Contradictions of the Ruling Class in Ukraine

written by Sean Larson | June 27, 2014

Ukrainian capitalism today is distinguished by the most fortified oligarchy of the post-Soviet states. Politics in Ukraine have been subject to volatile lurches over the last decade, driven by the direct involvement of masses of Ukrainians. Meanwhile, shaping the economic, political, and ideological aspects of society and daily life in Ukraine is a ubiquitous inter-imperialist competition between Russia on the one side and the United States and the European Union on the other. Indeed, the accumulation of capital in this country is constantly conditioned and threatened both by these imperialisms and internal social upheavals. The actions and positions of the ruling class have been and will continue to be staked out upon the terrain delineated by their contradictions.

The following attempts to sketch the contours of the various sections of the ruling class in Ukraine, with an eye toward their fractures, determinations, and the central role of the oligarchy. In characterizing the different fractions of the Ukrainian ruling class, economic, and not political or ideological, determinations are decisive. The actions of the oligarchs are most productively explained through the prism of pure class interests, economic competition, and the political power blocs that derive therefrom, rather than fidelity to any transcendental ideologies of nationalism or democracy. It is hoped that this sketch of the balance of forces can contribute to further analysis of the often chaotic and confusing developments in the post-Maidan Ukraine of today.

Oligarchy

Most of the oligarchs acquired control over large sectors of the Ukrainian economy during the rapid privatizations after the fall of the Soviet Union. A fifth of Ukraine's GDP is controlled by twenty people, and in 2012, the combined henchmen of two oligarchs (Akhmetov and Firtash) constituted a fifth of the elected representatives in the 450-person parliament. Oligarchs are essentially exempt from all taxes on their profits, and the Ukrainian state is frequently bent with surprising pliability to enrich them and deter domestic and foreign challenges to their power. These shared class interests have predominated even through all the maneuvers between rival groups of oligarchs for control of the state apparatus. The interests of the oligarchs have thus formed the horizon of possibility for Ukrainian politics, though their hegemony has been far from uncontested (see below). It is in the industrial sector (metallurgy, chemical industry, natural gas, machine-building, automobile- and ship-building, among others) that the presence of the oligarchs is most prominent, where a few individuals wield not only economic, but political power over entire industries. However, the largest and most powerful oligarchs have branched out into other sectors as well, with assets spanning the service sector, retail, media, and banking. In Ukraine, oligarchy thus represents a unique combination of multiple forms of capital (industrial, financial, commercial) with direct control over the levers of state power.

To exemplify how this plays out, take two key areas of activity of Ukraine's richest man, Rinat Akhmetov: metallurgy and power engineering.[1] In June 2010, Akhmetov prevented a significant expansion of Russian capital in the metallurgical industry by having the recently appointed Prime Minister from his Party of Regions, Mykola Azarov, invalidate the sale of Ukraine's second largest metallurgical plant as an attempt at an illegal takeover. In 2011, Akhmetov's companies acquired from the state 1) leases over companies controlling over 50 percent of energy coal production in Ukraine, 2) controlling stakes in three power plant complexes as part of tenders (ensuring Akhmetov

control of 30 percent of Ukraine's electricity production), and 3) demonstrable preferential treatment (even against state-owned companies) in the purchase of tenders for electricity export to Ukraine's neighbors. This meant that by the end of 2011, Akhmetov had secured himself an integrated production chain, using his own coal as fuel in his own power plants to produce electricity distributed through his own export contracts. This is not to mention that Akhmetov also has significant assets in media, transportation, finance (having recently merged two of his banks), and retail trade, and his group HarvEast is now one of the best positioned to seize large portions of the agricultural market as its privatization begins to accelerate.

Orange Fragments

Given this context, Ukraine is not known for its free market. On the contrary, it is consistently ranked among the bottom rungs on so-called "economic freedom" indicators (155 out of 178 on the 2014 Heritage Index of Economic Freedom).[2] This state of affairs has led to discontent within the ruling elite during Ukraine's post-Soviet history. However, while the (largely industrial) oligarchs have been able to act in concert to institutionally dominate the state, other sections of the ruling class have struggled to maintain a coherent power bloc.

The so-called 'Orange Revolution' of 2004, although involving hundreds of thousands of protestors in the street, has been dubbed the "revolt of the millionaires against the billionaires" largely due to its outcome. This event brought a political alliance to power that was led by a small section of big capital and had its base mainly in small business owners. Although this alliance consisted of diverse tendencies and motivations, they have long been interested in the regulation of economic competition and establishing the 'rule of law' in order to level the economic playing field with the more powerful oligarchs. Even today, the Orange ideology consists primarily in making the exploitation of workers an equal opportunity affair. Many of the more powerful oligarchs feared the liberal reforms promised in the rhetoric of the Orange power bloc which had consolidated against them, not to mention the more populist slogans (e.g. "send the crooks to prison") of one of its leaders, Yulia Tymoshenko. The initial plan of the oligarchs was to have Viktor Yanukovych administer their political affairs as president, but mass protests at an election fraud and material support from Washington brought the Orange leader Viktor Yushchenko to power instead.

The delicate unity of the Orange bloc, along with its economic inferiority, made it weak and unable to sustain itself against the interests of the bigger oligarchs without the added pressure from below. Less than two years after the elections, a split within the Orange bloc and an inability to form a parliamentary coalition paralyzed the state, preventing it from carrying out even minimal economic reforms. In these circumstances, the takeover of Yushchenko's erstwhile oppositional "Our Ukraine" party by sectional oligarchic interests was inevitable, which led to small business shuffling its allegiances within the Orange framework during the parliamentary elections of 2006 toward the more radical pole of the Orange coalition, 'Bloc Yulia Tymoshenko.' Between 2005-2010, the financial sector was also largely behind Tymoshenko's Bloc, including the brothers Buriak (owners of the Brokbiznes Bank, one of Ukraine's largest financial institutions) and Kostyantyn Zhevago, who heads the Finance and Credit Group. Ihor Kolomoyskyi and Henadiy Boholyubov of the Privat Group, who own Ukraine's largest bank, alternately backed different wings of the Orange coalition depending on their needs. In the run-up to the 2010 elections, however, Tymoshenko further undermined the economic backing of her own bloc through zealous populist policies that had particularly negative consequences for small businesses and the banking sector.[3]

The Working Class

All of these capitalists, of course, rely upon the continuous exploitation of the Ukrainian working class. In rough outline, slightly less than a quarter of Ukraine's working population is employed in

the industrial sector, just over half of the workforce is in the service sector (healthcare, education, communications, trade, etc.), and almost a tenth of workers are in public administration, while the official unemployment rate has fluctuated around 8.3 percent over the last decade, peaking during the economic crisis.[4]

In the post-Soviet sphere, the development of independent workers' political and economic organizations faces its own particular difficulties. Such organizations are essentially nonexistent, and representation is instead directly mediated by the state in the form of the trade unions and the parties of the oligarchs. In an increasingly dire economic situation, with months of unpaid wages in some industries, shrinking pensions, and rising unemployment, the willingness of union members to take action is quite low. This is due not only to intimidation tactics by bosses, but also to a lack of confidence in both the efficacy of direct actions and in unions as an institution. Mounting discontent with this situation, in both the east and west of Ukraine, has for the most part been channeled through other ideological institutions. According to an opinion poll from the beginning of 2013,[5] Ukrainians had far less confidence in trade unions as institutions than they did in the Orthodox Church, the Ukrainian media, the courts, and political parties. The opinion predominates that trade unions are relics of the communist era for the purpose of organizing vacations or children's summer camps (functions largely responsible for sustaining union membership) rather than fighting organizations pushing for the interests of workers on the job and in politics. Even the minuscule attempts at rank-and-file activism must contend with the fact that the political influence of the unions is severely limited by their organizational weakness, as well as disunity among the different union federations.[6] Indeed, there is almost no mutual support organized for protest actions among unions, and alliances are merely formalities to satisfy requirements for political representation. In addition, trade unions in Ukraine have faced the same difficulty as their counterparts in Western countries when confronted with organizing the growing informal sector and 'precarious' service jobs.

The Imperialist Contradiction

In its economic, political, and even ideological aspects, the entirety of Ukrainian society is continuously animated by an inter-imperialist rivalry between the United States and the European Union on the one side, and Russia on the other. By means of alternately suppressing and deferring this contradiction, the Ukrainian oligarchy has carefully prevented it from coming to a head, and thereby retained their power.

Before the emergence of the Maidan movement in late 2013 and early 2014, Russia sought to include Ukraine in the Eurasian Customs Union, which was and is an attempt to build an economic bloc capable of competing with the EU, but more powerful because it would have a common military strategy. Not only would it culminate in a powerful geopolitical bloc, but the EU itself would be almost completely reliant upon it for energy and natural resources. The position the Ukrainian oligarchs have taken with regard to the potential customs union has been contradictory, as has been evident throughout the years of negotiations. Ukrainian industry relies upon Russian gas, especially in the chemical sector. Remaining outside the customs union has kept gas prices significantly higher than otherwise, and has contributed to the decline in competitiveness of Ukrainian plants. Russian manipulation of gas prices has significantly increased Ukraine's trade deficit, a fact Russia has attempted to use to force Ukraine to either join the Customs Union or merge Ukraine's gas pipeline controller Naftogaz with the Russian state-owned Gazprom. Whether through access to a newly unprotected market by Russian businesses or the new possibility of unfettered manipulation of the gas supply, the sharp limitations upon Ukraine's economic sovereignty in either case would comprise the economic content of Russian imperialism.

Yet the Western alternative has not only threatened the living standards of ordinary Ukrainians, it

has also posed an economic threat to many oligarchs. Despite their diverging and conflicting interests and fickle maneuvers in the contest over the state apparatus, all oligarchs have held an interest in common: preventing the introduction of regulated and strictly enforced free markets to Ukraine, as this would significantly impact their infrastructure of profit extraction, and open up the Ukrainian market to competition from Western corporations. From the perspective of the oligarchs, political candidates are to be selected and supported insofar as they are politically pliable and present a low risk of change being introduced into the system. The majority of oligarchs backed Yanukovych in the 2010 presidential elections against Tymoshenko precisely because he was considered a weak president (as was Yushchenko, in the last analysis). Affiliating with the West in the form of IMF loans and the EU Association Agreement would to a certain extent begin to reverse this form of oligarchs' direct dominance over the state as Western imperialist interests play an increasingly dominant role in the state and economy.

Thus, *maintaining the balancing act between imperialisms*, precarious and contradictory as it always was, has been the domestic and foreign policy interest driving the oligarchic bloc. Ukraine was hit hard by the economic crisis of 2007-08, with its GDP plummeting by 15 percent in 2009. The crisis dramatically impacted the country's capacity for economic independence, as up to 60 percent of Ukraine's GDP is reliant upon exports. When combined with the growing gas deficit, this situation made ever more urgent a decision on alignment with Russia or the West. Suppressing the imperialist contradiction through illicit protectionism or deferring it through postponing a decision was thus made all the more difficult. In mid-2013, the economic crisis in Ukraine reached its pinnacle,[7] fusing mounting economic and social discontent as they moved toward the surface. Yanukovych's rejection of the EU Association Agreement, the last attempt by the oligarchy to *defer the imperialist contradiction*, proved utterly impotent in the face of a social upheaval whose time had come.

Recomposition and Restructuring

Riding the wave of the Maidan movement, a neoliberal power bloc was brought to power and promptly began betraying that very movement. The new power bloc attempting to consolidate hegemony over the state and society is comprised of three major economic trends: oligarchs increasingly reliant upon Western markets, finance capital domestic and foreign, and small business owners. The first group comes partly from within the industrial oligarchy itself, and is driven toward an association with the West by a combination of the collapsing Russian economy facing stagflation and capital flight, and a need for state stability after growing frustration with Yanukovych's overstepping his role through his personal usage of the state to enrich his family and attempting to enter oligarch territory. Although the westward-looking oligarchs remain to a significant extent dependent upon the Russian market, the undependability of the latter is making the long-delayed shift to the west increasingly unavoidable. Leading members of this group include oligarchs such as Pinchuk and Poroshenko, the latter of whom also had his imports into Russia restricted by Moscow. The second section of the rising new power bloc is finance capital. Today, independent finance capital in Ukraine is comparatively weak. In 2012, the banking sector—consistently described by international financial institutions as one of the weakest in the region—was distinguished by a large share of foreign investors (39 percent) and a comparatively low level of oligarch presence, with only two of the ten largest banks (which in total control 54 percent of the assets in the banking sector) owned by oligarchs (Privat and FUIB). The most powerful oligarch of the finance sector, Kolomoyskyi (whose Privat Bank is Ukraine's largest) has long been politically oppositional toward the ruling industrial oligarchs: he was staunchly in the Orange camp in 2004, and in early March of this year he was enlisted by the provisional Kiev government to be governor of the Dnipropetrovsk region in the East. The third major component of the aspiring power bloc is the class of 'entrepreneurs' and small business owners, in other words, the petty bourgeoisie. In Ukraine, this class has a history of coming out *en masse* against perceived oligarchic abuse of power.[8] Given the

economic heterogeneity of this rising power bloc then, its corresponding ideology is expressed as a motley mixture of 1) *pro-European sentiment* (with demands for both reliable rule-of-law in the economic sphere and political democracy), 2) *nationalism* (consolidating around "our" oligarchs and opposed specifically to the historic colonizer, Russia), and 3) *neo-fascism* (the fascist Svoboda party takes pride in its exclusively middle class funding). The militarization and xenophobia of the fascist component also play an important and increasingly dangerous role in diverting class anger away from the capitalists within this coalition.

These economic and ideological components of the new power bloc find their political articulations in the Ukrainian Democratic Alliance for Reforms (UDAR) party headed by Petro Poroshenko and Vitali Klitschko, the Fatherland party headed by Yulia Tymoshenko and Arseniy Yatsenyuk, and the Svoboda party headed by Oleh Tyahnybok. UDAR and the westward-looking oligarchs backing it occupy the strongest position in this coalition; their interests determine its direction in the last instance. The pro-European nationalism of the Fatherland party serves as an ideological palliative shoring up working and middle class support with anti-corruption rhetoric, but it has also played a political leadership role along with UDAR, despite the inferiority of the economic forces behind Fatherland. Although initially relatively small, the influence of fascism (politically represented by Svoboda and the Right Sector) has grown in proportion to the inability of the new power bloc to consolidate hegemony over a unitary state. This is manifested most strikingly through the increasing reliance of this bloc upon militarized fascist militias and street gangs during the "Anti-Terrorist Operation" to quell rising discontent in eastern Ukraine.

Part of the difficulty this power bloc has had in retaining political power lies not only in its internal contradictions, but also in the nature of the state apparatus itself. The economic interests of the (primarily industrial) oligarchy, dependent as it is on the stability of the Ukrainian social formation, required, on the political level, *simultaneously* a weak state to instrumentalize and upon which to impose its interests, and a strong state with which to protect Ukrainian economic sovereignty and resist the ever-present imperial impositions from both East and West. The state inherited by the new power bloc had undergone a comprehensive centralization and shift to executive dominance under Yanukovych. It was thereby designed for maximum domestic instrumentalization by the powerful oligarchs, a group to which Yanukovych's family itself increasingly aspired. In practice this meant the continued deferral of imperialist impositions: under Yanukovych the size of the Ukrainian armed forces was considerably reduced while the riot police were fortified. This state apparatus was built to stabilize the teeming contradictions of Ukrainian social relations under the hegemony of the existing oligarch bloc and its interests, not the interests that comprise the current Kiev government. This is illustrated by the fact that the provisional government was plagued by inconsistent and undisciplined parliamentary support, with frequent failures to meet vote quotas and lack of motivation due to a blinkered focus on the May elections. But it is seen most apparently in the disintegration of the repressive apparatus that has led the provisional Kiev government to alternate repeated hollow threats to uprisings in the east with the mobilization of fascist militarized elements for spectacular displays of impotent violence, which are not a particularly telling sign of a stable hegemony.

In its attempt to secure this hegemony over the entirety of a unified Ukraine, the new power bloc has relied upon the political and economic supplement of Western imperialism. The intersection of its economic interests with its reliance upon the IMF loans points toward both more stable trade deals with the West as well as the introduction of neoliberal reforms in Ukraine. Although all oligarchs will benefit from the increased access to Western markets (even more of a necessity with Russia's impending economic downturn), there will be a trade-off for some of them (beyond the social disaster of austerity, which the oligarchs are more than willing to tolerate for the sake of profit). In order to make the investment climate more attractive, part of the neoliberal restructuring

of the economy and the legal apparatus will involve combatting the arbitrary practices of the oligarchs used to support and expand their wealth, such as the raiding practices that reached unprecedented levels after Yanukovych took power and which affected medium-sized Ukrainian businesses and foreign businesses alike. This conflict in oligarchic interests marks the Western aspect of the imperialist contradiction that has resulted in the political inertia of many industrial oligarchs. The intensity of this impasse has contributed to the halting and contradictory nature of the re-condensation of the state apparatus since February. However, the crisis in the social formation triggered by the autonomous actions of the Maidan mass movement has resulted in the majority of the oligarchs passively supporting the Western-backed Kiev government initially. What at first appeared to be the likely endurance of the neoliberal power bloc has begun to demand the tenuous participation of more of the larger industrial oligarchs, and will lead to a shift in their own economic activities should the process continue.

The most formidable challenge to the hegemony of the new bloc has been posed by the actions of Russia and mass discontent in eastern Ukraine. Based upon the interests in the Customs Union and the gas supply manipulation outlined above, Russia has attempted to undermine the legitimacy and position of the new Ukrainian authorities on the international stage through internal destabilization, thereby preventing the loss of Ukraine from the de facto Russian sphere of influence, and forcing a resolution to the crisis of Ukrainian society on Moscow's terms. At the moment, this is achieved through cynically emphasizing the legitimacy and independence of the eastern separatists. Should the turmoil in the East continue and gain the upper hand, oligarchs with industrial and political bases there will most likely use the resulting decentralization of the state or federalization to attempt to ward off the regulations of the EU association while keeping access to western markets open by retaining connection to the Ukrainian state. However, none of this should distract from the fact that working Ukrainians in both East and West have compelling reasons of their own not to accept either of the imperialist futures.

Internal Resistance

The Eastern Ukrainian economy has traditionally bankrolled the poorer West of the country, and the manufacturing and coal mining based there comprise 35 percent of Ukraine's exports. Association with the EU will lead to tougher production standards, the decline of Ukrainian coal and metallurgy industries, and loss of jobs in the East of Ukraine, whereas Russia has little need for Ukraine's coal mines. The social inequality already endemic to the oligarchic capitalist system will thus be amplified throughout these regions, regardless of which imperialism wins out. Protest against this inequality, whether targeting the oligarchs or the austerity programs from the West, has struggled to achieve a voice independent of the omnipresent inter-imperialist rivalry. Complete lack of organization makes the discontent of Eastern Ukrainians susceptible to Russian influence and the packaged solution on hand of separatism or federalization, and the discontent has as of yet no independent political expression. At present, the clashes in the East are spiraling Ukraine toward civil war. The very visible presence of fascists on both sides is a symptom of the growing embattlement of the ruling classes at the source of the conflict.

In recent years, many trade unions have been forbidden or had union leaders fired in enterprises belonging to multinational corporations—these are generally more difficult spaces in which to organize. The new trade agreement with the EU would open up Ukraine to a greater role for the multinationals, and thus further weaken the capacity of the working class to organize itself. The relative isolation of Ukrainian unions from practical solidarity with international unions will need to be broken as these multinational firms and their Western political backers begin taking over larger sections of the Ukrainian labor market and determining Ukrainian economic policy. The historically most class-conscious part of the working class and the best positioned politically right now are the miners of the Donbass region. These miners' unions have already shown small signs of political

activity and uneven involvement with the uprisings of the East, and even spoken of a political strike, which has once before (1989) proven to be the key link in the chain that exploded the entire contradictory social formation. Yet the trade unions of the mining industry have had divided allegiances, as Nick Evans points out: “Imperial competition between the U.S. and Europe, and Russia, and splits between the different oligarchic blocs in the Ukraine are reflected in the bureaucracy of the respective sections of the trade union movement.”[9]

Prospects for a socially just resolution to the crisis are bleak. But the germs of genuine resistance persevere. The elements of the Maidan, drawn from all over the country, that fought for democracy and against the deterioration of their living standards, will soon be just as dissatisfied with the IMF-imposed austerity as they were with Yanukovych. Now, though, they have yet another experience of popular uprising that has played a determining role in politics, even if not carried all the way through due to lack of effective left organizations.

A grassroots anti-imperialism opposed to the ruling classes of both East and West is the precondition for the resolution of the imperialist contradiction on the terms of the working class. Crucial to any future unification strategy will be the linking of anti-austerity protests with anti-imperialism, the expansion of the trade union movement to the informal sector, and the creation of popular democratic institutions and eventually independent political parties. Popular struggle on all of these fronts, and their eventual unification, will be required to melt the ideological cement binding the workers of the West to the nationalists of the ruling class and replace it with a class-conscious counter-hegemonic project. The return of Maidan activists to their hometowns, spread all across the country, has laid the infrastructure of a united cross-regional movement in a way that can lead to grassroots protests exceeding the bounds of the narrow ruling-class political oscillations of the last decade. Today, as murderous imperialisms and the onslaught of Ukrainian capitalism rage on, one thing is clear as the dawn: it is the oligarchs of all stripes who are responsible for the misery of the Ukrainian people, and it is the oligarchs who will need to be targeted by workplace actions and political protests if the people of Ukraine are to begin taking their future into their own hands.

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Footnotes

1. Cf. Sławomir Matuszak, The Oligarchic Democracy: The Influence of Business Groups on Ukrainian Politics, (Warsaw: Center for Eastern Studies, 2012), 53-54.
2. Heritage Foundation, 2014 Index of Economic Freedom.
3. Cf. Sławomir Matuszak and Arkadiusz Sarna, From Stabilisation to Stagnation: Viktor Yanukovych’s Reforms, (Warsaw: Center for Eastern Studies, 2013), 21.
4. State Statistics Service of Ukraine.
5. Ukraine-2013: In-Between Elections and Options (assessments), 2013.
6. Cf. “Der lange Marsch zur Modernisierung: Gewerkschaften in der Ukraine,” Dec. 2013.
7. Lyubomyr Shavalyuk, “Systematic Recession: Why Ukraine’s economy and public finance are in a much worse state today compared to 2012,” Ukrainian Week, July 5, 2013.
8. “Mass protests by Ukrainian entrepreneurs against a new tax law,” Nov. 17, 2010.
9. Nick Evans, “Ukraine, Russia and the miners of the Donbass,” Revolutionary Socialism 21, April 16, 2014.