

Shock therapy takes its toll in Ukraine

by Konstantin George

The author spent the better part of July in the city of Lviv, with 1 million inhabitants the main metropolis of western Ukraine. It is safe to say, on the basis of that visit, that the forecast for Russia put forward in June by Lyndon LaRouche—that within 6 to 18 months, there will be an upheaval ending the failed policies of the past several years—also holds true for Ukraine. There are limits to the population's patience in enduring years of unnecessary hardships.

One of the most acute aspects of the Ukrainian crisis is the crisis of infrastructure. This has resulted from decades of disinvestment during the Soviet occupation, which for western Ukraine began in 1945, and the aggravation of the infrastructure crisis to the extreme under the economic dismantling policies imposed through the International Monetary Fund (IMF) since 1991.

In most districts of Lviv, there is running water in apartments for an hour or two very early in the morning, and then again for about two hours in the evening. This acute water crisis did not begin now, but it is worse than ever before.

The water emergency is much worse in other parts of Ukraine. The entire country is always in a public health crisis, deriving mainly from the water shortage. For example, in mid-July, a water and health emergency was declared in Kharkiv, Ukraine's second largest city. Disease-carrying sludge had entered the city's water system, threatening a mass outbreak of cholera and other diseases. The authorities urged up to 1 million inhabitants to leave the city and ride out the emergency in villages. Even when there is no such emergency, water in Ukrainian cities is unsafe for drinking.

During June and July, there was an outbreak of cholera in the south Ukraine region of Mykolaiv, with four deaths reported as of mid-July. By August or September, for the second year in a row, there could be a nationwide cholera epidemic. Diphtheria and other diseases are also spreading.

The energy crisis

In addition to the overall problems with water, hot running water has stopped completely—a manifestation of the nation's acute shortage of energy. In Ukraine, industry and households run on natural gas, for cooking and heating water. The government, to ensure at least the minimum necessary

supply for autumn and winter for heating both factories and households, has strictly rationed the household allocation of gas, providing it only for cooking. Together with this, for the first time, the Ukrainian state gas company, Ukgazprom, began, as of June 15, to cut off gas to household customers who did not pay their bills. On July 7, Ukgazprom reported that it had stopped gas supplies to 20,000 households in the Trans-Carpathian, Ternopil, and Ivano-Frankivsk regions of western Ukraine. These measures will be increasing, as Ukrainians, under conditions of shock therapy austerity, find it more and more difficult to meet utility bills.

On July 6, the Ukrainian State Committee for Oil, Gas, and Related Industries resolved to allocate sums to purchase an additional 17 billion cubic meters of natural gas for desperately needed winter reserves. It was also stated that for winter, Ukrainian refineries must produce 4.9 million tons of heavy oil for heating.

The condition of Ukraine's oil refinery sector provides an interesting, singular insight into what has happened to the nation's physical economy under conditions of IMF shock therapy. According to figures released by the above-mentioned State Committee on June 22, the Ukrainian oil-refining sector was producing at 93% of capacity back in 1990. In 1994, it was producing at 30% of capacity. For the period January-May 1995, it operated at only 24% of capacity, producing a mere 5.6 million tons of refined oil products.

The life or death question of natural gas for Ukraine is linked to the question of what will happen with the Russian gas monopoly, Gazprom, which supplies Ukraine with gas. During the first half of 1995, Ukraine had paid Gazprom \$253 million for gas delivered, but still owed \$385 million, as reported on July 9 by Stepan Yalovcha, chairman of the State Committee for Oil, Gas, and Related Products. Gazprom has been demanding that Ukraine's outstanding payments and future debts be "settled" through a "debt for equity" arrangement, according to which debts would be paid by allowing Gazprom a controlling stake in lucrative Ukrainian energy enterprises, ranging from gas and oil pipelines to oil refineries. This, in turn, is an important sub-theme in the battle over the privatization of Gazprom, and opening up the Russian gas giant to western oligarchic financial interests (see *EIR*, July 7, "Sovereignty Is the Crux of Russia's Political Crisis"). Should the privatization of Gazprom occur, it would open the door to western interests' acquiring a stranglehold over the Ukrainian energy sector as well.

Any further cuts in Ukraine's vital energy sector would mean utter ruination for industry, which has already experienced falls in production surpassing those in Russia during the past three years. In part for reasons of drastic energy rationing, this summer, for the second year in a row, most of Ukraine's industrial plants have been shut down for July and August.

Another indicator of the aggravation of the crisis is that this year, Ukraine's elementary schools closed at the end of

May, rather than at the end of June, meaning a summer vacation of three months rather than two. A key indicator of the increasing impoverishment of the average family, which one will not find in any statistics, is the fact that now, as a rule, schoolchildren are sent off in the summer to the villages, for three full months in many cases, to stay with relatives on the land, so that the parents (or parent, as the case may be), don't have to buy food for the child in city shops. The money is better saved and then spent for the critical winter months. This phenomenon is one example of the resourcefulness which will allow families to somehow get through the coming winter.

'Hot' autumn

The political side of the crisis will become quite hot, starting in September, when Parliament resumes session. On Sept. 1, the next round of heavy increases in rent, water, and utilities prices will take effect, under the IMF austerity policies. It is expected that food prices will rise, on average, about 20% overnight. This comes on top of a year of incredible inflation. For example, a loaf of bread that costs 9-10,000 karbovantsi back in May-June 1994, now costs 38,000. So, for bread, the basic of basics, a fourfold increase in about a year.

In expectation of the drastically heightened social crisis coming, the Parliament on July 6 passed a resolution mandating that 35% of the 1996 budget go for social programs. It should be noted though that Parliament also agreed that the 1996 budget deficit should not exceed 6% of Gross Domestic Product, in conformity with IMF-dictated "guidelines." Nonetheless, major fights between government and Parliament are shaping up, especially on the question of privatization.

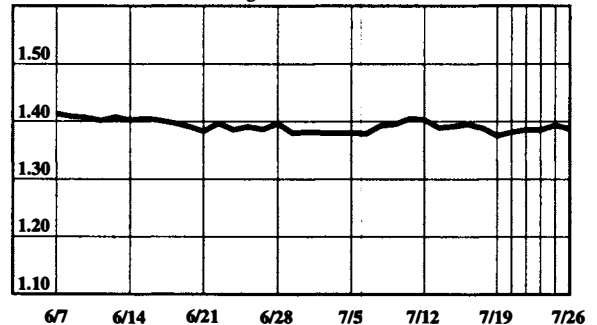
While, under conditions of crisis, changes and reversals in government policies are quite possible in the months ahead, as of now, the regime is committed to an acceleration of privatization. Shortly before Parliament recessed for the summer on July 14, the government's State Property Fund created a commission to begin, for the first time, preparing large industrial plants for privatization. The fund issued a first list of 12 large plants, including mining, coking facilities, machine-building and instrument-making plants, a rolling mill, and a diesel engine plant. Also, just as Parliament was recessing, President Leonid Kuchma issued a decree allowing the private ownership of non-agricultural land, i.e., a private real estate market.

In Ukraine, as in Russia, the matter is not one of government versus Parliament as such. There is a raging intra-institutional policy battle, in all branches of the state. One cannot underestimate the impact to date of the policy ideas put forward by the Schiller Institute, and most strikingly in the June visits of Lyndon LaRouche and Helga Zepp-LaRouche to Moscow, Warsaw, and Kiev. This impact will grow during the critical months ahead.

Currency Rates

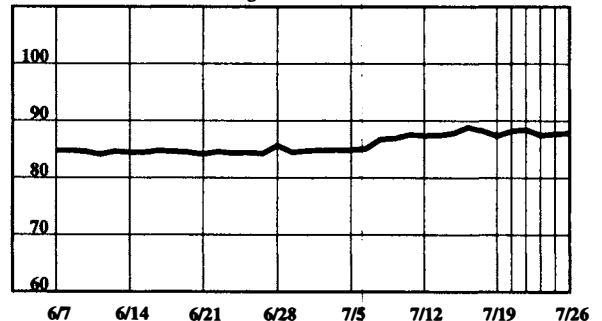
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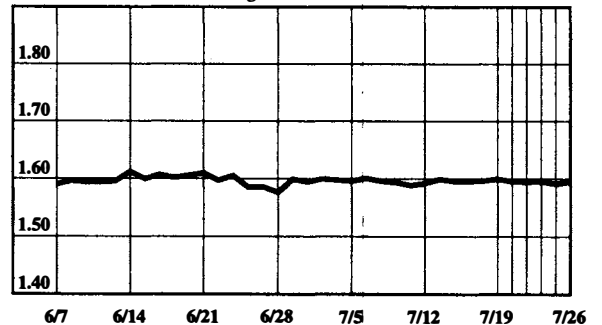
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