Twenty years after capitalism’s return:

Living standards continue steep fall in Eastern Europe

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24 October 2009

In the course of its meeting in Istanbul earlier this month, the World Bank issued a report which indicates the vast decline in living standards which has taken place in the former Soviet Union and Eastern Europe in the wake of the global economic and financial crisis.

Titled the “Global Crisis Hits Home in Emerging Europe and Central Asia”, the report speaks of a “sharp rise in unemployment and poverty” throughout the region.

World Bank Vice-President for Europe and Central Asia, Philippe Le Houérou, said at a press conference in Istanbul: “What started as a financial crisis has become a social and human crisis. The global crisis has come on the heels of the food and fuel crises, which had already weakened people in the region by reducing their purchasing power. Today, rising poverty and joblessness are pushing households into poverty and making things even harder for those already poor.”

The report notes that the “global financial and economic crisis has literally hit home in many parts of Emerging Europe and Central Asia” and predicts a 5.6 percent decline in economic growth for the region in 2009.

The World Bank calculates that unemployment in the region has leapt from 8.3 million in 2008 to 11.4 million in 2009. It has doubled in the Baltic countries, grown by 60 percent in Turkey, and by one-third in other countries in the region.

Indermit Gill, World Bank chief economist for the Europe and Central Asia Region, declared: “Instead of the number of poor falling by 15 million in 2009, we now project poverty to increase by about 15 million.” Gill acknowledged that there were already 145 million poor people in the region—almost one-third of the total population. He noted: “For them, the crisis has made an already tough existence even tougher. Much of the world is getting good economic news this autumn. But for workers and their families in Emerging Europe and Central Asia the news is not encouraging.”

While pointing out the extent of poverty throughout the region, the World Bank’s report and its representatives in Istanbul were silent about the agency’s own role in perpetuating this social misery.

Instead, the World Bank advocates precisely more of the policies which have led to the growing immiseration of Eastern European working people in the first place. The first priority for the region, according to Le Houérou, is to “clean up the banking sector”….. “improve the business climate to attract private capital flows” and make “public spending more efficient”.

Gill noted that, following huge bailouts made to the banks, government deficits in the region will increase from 1.5 percent of GDP in 2008 to 5.5 percent in 2009. Gill went on to point out that social spending makes up more than half of government expenditures and concluded that the main issue for governments was the “need to make education, health care and social security more efficient”. This means further massive cuts to an already threadbare welfare system. The necessary “reforms”, Gill concluded, “will help make governments fiscally healthy, economies robust, and societies more fair. Every responsible policymaker should take a hard look at these reforms.”

Rather than making societies “more fair”, the World Bank’s proposals will only serve to accelerate the enormous growth of social inequality and attendant poverty in Eastern Europe and Central Asia. While concentrating on the repercussions of the financial crisis of 2008, the World Bank report acknowledges that a third of the population in the region lives in poverty. This constitutes a devastating indictment of the free market system twenty years after the reintroduction of capitalism in the Soviet Union and Eastern Europe.

Following the collapse of the Soviet Union and the satellite Stalinist states, the World Bank, together with a host of other International Financial Institutions (IFIs) and the European Union were instrumental in dictating “shock therapy”, which was designed to impose capitalist free market relations in the shortest time possible in the Eastern European countries and Russia. At the same time, the subsequent “big bang of economic liberalisation” took place in a period when banks in the advanced capitalist countries were increasingly turning to the most risky and speculative forms of investment in order to maximise profits.

The activities of Wall Street speculators and the double or even triple digit profit rates of international hedge funds became the role model for the type of free market capitalism introduced into the former Stalinist countries. At the behest of the World Bank, International Monetary Fund and the EU, longstanding welfare programs in these countries were wiped out overnight in favour of a “safety net” system, which provided only the most minimal social benefits at minimal cost.

Commenting on the role of the European Union in this process, Ivan Krastev, director of the Centre for Liberal Strategies in Sofia, noted in 2004: “It is striking to observe that when the EU supports projects to promote economic development beyond its borders, it exports a version of the same type of neo-liberal orthodoxy that it denounces at home.”

The result of this policy has been unprecedented levels of social inequality and poverty throughout the region. While the Western press is currently publishing a great deal of material that uncritically glorifies the introduction of capitalist relations, it has provided very little information about the social conditions prevailing in these countries. A brief overview of some material produced in the past few years is sufficient to dispel any euphoria over the alleged benefits of the free market economy.

In her study published some years before the financial crisis of 2008, the Russian researcher Olga Kislitsyna had already noted that in terms of income stratification in transitional economies Russia was the absolute leader. “The poorest ten percent of the Russian population account for less than 2 percent of the total income volume, while the richest ten percent account for approximately 40 percent,” she writes. The report notes that: “From the standpoint of income inequality, the Russian economy is much closer to the Latin American model” and Russia closely follows behind only Brazil, Chile and Mexico, when it comes to social inequality.

Kislitsyna notes that what is exceptional about the development of social inequality in Russia is the speed at which it has taken place. Within less than two decades a society in which living standards were generally low due to the disastrous policies of the Stalinist bureaucracies, but still relatively egalitarian, has been transformed into one of the most unequal societies on the planet.

Russia’s billionaires suffered heavily in the wake of the financial crisis, but *Forbes* magazine reported that Russia still accounts for 32 of the 793 billionaires on its global list for 2009. These 32 Russians shared a wealth of $102.1 billion, compared to $471.4 held by 87 billionaires in 2008.

The reintroduction of capitalist economic relations also gave rise to a very small middle class layer—particularly in the major urban areas. Poverty, unemployment and underemployment is prevalent, however, in the big cities, and living conditions in more remote areas and in the countryside are generally regarded as catastrophic.

Despite a revival of economic growth in recent years, Russia’s economic performance today is still only around three quarters of what it was in 1989, prior to the introduction of the capitalist free market. GDP declines in other former Soviet satellite states are much more dramatic. In 2008—before the onset of the global crisis—the economies of Georgia and Moldova had shrunk to around 40 percent of what they produced in 1989.

At the same time, the growth of income inequality in Russia has come at an enormous social cost. According to the British Medical Journal, the collapse of the Soviet Union in 1991 led to a huge rise in death rates in Russia, with the biggest increase registered in deaths due to alcohol, followed by deaths resulting from accidents and violence.

According to the research of the epidemiologist Michael Marmot, presented in his 2004 book *The Status Syndrome*, the restoration of capitalism in the 1990s produced a death toll of about four million people.

Prior to the reintroduction of capitalism, i.e. between 1984 and 1987, life expectancy in Russia rose from 61.7 to 64.9 years for men and from 73.0 to 74.3 years for women. But between 1987 and 1994, the life expectancy of Russian men fell to just 57.6 years and that of women to 71 years.

In the early 1970s—the period of so-called Communist “stagnation”—the life expectancy gap between the Soviet Union and the advanced western capitalist countries was 2.5 years. By the mid-2000s this gap had grown to almost 15 years (UNDP report 2007).

The authors of the above mentioned report concluded: “The magnitude and steepness of the fluctuations in mortality rates and life expectancy reported here for Russia are without parallel in peace time ...”

All of these figures record the vast collapse in welfare benefits and social standards which have taken place in the former Stalinist bloc countries following free market economic liberalisation. In this process, the role of the former Stalinist bureaucracies must also be addressed. They played a major role in facilitating the enormous social decline which has taken place.

Not only did the Soviet bureaucracy led by Mikhail Gorbachev create the political conditions for the reintroduction of capitalism, many leading members of the Communist Party in the Soviet Union and throughout Eastern Europe transformed themselves into the heads of capitalist firms, banks and governments, assuming a direct role in implementing the shock therapy prescribed by the IMF and World Bank.

While Russia has experienced a huge growth in social inequality and a corresponding increase in poverty, the situation in other Eastern European countries is far worse. This is clear from a brief look at the current situation in Romania.

According to one survey by the European agency *Eurequal*: “Romania is one of the poorest countries in Europe and one of the lowest ranking in terms of its Human Development Index. Neither post-communism nor EU accession has changed that placement.” The report then notes that “Post-communism (i.e. capitalism) led to an increase in social inequalities, not only in terms of distribution of income but in the occurrence of extremes, therefore poverty is considered to be a very important problem.”

A look at the national press reveals the reality of the breakdown in basic services and what lies behind the euphemistic reference to the “problem of poverty” in Romania.

Under the heading *A Winter of Discontent*, the editor of the Romanian newspaper *Adevarul* writes in its current edition: “I turn on the TV. Disaster! Footage of schools in Brasov, Transylvania: kids dressed for a snow fight shivering in the school which has run out of funds to pay for heating. And no one seems to care! The journalist examines a thermometer, which shows it is 12°C in the classroom. Then we see a mother packing a lunch box. No sandwiches for this kid, but she’s careful to give him his supply of Nurofen (according to a recent study, most Romanian schoolchildren in the 8-9 age group are jaded and depressed).

“News item two from Zlatna hospital, also in Transylvania: there has been no sign of life from the radiators since last year. Touch them; they are as cold as the bodies in the morgue. One patient who is still alive huddles in a foetal position under layers of blankets. In the wards, the temperature is only two or three degrees higher than it is outside. A lady, bundled up in clothing to the point where she resembles the Michelin man, complains that she came in with one illness and now she will be leaving with another...”