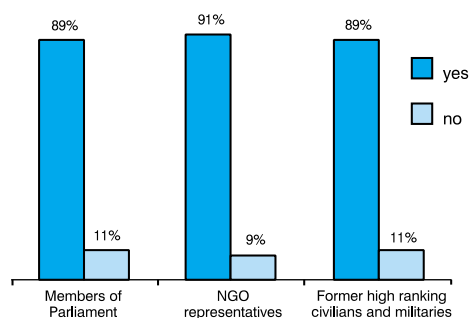
Generals from the NSDC of Ukraine's staff, the General Military Inspectorate, and the General Staff do not believe it is expedient to form a State Commission for Military Reform. In their opinion, it would be sufficient to establish an interdepartmental working group headed by Defence Minister General O. Kuzmuk, and to put forward its proposals concerning the adjustment of the third stage of the State Program of Armed Forces Construction and Development through the year 2005³.

UCEPS experts and the majority of participants in the discussion believe that military reform goes far beyond the competence of each separate military formation. Reforming Ukraine's military sector lies beyond the authority of the Minister of Defence or the Chief of the General Staff. That's why UCEPS experts suggest that the President of Ukraine should immediately form the State Commission for Military Reform.

³ With the participation of the above-mentioned structures (and, evidently, the generals present at the Round Table) such a group has been formed, and a relevant Decree has been signed by the President of Ukraine.

Round Table participants almost unanimously (*see Diagram*) supported the involvement of the People's Deputies of Ukraine, NGO representatives, and former military and civilian leaders in the practical reforming of the Military organisation.

«The Inter-departmental Commission on military reform, among others, must include:»



The results of the expert poll concerning the candidacy for the chairman of the Commission for military reform were somewhat unexpected. Almost half (48%) of those polled were unable to name the person capable of heading such a commission. Some experts think it should be the President of Ukraine — the Supreme Commander-in-Chief of the Armed Forces of Ukraine. Evidently, the desire to shift the burden of the problems of military construction to the top level was decisive. It is our contention, however, that this variant is improbable and unrealistic, given the difficult working schedule of the head of state. UCEPS experts suggest that the chairman of the Commission for military reform should be released from other official duties.

Candidates for the post of Commission Chairman proposed by Round Table participants collected the following number of votes:

Most of the nominees are well known and respected figures. However, it is evident that military men prevail in this list. In our opinion, this is because we polled mainly active or retired cadres. On the other hand, the proposed list of candidates once again confirmed the traditional perception that military problems are to be resolved by the military who know the business better than civilian specialists do. This is just another argument in favour of strengthening democratic civilian control over the military in Ukraine and organising the professional training of civilian experts who deal with defence issues.

The UCEPS analytical report formulated the criteria for the selection of the candidacy for the post of the Chairman of the Commission for military reform. One of the basic conditions is the personal tolerance of President Kuchma with the Commission Chairman and his high level of confidence in relations with the head of state. It is also desirable that the Commission be chaired by a civilian. In our opinion, the Commission on military reform should not be chaired by the head of any of the military formations, as this will not be conducive to solving nationwide problems. It is clear that most candidacies suggested by Round Table participants do not meet those criteria. On the other hand, many experts present on the list could take part in the Commission's work once it is established.

A. Lopata	Colonel-General, former Chief of the General Staff of the Armed Forces of Ukraine	23%
Ye. Marchuk	General of the Army of Ukraine, Secretary of the NSDC of Ukraine	20%
V. Horbulin	Advisor to the President of Ukraine, former Secretary of the NSDC of Ukraine	17%
A. Grytsenko	Colonel, UCEPS President, former Head of the Analytical Service of the NSDC of Ukraine staff	7%
K. Morozov	Colonel-General, Deputy Head of the Ukrainian Mission to NATO, former Minister of Defence of Ukraine	7%
V. Hrechaninov	Major-General, President of the Atlantic Council of Ukraine, former Advisor to the President of Ukraine on military issues	3,7%
O. Kuzmuk	General of the Army of Ukraine, Minister of Defence of Ukraine	3,7%
B. Paton	President, the National Academy of Sciences of Ukraine	3,7%
I. Pustoyi	Lieutenant-General, former Head of the Main Department of Foreign Relations of the Ministry of Defence of Ukraine	3,7%
V. Tiutiunnyk	Major-General, section chief, the NSDC of Ukraine staff	3,7%
V. Sharyi	Major-General, Head of the National Scientific Research Centre for Defence Technologies and Military Security of Ukraine	3,7%
V. Shkidchenko	Colonel-General, Chief of the General Staff of the Armed Forces of Ukraine	3,7%

IMPLEMENTATION OF REFORM PLANS

The most acute disputes and differences were observed in the course of discussion of concrete UCEPS proposals regarding the directions of reform, the terms for specific events, and the country's ability to implement them. The most critical views were expressed by MoD representatives who were not willing to speak about the beginning of nation-wide military reform, but rather about the adjustment of the existing State Program of Armed Forces Construction and Development. Meanwhile, some participants from among former military men stressed that, until recently, there had not been reforms but rather, unsuccessful attempts at reforming; emphasising the negative and excessively strong influence of subjective factors (frequent changes in MoD leadership, ungrounded and unjustified decisions) on armed forces construction.

Many important issues were touched upon during the discussion; proposals were made that were not properly examined in the UCEPS analytical report, but deserve attention and every bit of support. Among them were proposals regarding the establishment of the institution of chaplains in Ukraine's military formations, better military-patriotic education of the youth, the institution of the system of socio-psychological monitoring in the Armed Forces, a more active implementation of the experience of local military conflicts, etc.

When discussing foreign partners that could render practical assistance to Ukraine in implementing military reform, most Round Table participants (78%) named the USA and NATO (see Diagram). The Head of the NATO Liaison Office in Ukraine Mrs. S. Pond, present at the Round Table, affirmed the Alliance's interest in the consolidation of a democratic, sovereign Ukraine, and its readiness to render all possible assistance in military reform.

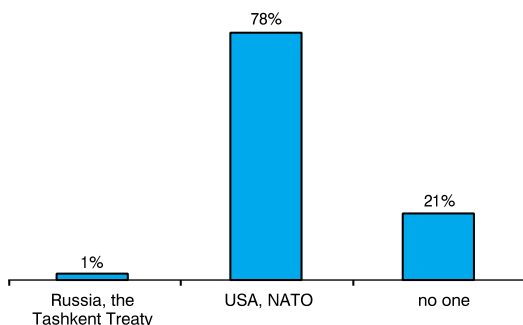
A similarly favourable position for Ukraine on the part of Western partners was reaffirmed during two high delegation visits to UCEPS headed by Christopher Donnelly, special advisor to NATO's Secretary General, and Dr. William Perry, the former US Secretary of Defence, respectively made on February 13 and 14 of this year. Our partners point to Ukraine's readiness to go beyond mere declarations, and to actively reform the defence sector in accordance with the new realities as a background precondition for co-operation with Ukraine in the military sphere.

CONCLUSIONS

The results of the discussion of the UCEPS analytical report «Military Reform in Ukraine: Start, or Another False Start?» during the Round Table may be generally assumed a success. The subject of military reform in Ukraine, previously closed to broad public discussion, attracted the attention of national and foreign mass media: the work of the Round Table was covered by 18 publications, several news agencies, TV and radio stations.

The discussion of the analytical report that involved Ukrainian and foreign experts showed that the assessments and proposals presented by UCEPS experts were well grounded, realistic, and deserving the attention of Government officials. The questioning of Round Table participants proved that the majority of those polled had high praise for the depth of the analysis and the practical character of the proposals contained in the report. Clearly, some proposals need more detailed analysis, and their implementation will require proper funding, the amendment of applicable laws, etc. They cannot be rejected on the basis that they differ from the proposals of some military leaders; they should be considered and implemented. **The lack of funds should not hinder military reform; on the contrary, severe fund limitation is one of the basic reasons for forcing the Government of Ukraine into immediately reforming the costly and inefficient Armed Forces.** As far as the stages and terms for specific events are concerned, the balance of plans and programs should be based on the availability of resources. Unfortunately, this was not done during the development of the present programs for the construction and development of

«In reforming the military structures, Ukraine can expect the assistance from...»



power structures, otherwise their costs would not exceed the amount of budget funding.

The exchange of views between military and civilian experts made it possible to get a better idea of the reasons that hindered previous attempts to reform the Armed Forces, and verify the figures, estimates and conclusions presented in the UCEPS analytical report. For example, there are reasons for stating that the General Staff Department of the Armed Forces Construction and Development headed by General D. Umanets (mentioned in the analytical report) in 1994-1995 prepared a number of substantiated proposals concerning the liquidation of excessive structures in Ukraine's Armed Forces, and reform of the central staff of the MoD; their realisation could create a noticeable positive result. Unfortunately, some proposals were rejected by the leadership in place at the time. The Department also managed to reject many costly projects prepared without proper co-ordination at the national level. The discussion with the Round Table participants

produced new arguments confirming the practicality of merging the Navy and the naval units of the Border Troops, the expediency of decommissioning the cruiser whose maintenance is extremely expensive, the possibility of reducing conscript service to 12 months beginning with next spring's call-up, etc.

Despite the fears held by some guests that civilians and the military will go their separate ways after the Round-Table in any case, there are reasons for stating that we will manage to find common ground for the sake of the future of the Ukrainian Armed Forces, and a stable, strong and democratic Ukraine.

The Ukrainian Centre for Economic and Political Studies has demonstrated its readiness to discuss acute problems publicly, consider different views, as well as its desire to actively participate in solving practical tasks after the formation of the State Commission on military reform. UCEPS intends to continue the practice of holding similar Round Tables for purposes of discussing military issues.





SOCIAL ASPECTS OF ARMED FORCES REFORM: the spirit of Ukrainian officers

By Oleksandr RAZUMTSEV

An important element in reforming Ukraine's Armed Forces is the spirit of their elite — the officers' corps. Officers account for a relatively small share of Ukraine's Armed Forces (28%); nevertheless, it is clear that their role in reforming the Armed Forces is decisive.

The critical situation in Ukraine's economy adversely affected its entire society, but officers suffer some specific material and moral damages conditioned by the specificity of military service¹. The recent Verkhovna Rada decision² to reduce their benefits will further deteriorate the well-being of officers

The officers' spirit may be characterised by three main features: their perception of their social status, social mood, and the ethical aspects of their professional activities. This article will analyse each of these features. On this basis, we will assess the spirit of the Armed Forces' officers and their possible impact on army reform in Ukraine.

1. OFFICERS' PERCEPTION OF THEIR SOCIAL STATUS

This feature is formed under the influence of two factors: the officers' own assessment of their profession's social status, and society's assessment of military service. Those two factors are closely interrelated. Where society appraises the military profession's status highly, the officers' perception of their social status is positive. Where there is lack of attention to the problems of the military on the part of the government and in society, this can only influence the officers' perception of the values of society itself.

Performed sociological studies³ enable us to assess the impact of social, economic and

political processes in society on transformation of Ukrainian officers' value system.

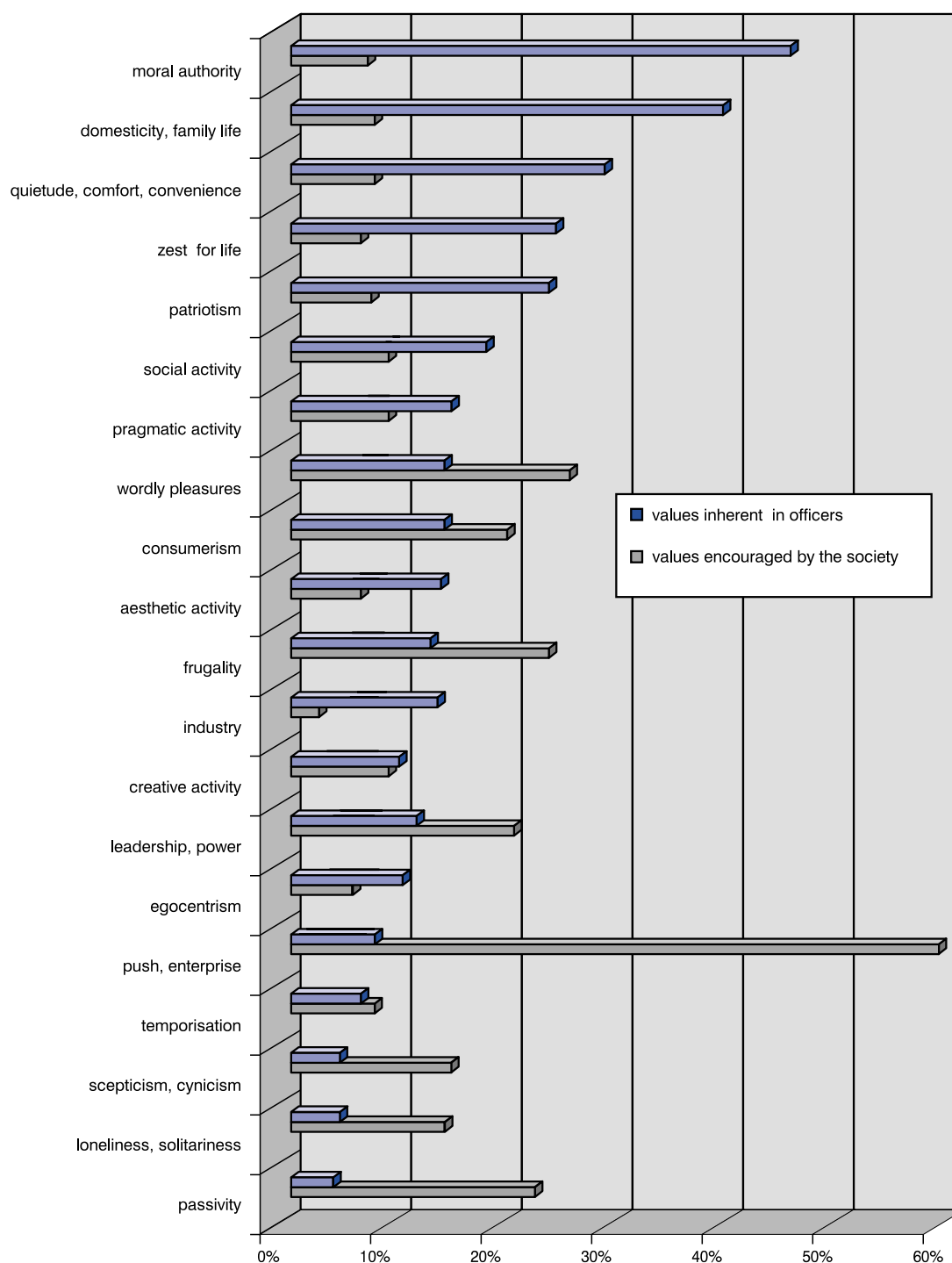
The analysis of the obtained results (*see Diagram*) shows a noticeable *discrepancy* between the values inherent to officers and those held by society (as respondents see them).

Generally, this affects officers' spirit negatively. **Such socially important values as moral authority, family life, quietude, zest for life, social activity and patriotism, are suppressed. Instead, the environment encourages values which are evidently negative: consumerism, passivity, solitude, cynicism and scepticism. The majority of officers suggest (*see Diagram*) that present Ukrainian society encourages, above all, push and enterprise. Public orientation towards leadership and power, frugality and temporisation also remain realistic.**

¹ 25% of officers live in quarters that they own, but in rural area, only 16% of officers have their own apartments. Almost 45% of officers are forced to live in hostel rooms without conveniences, or rent apartments. 7% of officers live separately from their wives and children. Another important problem lies in the absence of jobs for their dependents. As many as 35% of officers' wives cannot find a job, and in some garrisons their share amounts to nearly 52%.

² February 18, 2000.

³ The author studied the problems of military sociology as a doctoral candidate at the National Defence Academy of Ukraine. The polling of different categories of servicemen of the Armed Forces of Ukraine was held under his direction for several years.



Analysis of the poll results shows (*Table 1*), that there are evident differences in the views of officers of different age groups. For younger officers with time-in-service not exceeding five years, family life and zest for life are pri-

orities. More experienced officers prioritise the value of moral authority: this index ranges from 45% (officers with 5–15 years of time-in-service) to 64.3% among officers who served 25 years or more.

The frame of reference for officers of different age groups (% respondents)

Table 1

VALUES	Time-in-service, years				
	up to 5	5 – 15	16 – 20	21 – 25	over 25
Moral authority	30,2	45,1	49,4	46,4	64,3
Domesticity, family life	39,5	38,3	42,9	32,1	7,1
Quietude, comfort, convenience	30,2	31,5	23,4	25,0	14,3
Zest for life	34,9	24,1	18,2	17,9	7,1
Patriotism	9,3	21,6	35,1	28,6	7,1
Social activity	18,6	14,8	23,4	14,3	21,4
Pragmatic activity	11,6	16,7	11,7	14,3	21,4
Worldly pleasures	25,6	15,4	3,9	17,9	0,0
Consumerism	30,2	11,7	11,7	14,3	0,0
Aesthetic activity	20,9	9,9	14,3	14,3	7,1
Frugality	20,9	11,1	11,7	14,3	14,3
Industry	11,6	11,7	13,0	14,3	7,1
Creative activity	16,3	11,1	7,8	14,3	7,1
Leadership, power	16,3	9,9	13,0	7,1	14,3
Egocentrism	20,9	11,7	3,9	3,6	0,0
Push, enterprise	14,0	7,4	5,2	3,6	0,0
Temporisation	7,0	7,4	5,2	7,1	0,0
Scepticism, cynicism	9,3	3,1	3,9	7,1	0,0
Loneliness, solitude	7,0	3,1	3,9	7,1	0,0
Passivity	4,7	4,3	1,3	0,0	0,0

As Table 1 makes clear, family life is an important value, ranked second by officers with time-in-service from 5-25 years. For officers who served 25 years or more, social values (moral authority, social activity) are much more important than personal values (family life, comfort, worldly pleasures, etc.).

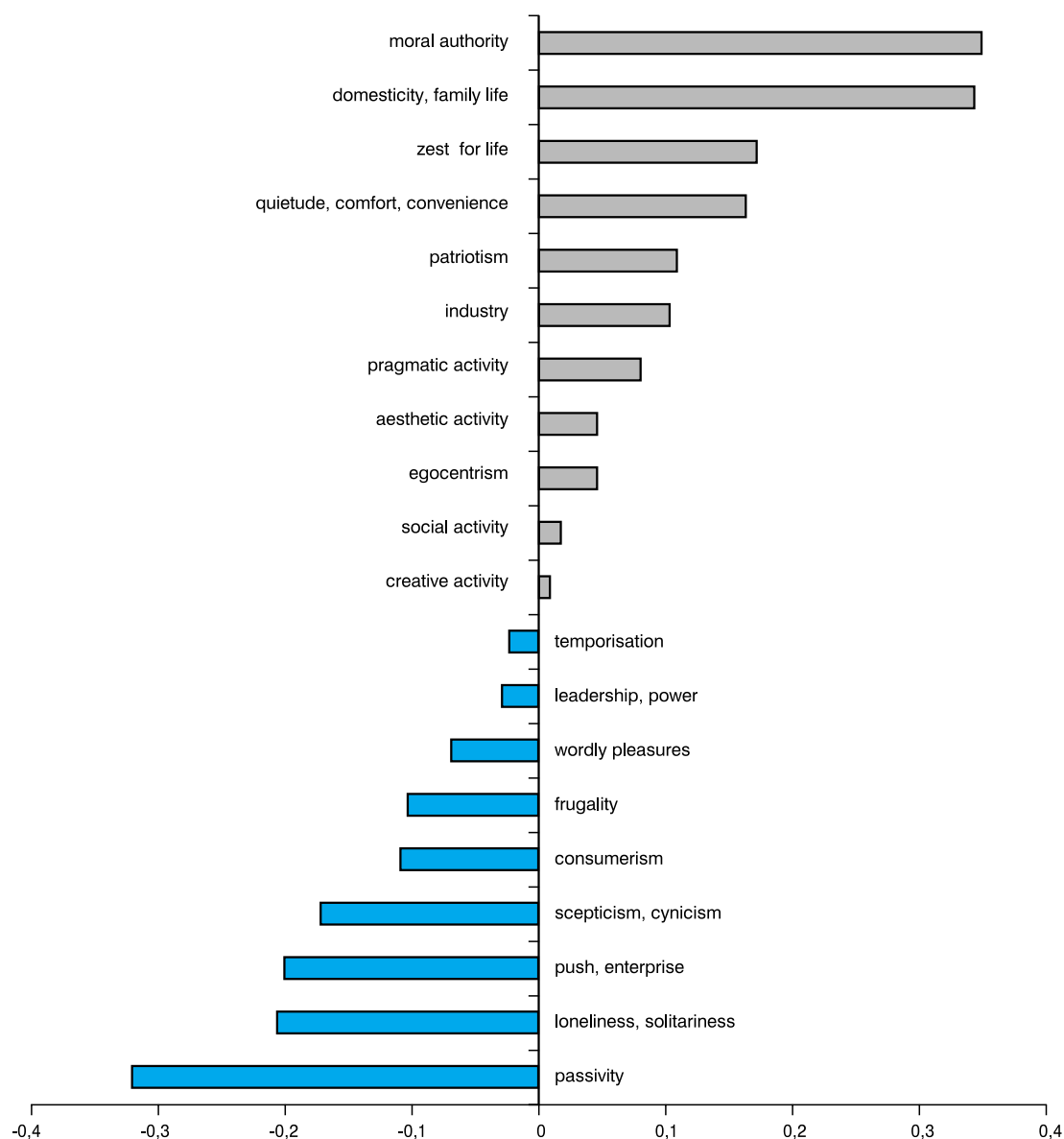
Some poll results were somewhat unexpected, and require comprehensive study. The officers' negative perception of consumerism, temporisation, scepticism, cynicism, and passivity is understandable. However, in our opinion, officers' evidently negative attitude to leadership, power, push and enterprise is unusual. At the same time, *from the point of view that reliable civilian control over the military should be established, the absence of a lust for power among officers seems a positive factor.*

OFFICERS' SUMMARY RATING OF HUMAN VALUES

Officers' assessment of their colleagues is worth noting. When defining their value system, the majority of those polled pointed to family and family life. The second and third steps are occupied by moral authority and push, enterprise (some respondents assume that they are equivalent to cheating). High positions are occupied by worldly pleasures, convenience and comfort, consumerism, and frugality. Therefore, officers assess their environment rather critically.

Based on the obtained data, the following conclusion may be drawn: under present conditions, the transformation of the officers' frame of reference is associated with a more positive perception of frugality, enterprise, and a further decrease in social activity. This factor should be taken into account in military reform planning.

Officers' summary rating of human values

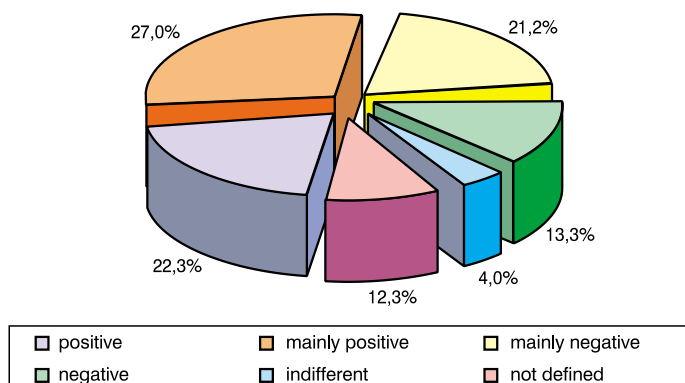


Despite all difficulties, officers stick to their military duty. Sociological studies show that the number of officers who *generally* assess their social status as military servants *positively* has remained stable at around 50% over the last five years (*see Diagram below*).

A positive perception of their social status, shared by 22.3% of those polled, is more characteristic of officers with time-in-service under five years (32.6%), commanding and logistics officers, and less characteristic of officers with time-in-service from 11–15 years.

The officers' assessment of their social status is characterised by a rather critical attitude toward the values of society (the environment), and a generally positive perception of values intrinsic to officers. Therefore, **judging by such a feature as «assessment of their social status», the spirit of officers is somewhat contradictory. Based on its stable but low level (50%), a basis exists to address certain signs of officer aloofness toward the society they serve. At this complex transitional stage, it is becoming increasingly difficult for officers to preserve their intrinsic ideals and values.**

Officers' assessment of their social status as military servants



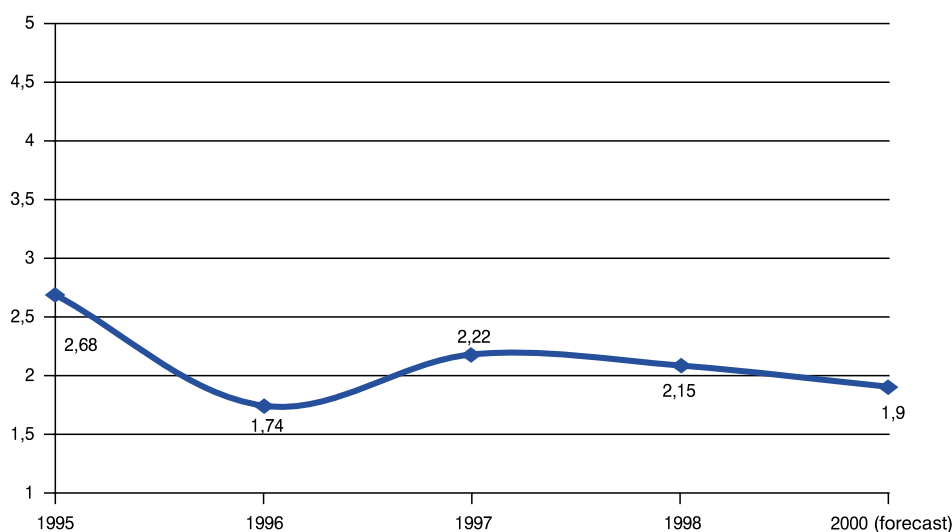
2. OFFICERS' SOCIAL MOOD

Social mood cause people act, and influence their behaviour. The polls show that over the recent years, officers' social mood have been generally negative. As the 5-point diagram scale makes clear, from «1» (apathy, depression) to «5» (elation, enthusiasm), officers' spirit never reached the average «3» mark, and in 1996⁴ fell to an unprecedented low of 1.74.

Officers with more than 25 years of service are characterised by the worst social mood (Table 2), although one group within that cat-

egory feels quite optimistic. The smallest share of apathetic and depressed officers falls on young officers with less than 5 years of service. In this group, and in the group with 5–10 years of service, there are noticeably more officers that feel elated and enthusiastic. However, among officers who served less than 5 years, this sensation seems to be of demographic nature (conditioned by the age-specific perception of the world), while in the group with 5–10 years of service, a polarity in social mood can be observed. This reflects the process of service differentiation, and different periods for life and service.

Dynamics of officers' social mood



⁴ In our opinion, this occurred because of a new wave of reshuffling in the Ministry of Defence and the General Staff leadership.

Officers' social mood, depending on time-in-service
(% respondents)

Table 2

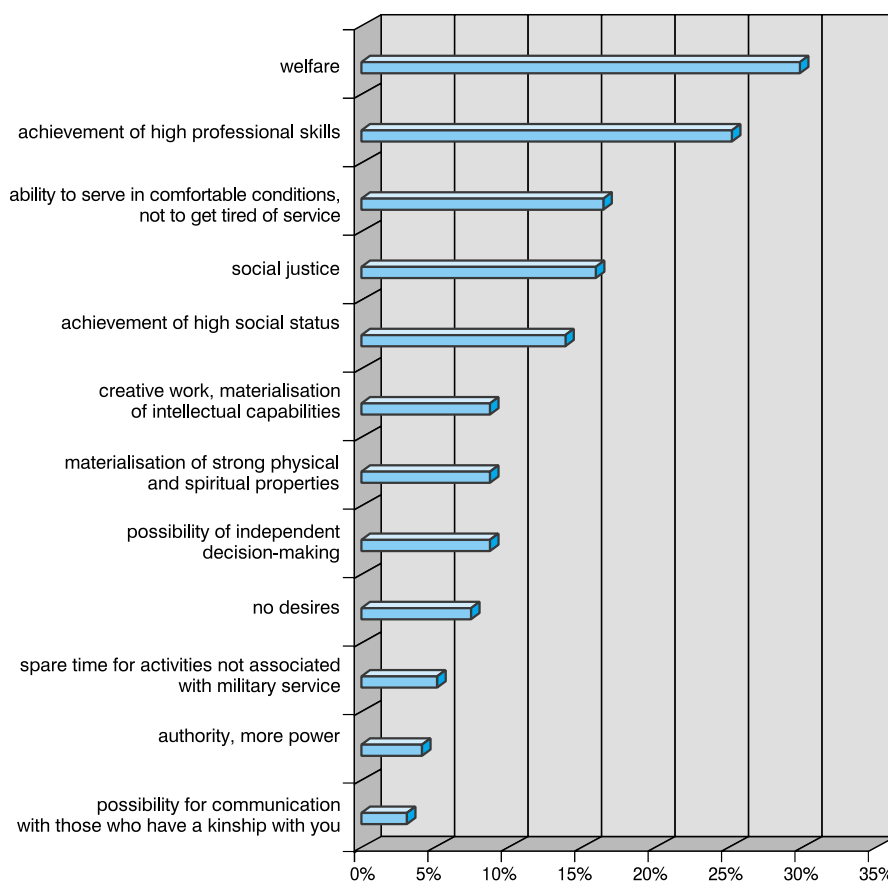
Mood	Time-in-service, years					
	up to 5	5 – 10	11 – 15	16 – 20	21–25	over 25
1 — apathy, depression	19,0	22,3	18,8	26,3	24,2	38,2
2	26,2	38,0	34,9	31,1	35,4	32,4
3	38,1	23,9	35,8	37,1	28,3	17,6
4	14,3	11,4	8,7	4,8	9,1	5,9
5 — elation, enthusiasm	2,4	4,3	1,8	0,6	3,0	5,9

The analysis of the poll results shows that officers from among engineering personnel are the most suppressed. Logistics officers are in much more stable psychological condition. Psychological service officers (probably by habit or tradition) cannot feel depressed, but they can also hardly remain enthusiastic.

3. ETHICAL ASPECTS OF OFFICERS' PROFESSIONAL ACTIVITY

Ukrainian society is undergoing a general transformation of values: from asceticism, abnegation, the prevalence of social values over personal ones, to universally recognised values (an individual, and his or her material and spiritual priorities). The diagram below demonstrates that this tendency did not bypass Ukraine's Armed Forces either.

Officers' rating of professional activity values



The polls demonstrate that almost one-third of officers (29.3%) place welfare in first place in their service. Second position is steadily occupied by the aspiration toward high professional skills. Those two motives may conditionally be united into one block code named «good work for good reward». This is an important precondition for the transfer of the Armed Forces to volunteer service.

As the diagram makes clear, the second (by importance for officers) block is composed of socially-oriented values: aspirations for good service conditions, social justice and high social status. Poll results therefore show the importance of social aspects of reforming Ukraine's Armed Forces.

The next block is comprised of creative professional values of officers' work: the ability to materialise one's intellectual, physical and spiritual properties, and take decisions on one's own.

Fortunately, the absence of any aspirations in the officers' professional activity is at the top of the summary rating (7.3%). As far as the structure of those «entirely passive» officers is concerned, one-third of the above figure (2.9%) expressed a desire to retire from military service, while the rest (4.4%) expressed a desire to continue their service. While the passivity of the first category of officers is understandable, the second category, in our opinion, is nothing more than ballast in the officers' corps of Ukraine's Armed Forces.

Against the general background, the priorities of 22.3% of officers who positively assess their social status as military men (see Section 1) look noticeably different. Their targets better correspond to the interests of the state and society, as they confidently place their desire to achieve a high level of professional skills in first place (43.8%). Welfare is also important for this category of officers, but they pay less attention to this factor (22.7%) when compared to all other categories of officers. Those who respect their social status as servicemen attach great importance to social justice. **Military service for 22.3% of Ukrainian officers is therefore a priority value by itself, but it should be associated with adequate wellbeing; service conditions are less important. This category of officers is sympathetically called «military romantics».**

The transformation of the military profession's value system continues on unevenly with different categories of officers. For young officers, with not more than 5 years of service, the aspiration to a high professional level, and the desire to materialise their physical and spiritual properties are top priorities; characteristic for this category are desires to serve under good conditions, not to become over-tired, and to have spare time for activities not associated with military service. At the same time, the share of those for whom it is difficult to define the military profession's values is nearly double among young officers.

The category of officers with service time of 11-15 years deserves special attention. The share of professionally significant values rises in this category, such as achievement of high professional skills, high social status, the ability to make decisions, etc.

Polls show that a significant number of officers with 16-20 years of service are disillusioned in the military service and were unable to realise their potential. Perhaps for this reason these officers do not aspire to a high social status, nor do they desire to take decisions on their own.

The frame of reference for officers with more than 25 years of service is of special interest. Among them, the share of those who want to achieve high professional skills, a high social status, realise their physical and spiritual properties, and take decisions on their own is much higher. At the same time, among these experienced officers, the share of those who want nothing and intend to retire is nearly four times higher.

Frames of reference for officers in different services are demonstrative. Commanders appraise the ability to take decisions on their own, power, creative work, and the realisation of intellectual abilities. Staff officers pay more attention to social justice. For psychological service officers, it is important to communicate with those who have a kinship with them. As far as logistics officers are concerned, polls consistently show their desire to raise their professional skills and to occupy a proper social position. Least certain are the engineering personnel. Engineers became «less important people», and feel no satisfaction with their service in the armed forces. This category of officers actually became unemployed under conditions of restricted funding of the armed forces and a lack of funds for technical support.



LEVEL OF OFFICERS' SATISFACTION WITH THEIR SERVICE

Nearly 51% of polled officers are unsatisfied with their service, and only 22% give a positive answer to this question; the rest are «undecided». The share of those unsatisfied depends on their term-in-service: it rises from 45% among young officers (under 10 years) to 58% among officers with a «critical» time-in-service of 16–20 years.

Logistics officers are most satisfied with their service (29.6%), while engineering personnel were least satisfied, with only 18.4% giving a positive response to this question. The highest degree of polarisation of positions is among staff officers; the highest share of «undecided» is among commanding officers and psychological service officers. In all, 21.3% of those polled were «undecided».

Least satisfied with their service are platoon leaders and officers of the division (brigade) level, the situation at the company level looks somewhat better. The share of those undecided is highest among platoon leaders. The highest share of those satisfied with their service is among officers of the MoD and services headquarters. The poll results show that views on the difficulty of service at the regimental level are widely spread among officers: at the regimental level, the degree of polarisation between those who positively and negatively assess their service reaches its peak.

OFFICERS' ASSESSMENT OF MILITARY SERVICE PROSPECTS

Confidence in the prospects of military service is a very important factor characterising officers' spirit. Unfortunately, the obtained data show that only 34.9% of officers see certain prospects in their service (although among the 22% of officers satisfied with their service there are many more optimists — 61%). The best prospects are seen for officers with 11–15 years of service comprised primarily of commanding officers and logistics service officers.

47.3% of officers see no prospects for themselves but intend to continue their service for the time being (their share is higher among engineering personnel and instructional officers). The highest share of those who intend to retire before reaching the retirement age is among officers with 16–20 years of service (18.9%), young officers serving under 5 years (11.4%), engineering officers (16.7%) and staff officers (16%). In general, due to a lack of prospects in their service, 12.5% of officers intend to retire (6% of those polled intend to do so in the nearest future, the remaining 6.5% — within a year).

What is disturbing is that only 17% of officers view the prospects of military service positively and would like their children to become professional soldiers; 66% of officers are against their children continuing a military dynasty.



CONCLUSIONS

Officers account for a relatively small share (28%) of the manpower of Ukraine's Armed Forces, but their role in reforming the Armed Forces is decisive. Sociological studies show that officers' spirit can hardly be seen as favourable for military reform.

Over the recent years, the officers' attitude toward their social status has been contradictory, which influenced their value system.

In general, officers stick to their military duty. 50% of those polled assess their social status positively.

Ukrainian officers are open to democratic civilian control over the military sector; the lust for power not being one of their features. At the same time, officers rather critically assess society which is undergoing a painful and lengthy process of transformation. In the officers' opinion, socially significant values, such as moral authority or patriotism, are suppressed today, while negative features (consumerism, passivity, cynicism, scepticism) are encouraged.

The social activity of officers is dropping. At the same time, they view enterprise and frugality more positively than before. These tendencies should be taken into account with respect to military reform planning.

A positive assessment of their social status is more characteristic of young officers who served less than 5 years (32.6%); it is least characteristic of officers serving 11-15 years. Mid-level officers' mostly negative perception of their social status is an alarming signal, as this category is set to come into the command of the Armed Forces soon.

Over the recent years, officers' social mood have been mostly negative. This is especially evident among officers who have served for more than 25 years. Younger officers serving less than 10 years view things more optimistically.

The assessment of the ethical aspects in the officers' professional activity gives reason for both optimism and concern. Almost one-half of officers (47.3%) see no prospects in military service but have no intention of retiring. Officers still have hopes for positive changes, and can, therefore, contribute to the reform of the armed forces. The number of officers with no desires or aspirations in their activities but intend to continue serving in the Armed Forces (so-called «ballast»), fortunately, accounts for only 4.4%.

Nearly one-third of officers (29.3%) place welfare in first place with respect to their service. Second position is occupied by the aspiration for high professional skills. These officers, ready to do «good work for good reward», create good pre-conditions for the Armed Forces' transfer to volunteer service.

Only 17% of officers assess prospects of their service in the Armed Forces positively and also want their children to become professional soldiers. Unfortunately, too many officers (66%) do not want their children to become officers — a disturbing fact.

The recent unpopular decisions of the authorities to cut social guarantees for the military give no reasons for optimism. They will lead to a further decline in officers' spirit, and suppressed personnel are not a good starting point for successful military reform.

In our opinion, an efficient system for monitoring social and psychological processes should be created in the Armed Forces. Enrolment of sociologists and psychologists for the development and implementation of reform of the Armed Forces is on the agenda.