

**Under reconstruction! We apologize for the absence of certain materials.****AFTER A HOLIDAY: THE STATE OF THE ACCOUNTS**

27 August 2005

Middle class

**ДЗЕРКАЛО ТИЖНЯ**

ZN started monitoring the attitudes of Ukrainians toward their new government with an acknowledgement of the impressive credit the people gave to it (ZN #9, the article by O. Dmytricheva, "Love on Credit"). The new government, in its turn, had a strong intention to meet its obligations (ZN #10, the article by L. Shanhina, "Interest Paid by the Government on People's Credit: Feelings and Calculations"). Six months have passed since then, and it is time to check our accounts.

A sociological survey conducted by the Razumkov Center between August 5 and 12 testifies that the above-mentioned credit - full support of the government's actions - has declined. The degree of general support of the government's actions (including the support of some of its actions) has declined by 6 to 10 percent. People still have a hope - 34 percent of them believe that it is still too early to assess to what degree the government has met the nation's expectations. However, for the first time since the change of the government, the number of those who believe that the developments in the state are going in the wrong direction exceeds the number of those who find this direction correct.

Comparison of the poll data obtained after the first 100 days of the new government and those obtained six months later makes this change even more visible. We apologize for abundance of figures in this article, but they are worth citing due to the special sensitivity of the issue. We can make three following conclusions based on the obtained data. First, the unity of citizens with their would-be government born by the Maidan, is decreasing. Second, the people have been suffering from an idolization of the government and an excessively optimistic set of expectations. Currently, we are beginning to lose our illusions, which is a healthy thing. The government, in its turn, has been experiencing ecstasy over election and completeness of authority, overestimation of its strength, and aspiration to make everyone happy at once. We do not see symptoms of its recovery as yet.

Third, in both such cases treatment should be given to the people and the government in the form of political opposition, free press, independent courts, independent expert community, and other attributes of civil society and jural society. There is, however, a deficiency of such medicines, and apparently the treatment of both partners does not produce any results. So we appear in the risk zone. Now, let's review everything in order.

**Table 1**

Sphere	Balance of the assessments: the situation has changed		The situation has not changed		Did not answer	
	For better (+)/For worse (-)		April	August	April	August
	April	August				
Economic state	+8	-21	44	30	10	8
Living standards of your family	+4	-22	56	41	3	3
Degree of democracy	+27	+18	35	28	14	14
Degree of freedom of speech	+32	+24	34	27	11	12
Criminal situation	+12	-15	49	42	17	16
International image of Ukraine	+53	+29	19	20	13	18
Civil rights and freedoms	+13	0	44	33	18	21
Adherence to the law by civil servants	+14	-6	47	42	20	19
Pensions	+68	+33	16	20	7	9
Wages	+22	-3	47	35	12	13
Rates and prices	-64	-79	15	9	7	4
Confidence in the future	+6	-36	35	26	17	14
Government's attitude toward its citizens	+22	-6	41	40	16	16
Citizens' attitude toward the government	+21	-15	35	32	16	16
The situation in Ukraine on the whole	+22	-17	31	25	16	15

**Table 2. The Events in Ukraine are developing...**

Region/ Assessment	Запад		Центр		Восток		Юг		Украина, всего	
	April	August	April	August	April	August	April	August	April	August
...in the right direction	76	52	65	41	34	18	47	20	54	32
...in the wrong direction	7	22	14	35	36	55	34	63	23	43

**Two Views of Objective Reality ...**

"We cannot avoid the need of taking into account the objective reality, existing around us."

**Yulia Tymoshenko, August 2004**

After the first 100 days in office, the new government had generally the same views of the "objective reality" as we did. It noticed all-round improvement in every sphere and credited itself with 12 points on a 12-grade scale. People also noted improvement in all spheres except for rates and prices. After six months, however, the views of people and of the government diverge. Unlike the government, which insists that everything or almost everything is improving, people are sure that improvements are very few while deteriorations are many. According to public opinion, there are improvements in provision of pensions (the improved/worsened balance is 33 percent in favor of improvements), the international image of Ukraine, the degree of freedom of speech and democracy.

As for the protection of the rights and freedoms, the opinions split in equal parts: 23% against and 23% for; however, the majority (33%) believe that nothing has changed in this sphere. It looks like some people's rights are protected better than others' rights. The rest of the spheres only worsened. According to public opinion, not only the rates and prices have worsened (the improved/worsened balance is 79% in favor of worsening), but also salaries, family welfare, the criminal situation, the government's attitude toward common people, adherence to the law, and finally the economic situation and general situation in the state.

Perhaps our expectations were indeed too high; perhaps we expected miracle - we were repeatedly reminded of the actual miracle of the time of Yushchenko's short premiership and Tymoshenko's even shorter vice premiership. They indeed worked a miracle in one year: they paid off arrears of pensions by bringing out of the shadow mysterious cash

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### **Digression One: About Statistics**

"The first quarter passed - instead of 250 we created 177 or 180 [thousand workplaces]. 70 thousand [lack] - who failed to fulfill; what responsibility do you bare for it? I would like to hear you speaking professional language, which will reveal the anthology of employment, what we must do to increase the level of employment..."

### **Viktor Yushchenko, 23 June 2005**

The second quarter passed, and about 490,000 workplaces have been created, accounting for almost 98% of the plan. However, the pace of economic development has significantly slowed down, so where did a million workplaces come from? The prime minister explains that the figure of at least 4% of actual GDP growth is the result of the transition to a new system of macro-indices calculation. But we haven't forgotten the words of [the former chief of tax administration] Mykola Azarov about the use of statistics, due to which people learned about the economic miracle in their country last year...

According to the official data, nominal incomes of the population grew by 44% for the period from January to June, the available incomes grew by 44.6%, while real available incomes grew by 26.8%. The last figure was obtained as a result of deduction of the official inflation. Expenses grew by 34%. Average nominal salary grew by 7.7% and made up 823.10 hryvnias. It exceeds minimal cost of living by 81.7%. Given the officially stated inflation of 6.4% for this period, the IMF mission has estimated inflation at the level of 15%. While the infuriated part of people, especially found of the new government, were protecting it from a representative of the old one, Volodymyr Lytvyn---who repeated this figure---quite new representative A. Morozov, the now board chairman of Oshchadbank, gave his version: 12 - 13%.

And now: on July 1, minimal wages were increased to 310 hryvnias and they will be increased to 332 hryvnias on September 1; salaries of the state employees grew by 6.9% and there will be a 15% increase in salaries of teachers and doctors beginning September 1. Does this make any sense?

It does not for anyone receiving minimum wages or two average nominal wages, because inflation is probably raging much stronger in places where people face higher prices for food products and more monopolistic rates and prices than the IMF and the head of Oshchadbank can ever imagine... By the way, in July, when inflation made up precisely 0.3% according to the official information, the Economics Ministry recorded a significant price rise in the food market. This is what we call macroeconomic culture.

### **Returning to "Objective Reality"**

"Government and its associates have little understanding of what is going on in the sphere of common people; it got used to working at a macro level.

That is why our objective is to get to a micro level. And we will do this."

### **Yulia Tymoshenko, August 2004.**

"If I learn that at least one teacher in a district did not receive a salary, while the chairman of a district state administration received one, I'll fire him. If you don't have money in the budget, take golden teeth out of your mouth. Tighten you belts!"

### **Petro Oliynyk, head of Lviv Oblast State Administration, August 2005**

As for the September salary increase to teachers and doctors, Vice Prime Minister for Humanitarian Issues M. Tomenko said that there will be re-calculation in September and "there are no obstacles for paying first increased salaries in October." Taught by Azarov, we read: there are obstacles, but there is no money. Where would this money come from if the economic growth is slowing down, while yearly privatization (or re-privatization) targets are met by less than 10%. The State Property Fund (SPF) transferred only 648 million hryvnias to the state budget instead of the targeted 7 billion. During the first six months of this year, direct foreign investments into the Ukrainian economy decreased by 14.4% as compared to the same period of the previous year. There are not so many external loans either, although in September one may receive the US\$600 million promised for food in the direct sense of the word.

While waiting, one can resort to a simple method of salary increase that was tried by the previous government: to increase salaries to certain low-income groups of people at the cost of other similar groups. If someone's salary is increased it means that arrears of wages for someone else are also increased: for seven months of this year arrears of wages have increased by 24%.

There is another method: for example, there is an instruction to increase salaries to doctors at the cost of internal resources. That is why those who have modest bonuses will be deprived of them, and instead will receive salaries for the same amount. Those who did not have bonuses but had additional wages may lose them. It is not a secret that working for two wages helps doctors and teachers survive. Now it will not. So it is obvious that despite the "hyper-social" budget, powerful social payments and equally powerful rhetoric of the new government, Ukrainians did not notice any improvement in their living standards. February and August polls about living standards of Ukrainian families produced identical results: 18% of Ukrainians barely make both ends meet, 43% had enough money only for food and inexpressive essential goods, 33% had enough money for living but could not buy any long-use products, 5% consider themselves to be well-to-do but have no apartment or car.

This country and its citizens do not need a "hyper social" budget; what they need is "hyper social" economics, or in other words socially oriented economics. "The social orientation" of the state does not consist in a "hyper social" budget; it consists in the formation of a socially oriented economy, high price of human labor, and employment conditions. And state budget is, as a rule, bigger under the socially oriented economy and reasonably designed regulatory and taxations systems.

Accidentally, the results of the August poll reveal that the percentage of Ukrainians who, in terms of living standards, can allow themselves everything has grown by 0.1%.

### **About a System and Personal Modesty**

"Those sons, those youngsters aged 16 - 17 run organizations with dozen million dollar turnovers!

... I assure you that, cousins five times removed will fill out [tax] declarations, starting with the new president..."

### **Viktor Yushchenko, February 2005**

We will not see the president's tax declaration earlier than April 1, 2006. Why so? And why is this question so important? Why did Ukrainians and, in the first place journalists, start examining so closely the faces of the new government, including the private and not-so-private lives? Notorious Kuchma left a terrible system of government and economics. This system was created and established under his leadership. The new president pointed out in his holiday message to the people that "An old system often mills people faster than they change her." We cannot but agree with this, but the president must also agree that his primary objective as head of state is to change this old system. Or at least to try to. That is why personalities are important for us. They will determine the kind of system they will create (or change). Hence, the increased interest in the correspondence of their words and behavior, interest in small details...

Do the words of the new government correspond to the actions, according to public opinion? Here are only three examples: We were promised separation of business and government. In April, 51% of those polled believed that the government adhered more or less to this principle, while in August, only 34% believed this. 36% were convinced of the opposed, but now their number has grown to 55%. We were promised a fierce fight against corruption. Yet only one tenth of those polled are convinced that "much is done toward this goal." The overwhelming majority (81%) believe that not enough is done (52%) or nothing or almost nothing is done (29%) toward this goal. We were promised the revision of privatization deals for the sake of re-establishing legality and social justice. 76% of Ukrainians are sure that privatization deals took place in violation of the law, 78% believe that the deals must be revised, and 71% consider that some of the enterprises must be returned to state ownership. Yet every fifth person polled believes that the intentions of the new government were prompted by the wish to give those enterprises to the businessmen close to the new government, but not by the wish to reinstate justice. Meanwhile, ever tenth person believes that this was done in order to increase popularity of the government.

Even during the February euphoria, a little more than a half of Ukrainians (55%) were sure that the actions of President Yushchenko were aimed first of all at the protection of the national interests, and almost one third of them (32%) believed that they were aimed at the protection of his personal interests and the interests of his political milieu. In May, however, only 43% of those polled believed that the new government protects common people's interests (23%) and the national interests (20%). Some 40% were convinced that it protects its own interests (24%) or the interests of the businesses supporting it (8%), or of the pro-governmental political parties (6%). Under such circumstanced the personalities of the new government must not give a single cause for questioning their honesty and openness.

In fact, citizens and the new governmental team have different ideas of the qualities that a government representative must have in the first place. Patriotism, decency (honesty, morality), and professionalism are popular with the personalities of the new government exactly in this succession. Showy piety is becoming the index of decency (honest, morality). When it is necessary to prove that a person is honest, they say "he is a very pious person..."

The citizens, however, have somewhat different ideas. Of all the qualities required of the government representatives, professionalism is rated first (69% of the polled), honesty (incorruptness) is second (66%), and responsibility is third (45%). Patriotism was mentioned by 13% of the polled (and rated seventh of nine) and piety 4% (rated ninth). At the

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As for the citizens, their behavior is mostly influenced by their obligations to their relatives (82%), morality (57%), and law (44%). Only 27% of the polled said that religious convictions strongly affect their behavior, while 32% said they did not.

Mr. Kallas, European vice president of the European Commission for the Administrative Reform, Audit and Fight with Corruption, gently recommended to Ukrainian officials that they fill out declarations of their economic interests--- a common practice in the EU and the European Commission. Kallas thinks that it is a necessary measure to reduce conflict of interest for an official of a public administration engaged in business. It may reduce such risk, but does anyone really want this? More money is paid for the risk...

Watching all of this, Ukrainians believe that the government's attitude toward them has worsened. The government stopped noticing them; it is busy with its own business and acts as if it is all by itself. Hence, is the attitude of citizens to the government: 19% of the polled believe that it has improved, 33% that it has worsened, and 32% that there has not been any change in the attitude and people treat the new government the same way as they did the previous one.

### **And Effect: Moving Away from Love...**

"Government will be public and will have success..."

### **Viktor Yushchenko, July 2005**

By the end of the government's first 100 days, 47% of Ukrainians completely supported the actions of the new president, now only 30% support them; 36% supported the actions of the Cabinet, now only 22% support them. We can't say that the firm supporters turned into opponents. In April, 22% did not support the actions of the president, but now 29% do not support them---that is only 7% who turned their backs on him. Obviously, most of his firm supporters joined those who support only some of his measures.

It is remarkable that this significant decrease in the complete support of Yushchenko's actions occurred on his own election field - in the West and Center of Ukraine: it decreased from 85% to 62% (minus 23%) in the West and from 66% to 46% (minus 20%) in the Center. The number of those who do not support the president increased from 10% to 18% in the Center, but it practically did not change in the West (5% and 3% accordingly). In the East and South, the low level of Yushchenko's support has decreased even more from 22% to 14% and from 29% to 15% accordingly. The number of those who do not support him has significantly grown, especially in the East - from 36% to 47% (and from 38% to 46% in the South).

The degree of complete public support of Yulia Tymoshenko changed in a similar way. In April, she was supported by 47% of those polled, but now by 32%. In the West, she was supported by 79% and 64% accordingly (minus 32%) and by 61% and 47% in the Center (minus 14%). Similar to the case of Yushchenko, the number of her opponents did not change in the West (7%) and grew from 7% to 19% (plus 12%) in the Center. In the East, the degree of complete support of Tymoshenko dropped from 25% to 10% (minus 15%) and from 27% to 11% (minus 16%) in the South. The number of her opponents has significantly grown: from 32% to 51% (plus 19%) in the East and from 40% to 51% (plus 11%) in the South.

Of course, if we compare the degree of complete support of the new government with that of the previous government (meaning Leonid Kuchma at the end of six months of his second term and the then Yushchenko Cabinet), the new government will certainly have a lead: in June 2000, only 10% of the polled completely supported Kuchma and 15% the Cabinet.

Never Compare Summing up and drawing away from personae, we would get two outcomes.

First, the comparison between the incumbent and the previous administrations is still in favor of the latter, but that changes gradually. While in April over half of the population (52%) gave preference to the new authorities, now their ranks have trimmed down to 37%. In April, 9% of respondents thought the new administration was worse than the preceding one; now this figure has grown to 21%. The number of those who do not see much difference has remained almost unchanged (29% and 28%, respectively).

The same applies to the Cabinet of Ministers: whereas in April 54% of our compatriots liked Tymoshenko's government more than Yanukovich's, in August only 39% of them do. The number of people who like it less increased from 13% in April to 26% in August; and the share of respondents seeing no difference is fairly constant (21% and 20%, respectively).

Yet there is hope. When asked if the new administration lived up to their expectations, 34% of respondents said it was too early to judge; 14% stated their expectations were met (12%) or even surpassed (2%); another 28% believe the administration fell short of their expectations. And there are 17% of people who had no expectations of the new authorities and, therefore, have not been disappointed. Those can be viewed as a reserve...

The second outcome is more alarming. As evident from the above, the public sentiment about the incumbent administration is predominantly positive, but when it comes to the people's confidence in the country's development strategy, the prospects look much bleaker. In August, for the first time since the change of administration, the respondents convinced that the developments in the country were going in the wrong direction outnumbered those of the opposite opinion.

The overall dynamics are as follows: in February the ratio between the people confident that the country was progressing in the right direction and those with the opposite opinion was 51:24; in April 54:23; in May 43:31; and in August 32:43. The share of ambivalent responses has not changed over this period.

All regions of the country, including Western and Central Ukraine, show disappointment in the latest developments. Whereas in April the number of optimists as regards the country's strategic progress exceeded the number of pessimists (in Eastern Ukraine the difference was within the sampling error), today this tendency is observed only in the West and Center of the country.

### **Middle Class Suffers the Greatest Losses**

No matter what, about 62% of Ukrainians conceive of themselves as middle class (the share varying from 59% in February to 64% in August, with slight fluctuations over the period). About 30% of respondents refer to themselves as lower class. Upper class is so negligently small in numbers (both in reality and in people's self-perception) that it has no statistical value and defies any meaningful analysis.

Middle class in Ukraine is not a way of life; it is a spiritual category. Middle class is about human values, like democracy, respect of fundamental rights and freedoms, rule of law, etc.. Therefore, it was the middle class that inspired the "Orange Revolution," acted as its driving force and, consequently, brought the new administration to power. As stated above, 71% of people who went out to the Maidan in Kyiv and took part in mass rallies all over the country see themselves as belonging to the middle class. They thought the new administration would identify itself with them and expedite (or at least understand) their interests.

It is the middle class whom the new administration should be relying on: it is the most numerous and willing ally... However, the administration has preferred to focus on the poor and the disabled. As a result, it is losing the support of the middle class, without winning any loyalty from the lower, nonetheless... Whereas in April, over a half (51%) of the middle class representatives fully approved of Viktor Yushchenko's activity, in August their share shrank to one third (34%). The percentage of those denying him support increased from 21% in April to 27% in August. A very similar trend is observed with regard to support given by the middle class to Yuliya Tymoshenko: a drop in the number of enthusiasts from 49% (i.e. about a half) in April to 33% (i.e. one third) in August; and even a more dramatic growth in the number of skeptics - from 19% in April to 29% in August.

The administration's placing stakes on the poor and disabled does not seem to pay dividends. Thus, in April about 45% of the people who refer to themselves as lower class fully approved of Viktor Yushchenko's activities, while 25% of them did not. In August, these indicators changed to 32% and 35%, respectively. In the same vein, about 45% of the lower class representatives fully supported Yuliya Tymoshenko in her prime ministerial efforts in April, and only 31% do so now. The number of people disapproving of her activities increased from 22% in April to 36% in August.

Summing up, in April 49% of the middle class representatives believed the country was moving in the right direction; only 36% of them think so now. In April, 29% of the middle class doubted the government's direction was correct; now this group embraces 42% of middle-class respondents. As for the lower class, 43% of its self-identified representatives agreed with the strategic direction taken by the administration in April and 22% do so today; 35% disagreed with it in April and 49% do so today.

The most painful finding of all is that only 30% of the middle class see social prospects for themselves in this country, while 53% expect nothing good of staying here. How many of them - young, educated, intelligent, willing to work hard - will join the legion (five to seven million strong) of economic migrants provided the country's development strategy remains unchanged for another year or two?

By way of reiterating: a social policy reduced to the support of the disabled and poor is ineffective both socially and economically. In political terms, it is doubly ill-advised in the run up to the parliamentary elections, as testified by the future voters' reaction to the government's hyper socially-oriented activities. About 48% of Ukrainians favor the policy of supporting an able-bodied, working population through a substantial raise in the cost of labor (salaries and wages), creation of new jobs, small and middle business development. About 33% of our fellow countrymen and countrywomen believe the government should give priority to supporting the poor and disabled through social benefits, allowances, subsidies, etc. The rest (19%) are undecided. People do not want to beg and be dependent. They are able to take care of their disabled relatives and less fortunate compatriots.

subsidies, etc. The rest (19%) are undecided. People do not want to beg and be dependent. They are able to take care of their disabled relatives and less fortunate compatriots. They want to work... So let us work together to reverse the distressing trends.

***The article uses the data of the surveys conducted in February-August 2005 in all regions of Ukraine. Each survey covered 2000 respondents over 18 years of age, the sampling error being under 2.3%.***

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