World financial crisis bankrupts Eastern Europe: The toll of capitalist restoration

10 November 2008

Massive state bailouts throughout Eastern Europe are rendering a historical verdict on the project of capitalist restoration. Far from following the free market nostrums that declare state intervention to be the primary retarding force of economic life, the region's business oligarchs are turning to the state to protect their immense fortunes.

As the regimes of Eastern Europe collapsed in the years 1989-91, pro-capitalist reformers and their allies in the Stalinist bureaucracies proclaimed a new dawn of democracy and promised that the market economy would lay the basis for prosperity and freedom. But hundreds of millions were instead plunged into destitution, as the nationalized industry created by the October Revolution in Russia and the extension of state-owned industry into post-war Eastern Europe were dismantled. Industries were shut down and sold off to benefit the new elite of multi-millionaire businessmen, drawn largely from the ranks of the Stalinist apparatus.

Highlighting this state of affairs does not imply a nostalgic defense of the repressive, economically autarchic Stalinist regimes which preceded it however. The bureaucracy's usurpation of political power from the working class in the Soviet Union and its proclamation of the theory of "socialism in one country" set the stage for counter-revolutionary policies internationally and within the USSR itself that both isolated the Soviet Union and undermined nationalized industry and economic planning. This culminated in the decision by the bureaucracy, working hand in glove with Western imperialism, to dismantle the nationalized economy in order to safeguard its own privileges and wealth.

The devastation of Russia, if capitalism were restored, had been predicted by Marxist opponents of the Stalinist bureaucracy several decades before the event actually took place. Leon Trotsky, co-leader with Lenin of the October Revolution and founder of the Fourth International after his exile from the USSR by Stalin, wrote in 1929 that a restored Russian capitalism would be "a dependent, semi-colonial capitalism without any prospects. Russia Number 2 would occupy a position somewhere between Russia Number 1 and India. The Soviet system with its nationalized industry and monopoly of foreign trade, in spite of all its contradictions and difficulties, is a protective system for the economic and cultural independence of the country."

This judgment was tragically confirmed by the post-Soviet development of Russia and Eastern Europe.

According to a 1999 report by the United Nations Development Program, gross domestic product (GDP) fell 12 percent in Central and Eastern Europe between 1990 and 1997. In the ex-USSR, 1997 GDP stood at only 55 percent of the 1990 level. As free market "shock therapy" shut down large sections of industry and threw millions out of work, alcoholism, disease and suicide rates exploded.

An article in the *New York Times* (October 25, 2008) noted: "In 2006, overall life expectancy in Russia, at fewer than 67 years, was actually lower than it had been at the end of the 1950s, nearly half a century earlier. For a literate, urbanized society during peacetime, such a monumental public health failure is an extraordinary historical anomaly. Russian life expectancy nowadays is about the same as India's, and life expectancy for Russian men, today barely over 60 years, is lower than for their counterparts in Pakistan."

In the post-Soviet era, Russia has seen three deaths for every two births. Death rates have increased over the levels of 1965 by 50 percent for working-age men and 30 percent for working-age women.

Trotsky's prognosis has also been confirmed in Eastern Europe despite the region's partial economic recovery after the carnage of the 1990s. This recovery in fact rested on financial quicksand—rising prices for oil, natural gas and metals exports and $1.6 trillion in cheap credit from Western banks, often to set up low-wage industries geared to Western European export markets.

The bursting of the debt and commodity bubbles in the West has also devastated Eastern Europe. As Western banks demand repayment, Eastern European oligarchs have responded by further plundering their respective populations.

Russia's oligarchs, for example, are--with the imprimatur of the country's state bank--currently paying off Western banks with Russia's $650 billion currency reserves, amassed from years of oil exports. Of $10 billion dispensed to date out of an announced $200 billion bailout, $6.5 billion has gone to two billionaires. Metals magnate Oleg Deripaska received $4.5 billion to prevent a forced sale of Norilsk Nickel to a bank syndicate led by France's BNP Paribas, and Mikhail Friedman received $2 billion to prevent Deutsche Bank from seizing VimpelCom, a telecommunications company held by Friedman's Alfa Group.

Where raids on public funds do not suffice, the oligarchs resort to other, more direct attacks on the working class. In the Ukrainian Parliament, supporters from the rival camps of President Viktor Yushchenko and Prime Minister (and natural gas tycoon) Yulia Timoshenko united to unanimously pass the social cuts demanded by the International Monetary Fund (IMF) in exchange for a $16.5 billion bailout. Ukraine will freeze the minimum wage and cut social spending as the country enters into recession and faces slumping world demand for steel, a major Ukrainian export.

Hungary received a $25 billion bailout from the IMF, the European Union, and the World Bank. The *Financial Times* noted that the massive size of the loan is designed to "head off market panic before it is allowed to spread to the rest of central and eastern Europe." The newspaper singled out Poland and the Czech Republic as "vulnerable to contagion." Belarus is also negotiating an IMF bailout.

The credit crisis has not only unleashed economic havoc on the region, but has also renewed dangerous competition for political and military influence between the major powers. The crisis arrives mere weeks after the US encouraged Georgia to attack Russian peacekeepers stationed in the breakaway Georgian province of South Ossetia, threatening to trigger a global US-Russian confrontation. Washington then used the Georgian crisis to negotiate further military basing rights in Poland and the Czech Republic.

The Western media insists that Russia, whose economy is almost entirely dependent on oil and whose stock market has fallen 70 percent this year, must accept a weaker role as a result of the global financial crisis and recession. The London-based *Financial Times* writes that, "Russia needs to scale down its geopolitical ambition to its real weight—that of an emerging economy with only 3 percent of the world's gross domestic product and a quarter of America's living standards."

An Eastern European crisis also risks spilling into a confrontation between US and Western European imperialism, many of whose countries opposed US attempts to admit Georgia into NATO. Today, the crisis hits a region dominated by Western European capital: $1.5 trillion of the $1.6 trillion in foreign loans to Eastern Europe comes from Western European banks while the US will doubtless use the IMF bailouts to further its own interests in the region at the expense of its European rivals

Furthermore, the ruling elites of Western Europe are well aware of the precedent set by the Southeast Asian financial crisis and subsequent IMF bailouts of the late 1990s, when the US used the IMF as a stalking horse to increase its economic influence at the expense of Japan.

The economic crisis and the threat of war are having a powerful impact on popular consciousness in the region. Working people in Eastern Europe are beginning to draw a balance sheet of capitalist restoration. Black humor in Russia maintains, speaking of the perverted Stalinist distortion of Marxism and the Soviet bureaucracy's falsifications of history, "Everything we were taught about communism was false, but everything they told us about capitalism was true."

Alex Lantier