UN report on Eastern Europe and the former USSR

# The 'free market's' social catastrophe

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The collapse of the Soviet Union and the East European regimes at the beginning of this decade was hailed around the world as the triumph of the "free market." The abolition of state-owned property was, it was claimed, about to provide a practical demonstration of the historical superiority of capitalism, and supply the proof that it was the only possible form of economic and social organisation.

Ten years on the results are in. They are documented in a United Nations Development Program report released this week which details that what has taken place is nothing short of a human catastrophe.

The murder of 6 million Jews by the Nazis is rightly described as a Holocaust and regarded as one of the great crimes of the century. But one wonders what words can be used to characterise a process which has led to the premature deaths of some 9.7 million men in the countries of the former Soviet Union and Eastern Europe directly attributable to the introduction of the "free market".

The facts and figures of this disaster leap out from almost every one of the more than 100 pages of this document—economic output cut by more than one half, poverty rates rising more than eight-fold, an escalation in suicides and alcoholism, the return of previously-conquered diseases like tuberculosis and the rapid spread of new ones such as AIDS, the displacement of millions of people and the growth malnutrition among children, coupled with the enrichment of a tiny minority and the takeover of whole areas of the state apparatus by criminal mafias.

In most official publications, the countries of the so-called Commonwealth of Independent States (CIS) and Eastern Europe are described as being in "transition"—the implication being that they are on their way to reaching a situation where privatisation and the "free market" will lead to rising production and living standards. Such descriptions are aimed at concealing what is really taking place.

In the words of the report: "The 'transition' in most of the countries in the former Soviet bloc in Central and Eastern Europe and the CIS is a euphemistic term for what in reality has been a Great Depression. The extent of the collapse in output and the skyrocketing nature of inflation have been historically unprecedented. The consequences for human security have been calamitous. By conservative estimates, over 100 million people have been thrown into poverty, and considerably more hover precariously just above subsistence."

The turn to a market regime was supposed to improve economic efficiency and accelerate economic growth. But it had exactly the opposite effect as "investment collapsed, output and incomes fell sharply and growth rates become negative."

On average, gross domestic product in Central and Eastern Europe in 1997 was nearly 12 percent lower in 1997 than in 1990. But in many countries the situation was much worse. In Latvia and Lithuania, for example, GDP was only 59 percent of the 1990 level. Worse still was the situation in the CIS (including the most populous countries, Russia and the Ukraine) where GDP in 1997 was only 55 percent of the 1990 level.

In some countries, including Kazakstan, Armenia, Georgia, Lithuania and Moldova, the decline in investment has been so great that it has been impossible to maintain even the initial stock of capital.

The precipitous fall in income has been accompanied by a "remarkable increase in inequality in the distribution of income." Before the process of "economic reform" began the distribution of income was relatively egalitarian. "During the transition period, however, income differentials have widened considerably and in a number of countries the degree of inequality ... now approaches that of the most inegalitarian of the developing countries. This is conspicuously the case in the largest country, the Russian Federation, where inequality is now comparable to that in some Latin American countries."

The net result of privatisation has been to "create a small and wealthy capitalist class and a highly polarised society" with a shift in the distribution of income "from labour to capital, as well as a sharp widening of the wage and earning differentials."

Summing up the impact on living standards, the report notes: "The combination of a fall in average incomes and a rise in inequality resulted in a very substantial increase in the incidence of income poverty. Using a poverty line of $4 a day (in 1990 purchasing power parity dollars), the UNDP estimates that poverty in Eastern Europe and the CIS countries increased from 4 percent of the population in 1988 to 32 percent in 1994, or from 13.6 million to 119.2 million. In other words, prior to the transition to a market economy, mass poverty was unknown: all able-bodied people had a job and hence a source of livelihood and an elaborate system of social services ensured that the elderly, the ill and the handicapped were protected from hardship. During the transition, however, the system of social protection became much weaker, unemployment increased and real wages fell. The inevitable consequence was the emergence of widespread poverty and destitution."

The consequences of this income collapse are detailed in a series of statistics. In Moldova, for example, between 1990 and 1996 there was a decline in the per capita consumption of meat of 57 percent, of milk and dairy products 48 percent and of sugar 60 percent.

In Poland, which together with Slovenia are the only countries to have experienced an increase in GDP, a recent study has found that some 60 percent of children suffer from some form of malnutrition, with 10 percent permanently malnourished.

Poor nutrition is a serious problem in countries such as Belarus, the Russian Federation and Ukraine. In Russia, the prevalence of stunting among children under two years, an irreversible condition caused by protein-calorie deficiencies in early childhood, increased from 9.4 percent in 1992 to 15.2 percent in 1994.

The report found that iron deficiency is one of the most common nutritional problems in the region.

"From 1989 to 1994, for example, the number of Russian women suffering from anemia at the end of their pregnancies nearly tripled. In Ukraine, the percentage of pregnant women with anemia rose from about 11 percent in 1990 to about 34 percent in 1995. A survey in Uzbekistan in

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1994 showed that anemia affected about 65 percent of all females between 15 and 50 years of age, 59 percent of all preschool children, 82 percent of toddlers and 75 percent of infants."

One of the most significant effects of the introduction of the market economy is the increase in mortality rates. While the biggest increase has been among middle-aged men, teenage mortality is also on the rise.

Between 1980 and 1995 in Russia, life expectancy for Russian men fell by four years, more than in any other country and today life expectancy for males in the Russian Federation is just 58 years. Birth rates are also falling with the result that "corresponding to their economic collapse, the countries in the region confront a dramatic demographic contraction." By 1995 ten of the so-called "transition" countries experienced a decline in population.

In seeking to quantify the demographic impact of the shift to the market economy, the UNDP report noted the abnormally low proportion of men in the population. Defining as "missing men" the difference between the numbers present in the population if the sex ratios were normal and the number actually present, the study found that there were 5.9 million missing men in the Russian Federation and 2.6 million in the Ukraine. The figure for the CIS was 9.0 million and that for the region as a whole 9.7 million.

"The transition," the report went on to note, "has imposed a heavy cost on the people of the region not only in terms of increased illness, higher mortality and lower life expectancy but also in terms of social breakdown, as reflected in increased alcohol consumption, a dramatic rise in drug addiction and an increase in the suicide rate."

In almost all countries, the suicide rate for men is higher than the average for the European Union. In Hungary it is almost three times as high and in the Russian Federation, Latvia and Lithuania, more than three times greater.

While the reports notes that causes are multiple and complex, they stem in the main from widespread insecurity with the most important factors being: a loss of earnings, increasing economic uncertainty, especially in the period of hyper-inflation, rising unemployment and the loss of purchasing power of pensions and the decline in the coverage of health services. In short, as the report puts it: "The transition to a market economy has literally been lethal for a great many people."

The incidence of disease is on the rise. In Russia the occurrence of tuberculosis doubled between 1993 and 1994 and is reported to have increased in Ukraine and Georgia. The incidence of sexually transmitted diseases has exploded. In Russia, the incidence of syphilis rose from 4 per 100,000 people in 1989 to 172 per 100,000 in 1995. Between 1994 and 1997 HIV infection rates in Eastern Europe rose at least six-fold with a 70-fold increase in some of the worst affected areas.

The problems of drunkenness and drug addiction have become rampant throughout the region. A report prepared in 1997 on Kyrgyzstan declared that "drunkenness and drug addiction are acquiring the proportions of a national tragedy. It is widely recognized that the high incidence of infant and children's illness and death is linked to the alcoholism of the parents. ... The prevalence of drug addiction in the last five years has increased by over 300 percent."

The report noted that "one of the most striking and ominous byproducts of economic collapse during the transition in many countries of the region has been the dramatic rise in crime."

"In sharp contrast to conditions before the transition, people now find themselves deprived of personal safety and security—often at the mercy of organised criminal forces that have arisen on the basis of collusion with corrupt government officials."

Recorded crime saw a substantial increase after 1989. But here the official figures considerably understate the true position. According to one estimate no more than one quarter to one third of crime in the Russian Federation was reported. So-called white collar crime, involved in the export of and transit of goods and other business activities, is on the rise.

In Estonia for example: "Crime has grown more organised and professional; new types of crime have appeared (e.g. credit card fraud) ... As a general trend, criminals seem to be redirecting their interest from violence and assault against property (theft) into the economic sphere, i.e. former 'street criminals' try to continue their illegal activities in business."

In Kyrgyzstan: "The market for criminal services is growing due to hired killings and the racket. In the opinion of experts, the members of different criminal groups are constantly undertaking attempts to penetrate the authorities, including the legislature. Economic, official and general crime in Kyrgyzstan is influencing the course of economic and legal reforms. ... The new economic relations in Kyrgyzstan are leading to new types of crime."

A similar report on Tajikistan pointed out that: "By 1996, organized crime became widespread, with the network of criminals forming a state-within-a-state and seizing certain sectors of the economy. ... Criminals have not only improved their skills, but have graduated from committing theft, forgery and other petty crimes into murderers for hire, hostage-taking and other violent crimes ... (there is) politicisation of crime and criminalisation of politics. ... Dushanbe is the centre of organized crime and corruption."

In summing up the "costs of transition" the UNDP report notes the "dramatic and widespread deterioration of human security. Employment is no longer secure, nor are incomes. The old system of full, guaranteed employment is gone, with no prospect of its return. For many people, income poverty has become a way of life for the foreseeable future. People's place of residence is also no longer stable, with mass migrations occurring within the countries in transition, among them, and to countries outside the region. Regional conflicts and tensions have also augmented the numbers of internally displaced persons and refugees. There has been a tragic breakdown in human security with respect to access to social services and social protection. There is no longer any secure entitlement to a decent education, a healthy life or adequate nutrition. With rising mortality rates and new and potentially devastating epidemics on the horizon, life itself is increasingly at risk."

Confronted with this unprecedented social catastrophe, two responses can be anticipated from the apologists and defenders of the "free market."

There will be those who simply deny that it exists. That response was typified in recent comments by Johannes Linn, the World Bank's vice-president for the region, who declared at a recent conference that "market-oriented reforms, combined with social reforms and institutional strengthening have worked to turn former socialist, centrally planned economies around and can put them on a sustainable path of economic growth and social inclusion."

Another, insidious, argument will be to assert that the blame for the situation lies with the Russian Revolution itself. Such an approach was displayed in a recent article by the *Financial Times* economics columnist Martin Wolf. After drawing attention to the economic collapse across the states of the CIS, he concluded that roots of the problem lie in the "ruthless revolution" of 1917 "intended to create, by force, a selfless human being" and that "Lenin's insane ambition has ended up in its opposite—in a capitalist economy more ruthless, more corrupt and more unequal than anything even he could have imagined."

Such explanations will no doubt satisfy those who have lost all capacity for independent thought.

But they will not pass muster before the more critically minded. They will note that all the economic and social processes now unfolding in the former USSR—falling living standards, declining health services, economic and social insecurity, deepening inequality and social polarisation—are present to one degree or another everywhere and are nothing other than the most concentrated expression of the universal

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consequences of the workings of the capitalist “free market”.

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