Twenty years after the collapse of Stalinism

European politicians stand reality on its head at Vienna gathering

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Just days before the European elections June 7, representatives from politics and business met in Vienna's imperial Hofburg. The celebration marking the 20th anniversary of the fall of the Stalinist regimes in Eastern Europe was the first in a series of events in various European cities.

The slogan for the festivities reads: "Divided-United—1989-2009: A new Europe emerges." The speakers presented the collapse of the Eastern European regimes 20 years ago as a "miracle" and celebrated the introduction of the free market as the "triumph of freedom."

While no serious political contributions can be expected at such events, to say the least, the prominent political figures present—including president of the European Commission, José Manuel Barroso, Austrian President Heinz Fischer and Czech Foreign Minister Karel Schwarzenberg—made speeches which stood political, economic and social reality in Europe on its head.

When the Stalinist bureaucracies collapsed, people were promised democracy, prosperity and a future in a united Europe. Twenty years later, these same countries are gripped by social and political misery.

Increasingly, people in Eastern Europe recognize that the introduction of capitalism was an enormous step backward socially. Instead of freedom and prosperity came unemployment and want. The economic boom in Eastern Europe, which the elite joyfully welcomed, relied on the expropriation of broad social layers, and today has resulted in an unparalleled social decline. Fascist groups are currently trying to channel growing rage in a nationalist and racist direction.

Capitalist restoration went through several stages. Industry and agriculture were privatized or shut down; hundreds of thousands were pushed into unemployment and poverty. At the same time, the "free market reforms" began. In the form of "shock therapy," the social safety net was torn up, and the hyperinflation that followed—reaching three figures in Bulgaria, Romania and Poland—destroyed the savings of the general population.

Western businesses were offered an enormous market for their goods and an army of low-wage workers. They relied on a willing layer at the top of society, which was largely recruited from the former bureaucrats of the Stalinist state "Communist" parties. These types enriched themselves at the cost of the former state-owned property and occupied government office in rotation with right-wing free-market ideologues.

Today, under conditions of the global financial crisis, massive contradictions are emerging openly on the surface. The economic situation in the new European Union (EU) member states has worsened dramatically in the past months, and this decline will continue, something on which experts are agreed.

The seriousness of the situation can be seen in the refinancing needs of the Eastern European states. Together they are sitting on approximately $1,700 billion in foreign debts and have an immediate need for €600 billion. For example, Estonia alone has had to find four-and-a-half times as much as it possesses in currency reserves to refinance its foreign debts this year. With the exception of the Czech Republic, the various foreign debts far exceed the currency reserves in all the Eastern European EU member states.

Romania is the sixth country in the region to take comprehensive emergency credits from the International Monetary Fund to avoid the threat of national bankruptcy. As well as Serbia, Ukraine and Belarus, EU members Hungary and Latvia have also had to rely on IMF funding.

It is well understood in Brussels and by IMF officials that a collapse in any one of these countries could set off a chain reaction that might bring the European economy to the edge of disintegration. Even leading EU states such as Germany, which has profited from the plundering of Eastern Europe for a long time, would face severe difficulties.

Banks active in Eastern Europe face a gloomy picture, according to the IMF. "Foreign banks with affiliates in the Emerging Market countries are being confronted at home with increasing credit write-offs and face difficulty providing capital for their affiliates," the IMF report notes. The recapitalization of the banking subsidiaries in many of these countries is dubbed a "challenge."

According to the IMF, the potential write-offs in Eastern Europe amount to $185 billion. However, since the "capital buffer" amounts to only $83 billion, there is a "potential capital requirement" for the banks of over one hundred billion dollars.

But no one can really say what sums may be needed at present. Careful estimates assume that approximately 30 percent of the credits in Eastern Europe are "rotten." In April, the US Nobel Laureate for economics Paul Krugman said that given the present capital losses in Eastern Europe, Austria could be threatened by "national bankruptcy" because its banks are substantially committed in Eastern Europe.

After the boom years, the fragile economies of Eastern Europe have faced a rough landing as a result of the worldwide financial crisis. In 2007 and 2008, approximately €130 billion in direct investments flowed into the region—this year only €30 billion is expected.

Social consequences

The decline in investment and the breakdown of industrial production are having devastating consequences for working people. The automobile industry is collapsing in the Czech Republic and Slovakia, where it generates nearly a quarter of the entire GDP. Turnover has collapsed in the Romanian auto industry, which accounts for nearly 10 percent of GDP. The Renault subsidiary Dacia has already sharply reduced production and sacked over 900 agency workers, with thousands of jobs already destroyed in the supply industry.

The Eastern European governments, whether nominally of the "left" or right, are using the crisis to push through even harsher measures against the general population. In Poland, the government has reduced tax rates for the better-off this year, even though this will place an additional burden of at least 8 billion zloty on the budget.

The Hungarian government of Prime Minister Gordon Bajnai has increased VAT (sales tax) from 20 to 25 percent in an attempt to stave off the threat of national bankruptcy, at the same time abolishing the bonuses traditionally paid to public sector workers. His measures above all affect those who already face difficulties as a result of the crisis. The high proportion of personal loans denominated in foreign currencies and the devaluation of the Hungarian forint mean thousands of Hungarians cannot pay back their debts, with many already having lost their homes.

Until now, the IMF, European Union and World Bank have been able to stave off collapse in Eastern Europe—but the general population is paying the bill. The IMF makes its financial transfers dependent upon a strict examination of the state's finances. Romania was told to impose a stringent austerity program containing comprehensive budget cuts. The IMF commentary said the "shocking growth" of wages in the public service had to be reined in, and "complex" pensions legislation simplified. Bucharest understood these signals, and as a result the conservative government has already brought in wage and pension cuts.

Romania was told it should reduce its budget deficit to 3 percent of GDP by 2011. As well as Romania, numerous other "deficit sinners" face action from EU Commissioner Joaquín Almunia, responsible for economic and monetary affairs. The list includes Poland, Lithuania and Latvia.

Increasing hostility to the European Union

Under these conditions, it is no wonder that hostility in the Eastern European states towards the EU and its institutions is more strongly pronounced than in Western Europe. This is expressed in an enormously high abstention rate in European elections.

In 2004, less than 17 percent of voters in Slovakia went to the polls in the European elections, with estimates putting turnout this time at under 10 percent. In Poland, according to polling, barely 13 percent of voters intend to cast their ballots. Other former Eastern bloc countries also face record levels of abstention.

While reality was absent at the Vienna Hofburg in the comments of the various politicians, elsewhere warnings of substantial social tensions are becoming ever louder. The boss of Raiffeisen International Bank Holding, Herbert Stepic, expressly warned recently of "nationalist tendencies" that could exploit the situation.

The justified anger of the general population with the anti-social policies of the national governments and the EU finds no progressive expression within the political establishment. This gap is being filled by extreme right-wing and fascist forces, which have been agitating ever more openly for some months.

Racism and right-wing radicalism

In Hungary, opinion polls give the extreme right-wing Jobbik—Movement for a Better Hungary—some 3 percent of the vote. With the expected low election turnout, the party could pass the 5 percent hurdle and win seats in the European parliament. In the recent past, Jobbik has been able to position itself at the head of protests against the Hungarian Socialist Party government. It is the only party in Hungary discussing social questions, which it mixes with racist demands. The numerous murders of members of the Roma minority are directly linked to the growing influence of this party.

Meanwhile, the party has founded its own trade union in the police—with almost one in ten Hungarian police officers now as members—which also goes some way to explaining why not one of the Roma murder cases has been solved.

In the Czech Republic, the right-wing extremist National Party is seeking to exploit the political crisis. Its election broadcast ominously talks of a "final solution to the Gypsy question." In neighbouring Slovakia, the National Party has been in government with the Social Democrats for years. While it implements draconian austerity measures as a government party, it rails against minorities and demands the country's withdrawal from the EU.

The increasing social contradictions are incompatible with democratic principles. Amnesty International's current annual report documents a clear erosion of freedom of opinion in Bulgaria, the Czech Republic, Hungary, Lithuania and Latvia. Authoritarian parties wait in the wings throughout the region.

Moreover, the rights of minorities such as the Roma are being trampled underfoot in Eastern Europe. Access for Roma to education, housing, employment and health services is so limited in the Czech Republic and Hungary (or is refused entirely) that this takes on aspects of apartheid politics, the Amnesty report notes.

Twenty years after the collapse of Stalinism in Eastern Europe, the unification of Europe under capitalism has failed. The only possibility of overcoming the crisis in a progressive manner is the unification of Europe organized by the working population on a democratic and socialist basis.