

## CHAPTER 5

# THE SOCIAL COSTS AND CONSEQUENCES OF THE TRANSFORMATION PROCESS

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“I want to ask you for forgiveness, because many of our dreams have not been realized, because what we thought would be easy turned out to be painfully difficult. I ask for forgiveness for not fulfilling some hopes of those people who believed that we would be able to jump from the grey, stagnating, totalitarian past into a bright, rich and civilized future in one go. I myself believed in this. It seemed that with one spurt we would overcome everything. But it could not be done in one fell swoop. In some respects I was too naive. Some of the problems were too complex. We struggled on through mistakes and failures. In this complicated time many people experienced shocks.”

*B.N. Yeltsin, Russian President 1991-1999  
(Resignation Statement, 31 December 1999)*

### 5.1 Introduction

In the decade 1989-1999 the Soviet empire collapsed, a number of states in central and eastern Europe disintegrated and new ones were formed, and the political-economic system throughout the region was transformed. During this transformation there have been sweeping social changes, frequently for the worse. The purpose of this paper is to survey these adverse phenomena, to the extent that the available data makes this possible, paying particular attention to the question of whether they were caused by the transformation, or by other factors, and whether existing accounts of these phenomena offer a fair picture. The main issues considered are: What were the costs? Who paid them? Why has there been so little political protest? How does the present system change in the region compare with the previous one?

### 5.2 What were the costs?

#### (i) Impoverishment

The available estimates about the numbers in poverty are always problematic. They depend on the source of the underlying data, the concept used (relative poverty, income-based measures of absolute poverty, the Leiden poverty line, etc.), the unit of observation (individuals, adult equivalents, households) and the time period (monthly, annual, five-year average). As far as the transformation countries are concerned, a leading role in the international debate has been played by the World Bank, and its income distribution specialist, Milanovic. His data have the advantage of being – in principle – internationally comparable, and of not being produced by a researcher or organization that might be considered to have an interest in painting an alarmist picture. Milanovic has presented the following data, which are based on an absolute poverty line of \$4 (at 1990 international prices) per capita per day.

According to table 5.2.1, poverty in the early transition period, using the Milanovic estimates, increased from 3 per cent to 25 per cent of the population and from approximately 7 million to approximately 89 million, i.e. there appear to be 82 million new poor. (Nearly all the poor – 82 million or 92 per cent – live in Romania, Russia and Ukraine.) This is a very striking result. It suggests that one of the first results of the transformation was to impoverish a large part of the population of the countries concerned. It seems to have turned a quarter of them into poor, and generated 82 million new poor. Because of the sensitivity of estimates of the number of poor to measurement problems, not much weight should be placed on these precise numbers. Nevertheless, the general picture which emerges from the Milanovic data – of a substantial increase in poverty under transition and of a large number of people currently in poverty – is confirmed by a number of studies focusing specifically on Russia, the country which, according to table 5.2.1,

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TABLE 5.2.1

Poverty during the transition in selected transition economies,  
1987-1995  
(Percentage, millions)

	Percentage of population in poverty		Total number of poor (millions)	
	1987-1988	1993-1995	1987-1988	1993-1995
Belarus .....	1	14	0.1	1.4
Estonia .....	1	34	0.02	0.5
Hungary .....	1	7	0.1	0.7
Poland .....	6	10	2.1	3.8
Romania .....	6	48	1.3	10.8
Russian Federation .....	2	39	2.2	57.8
Ukraine .....	2	26	1.0	13.5
<b>Total</b> .....	<b>2.7<sup>a</sup></b>	<b>25.4<sup>a</sup></b>	<b>6.82</b>	<b>88.5</b>

*Source:* B. Milanovic, *Income, Inequality and Poverty During the Transition From Planned to Market Economy* (Washington, D.C., World Bank, 1998), pp. 67-77.

*Note:* These figures for 1993-1995 are based on expenditure data. The income data show higher levels of poverty but probably understate incomes. The figures for 1987-1988 are based on incomes.

<sup>a</sup> Unweighted arithmetic average.

in 1993-1995 had approximately two thirds of the poor in the region.

The studies which concentrate on Russia tend to focus on particular data sets, or particular definitions of poverty. Clarke pointed out that if one uses official data and retains the objective approach, but defines poverty as half the official poverty (*prozhitochnyi minimum*) line, then the number of poor in Russia in 1996 would be not 57.8 million (as estimated by Milanovic for 1993-1995) but "only" about 15 million.<sup>253</sup> According to a study using the Russian Longitudinal Monitoring Survey and an objective poverty line (the official poverty line adjusted for regional price differences, household type and equivalent scales), the proportion of households with an income less than half of the poverty line rose almost sevenfold in 1992-1996 (from 3 per cent to 20 per cent).<sup>254</sup> According to this study, the biggest incidence of poverty was among children under six. The proportion of children in this age group in poverty rose from 15 per cent in 1992 to 44.5 per cent in 1996. In 1996 almost a quarter of children under six had a (share of household) income of less than half the poverty line. Researchers using the (subjective) Leiden poverty line showed that the (subjective) poverty line declined dramatically between March 1993 and September 1996 as people adjusted to their reduced

economic status.<sup>255</sup> Research using the Leiden poverty line also showed a jump in the share of the population, which was (subjectively) poor following the August 1998 crisis.<sup>256</sup> A general finding of all these studies is a much higher proportion of the population in poverty in Russia than in EU countries.

One result of impoverishment has been a worsening of the diet of many people. In Russia a significant problem of undernourishment seems to have developed, in particular among children in poor households.<sup>257</sup> According to this study, the current problem of child malnutrition "did not exist in the last pre-reform years". The idea that there was a significant increase in undernourishment among children is supported by data on stunting. It seems that stunting in Russian children under two increased from 9.4 per cent in 1992 to 15.2 per cent in 1994.<sup>258</sup> Poverty among children has affected not only their diet, but also their schooling, extra-school activities and social integration.

It seems to be widely thought that the decline in living standards in the former Soviet Union began in 1992 and directly followed a period of rapidly increasing living standards under the successful economic policies of the later perestroika period. However, no weight at all should be attached to calculations according to which at the very end of the Soviet period, average living standards in the USSR increased significantly. Such calculations simply confuse "statistical real incomes", calculated on the basis of data about money incomes and official prices, with "actual real incomes", which depend both on money incomes and on the availability of goods and the prices at which they are actually available. For example, Kakwani states that "The average standard of living in Ukraine increased quite significantly in the late 1980s. The 1989-1990 period registered an impressive growth rate of 7.4 per cent in per capita family income...".<sup>259</sup> When corrected by more accurate price indices and by the availability of goods, the so-called significant increase in the standard of living in Ukraine in 1989-1990, and hence also part of the subsequent decline in real incomes, would be exposed as statistical

<sup>255</sup> B. Milanovic and B. Jovanovic, "Change in the perception of the poverty line during the times of depression: Russia 1993-1996", World Bank (Washington, D.C.), 1999, mimeo.

<sup>256</sup> A. Ferrer-i-Carbonell and B. van Praag, "Poverty in the Russian Federation", Faculty of Economics, Amsterdam University (Amsterdam), 2000, mimeo.

<sup>257</sup> N. Rimashevskaya and E. Yakovleva (eds.), *Rossiia 1997* (Moscow, Institute for Socio-Economic Problems of the Population, Russian Academy of Sciences, 1998), pp. 188-193.

<sup>258</sup> UNDP, *Human Development Report for Central and Eastern Europe and the CIS 1999* (United Nations publication, Sales No. E.99.III.B.6), p. 23.

<sup>259</sup> N. Kakwani, "Income inequality, welfare and poverty in Ukraine", *Development and Change*, Vol. 27, No. 4 (The Hague), October 1996, p. 688.

<sup>253</sup> S. Clarke, "Poverty in Russia", in P. Stavrakis (ed.), *Problems of Economic Transition* (Armonk, NY, M. E. Sharpe, 1999).

<sup>254</sup> N. Zahoori et al., "Monitoring the economic transition in the Russian Federation and its implications for the demographic crisis – the Russian Longitudinal Monitoring Survey", *World Development*, Vol. 26, No. 11 (Oxford), 1998.

illusions. Although the collapse of the USSR and the abortive attempt to introduce a civilized market economy in its successor states undoubtedly caused many problems, no useful purpose is served by exaggerating them.

### (ii) Decline in employment

The transformation recession led to a sharp fall in formal sector employment throughout the region. Officially registered employment in the central and east European countries (excluding the former German Democratic Republic (GDR)) fell from about 193 million in 1989 to less than 170 million in 1996, i.e. by about 12 per cent.<sup>260</sup> The fall was most pronounced in central Europe, south-east Europe and the Baltic countries, where on average it was about 16 per cent, and least pronounced in the CIS countries, where it was only about 11 per cent. Some data on the decline in formal sector employment are set out in table 5.2.2.

Table 5.2.2 shows the general fall in formal sector employment, the particularly sharp falls in some countries, e.g. Hungary and Latvia, which lost more than a quarter of their formal employment during the first few years of transformation, and also the recovery which has taken place in some countries in recent years. For example, in Poland formal sector employment rose more than 10 per cent in 1993-1998.

The fall in formal sector employment has had important – usually negative – consequences for the people concerned. It has frequently led to a decline in individual and family income, social exclusion, and a worsening of the life chances of their children. Those ejected from the formal sector currently work abroad (as temporary or permanent – and often illegal – *gastarbeiters*), in the household or informal sectors,<sup>261</sup> have retired, or have become unemployed.

The decline in employment has disproportionately affected women. In general, the decline in female employment has been larger – in some cases very much larger – than the decline in male employment.<sup>262</sup> For example, in the Czech Republic, between 1985 and 1997, the decline in female employment (11.8 per cent) was almost 10 times the decline in male employment (1.2 per cent). Although the decline in employment has hit women more than men, it is not normally the case that the unemployed are mainly women. Women who lose their

jobs are much more likely than men to leave the labour force altogether.

Important features of the CIS employment scene have been wage arrears, payment in kind, administrative leave, involuntary short-time work, and extended maternity leave. Hence much of the “employment” officially registered in those countries has not been accompanied by the regular payment of wages in money and in full. This has generated much hardship and discontent among those affected. Hence, Standing and Zsoldos have referred to Ukrainian workers in 1995 as being victims of “excessive wage flexibility”.<sup>263</sup>

### (iii) Growth of unemployment

Although some unemployment existed under the old regime (people between jobs, political undesirables, women in coal mining regions) it was quantitatively small and socially insignificant. During the transformation it has grown greatly. Some data on (registered) unemployment in the region are set out in table 5.2.3.

While everywhere higher than under the old system, unemployment has shown sharp national variations. In Poland, after growing quickly in the early 1990s and reaching a very high level, it declined significantly in response to substantial economic growth. From a peak of 17 per cent in July 1994, registered unemployment had fallen to 9.5 per cent by August 1998, although it subsequently increased again. On the other hand, in the Czech Republic, where it was initially low, it grew significantly in the late 1990s and is expected to exceed 10 per cent in 2000. When attention is directed not at registered unemployment but at labour force survey unemployment, then Latvia and Lithuania appear to have high unemployment rates (in both cases about 14 per cent in the second quarter of 1998). The highest levels of unemployment appear to be in south-east Europe.<sup>264</sup> In April 1999 the labour force survey unemployment in the former Yugoslav Republic of Macedonia was 34.5 per cent! In Russia officially estimated labour force survey unemployment grew significantly in the 1990s, and reached 14.2 per cent in the spring of 1999. It subsequently declined, under the influence of the economic recovery, falling to about 12 per cent at the end of 1999. The large difference between registered unemployment, and actual or estimated labour force survey unemployment, in the CIS countries, reflects the low level of unemployment benefit in those countries, its erratic payment, the bureaucratic obstacles which exist for those who wish to register as unemployed, and the lack of trust in state institutions by people in those countries.

<sup>260</sup> UN/ECE, *Economic Bulletin for Europe*, Vol. 49 (United Nations publication, Sales No. E.97.II.E.23), 1997, p. 24.

<sup>261</sup> For analyses of the role of the informal sector see S. Johnson et al., “The unofficial economy in transition”, *Brookings Papers on Economic Activity* (Washington, D.C.), Fall 1997; E. Sik, “From the multicolored to the black and white economy: the Hungarian second economy and the transformation”, *International Journal of Urban and Regional Research*, Vol. 18 (London), 1994.

<sup>262</sup> UN/ECE, *Economic Survey of Europe, 1999 No. 1*, p. 136.

<sup>263</sup> G. Standing and L. Zsoldos, *Labour Market in Ukrainian Industry: The 1995 ULFS* (Geneva, ILO, 1995), p. 55.

<sup>264</sup> UN/ECE, *Economic Survey of Europe, 1999 No. 2*, p. 8.

TABLE 5.2.2

Total formal sector employment in the transition economies, 1990-1999  
(1989=100)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Albania .....	99.2	97.5	76.0	72.7	80.7	79.0	77.5	76.9	75.3	..
Belarus .....	99.1	96.6	94.1	92.9	90.4	84.8	84.0	84.1	85.0	86.0
Bulgaria .....	93.9	81.6	75.0	73.8	74.3	75.2	75.3	72.3	72.2	..
Czech Republic .....	99.1	93.6	91.2	89.7	90.4	92.8	93.4	91.6	90.2	..
Estonia .....	98.6	96.4	91.4	84.5	82.7	78.3	77.0	77.4	76.4	..
Hungary .....	96.7	86.7	78.1	73.2	71.8	70.4	69.8	69.8	70.7	72.9
Latvia .....	100.1	99.3	92.0	85.6	77.0	74.3	72.3	73.7	74.1	..
Lithuania .....	97.3	99.7	97.5	93.4	88.0	86.4	87.2	87.7	87.0	..
Republic of Moldova <sup>a</sup> .....	99.1	99.0	98.0	80.7	80.4	80.0	79.4	78.7	78.5	76.5
Poland .....	95.8	90.1	86.3	84.3	85.1	86.7	88.3	90.8	92.9	..
Romania .....	99.0	98.5	95.5	91.9	91.5	86.7	85.7	82.4	80.5	..
Russian Federation .....	99.6	97.7	95.3	93.7	90.6	87.9	87.2	85.5	84.2	85.3
Slovenia .....	96.1	88.7	83.8	81.3	79.3	79.1	78.7	78.6	78.7	80.2
Ukraine .....	99.9	98.3	96.3	94.1	90.5	93.3	91.3	88.8	87.9	86.5

Source: UN/ECE, *Economic Survey of Europe, 2000 No.1*, p. 228.

<sup>a</sup> Since 1993 excludes Transdniestria.

Contrary to the initial view of most western economists, unemployment has not played a positive role in restructuring. New private firms tend to recruit directly from those employed in the state sector. From the point of view of the national economy, unemployment simply comprises a fiscal burden and does not provide resources for the growth of dynamic enterprises.<sup>265</sup> Its only positive role is to improve the financial position of the enterprises doing the sacking (assuming they evade severance costs).

#### (iv) Increased inequality

During the transition inequality has substantially increased. The measurement of income distribution raises conceptual, methodological and practical issues of a complex nature. Hence all published income distribution data raise questions as to their coverage (part or all of the population), income concept (before or after tax, treatment of housing, treatment of informal sector earnings), unit of observation (individuals, adult equivalents, households), time period (weekly, monthly, annual, five year), source (tax data, complete enumeration, surveys – if so whose and how done) and measure of inequality used. As in the case of poverty, it is convenient to use the data presented by the World Bank's income distribution specialist Milanovic, and some of this is set out in table 5.2.4.

According to the data in table 5.2.4, during the transformation inequality increased in all countries of the region except Slovakia. In general, the resulting income

distribution in central Europe was still quite equal by OECD standards (particularly in Slovakia and Hungary and possibly in the Czech Republic), but in Russia and Ukraine the distribution of (non-housing) income in the mid-1990s seems to have been about as unequal as in Latin America. The big increase in inequality in Russia is an important part of the explanation of how it was possible that there was a large growth in consumer durable ownership in that country despite the decline in average real incomes.

There does not appear to be any reliable, internationally comparable data on the distribution of wealth in the transformation countries. It seems likely that, as is normal throughout the world, the inequality of wealth is greater than that of income. There is some research which suggests that in Russia the privatization of housing had an equalizing effect, since the distribution of the imputed income from the newly owner-occupied housing was much less unequal than the distribution of money incomes.<sup>266</sup>

#### (v) Deterioration of public services and polarization of their provision

During the transformation, many public social provisions have deteriorated or ceased to be public facilities. For example, there has been neglect of the maintenance of school buildings in many countries. In some countries, such as Bulgaria, the Republic of Moldova and The former Yugoslav Republic of Macedonia, the heating of schools in winter has become a serious problem. In many countries the provision of

<sup>265</sup> R. Jackman, "Unemployment and restructuring", in P. Boone, S. Gomulka and R. Layard (eds.), *Emerging from Communism* (Cambridge, MA, MIT Press, 1998); S. Clarke, *New Forms of Employment and Household Survival Strategies in Russia* (Coventry, ISITO/CCLS, 1999).

<sup>266</sup> J. Fleming and J. Micklewright, *Income Distribution, Economic Systems and Transition*, UNICEF, Innocenti Occasional Papers, Economics and Social Policy Series, No. 70 (Florence), p. 72.



TABLE 5.2.3

Registered unemployment in selected transition economies,<sup>a</sup> 1990-1999  
(Per cent, end of year)

	1990	1994	1995	1996	1997	1998	1999
Albania .....	9.5	18.0	12.9	12.3	14.9	17.6	..
Bulgaria .....	1.8	12.8	11.1	12.5	13.7	12.2	16.0
Czech Republic .....	0.7	3.2	2.9	3.5	5.2	7.5	9.4
Hungary .....	1.7	10.9	10.4	10.5	10.4 <sup>b</sup>	9.1	9.6
Poland .....	6.5	16.0	14.9	13.2	10.3	10.4	13.0
Romania .....	1.3	10.9	9.5	6.6	8.8	10.3	11.5
Russian Federation .....	..	7.5	8.9	10.0	11.2	13.3	12.3

Source: UNICEF, *Economic Survey of Europe, 2000 No.1*, p. 230.

<sup>a</sup> Registered unemployment for all countries except Russia. For Russia, Goskomstat estimates of unemployment according to ILO definition.

<sup>b</sup> The labour force survey estimated the rate at 8.7 per cent.

school meals has significantly declined. This is the case in Russia, Belarus, Slovakia and Bulgaria. On the other hand, in Hungary between 1989 and 1996 the provision of school meals remained roughly constant.<sup>267</sup> Van Zon et al. have described the sad situation in Zaporizhzhya province, eastern Ukraine.<sup>268</sup> After considering the situation of medical care, education, musicians and the cinema, pensioners, the disabled, orphans, sport, public housing, public transport, garbage collection, and pre-school child care, they concluded that "the extended public services network that developed in Soviet times and used to be very cheap or free of charge, has collapsed. This has especially affected the poor, that is, the majority of the population."

The need to overcome the widespread environmental degradation inherited from the previous system was widely stressed at the beginning of the transformation. The structural shift in the economies from industry to services, and the depression, by reducing industrial production had the effect of reducing industrial pollution. Nevertheless, in Russia water pollution seems to have worsened in recent years.<sup>269</sup> According to the same report<sup>270</sup> there has been a general environmental deterioration in Russia in the recent past. One of the reasons for this is the growth in the number of motor vehicles.

The costs of education for children and their parents (both direct costs such as textbooks and shoes, and

<sup>267</sup> Under the conditions which currently exist in some CIS countries and Bulgaria, the provision of free school meals may also have a non-nutritional benefit. It may have a positive effect on school enrolment and attendance.

<sup>268</sup> H. van Zon et al., *Social and Economic Change in Eastern Ukraine: The Example of Zaporizhzhya* (Aldershot, Ashgate, 1998), chap. 7.

<sup>269</sup> "Gosudarstvennyi doklad o sostoyanii zdorov'ya naseleniya rossiiskoi federatsii v 1997 g", *Zdravookhranenie rossiiskoi federatsii*, 1999, No. 1 (Moscow), pp. 11-14.

<sup>270</sup> *Ibid.*, p. 13.

TABLE 5.2.4

Inequality during the transition in selected transition economies, 1987-1995  
(Gini coefficient,<sup>a</sup> annual)

	Income <sup>b</sup> per capita		Expenditure per capita 1993-1995
	1987-1988	1993-1995	
<b>Central Europe</b>			
Czech Republic .....	19	27 <sup>c</sup>	..
Hungary .....	21	23	27
Poland .....	26	28	31
Slovakia .....	20	19	..
Slovenia .....	22	25	..
<b>Balkans</b>			
Bulgaria .....	23	34	..
Romania .....	23	29	33
<b>Baltic states</b>			
Estonia .....	23	35	31
Latvia .....	23	31	..
Lithuania .....	23	37	..
<b>CIS</b>			
Belarus .....	23	28	30
Republic of Moldova .....	24	36 <sup>d</sup>	..
Russian Federation .....	24 <sup>e</sup>	48 <sup>f</sup>	50
Ukraine .....	23	47	44

Source: B. Milanovic, *Income, Inequality and Poverty During the Transition From Planned to Market Economy* (Washington, D.C., World Bank, 1998), p. 41.

<sup>a</sup> The Gini coefficient varies between 0 and 100, the higher the value the more unequal the distribution. For comparison, in 1995 the Gini for Denmark and Sweden was between 21 and 23; for the United Kingdom and the United States 34-36; and for Latin America about 50.

<sup>b</sup> No account is taken of housing income (implicit housing subsidies and imputed income of owner occupiers). In Russia in 1992, including housing income reduces the Gini coefficient from 41.7 (money income only) to 35.4. R. Buckley and E. Gurenko, "Housing and income distribution in Russia: Zhivago's legacy", *The World Bank Research Observer*, Vol. 12, No. 1 (Washington, D.C.), February 1997. It is likely that the situation in the other CIS countries was similar.

<sup>c</sup> This is for monthly income, whereas all the other data are for annual income. This probably creates an upward bias. T. Garner and K. Terrell in "A Gini decomposition analysis of inequality in the Czech and Slovak republics during the transition", *Economics of Transition* 1998, No. 1 (Edinburgh), argue that this increase in inequality in the Czech Republic is an illusion. Using household rather than per capita income data and comparing 1989 and 1993, they suggest that there were similar, small increases in the Gini coefficient in the Czech Republic and Slovakia.

<sup>d</sup> According to UNDP, *Human Development Report for Central and Eastern Europe and the CIS 1999* (United Nations publication, Sales No. E.99.III.B.6), p. 7, the Gini coefficient in Armenia in 1996 was 60, and "a similarly high level has been reached in Moldova." These are extremely high levels, and the comparability of UNDP and World Bank data is uncertain.

<sup>e</sup> It is possible that inequality in Russia in 1987-1988 is grossly understated by this figure. According to C. Morrison, "Income distribution in east Europe and western countries", *Journal of Comparative Economics*, Vol. 8, No. 2 (Orlando, FL), 1984, when account is taken of the income in kind of the *nomenclatura*, the Gini coefficient in the USSR in 1973 was 31. Naturally, the higher the Gini coefficient under the old regime, the smaller the increase associated with the transformation.

<sup>f</sup> According to the official Russian statistics, the Gini coefficient reached a peak of 41 in 1994, and then declined to 38 in 1998. These data are derived from the imperfect family budget survey and are generally thought to be less reliable than the Russian Longitudinal Monitoring Survey (RLMS), which is the basis for the Milanovic estimates. The RLMS estimate for the Gini coefficient for 1996 is 49. T. Mroz and B. Popkin, *Monitoring Economic Conditions in the Russian Federation: The Russian Longitudinal Monitoring Survey, 1992-96* (Chapel Hill, NC, University of North Carolina, 1997).

TABLE 5.2.5

Basic education enrolments in selected transition economies, 1989, 1996 and 1997

(Gross enrolment rates,<sup>a</sup> as a percentage of the 6/7 to 14/15 age group)

	1989	1996	1997
Albania <sup>b</sup> .....	90.8	87.6 <sup>c</sup>	..
Bulgaria .....	98.4	93.6	94.0
Estonia <sup>d</sup> .....	96.2	92.8	93.7
Latvia .....	95.8	90.3	90.7
Russian Federation <sup>d,e</sup> .....	93.0	91.4	90.8
Ukraine <sup>e</sup> .....	92.8	91.2	90.7

Source: UNICEF, *Education for All?* (Florence), 1998, pp. 20-21 and 111 and *Women in Transition* (Florence), 1999, p. 133. Where the UNICEF reports give conflicting data, the data given in the most recent report has been used.

<sup>a</sup> These are the total number of children enrolled, divided by the number of children in the age group. Hence, an increase in the number of children repeating the year "improves" the statistics. Furthermore, inaccurate estimates of the number of children in the relevant age cohort will distort them. In addition, the figures are for enrolment at the beginning of the school year, not for attendance. The accuracy of the figures for Russia and Ukraine, especially for 1989, is uncertain. UNICEF gives quite different figures for Russian secondary enrolments in UNICEF, *Children at Risk in Central and Eastern Europe: Perils and Promises* (Florence), 1997, p. 159 and *Poverty, Children and Policy: Responses for a Brighter Future* (Florence), 1995, p. 147.

<sup>b</sup> Six to 13 years

<sup>c</sup> 1994.

<sup>d</sup> Seven to 15 years.

<sup>e</sup> In Russia in early 1998 about 12.5 per cent of school age children seem not to have been attending school. The reasons for this include selection and expulsion. S. Webber, *School, Reform and Society in the New Russia* (Basingstoke, Macmillan, 2000), p. 187.

opportunity costs such as the cut in family income resulting from loss of work done on the family farm), migration,<sup>271</sup> the decline in the quality of education (in some countries), and the decline in public administration, have led to a fall in the proportion of certain age groups attending schools (see table 5.2.5).

The situation shown in table 5.2.5 – if the data are accurate – is alarming. In some countries the proportion of children receiving education has fallen significantly during the transformation period. Currently, in a number of countries, about 1 in 10 children are being deprived of schooling. A sensible and successful policy initiative to deal with the drop-out problem was undertaken in Romania in 1993.<sup>272</sup> This was to tie the payment of family allowances to school enrolment. As a result, educational enrolments in Romania, which had fallen from 93.6 per cent in 1989 – a figure below that of three of the countries in table 5.2.5 – to only 89.6 per cent in 1992, subsequently increased and by 1997 had reached 95 per cent – higher than that of all the countries in table 5.2.5.

<sup>271</sup> In Russia the population registration system can prevent the children of mobile workers receiving education. For example, people who move to Moscow without official registration there, may find their children are excluded from Moscow schools.

<sup>272</sup> UNICEF, *Poverty, Children and Policy: Responses for a Brighter Future* (Florence), 1995, p. 73.

Educational inequality has, in many cases, increased both in provision and achievement. For example in Hungary there has been an increase in the disparity in learning achievements between children in the main cities and in the villages.<sup>273</sup> In Russia too, educational inequalities have increased. According to a recent study,<sup>274</sup> "Under the banner of 'increasing choice', all these concerns point paradoxically to diminishing educational opportunities for many children, especially those who are rural, less affluent, or less well-connected – regardless of their individual merit.... As Russian society becomes increasingly stratified in terms of wealth, Russian education is increasingly stratified in terms of opportunity."

Another example of educational inequality, concerns ethnic minorities. One such case is the situation of Roma children. A 1992 study showed that in Romania only 51 per cent of 10-year old Roma children regularly attended school, 14 per cent had stopped school, 16 per cent went to school occasionally and 19 per cent had never been to school.<sup>275</sup>

#### (vi) Spread of disease

In the early 1990s there was a significant worsening of the morbidity situation in the CIS countries. In Russia, there was a diphtheria epidemic (which was brought under control),<sup>276</sup> and tuberculosis, syphilis and hepatitis grew substantially (although syphilis declined in the late 1990s). The danger of a further spread of tuberculosis generated international attention and international assistance programmes. On the other hand, in Russia polio was virtually eliminated by the end of the 1990s. Alarming warnings were uttered at the end of the decade about the prospects of the rapid growth in the number of HIV infected people leading to a large absolute number of AIDS victims in Russia at the beginning of the twenty-first century. In the CIS, the combination of state collapse, kleptocracy, fiscal crisis and declining living standards created a fertile environment for the spread of disease. For example, despite the risk of a future AIDS epidemic, in 1997 the Russian state was unable to finance the official programme for preventing the spread of HIV infection.<sup>277</sup> Similarly, the decline in the health of pregnant women in Russia in the 1990s seems partly to

<sup>273</sup> UNICEF, *Education for All?* (Florence), 1998, pp. 45-46.

<sup>274</sup> OECD, *Russian Federation, Reviews of National Policies for Education* (Paris), 1998, pp. 79-82.

<sup>275</sup> UNDP, op. cit., p. 57.

<sup>276</sup> This was a result of the decline in immunizations in 1990-1991. This in turn resulted from media scare stories about the possible adverse consequences of immunization. Subsequently the immunization coverage increased, and by 1995 the percentage of Russian children under two immunized against DPT was about 93 per cent.

<sup>277</sup> "Gosudarstvennyi doklad o sostoyanii zdorov'ya naseleniya rossiiskoi federatsii v 1997 g", *Zdravookhranenie rossiiskoi federatsii*, 1999, No. 1 (Moscow), p. 16.

have been a result of the decline in their nutrition resulting from falling living standards.<sup>278</sup> The decline in living standards has also had other adverse effects on health.<sup>279</sup> According to two officials of the Russian epidemiological service (*gossanepidnadzor*): “in recent years the state of the population’s health has been characterized by negative tendencies. There has been an increase in the number of diseases, including those of the digestive system (*alimentar’nye bolezni*). For example, in recent years morbidity and mortality have increased from cardiovascular diseases and cancers, there is a serious problem of inadequate vitamins and micronutrients, and the anthropometric indicators [i.e. height and weight] of children and adolescents have worsened.<sup>280</sup> Poor families do not receive an adequate diet. The result of this is the growth of anaemia, and stomach and duodenal ulcers, among both children and adults. The most alarming aspect is the increase in the number of children suffering from digestive illnesses.”<sup>281</sup>

About 15-20 per cent of Russian couples suffer from infertility. There is a high level of gynaecological ailments among teenage girls in Russia. “In the last five years [1994-1998] the frequency of some gynaecological diseases among teenage girls (in Russia) has increased 3-5 times.”<sup>282</sup>

In Ukraine too there have been syphilis and HIV/AIDS explosions, a diphtheria epidemic in the early 1990s, a substantial growth in tuberculosis cases and deaths, and as in Russia there is a high infertility rate.

During the 1990s there appear to have been, in a number of countries, increases in alcoholism, smoking and the consumption of narcotics. For example, in Russia between 1987 and 1999 the proportion of men in the age range 30-39 who were smokers increased from 51

per cent to 71 per cent.<sup>283</sup> Similarly, in Russia in 1990-1997 the number of 15-17 year olds registered at medical institutions as narcotics users rose 12-fold.<sup>284</sup>

It is possible to combine morbidity and mortality indicators into a synthetic index to measure the health of the population of this or that country. Although the results of such comparisons are partly dependent on the inevitably somewhat arbitrary choice of indicators, nevertheless the exercise can be illuminating. According to such an index constructed by Healthcare Europe for the last quarter of 1998,<sup>285</sup> three transformation countries, Slovenia, Slovakia and the Czech Republic, had health levels better than the lowest EU country, and Poland had a score only just worse than the lowest EU country. The three European countries with the worst results were Romania, Estonia and Russia. This illustrates that, whereas some transformation countries have already returned to Europe and the health of their populations is already at EU levels, some countries in south-east Europe and the CIS lag a long way behind the EU.

### (vii) Decline in fertility

There has been a sharp decline in fertility, as measured by the crude birth rate, the total fertility rate or the net reproduction rate.<sup>286</sup> This decline shows a wide

<sup>278</sup> Ibid., No. 2, pp. 15-18.

<sup>279</sup> Alarming reports have been published in Russia about the declining health of young men called up for military service. For example, in the period 1990-1995 their fitness is said to have declined by 32 per cent. Similarly, “in the last three years” [1995-1997] the number of conscripts exempted from military service for medical reasons rose by 10 per cent. See E. Breeva, *Deti v sovremennom obshchestve* (Moscow, Editorial URSS, 1999), pp. 49-50. The difficulty with assessing this kind of data is that it is not clear to what extent it results from a change in the fitness of the young men and to what extent it results from a change in the willingness of the relevant authorities to sell exemption from military service. Military service is not universally popular, is not marked by high living standards, is dangerous and is unpaid. On the other hand, the information about a big increase in syphilis and alcoholism among potential conscripts (ibid.) is unfortunately only too plausible.

<sup>280</sup> For an introduction to the analysis of anthropometric indicators as measures of welfare in Russia/USSR, see “Discussion”, *Slavic Review*, Vol. 58, No. 1 (Cambridge, MA), Spring 1999.

<sup>281</sup> V. Chiburayev and A. Ivanov, “Problemy organizatsii pitaniya naseleniya Rossii”, *ZNISO*, No. 11 (Moscow), 1999.

<sup>282</sup> “O nekotorykh mediko-demograficheskikh i sotsial’nykh aspektakh razvitiya podrostkov”, *Statisticheskoe obozrenie 1999*, No. 3 (Moscow), p. 73.

<sup>283</sup> “O probleme tabakokureniya v Rossii”, *ZNISO*, No. 12 (Moscow), 1999, p. 21.

<sup>284</sup> “O nekotorykh mediko-demograficheskikh...”, op. cit., p. 72.

<sup>285</sup> *Economist* (London), 12 December 1998.

<sup>286</sup> The *crude birth rate* is the number of births per 1,000 of the population. It is easy to calculate and is normally available almost contemporaneously with the processes of natality change. However, it is influenced not only by the number of births but also by the age and gender composition of the population. For example, an increase in the expectation of life at age 60 will reduce the crude birth rate although it will not affect the extent to which generations are replacing themselves. The *total fertility rate* attempts to overcome this weakness. It shows the total number of children a woman would have if she gave birth according to the age specific fertility rates of a given year. The extent to which a population is reproducing itself, however, is determined not only by total births but also by the gender ratio at birth and female mortality prior to completing childbearing. A measure of fertility which takes account of the first of these factors is the *gross reproduction rate*. This is the total fertility rate for daughters only. A measure which also takes account of the latter is the *net reproduction rate*. This is an adjustment of the gross reproduction rate by mortality prior to the end of the childbearing age. These measures are all period measures, which do not take account of the reproductive history of the units measured. If the timing of births fluctuates, however, these measures will not necessarily accurately reflect the extent to which generations are replacing themselves. For example, if teenage births fall this will reduce the total fertility rate for the period concerned, but does not necessarily mean that the women concerned will have fewer children than their mothers – they might simply have the same total number but at older ages. A measure of fertility which takes account of this is *completed cohort fertility*, which measures the total number of children a group of women (for example all those born in a particular year(s)) in fact had. This is a more accurate measure of actual fertility than the total fertility rate, but it is only available after the end of a generation’s reproductive life and hence is not suitable for analysis of many current issues. Furthermore, a non-stationary population’s rate of change per unit of time is influenced not only by the extent to which each generation replaces itself, but also by the time between generations, which varies.



dispersion. It is greatest in the former GDR and smallest in Hungary. The causes of this decline have been much discussed and may differ significantly between countries.<sup>287</sup> It cannot simply be caused by the decline in average incomes, since it was greatest in the former GDR where incomes did not decline. On the other hand, Vandycke showed that when Russian regions are looked at in cross-section, the rustbelt (the regions with the greatest fall in industrial production and the highest unemployment) had the greatest fall in fertility. This suggests that economic factors (income loss and uncertainty increase) did play an important role in determining the fertility decline. It also suggests that the fertility decline was a welfare loss, a decision forced on people by worsening economic circumstances.

It should be noted, however, that when the timing of births changes, the total fertility rate can differ from the cohort fertility rate and give a misleading impression of the extent to which generations are replacing themselves. For example, in Hungary the completed cohort fertility rate for women at the end of their childbearing age rose between the late 1980s and the mid-1990s despite the fact that the total fertility rate fell in that period.<sup>288</sup> Conversely, in Russia the completed cohort fertility rate has been below the population replacement rate for all cohorts born since the late 1930s. The distinguished Russian demographer Vishnevskii has implied that this means that the failure of the population in the 1990s to reproduce itself cannot be a result of a change in reproductive decisions under the influence of the transformation.<sup>289</sup> The fact that the Russian population nevertheless increased in the 1970s and 1980s seems to have been a result of the age composition of the population. There was an abnormally low level of elderly people, especially males, in the population in those decades as a result of a series of earlier demographic catastrophes, notably the Second World War.<sup>290</sup> This produced a relatively low crude death rate, as the groups with the highest mortality rates (the elderly) constituted a

relatively small share of the total population. Another age-specific factor was a relatively high share of women of childbearing ages, which increased the crude birth rate relative to the total fertility rate.

Moreover, part of the decline in the crude birth rate and the total fertility rate can be considered a normal process of convergence towards the low fertility norm in the EU. This seems to have been a significant factor in the Czech Republic, Hungary and Slovenia, where the mean age of childbearing increased in line with European trends. It would be strange to interpret the fall in fertility in northern Italy, one of the most prosperous areas in the world, as a welfare loss resulting from impoverishment and increased uncertainty.<sup>291</sup> On the other hand, the decline in the mean age of childbearing in the CIS countries suggests that the decline in fertility there is not a normal process of Europeanization but is largely caused by the general transformation crisis in those countries.<sup>292</sup> Similarly, the high level of infertility among Russian and Ukrainian couples, and the growth of gynaecological diseases among teenage girls in Russia, are obviously not a result of Europeanization but of welfare decline.

#### (viii) Increase in mortality

There have been significant changes in mortality. These vary from a very big increase in Russia to declines in the former GDR (except among adult males), Slovakia, the Czech Republic, Slovenia, Poland and Hungary. The increase in mortality is concentrated in the European part of the former Soviet Union<sup>293</sup> and among men of working age. Its causes have been much discussed. Some have related it directly to changes in the economic situation. Others have stressed the role of changes in alcohol consumption.<sup>294</sup> A Russian sociologist has even described the situation in Russia in the late 1990s as “the

<sup>287</sup> UN/ECE, *Economic Survey of Europe, 1999 No. 1*, chap. 4; N. Vandycke, “The economics of the reproduction ‘crisis’ in transition Europe”, London School of Economics (London), 1999, unpublished PhD thesis.

<sup>288</sup> UN/ECE and UNPF, *Fertility and Family Surveys in Countries of the ECE Region: Hungary* (United Nations publication, Sales No. E.99.II.E.6), p. 13.

<sup>289</sup> D. Lvov (ed.), *Put’ v XXI vek* (Moscow, Ekonomika, 1999), p. 283. This argument obscures the difference between a moderately low level of fertility and a sharp decline in fertility to very low levels. The Russian net reproduction rate was below 1 (i.e. the population was failing to reproduce itself) throughout the period 1964-1965 to 1985-1986, but throughout that period it was not much below 1 (the range was 0.874-0.995 and the average was 0.937) and there was no trend. In 1988-1998 the net reproduction rate fell fairly continuously and very sharply, from 1.005 to 0.585, a decline of 42 per cent in only 10 years. Similarly, in the same period the total fertility rate also fell by 42 per cent, from 2.130 (approximately characteristic of a stable population) to 1.242 (which if it persists will lead to a sharp population decline).

<sup>290</sup> *Ibid.*, p. 287.

<sup>291</sup> It should be noted that it is erroneous to draw a direct link between neoliberal economic policies and the sharp fall in fertility. Although it is plausible that at least part of the decline in fertility is a reaction to the crisis, it is implausible to identify the crisis, as perceived by young people, just with neoliberal economic policies. For example, in Russia the break in the fertility series appears to have been in 1989, which was two years before the neoliberal ministers took office but at a time when the socio-political situation in the Soviet Union was already widely perceived by its population to be one of crisis.

<sup>292</sup> UN/ECE, *Economic Survey of Europe, 1999 No. 1*, pp. 193-194. The data in this source only goes up to 1995. In 1996-1998 the mean age of childbearing in Russia increased slightly, but even in 1998 was still below that for the entire period 1960-1991 (except 1978-1981).

<sup>293</sup> “The European part of the former Soviet Union” refers to the European part of the former Soviet Union plus the Asian parts of Russia. It excludes central Asia and the Transcaucasus.

<sup>294</sup> V. Shkolnikov and A. Nemtsov, “The anti-alcohol campaign and variations in Russian mortality”, in J. Bobadilla et al. (eds.), *Premature Death in the New Independent States* (Washington, D.C., National Academy Press, 1997); D. Leon et al., “Huge variations in Russian mortality rates, 1984-1994: artifact, alcohol or what?”, *The Lancet*, No. 350 (London), 1997.



alcoholization of the population”.<sup>295</sup> However, one can ask whether changes in alcohol consumption are a proximate cause or an ultimate cause. The increase in alcohol consumption resulted from a decline in its relative price and its greater accessibility. Both were a result of a sequence of events, beginning with Gorbachev’s anti-alcohol campaign of 1985-1986 and the resulting rise of the samogon sector, followed by the abandonment of Gorbachev’s anti-alcohol campaign in 1987-1988, followed by a deterioration in the effectiveness of the Soviet state in 1989-1991, and by its collapse at the end of 1991, and the abolition of the state alcohol monopoly in Russia at the end of 1991. This last measure partly resulted from the assumption of office by neo-liberal ministers who regarded the state monopoly of alcohol as analogous to the state monopoly of foreign trade – something which had no place in a liberal society. Partly it was a populist gesture by a new government prepared to sacrifice essential tax income and public health to attain some popularity with the male population. In this sense, even though an important proximate cause of the increase in mortality may have been the increase in alcohol consumption, the ultimate cause was a range of factors, of which state collapse was very important, but where the policies of the neo-liberal ministers who took office in the autumn of 1991 were also a factor.

Other writers have emphasized the importance of stress.<sup>296</sup> Here also one can distinguish between proximate and ultimate causes. Individuals suffered stress because of the collapse of their familiar social worlds and the difficulty of coping with changed circumstances under conditions of reduced incomes. If the proximate cause of increased mortality under these circumstances is stress, the ultimate cause is the process of state collapse followed by state failure (to provide economic stability), which generated the stress experienced by individuals. The increase in Russian mortality in 1999, which followed the economic crisis of 1998 and led to increased inflation, declining real incomes, increased unemployment, bank failures and a period of general disorientation, may be interpreted as supporting the stress hypothesis. This will be particularly the case if Russian mortality falls in 2000, following the socio-economic recovery of 1999-2000.<sup>297</sup>

Russian mortality, after reaching a very high level in 1994, declined significantly in 1995-1998 but then

increased again in 1999 (and the first half of 2000). In Kazakhstan there was a similar, but not identical, pattern. Male life expectancy at birth fell by five and a half years in 1989-1995, reaching a low of 58.4 in 1995 (just above that for Russia in 1994) but recovered only slowly. In 1997 it was 1.9 years below the Russian level. The similarity of developments in Russia and Kazakhstan, where local neo-liberals had little influence, suggests that the main ultimate factor in both countries was state collapse and state failure.

It is not yet possible to provide a complete analysis of the Russian mortality increase, on which further work is being undertaken by various research groups using a variety of data sets. In addition, it is unfortunately not yet possible to view it as a completed historical process, as shown by the 1999 (and first half of 2000) mortality increase. One policy-relevant conclusion is, however, already very clear. It is that effective control over alcohol consumption could play a very important role in mortality reduction. This should avoid the mistakes of 1985-1987 and learn from the experience of countries with effective alcohol control policies.

The high *level* of mortality in some CIS countries, notably Russia and Kazakhstan, is a major socio-economic problem for those countries. It mainly hits adult males and hence has serious economic costs. A detailed analysis of the Russian situation, with suggestions for measures to improve it, has been made by the Russian demographers Vishnevskii and Shkolnikov.<sup>298</sup> They also point out that the divergence between the Russian and western mortality experience goes back to the mid-1960s. At that time, life expectancy at birth in Russia had almost caught up with the western level, but thereafter the difference significantly increased. The 1988-1994 deterioration was a sharp downward fluctuation in an adverse trend, which had originated more than 20 years earlier.

### (ix) Depopulation

A major result of these demographic processes is that the region as a whole, and its most populous country in particular, appear to have become an area/country of population decline. According to official statistics, in the eight years 1992-1999 the population of the Russian Federation fell by 2.8 million or almost 2 per cent, and in 1999 alone by 785,000, or 0.5 per cent. Further (officially measured) depopulation seems likely.<sup>299</sup> On

<sup>295</sup> N. Rimashevskaya (ed.), *Rossiya 1998* (Moscow, Institute for Socio-Economic Problems of the Population, Russian Academy of Sciences, 1999), p. 66.

<sup>296</sup> J. Shapiro, “The Russian mortality crisis and its causes”, in A. Aslund (ed.), *Russian Economic Reform at Risk* (London and New York, Pinter, 1995); V. Shkolnikov et al., “Causes of the Russian mortality crisis: evidence and interpretations”, *World Development*, Vol. 26, No. 11 (Oxford), November 1998.

<sup>297</sup> However, in the first half of 2000, it rose rather than falling. This (together with the causes of the mortality increase as published in the cause of death statistics) suggests that alcoholism was more important than stress.

<sup>298</sup> A. Vishnevskii and V. Shkolnikov, *Smertnost’ v rossii: glavnye gruppy riska i priorityty deistviya* (Moscow, Carnegie Center, 1997).

<sup>299</sup> The accuracy of the population registration statistics – from which the official population figures are derived – is uncertain. According to President Putin, in his open letter to the electors of 25 February (*Izvestiya*, 25 February 2000), there are currently no reliable figures about the population and a census is necessary to count the population (the last full census was held in 1989). This scepticism probably relates mainly to the migration data, which are known to be unreliable. There is both unregistered emigration and unregistered immigration. It seems likely that on balance there is net unregistered immigration. If the gross number of

present trends, the (officially registered) population of Russia will fall below 145 million during 2000. Throughout the region many people worry about the decline in numbers of their ethnic group or of the population of their state. If one takes the fertility and mortality rates as given, and treats as reliable the official migration data, this depopulation is a result of insufficient immigration. In 1999 not only numerous transformation countries, but also EU countries such as Germany, Italy and Sweden had an excess of deaths over births. These three EU countries, however, unlike the transformation countries, had a growth in their population because their net immigration was greater than their excess of deaths over births. Although some people have advocated that the transformation countries should encourage immigration to offset their depopulation (for example, Zayonchkovskaya has argued that Russia should encourage Chinese immigrants in western Russia)<sup>300</sup> this is a controversial and unpopular position throughout the region.

This process of (officially measured) depopulation is sometimes described with the help of an extremely alarmist terminology. For example, S. Glazyev, the well-known Russian economist and Duma member, and a Minister in the 1992 Gaidar government, has described it as “genocide”.<sup>301</sup> Referring to the fertility data for 1996 he has stated that “Such a low level of reproduction is unprecedented, and has not been observed before now, neither in our country, nor in others, even during wartime.” This untrue statement entirely ignores the similar fertility levels in Italy and Germany, and the fact that Russian fertility in 1996 was about double that in the former GDR.

Depopulation is normally treated as a negative economic development, and it certainly has negative aspects. However, it may have favourable effects on real wages as workers become scarcer, as seems to have happened in mediaeval Europe in response to the mortality crisis resulting from the Black Death. In Russia the population of working age will decline significantly from the middle of this decade,<sup>302</sup> which will be adverse for employers but may be favourable for employees.

#### (x) Criminalization

One of the striking features of the transformation was the growth of crime and the widespread

criminalization of society, particularly in the CIS countries. This has been extensively described<sup>303</sup> and also analysed by economists.<sup>304</sup> Apartment dwellers have reacted by fortifying their apartments. Entrepreneurs have reacted by buying “protection” and sending their families abroad. Many people, especially women and the elderly, are more fearful in public places than comparable people would have been 15 years ago. In the CIS countries, criminalization has contributed to capital flight. An important feature of events in the CIS countries in the 1990s was the development of close links between the criminal, political and business worlds. Membership in the national parliaments was frequently coveted primarily for the immunity from criminal prosecution that it provided. Business people employed criminals for contract enforcement. It is characteristic of the situation that when in December 1999 the Russian President resigned, he was immediately granted an amnesty from prosecution for any crimes he might have committed while in office. The “Sicilianization” of Russia and other CIS countries seems unlikely to provide the institutional framework for dynamic economic development.

#### (xi) Growth of corruption

Under the old regime there was extensive corruption,<sup>305</sup> but the collapse of Communism has seen a dramatic increase in corruption. So much so, that in some countries, kleptocracy has become a significant ingredient of their political system. This growth of corruption resulted from state collapse, the rotation of elites, and the widespread failure to introduce and enforce appropriate legal and cultural norms.

If one ranks countries by their perceived level of corruption according to Transparency International’s 1999 Corruption Perception Index,<sup>306</sup> then three transformation countries – Slovenia, Estonia and Hungary – are less corrupt than Italy, and one transformation country – the Czech Republic – is only just more corrupt than Italy. However, a number of CIS countries – the Republic of Moldova, Ukraine, Armenia, Russia, Georgia, Kazakhstan, Kyrgyzstan, Uzbekistan, Azerbaijan<sup>307</sup> – are exceptionally corrupt (significantly

<sup>303</sup> For one such description, see A. Kucherenka, *Bal bezzakoniya* (Moscow, Politburo, 1999).

<sup>304</sup> Examples of such analyses are F. Varese, “Is Sicily the future of Russia?”, *Archives européennes de sociologie*, Vol. XXXV, No. 2 (Cambridge), 1994; S. Pejovich, “The transition process in an arbitrary state: the case for the Mafia”, *IMAD, IB Review*, Vol. 1, No. 1 (Ljubljana), 1997.

<sup>305</sup> K. Simes, *USSR: The Corrupt Society. The Secret World of Soviet Capitalism* (New York, Simon & Schuster, 1982); A. Vaksberg, *The Soviet Mafia* (New York, St. Martin’s Press, 1991).

<sup>306</sup> Internet website (www.transparency.de).

<sup>307</sup> The countries are listed in order of increasing perceived 1999 corruption. Of the 99 countries included in the index, the Republic of Moldova and Ukraine are the 75th most corrupt, and Azerbaijan the 96th.

illegal immigrants in Russia in the late 1980s really was about 4 million, or about 3 per cent of the population, as estimated in N. Rimashevskaya, op. cit., p. 95, then it might be that depopulation in Russia in the 1990s was a statistical illusion created by inadequate data on immigration.

<sup>300</sup> Z. Zayonchkovskaya, “Chinese demographic expansion into Russia: myth or inevitability”, in G. Demko et al. (eds.), *Population Under Duress* (Boulder, CO, Westview, 1999).

<sup>301</sup> S. Glazyev, *Genocide. Russia and the New World Order* (Washington, D.C., Executive Intelligence Review, 1999), pp. 1-33.

<sup>302</sup> D. Lvov, op. cit., p. 304.

more so than even China or Ghana) as is one non-CIS transformation country – Albania.

Corruption and theft of public money has serious consequences for efficiency, distribution, incentives and the political system. As far as efficiency is concerned, the additional cost of bribes increases costs and wastes resources. It also creates “public bads”, such as officials who prey on the public and businesses rather than providing the “public goods” that they are formally meant to provide. It also distorts policy, since frequently policies are adopted because their supporters have offered the biggest bribes or the policy concerned offers the possibility of generating the largest “bribe tax”. Frye and Shleifer compared the extent of the “grabbing hand” (i.e. corrupt officials) as it affected the retail trade in Warsaw and Moscow.<sup>308</sup> They concluded that it was a considerably more serious problem in Moscow. This may be a major cause of the much greater extent of the depression in Russia than in Poland, where the upswing has been led by dynamic newly created firms. The situation is no better in some other CIS countries. In Ukraine, “Without bribing local administration officials it is practically impossible [for small business] to survive. The former Ukrainian vice-minister of economy, V. Pyznyk, estimates that in order to open a small business in Ukraine, you need to hand out nearly \$2000 in bribes. This all means that entry costs are rather high. According to many business people interviewed in Zaporizhzhya, the number of small- and medium-sized enterprises declined since 1994 as purchasing power of the population diminished rapidly and as the local bureaucracy created numerous obstacles to private entrepreneurs, especially those producing goods.”<sup>309</sup>

As far as distribution is concerned, corruption reallocates resources to the rich and powerful and is ultimately paid for by the general public.

As far as incentives are concerned, corruption distorts the energies of officials and citizens towards socially unproductive rent seeking. Corruption creates risks, generates the need for unproductive preventive measures, and distorts investment away from areas with high corruption.

As far as politics is concerned, corruption breeds popular alienation and cynicism, the use of “the struggle against corruption” as a weapon in the political struggle, and in some cases popular support for a strong man who promises to root out corruption.

## (xii) Armed conflicts

Unfortunately there have been a large number of armed conflicts in the transformation countries.<sup>310</sup> As Mukomel and Payin have noted:<sup>311</sup> “Beginning in the late 1980s, within the post-Soviet space there have been six regional wars or protracted armed clashes involving regular military contingents and heavy weaponry (Karabakh, Abkhazia, Tajikistan, South Ossetia, Trans-Nistria (*Pridnestrovye* in Russian) and Chechnya), about 20 short-term armed clashes accompanied by casualties among civilians (the most significant in the Fergana valley and Osh and in pogroms in Baku and Sumgait), and more than 100 non-armed conflicts – interstate, interethnic, interdenominational and interclan confrontations. Within the regions immediately impacted by regional conflicts and surges of bloody conflict, no less than 10 million people lived.”

Mukomel and Payin estimate the number killed in these conflicts at about 100,000 and the number injured at 500,000 (these figures exclude the second Chechen war).

The other area of armed conflicts has been in the former SFR of Yugoslavia. The wars in Bosnia and Herzegovina, Croatia and Yugoslavia caused extensive loss of life, numerous injuries, substantial migration and widespread damage to property.

## 5.3 Who has borne the costs?

### (i) Industrial workers

In general, during the transformation the pay of industrial workers has fallen (both absolutely and relatively), their employment and payment security has greatly declined, and their opportunities for training have often been reduced.

### (ii) Budget sector employees

Budget sector workers (teachers, doctors, police, etc.) have frequently seen their pay fall (both relatively and often absolutely) and their employment security drop. In the CIS countries they have often been victims of delayed pay. This decline in their economic position is one of the reasons for the widespread corruption in these sectors.

### (iii) Rural population

A variety of studies have drawn attention to the deterioration in the economic position of the rural population. In Russia the burden of inadequate facilities and “deferred maintenance” of school buildings have particularly affected rural schools.<sup>312</sup> On the other hand,

The CIS country with the best perceived corruption performance is Belarus which came 58th.

<sup>308</sup> T. Frye and A. Shleifer, “The invisible hand and the grabbing hand”, *American Economic Review*, Vol. 87, No. 2 (Nashville, TN), May 1997.

<sup>309</sup> H. van Zon et al., op. cit.

<sup>310</sup> V. Mukomel and E. Payin, “The causes and demographic-social consequences of interethnic and regional conflicts in the post-Soviet Union”, in G. Demko et al. (eds.), op. cit.; M. Dinkic (ed.), *Final Account* (Belgrade, Stubovi kulture, 1999).

<sup>311</sup> V. Mukomel and E. Payin, op. cit., p. 177.

<sup>312</sup> E. Breeva, op. cit., p. 83.

in Ukraine it seems that in 1997 the rural population (which had greater access to land) had a higher per capita food consumption than the urban population (which depended on the purchasing power of wages).<sup>313</sup>

#### (iv) Children

In many transformation countries a high proportion of children live in poverty. This is largely a result of low real wages. As the 1995 Latvian family and fertility survey observed, "even if both parents work, they do not earn enough to meet the basic needs of a family with children".<sup>314</sup> Family allowances are normally inadequate to compensate for this. Where they were substantial (e.g. in Hungary in the first half of the 1990s) they have frequently been cut in the interests of macroeconomic stabilization.

#### (v) Refugees and displaced persons

The transformation has been accompanied by the creation of large numbers of refugees and displaced persons. This has resulted from the nation building and wars taking place in the region. In particular, the significant number of refugees and displaced persons from the social and military conflicts in the former SFR of Yugoslavia and former Soviet Union was one of the biggest social costs of the transformation process.

#### (vi) Women

The effect of the transition on women has been examined in an excellent UNICEF study from which much of the following is taken.<sup>315</sup> In the old system, women were at a great disadvantage compared with women in OECD countries or men in their own countries, because of their very long hours of work. They had to combine a full working day in their paid employment with long hours of unpaid domestic work (the "double burden"). Their working hours were longer than those of their menfolk since a disproportionate share of domestic work was done by women. They were longer than in OECD countries because of the endemic queues and shortages which made shopping very time-consuming, and the relatively low quantity and poor quality of household appliances. In addition, women were the victims of a lack of modern contraceptives and hence a large number of unwanted pregnancies.

During the transition both women and men have benefited from the reduction in shopping time and the increased variety of consumer goods resulting from price

and trade liberalization. Because of their greater domestic responsibilities, women have benefited disproportionately from this. They have also, however, suffered disproportionately in those countries where real incomes have fallen, from the strain resulting from the attempt to balance household budgets under conditions of declining real incomes.

Both men and women have been hit during the transition by the decline in employment. Women who lost their jobs, however, have disproportionately left the labour force altogether, becoming full-time housewives. How should this be evaluated? Interviews with the wives of Russian businessmen suggest that the women concerned evaluate it variously. Some enjoy their new lady-of-leisure status, some suffer from social isolation and some use their time to undergo training for business positions.<sup>316</sup> Another avenue for women who have lost their formal sector work has been prostitution. In the mid-1990s almost 2 per cent of employed women in Latvia were "sex workers". In a survey of prostitutes in Riga in 1995 more than 60 per cent stated that unemployment had caused them to take up this activity. Among potential female entrants to the labour force, there seems to have been a general increase in their participation in tertiary education. This bodes well for future female labour force participation.

As far as the growth of self-employment and employment in the private sector is concerned, this seems to have primarily benefited men. Similarly, entrepreneurship is a largely male activity. (Some women, however, have ventured into these new fields of activity.)<sup>317</sup> On the other hand, there has been a slow growth in part-time employment. In addition, in central Europe the gender pay gap has narrowed.

#### (vii) Men

Men constitute the majority among the winners – the new rich, senior government officials, the Mafia bosses, the new market professionals (marketing, finance, and other business services) and successful entrepreneurs. This is scarcely surprising. More surprising is that males seem also to constitute the majority of the worst victims of the transformation.

A Russian study has pointed out that the bottom of the social heap in contemporary Russia comprise mainly males.<sup>318</sup> This is so both with respect to homeless and

<sup>313</sup> D. van Atta, "Household budgets in Ukraine: a research report", *Post-Soviet Geography and Economics*, Vol. XXXIX, No. 10 (Palm Beach, FL), December 1998.

<sup>314</sup> UN/ECE and UNPF, *Fertility and Family Surveys in Countries of the ECE Region: Latvia* (United Nations publication, Sales No. GV.E.98.0.4), p. 46.

<sup>315</sup> UNICEF, *Women in Transition*, Regional Monitoring Report, No. 6 (Florence), 1999.

<sup>316</sup> O. Zdravomyslova and M. Arutyunyan, *Rossiiskaya sem'ya na evropeiskom fone* (Moscow, Editorial URSS, 1998), pp. 157-161.

<sup>317</sup> For a discussion of women entrepreneurs in Russia and Lithuania, respectively, see A. Chirikova, *Zhenshchina vo glave firmy* (Moscow, Institute of Sociology, Russian Academy of Sciences, 1998); R. Aidis, "Women and entrepreneurship in Lithuania: characteristics and significance", *The Role of Social Sciences in the Development of Education, Business and Government Entering the 21st century* (Kaunas, Kaunas Polytechnical University, 1999).

<sup>318</sup> D. Lvov, op. cit., p. 146.



destitute adults and with respect to street children. The former seems to be mainly a result of alcoholism and marriage breakups, the latter of the greater willingness of boys than girls to run away from home as a result of beatings and maltreatment.

One red herring introduced into the debate on the effect of the transformation on men, is blaming the transformation for creating large numbers of “missing men”. The concept of “missing women” was introduced into international discourse to draw attention to the fact that in some countries, for example in south Asia, the number of women compared to men is much lower than it would be if the relative survival rates of women and men were the same as in the advanced countries. The difference between the actual number of women and the hypothetical number, is the number of “missing women”. This terminology and calculation draws attention to the fact that in the countries concerned throughout their lives, with respect to food, medical care, education and attention, women are treated much worse than men. In the transformation countries, however, the problem is not “missing women” but “missing men”. That is, the number of men actually alive is much less than it would be if the relative survival rates of men and women were the same as those in the advanced countries. The existence of significant numbers of “missing men” was pointed out in a recent report by UNDP.<sup>319</sup> However, this report was very tendentious in treating all these missing men “as a measure of the toll on men of the shock inflicted during the transition”. The reason that this is very tendentious is that most of the missing men were already missing prior to the start of transition and hence their being missing could not possibly be a result “of the shock inflicted during the transition”. The UNDP report draws attention to the fact that there were 5.9 million missing Russian men in (mid-) 1994, and uses this to stress the social costs of the transition. However, it fails to consider whether this was a new phenomenon in the mid-1990s, resulting from the transformation, or a familiar old problem inherited from the Communist past. The data source used by the UNDP report is the United Nations *Demographic Handbook* for 1997. Prior to 1994, the last year for which this source gives a gender breakdown of the Russian population is 1989 (the year of the last full census). Applying the UNDP method to that year, one finds that there were then 6.5 million “missing men”. Applying the UNDP method to the official Russian estimate of the number of females and males at the beginning of 1992, i.e. immediately prior to the radical economic changes introduced by the new Russian government, the number of “missing men” then was 5.75 million, i.e. about 98 per cent of that in (mid-) 1994. Hence, it can be seen that the problem of “missing men”, i.e. the unusually large gap in life expectancy between men and women, is not a new problem created by post-

1991 policies, but a sad phenomenon inherited from the Soviet period.<sup>320</sup> The increase in “missing men” between January 1992 and mid-1994 was only a minute share of the total number of missing men in mid-1994.

This shows that this alleged “social cost of transition” is just a misinterpretation of the demographic data. As for the actual cause of the large number of missing men in Russia and certain other transition countries (Ukraine, Latvia, Lithuania, Hungary), it seems to result largely from lifestyle factors (mainly gender differences in drinking and smoking).

### (viii) Roma

One group that lives in poverty throughout central and eastern Europe (and frequently also in western Europe) are the Roma. They tend to have high unemployment, low incomes, poor housing and poor education. It seems that in some respects their economic position was worsened by transition. Under the old regime they often had jobs in industrial enterprises which have now restructured or closed down completely. In market economies the need for unskilled workers is much less than under state socialism. They were the victims of genocide under the Nazis, and have been subject to extensive violence and discrimination in recent years.

Recently considerable attention has been devoted to the plight of this group by organizations such as the Council of Europe and the OSCE. The well-known financier and philanthropist, George Soros, has donated money to Roma causes. Some governments, such as that of Hungary, have begun to formulate enlightened policies on this issue. Nevertheless, the provision of education and housing for the Roma, so that they can obtain jobs and earn reasonable incomes, everywhere lags behind what is needed to achieve social inclusion within a reasonable period. One of the few positive developments with respect to the Roma in recent years is that they have begun to establish their own organizations and hence have acquired a greater political presence. From being an object of social policy they are slowly developing into an interest group in a pluralist society. However, the problem of poverty among them is bound to remain as long as their educational level remains low and they remain unqualified for well-paid work. Obvious relevant public policies are: positive discrimination in the allocation of jobs and public contracts (in 1998 the Czech minister without portfolio Mlynar who was responsible for Roma affairs suggested that firms owned by or employing Roma should receive about 5 per cent of all government orders); ensuring that Roma have the same rights in the field of transfer payments and medical care

<sup>319</sup> UNDP, op. cit., p. 42.

<sup>320</sup> The UNDP argument concerns all the transition countries, not just Russia. However, the number of missing men in 1994 in Russia alone was about 60 per cent of the total, and the number in Ukraine, to which the arguments in the text above also apply, about 27 per cent.

as the rest of the population; and ensuring that Roma children attend school.

#### (ix) Russians

Russians are one social group which has suffered relatively more than others from the transition. In addition to the social costs paid by the inhabitants of the Russian Federation, to which attention is drawn in this paper, one important result of the breakup of the Soviet Union was to leave about 25 million Russians in the non-Russian successor states of the Soviet Union. From being members of the dominant ethnic group of a multinational state, these people were suddenly transformed into members of an ethnic minority. They frequently became aliens, deprived of citizenship of the country in which they lived. Their language, formerly the dominant one, became a minority one, and citizenship of their new country frequently required mastering the local language. In some countries they were a suspect and discriminated-against group, and in all the non-Russian successor states of the Soviet Union their relative position on the labour market worsened dramatically. In the Baltic states and Kyrgyzstan privatization of farmland excluded almost all Russians from receiving any. It is not surprising that millions of them emigrated to Russia, often losing their homes and furniture in the process and having difficulties in finding work in their new country.

#### (x) Savers

The high rate of inflation in a number of countries, the numerous pyramid schemes and the widespread banking collapses, have robbed many people of their savings. This has affected many people very adversely, and in one country – Albania – led to a national uprising. Particularly badly affected were the holders of (the more than 220 million)<sup>321</sup> deposits in the former Soviet state savings bank, which lost almost all their value in the great inflation of the early 1990s.

### 5.4 Why has there been so little political protest?

Given the magnitude of the social costs of the transformation, one might have expected widespread political protest, with riots, strikes, political upheavals and economic policy reversals commonplace. In fact, with the exception of Albania in 1997, popular upheavals have been conspicuous by their absence. This in spite of the fact that the neo-liberals have frequently warned of the populist dangers, and their opponents have frequently warned of the political dangers of the neoliberal policies. What explains this stability?

This question has been investigated by Greskovits.<sup>322</sup> He stressed certain structural legacies of the old regime (absence of large inequalities, the initial absence of significant long-term poverty, provision of welfare services, absence of large shantytowns, compromised trade unions, tradition of cooperation between trade unions and management), which distinguished the situation in eastern Europe from that in Latin America. He also pointed to the structural and institutional consequences of the implemented neoliberal measures, such as the growth in unemployment, the decline in union membership, the growth of the private sector, the increase in employment insecurity and the opportunity to protest by voting the government out, which have all contributed to political stability.

Greskovits also drew attention to the fact that an important reason for political stability is that neoliberalism has enhanced the possibilities for, and the gains from, expressing discontent by means of “exit” rather than “voice” (to use Hirschman’s well-known distinction). The two main means of exit have been informalization, that is earning money in the informal sector, and emigration. In many countries the informal sector is large and provides an important part of the answer to the question as to why policies which have had such adverse effects on activities in the formal sector have given rise to such little organized opposition. Similarly, emigration is important throughout the region.

Both informalization and emigration can be considered economic pathologies resulting from the policies pursued. Informalization reduces fiscal income and undermines the financing of public services (and in the form of subsistence agriculture and petty retail trade is very inefficient). Emigration leads to the loss of large numbers of young, and often well-qualified, potential workers. On the other hand, where informalization generates incomes that could not be generated in the formal sector (because of the “grabbing hand”, taxes or inadequate incomes) it must be considered a positive phenomenon. Similarly, remittances from emigrants (as in Albania) or the return to their home country of those who have temporarily worked abroad, as in the Baltic states and Poland, can be a useful addition to a country’s human capital. Furthermore, emigration may benefit the migrants themselves, even if it represents a loss for the their country of origin.

Other factors strengthening the political viability of the measures adopted have been their international support (from the international financial institutions, the EU and the international business community) and the gains from them to the elite (opportunities for looting, increased consumption, acquisition of overseas assets).

<sup>321</sup> At the end of 1990 there were 220 million deposits. During 1991 the number increased.

<sup>322</sup> B. Greskovits, *The Political Economy of Protest and Patience* (Budapest, Central European University Press, 1998).

Greskovits concluded that eastern Europe exhibits a low-level equilibrium, with incomplete democracy and an imperfect market economy, and this is likely to be quite stable. While not a first best solution, it is viable and is a second best one.

In addition, there are some important factors not considered by Greskovits. The transformation has brought not only social costs but also social benefits. For example, the increased availability and variety of consumer goods resulting from price and trade liberalization has had many positive consequences. These range from the reduction in unwanted pregnancies resulting from the increased availability of contraceptives (most of which are imported), via the increased mobility resulting from the spread of car ownership (except in those capital cities where increased congestion has led to a decline in average speeds), to the cultural, recreational and economic (shuttle trade) benefits from increased foreign travel. Furthermore, the interest and variety of the media has frequently increased. Moreover, the possibilities for legal self-employment and entrepreneurship have greatly increased and have been seized by millions of people. In addition, the political changes have brought many social benefits, ranging from independent trade unions, schools/universities and churches, to the greater freedom of nations which formerly lived under an imposed and unwelcome political-social-economic system. These social gains, and their positive evaluations by the populations concerned (or at any rate those within them that have benefited from them), are also part of the explanation of the lack of political protests.

Another factor not considered by Greskovits is the following. Exit is primarily relevant for the young and skilled. Many of those most adversely affected by the changes, however, have been middle-aged and elderly, and without the skills in demand in a market economy. Hence Greskovits does not explain the lack of voice by the great mass of losers. Explanations of this phenomenon have, however, been offered by Ashwin and by Christensen, whose work is more relevant for the CIS countries (Greskovits focuses mainly on central Europe).<sup>323</sup> Ashwin argues that the patience of dissatisfied Russian workers can be explained as a result of a combination of alienated collectivism (the relationship of workers to their enterprises in Soviet times) and individual survival strategies. Neither of these are conducive to effective collective protest. In addition Christensen draws attention to the depression, the lack of resources of worker organizations and the lack of enforcement of the laws. All these weaken the possibility, and the point, of collective protest.

<sup>323</sup> S. Ashwin, "Endless patience: explaining Soviet and post-Soviet social stability", *Communist and Post-Communist Studies*, Vol. 31, No. 2 (Oxford), 1998; P. Christensen, *Russia's Workers in Transition: Labor, Management and the State Under Gorbachev and Yeltsin* (DeKalb, IL, Northern Illinois University Press, 1999).

## 5.5 How does the present system change compare with the previous one?

### (i) The collapse of the Russian empire and the transition to socialism: Russia, 1917-1922

It is important to realize that the current transformation in eastern Europe is not an ordinary type of economic policy but a change of the socio-political-economic system. This means that when thinking about its costs, it is appropriate to compare it not with, for example, conventional macroeconomic policies in OECD countries, but with the previous system change in the area. For the CIS countries, that was the collapse of the Russian empire and the transition to socialism in 1917-1922, for the three Baltic countries the expansion of the Soviet empire and the transition to socialism in 1940-1941 and 1944-1949, and for the rest of the former eastern Europe the expansion of the Soviet empire and transition to socialism in 1945-1949. These systemic changes were also marked by substantial social costs. In the former Russian empire there was a long and bloody civil war, a variety of national wars (Finland, Poland, the Baltics and central Asia), foreign military intervention, a major famine (in 1917-1922, first in central Asia, then in the Russian cities, and then along the Volga) and substantial emigration. In 1918-1922, war, disease and famine seem to have caused about 12.5 million excess deaths.<sup>324</sup> Emigration seems to have been about another 2-3.5 million. These events constituted a demographic disaster (although less than that of the Second World War). In this period there was also a huge decline in output and hyperinflation. Writing about the 1990s in "the former Soviet bloc", a recent UNDP report argued that: "The extent of the collapse in output and the skyrocketing nature of inflation have been historically unprecedented."<sup>325</sup> This erroneous statement ignores what happened during the previous system change in the former Soviet Union area.

### (ii) The expansion of the Soviet empire and the transition to socialism: eastern Europe, 1945-1949

The number of victims of the expansion of the Soviet empire and transition to socialism in eastern Europe was much smaller than those of the collapse and system change in the former Russian empire, but not insignificant. The small-scale civil war in Poland in 1944-1947 seems to have cost about 20,000 lives.<sup>326</sup> The

<sup>324</sup> R. Davies et al. (eds.), *The Economic Transformation of the Soviet Union, 1913-1945* (Cambridge, Cambridge University Press, 1994), pp. 63-64.

<sup>325</sup> UNDP, op. cit., p. 13.

<sup>326</sup> According to a communist writer, cited by W. Brus, "Postwar reconstruction and socio-economic transformation", in M. Kaser and E. Radice (eds.), *The Economic History of Eastern Europe 1919-1975*, Vol. II (Oxford, Clarendon Press, 1986), chap. 22, p. 569, the number of people killed on the government side was 15,000. According to the anti-communist writer A. Paczkowski, "Pologne, la 'nation-ennemi'", in S.



deportation of Ukrainians from south-east Poland to the former German territories seems to have involved about 140,000 people. On the other hand, in the second half of 1952, at the height of Stalinism, there were only (according to official statistics) 49,500 political prisoners in Poland.<sup>327</sup> The number of political prisoners seems to have been greater in Czechoslovakia, despite its smaller population.<sup>328</sup>

The largest social cost of this period was probably the expulsion and flight of Germans from Poland, Czechoslovakia, Hungary and Yugoslavia, which seem to have involved about 9.5 million people. This major social cost can perhaps be treated more as a cost of the Second World War than of the change in the socio-political-economic system in the countries concerned.

## 5.6 Conclusions

The post-1989 transformation was a change of system that had serious adverse social consequences for much of the population. These consequences, however, were in general less than the costs of previous systemic changes in the region.

These consequences included widespread impoverishment, a decline in employment, growth in unemployment, increased inequality, a decline in publicly-provided services, social exclusion and, in some countries, a worsening of the health of the population.

Some of the negative social phenomena observed during the transformation, and sometimes ascribed to the transformation, were not in fact caused by it. For example, although there were almost six million missing Russian men in 1994, it is not true that this was a consequence of transformation. Nor is it true that transformation directly followed a period of successful economic policy during which living standards rose.

In Russia there was a sharp increase in mortality in 1988-1994 and in 1999 (and the first half of 2000), and there were analogous developments in other CIS countries (e.g. Kazakhstan). The main proximate causes of the increase in mortality in Russia in 1988-1994 seem to have been an increase in alcohol consumption and in stress. The main ultimate causes of the increases in Russian mortality seem to have been state collapse and state failure. The high levels of mortality in some CIS countries, notably Russia and Kazakhstan, which particularly affect adult males, are major socio-economic problems for those countries. Effective policies to limit alcohol consumption would make an important contribution to reducing these high levels of mortality.

It is not true that the declining (officially registered) population of Russia and some other countries is a sign that they are the victims of genocide. Some EU countries (Italy, Germany and Sweden) also have an excess of deaths over births. Furthermore, whether the population of Russia really did decline in the 1990s is uncertain in view of the poor quality of the data on net immigration. The long-term decline in the birth rate throughout Europe is a result of deep-rooted pan-European social trends. On the other hand, some sharp short-term fluctuations, such as the dramatic decline in the birth rate in the former GDR in the early 1990s, clearly did result from the transformation. The same probably also applies, at least in part, to the sharp decline in the 1990s in Russian fertility. The level of mortality in Russia worsened during the transformation, and is currently at a very high level by European standards, but the break with pan-European trends goes back to the mid-1960s.

The transformation has led to the growth of a variety of socio-economic pathologies, such as corruption, criminalization, informalization, alcoholism, and tobacco and drug addiction.

There are sharp differences between transformation countries. Whereas some are already (with respect to such indicators as health and corruption levels) Europeanized, others lag a long way behind EU levels. In place of the former homogenous socialist camp, a sharp polarization has developed between countries. Unfortunately, the majority of the population of the region lives in the relatively unsuccessful countries.

The absence of widespread political opposition to neoliberal policies is not necessarily a sign that these policies have widespread support. It is partly a result of the inheritance from the old regime, and the structural and institutional consequences of the measures adopted, particularly the enhanced opportunities for exit, together with the importance of individual survival strategies, the lack of resources of worker organizations and the lack of enforcement of the laws. In addition, it is partly a result of the international support for the measures, and the gains to the elite from them. These factors have combined to make the neoliberal policies feasible, and for some people attractive, despite their social costs.

The transformation has brought not only social costs but also many social benefits (such as easier access to modern contraception, increased foreign travel, more interesting media, greater possibilities for legal self-employment and entrepreneurship, in some cases a reduction in national oppression, etc).

In the twentieth century the unfortunate people of the CIS were the victims of two imperial collapses (of the Russian empire and the Soviet Union) and two abortive transitions (to an attractive socialism and to a civilized market economy), as well as a domestic terrorist regime (1929-1953) and a ghastly war (1941-1945). This combination of misfortunes had enormous social costs.

Courtois et al., *Le livre noir du communisme* (Paris, Laffont, 1997), p. 439, losses on the anti-communist side were about 9,000.

<sup>327</sup> A. Paczkowski, op. cit., p. 445.

<sup>328</sup> K. Bartosek, "Europe centrale et du sud-est", in S. Courtois et al., op. cit.



## Discussion of chapter 5

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### 5.A Alexandru Athanasiu

I will point out some main issues concerning social policy in the transition economies of eastern and central Europe, but basically I will refer to Romania as an example. The effects of replacing the economic system have generated some radical changes in human resources, markets and social services. First of all we must consider some elements that have been characteristic of all the central European economies during the transition process. One of these has been the significant increase in unemployment rank as a result of industrial reorganization. The approach to the unemployment issue has emphasized the passive side of social safety net and not enough active support for reducing unemployment and for reintegration in the labour market. At the same time, legislative measures to encourage early retirement have distorted the relation between taxpayers and beneficiaries. Thus, in Romania, there were about four contributors per pensioner in 1989 but in 1999 the ratio had fallen to 1.2.

The communist laws on retirement in Romania basically apply only to salaried employment: the only contributors to the public pension systems were employees in the budgetary sector and the workers in industry; other active people were excluded. Thus because of the falling number of employees between 1990 and 1999, from some 7 million to 4.8 million, the number of contributors to the public pension system was dramatically reduced. Another problem has been created by the continuing incapacity of a number of state companies to pay their pension contributions. These factors underline the dramatic situation of pensioners, and of the liquidity of pension systems, not only in Romania, but also in other countries such as the Republic of Moldova and Russia, where pensions are frequently not paid for several months (6-9 months).

What was done about social policies during this period? Concerning unemployment and social protection, there were two types of measures: the passive measures, implemented for the first time in the 1990s in all these countries, and consisting of transfers to replace earned income; and active measures consisting of fiscal concessions to employers who hired unemployed people, of professional redeployment policies or subsidized employment, systems of compensatory payment for all employees subject to collective lay-offs. But under present circumstances, new measures are needed to deal with technical unemployment, such as the one for construction employees during the winter season in Romania, a

financial fund managed by the social partners under the name of the "building workers aid fund". We must also note the structure of unemployment during this past decade. Unemployment started to increase in the early 1990s reaching 11.3 per cent in Romania in 1994, declining to about 8 per cent for a short period from 1995 to 1997, and rising again in 1999 to 11 per cent. The changing structure of unemployment in Romania is very interesting. In the early 1990s it was a question of women and elderly people, but young people now account for a large proportion, which is much more dangerous.

To close my remarks, I want to point out the measures I think have to be taken in this particular field of social protection. First of all, we have to develop special programmes addressed to young people and especially the long-term unemployed. In other words, the weight of active social protection measures has to be increased relative to the passive ones. Special programmes for increasing employment based on social partnerships at both the legal, local and national levels must be developed, as well as special programmes to encourage employers to hire the unemployed from particularly disadvantaged groups, such as women, the long-term unemployed and so on. We also have to develop the process of monitoring and evaluating the employment policies' process initiated by the European Commission in order to implement the guidelines of the European employment policy. To end I would like to repeat something extremely nice said, not by me, but by a remarkable woman: "we are not living in a world of absolute alternatives, capitalists or communists, public sector or private sector, market or state. We have to think and believe that we have to choose between a dynamic economy and a more fair society. In this globalization period of time, this kind of dilemma, this kind of choice is not a real one, we need both competitiveness on the economical level and a right social reform in order to strengthen the institutions which are outside the market but which are extremely important both for the economy and for our society. I think that economic dynamism and social justice have to live side by side." This was said by Patricia Hewitt, Minister of Trade and Industry in Great Britain and I have to say that I completely agree with her; we need a policy that will finally bring the transition because if it goes on for too long it will simply exhaust all those involved. That would be a serious matter. But at the same time it is important to achieve a rate of economic growth that will produce an increase in stable employment for all members of society who desire it.

## 5.B Martina Lubyova

During my remarks we shall remain in “the valley of tears”. Coming from Slovakia, I hope I can provide some insights from the perspective of the so-called accession countries, the 10 central east European countries that are now queuing for membership in the EU. I would like to dwell for a few minutes on two key groups of losers, one of them not explicitly mentioned in Michael Ellman’s paper, which I think represent a real threat to social cohesion in these countries. I do not think that it was by chance that Mr. Athanasiu started his presentation by mentioning pensioners and the problems of pension systems. I do not think that I am over dramatizing when I say that it is in these countries that pensioners and those close to pensionable age were sentenced to poverty by the kind of transition that has occurred in these countries. The degree of poverty, of course, varies from country to country, but even in countries applying for EU membership, in Hungary for example, the impoverishment of pensioners has been so dramatic that without family members to support them, they are sentenced to a terrible and helpless condition. Having contributed all their working careers to a system which would have provided them with equal but decent standards of living, they are now facing ever-declining replacement rates and an ever-declining real value of their pensions. They have been virtually pushed out of employment and are unable to work any more. Once they come close to retirement age, they are pushed out of the labour force because early retirement has been used in most of these countries as a means of alleviating the burden of unemployment. I would say that one third of the population is in this very bad situation of not having a clear idea of their future because of the overall ageing problem. Most of these countries have already started pension reforms by introducing some funded schemes, which reduce still further the resources available to the current generation and those close to pensionable age. The future for these people is unclear and they feel helpless. They were unable to accumulate assets under the previous socialist regimes and now they are trapped in systems which in real terms are in decline. The importance of this development is that, first, these people are voters, and *the* voters who are really interested in political life. They do not threaten to emigrate as they are not mobile any more, which is perhaps good news for the EU. I would mention the example of Slovakia, where the previous coalition government had the major support of pensioners, and where, as Professor Ellman points out, inequality did not really increase during the process of transition. This is quite a striking fact and suggests the leverage exercised by pensioners in Slovakia. Slovakia is one of the countries which has not really implemented any kind of pension reform until now. It still retains the old pay-as-you-go socialist system with only small cosmetic changes: the system lacks an indexation formula and so all pensions have to be raised frequently on an ad hoc basis in nominal terms. What happens in practice,

given the lack of resources, is that the lowest pensions are raised to the level of the social minima while the higher pensions are not increased at all. So there is an increasing convergence in the level of pensions. As the country has 5 million inhabitants, a labour force of 2 million and 1 million pensioners, pensioners account for about one third of income recipients. So this explains why pensioners have to be taken into account and why their perspectives are important for domestic political development.

The second group I would like to draw attention to, although mentioned in Professor Ellman’s presentation, is the Roma ethnic minority. In the paper there is mention of the ethnic conflicts in the Balkan countries, in Russia and Chechnya, but I would like to speak about countries such as the Czech and Slovak Republics, Hungary and Romania where this ethnic group constitutes a social time bomb. Traditionally, the Roma have lived under the worst social conditions, both during the socialist period and since: the decline in their living standards has been the most dramatic of any group in the countries that I have just mentioned. The decline in fertility that was mentioned in the paper does not apply to the Roma ethnic group. Thus, in the Slovak Republic, the total population between 1990 and 1998 increased by roughly 1 per cent while the Roma population increased by 17 per cent. So this is a large difference, and there are some demographic forecasts which suggest that if these trends are maintained, over the life cycle of four generations of 50 years, roughly half the population will be in the Roma ethnic group. So these are really interesting figures, but the problem may be even more urgent than it seems because one of the key problems with the Roma is that nobody really knows how many of them there are: the only reliable source of information is the population census which tends to understate their numbers because membership of the ethnic group is a matter of self-declaration. The official numbers may be as much as 10 times smaller than the real numbers. For most of you the Roma have become visible during recent years as a result of Roma applications to some western countries for political asylum on ethnic grounds. The reaction of the EU to this movement has been one of panic despite the fact that the order of magnitude of this phenomenon is only several hundreds of people. The reaction has been to reintroduce visa obligations for citizens of several countries, not the best political signal to those countries which are preparing for EU accession. The last point I would like to make concerns this problem of EU accession and the problem of providing appropriate standards of social security in the central east European countries, as part of the effort to avoid massive outflows of workers to the EU countries. In this respect we have to distinguish between two groups of countries: one is where there is extreme poverty such as in Albania or Romania and the other consists of countries ravaged by the wars in the Balkans. Research by the International Organization for Migration in the latter countries

suggests large numbers of people wish to migrate to the west for good: without any clear perspective of the future, unable to talk to their neighbours any more, there seems little option but to migrate permanently with their families. Whereas in the former group of countries, people are more interested in a temporary migration to exploit international wage differentials. After a limited period of working in the west, they want to return home where the purchasing power of their western wages is much higher than if they remained in the west. Given this motivation, it is remarkable that the EU should have introduced such policies towards their neighbours in countries such as the Czech Republic, Hungary, Poland and Slovakia. Although the citizens of these countries are not subject to visa obligations, they are at the same time subject to very restrictive quotas regulating access to the EU labour market. The general quotas are open to competition from citizens from the rest of the world and the quotas under bilateral agreements with the EU are very small (usually of the order of several hundred workers). So in this situation, of the two strategies of migration and informalization mentioned in Michael Ellman's paper, informalization is actually stimulated by this policy of the EU. Given the existence of large wage differentials, free access to the EU but not to the labour market, huge informal sectors are a logical outcome, not only in the west but also in the east because those working clandestinely in the west are often registered as unemployed in the east and drawing some kind of social benefits. In countries with double-digit unemployment rates it is really difficult to monitor what people are actually doing. The European Social Fund, one of the largest structural funds of the European Union, was established many years ago with the aim of promoting the circulation of people in order to achieve greater allocative efficiency by securing a better match of people to available jobs. It seems to me to be short-sighted and inconsistent to have this major structural tool for promoting mobility but at the same time to draw this artificial line between these groups of countries.

### 5.C Alena Nesperova

The transition economies of central and eastern Europe have been exposed to multiple shocks during the last decade. Political changes paved the way for systemic, economic and social reforms, which changed their internal economic parameters but also contributed to a rapid collapse of the CMEA market. Strongly protected domestic enterprises were suddenly confronted with shrinking internal and external demand and the need to search for new markets in an environment of harsh global competition and rapid technological changes. A number of transition countries were also hit by the negative effects of re-emerging nationalism and ethnic tensions, which had been suppressed but remained latent under the previous regime. They resulted in the breakup of the USSR and SFR of Yugoslavia and in the split of Czechoslovakia. Unfortunately, in Yugoslavia and the Caucasian region extreme nationalism turned into armed

conflict, seriously affecting not only the countries involved but also their neighbours.

The negative social consequences described in Professor Ellman's paper thus result from all these shocks and failed policy responses. The author gives a long list of the detrimental effects of the transition crisis. Their depth and duration have varied for different subregions, leading to increasingly divergent development inside the region. I will extend his analysis in the field of employment and contribute some considerations about the past and the policies now required to address employment and social problems.

Official statistics on the decline in employment do not provide the full picture of labour market developments. On the one hand these data do not reflect the large amounts of hidden unemployment and underemployment within the formal employment figures and on the other hand the large-scale involvement of the population in the informal sector.

In the Russian Federation for example, according to the Russian Statistical Committee, 11.1 per cent of workers in the course of 1998 were put on administrative leave on the initiative of enterprise managements, i.e. they were actually temporarily laid off, while 10.1 per cent were working short-time. Many labour market experts doubt the reliability of the statistics on working-time losses caused by these measures. Field research reveals a large discrepancy between the extensive actual losses of working time and those reported.<sup>329</sup> Also large- and medium-sized enterprises tend to exaggerate employment in order to exercise more political power in the region or to benefit from direct or indirect subsidies. In addition, some 5 per cent of workers are paid extremely low wages reflecting their much reduced workload.<sup>330</sup>

The ILO enterprise survey of Ukrainian industry revealed that over 20 per cent of workers were on short-time work and 18 per cent on administrative leave in 1999. However, the survey also found that other workers not classified as being on short-time worked on average only 32 hours a week. In addition, many women were forced to take extended maternity leave in order to reduce the internal labour surplus in ailing industrial enterprises. As a result, at any time, about one third of all workers were actually laid-off although formally employed.<sup>331</sup>

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<sup>329</sup> See, for example, S. Ohtsu, "How far hidden is the 'hidden unemployment' in transition Russia?", paper presented to the Budapest Seminar on Transition Labour Markets (Budapest), 17-19 September 1997.

<sup>330</sup> T. Gorbachova, "Features on the formation of the labour market and its statistical measurement in Russia", paper presented at the Budapest Seminar, op. cit.

<sup>331</sup> G. Standing and L. Zsoldos, "Worker insecurities in Ukrainian industry: the 1999 ULSF", ILO, *Socio-Economic Security Report*, (Geneva), April 2000.



The vast non-payment of wages can also be considered as another form of underemployment. According to a survey conducted by the All-Russia Centre of Public Opinion (VTsIOM) and the Russian Ministry of Labour and Social Policy, the proportion of workers receiving their wages in full and on time was only 25 per cent in March 1998. In Ukraine, over 80 per cent of all industrial enterprises paid wages with a delay exceeding 20 weeks on average in 1999. Problems with the delayed payment of wages are huge in all the CIS countries but they are not absent even in the economically stronger central European countries.

A number of workers also have second jobs. While the share of second jobholders in the formal sector contributes some 3-5 per cent to total employment in most transition economies, according to labour force survey (LFS) data, many more persons have second jobs in the informal sector.

Employment in the informal sector varies by country and tends to be larger in countries at lower levels of development and facing more labour market tensions. In Poland, a recent extended LFS revealed that 4.8 per cent of the population aged 15 and more were engaged in informal gainful activity in 1998, of whom 3.8 per cent were in urban areas and 6.4 per cent in rural areas. Informal employment was performed by 5.5 per cent of the employed, by 14.6 per cent of the unemployed and 2.4 per cent of those classed as economically inactive. For 21 per cent of those surveyed it was their main activity, regardless of their formal employment status. In comparison with the previous 1995 survey, the proportion of the population aged 15 and more declined by 2.8 percentage points, thus reflecting some improvement in the labour market and social situation.<sup>332</sup>

In the Russian Federation, a VTsIOM survey estimated that informal employment was the main activity of 7.5 million persons, i.e. 6.5 per cent of the population aged 15 and more in 1997. However, the Russian Tax Inspectorate estimates the share of the adult population with second jobs (registered and unregistered) at 35-40 per cent.<sup>333</sup> If this is so, total labour input has not actually declined much during the transition process: production has become more labour intensive while labour productivity has fallen sharply.

All these findings indicate that labour market flexibility has increased a lot. In central Europe it mostly takes the form of adjustments in the number of workers, while part-time or short-term work is still very limited in the formal economy, although quite widespread in the informal sector. In contrast, in the CIS countries labour

market flexibility is manifested through fluctuations in hours worked and real wages (including the difference between contracted and actually paid wages and the huge accumulation of wage arrears) and in unregistered employment.

Layoffs have disproportionately affected women, persons with disabilities and health problems, unskilled and low-skilled workers, and some ethnic minorities disadvantaged by their insufficient command of the majority language (e.g. the Russian minority in ex-USSR countries) or low or obsolete skills (e.g. Turks in Bulgaria or the Roma minority throughout the region) and often exposed to discrimination by employers.

Registered unemployment has developed differently in central and south-eastern Europe as compared with the CIS countries. In the former group of countries there was a sharp increase in open unemployment in the first years of the transition followed by some decline and then stabilization. However, this seemingly favourable development was only partly connected with the recovery of demand for labour as many unemployed persons actually withdrew from the (formal) labour market when their benefits expired and no reasonably paid jobs were available or they opted for early retirement. Recently these countries have been confronted with further increases in unemployment resulting from a new wave of structural changes and from reforms of their national health insurance systems (e.g. Bulgaria, Poland). Unemployment measured according to the ILO definition by LFS is usually not much different from registered unemployment. But LFS unemployment exceeds registered unemployment substantially in the three Baltic countries and Bulgaria while in some other countries, most markedly in Croatia and Slovenia, it is the other way round. The differences can be explained by more or less strict national unemployment benefit systems (with the overall tendency to make the eligibility rules stricter) and variations in the assiduity of labour offices in checking job seekers as to their actual employment status, job search activity and readiness to take up offered jobs.

In the CIS countries, registered unemployment grew very slowly while LFS unemployment accelerated, exceeding several times the registered one. This gap between registered and LFS unemployment has again increased recently as a consequence of a deterioration in the actual labour market situation and shrinking funds at the disposal of national employment services. The reason for this large gap lies in the low propensity of job seekers to register at public employment offices, due to the low levels of unemployment benefits and their irregular payment, the modest supply of vacant jobs, in particular of those which are more attractive in terms of remuneration, required skills and working conditions, and the limited availability of labour market programmes.

Economic transition has resulted in an increased mobility of labour, both territorial (mostly in the form of

<sup>332</sup> Central Statistical Office, *Unregistered Unemployment in Poland in 1998* (Warsaw), 1999.

<sup>333</sup> Yu. Simagin, "On estimates of the size of additional (secondary) employment of the population" (in Russian), *Voprosy ekonomiki* (Moscow), January 1998.



commuting to work, including cross-border commuting and temporary work abroad rather than a change of residence inside the country or permanent migration) and occupational. However, with regard to the speed and extent of structural and technological changes, there is a need for much greater mobility. A considerable proportion of the population, even in the prime age group, are unwilling to be retrained for occupations demanded by the market or to seek jobs in another region: instead, they prefer to opt for unemployment or inactivity, supplementing their income by informal work.

In a number of countries the access to and quality of secondary and higher education have improved, partly as a result of competition between the public and the many new private schools. However, financial costs of attendance (including fees and other charges, textbooks and transportation or the accommodation of non-resident students) are growing rapidly and the state is unable to provide stipends to students from poorer families. As a result, in many transition economies there is an increasing social stratification of education, which will lead to deteriorating prospects for the employment of the low-income strata of the population and contribute to their social marginalization. In the CIS countries in particular, poor families in rural areas do not even send their children to school at certain times of the year either because they need their help with the harvest or because they cannot buy clothes and shoes for them. Until recently illiteracy was almost non-existent but it is now increasing, jeopardizing the chances of these people and the country as a whole to succeed in the global competition.

Due to the decline in fertility (associated not only with the difficult social situation of families with children but also with the new opportunities for young people who prefer to postpone or even give up having a family and children), rising mortality among the working age population in many countries and emigration, most transition countries are confronted with the problems of depopulation and ageing. The increasing proportion of the population at or close to pensionable age in relation to the working population is making national pension systems financially unsustainable and lowering the real value of pensions, often much below the subsistence minimum. Moreover, demographic changes will soon contribute to labour shortages and skill mismatches will increase unless appropriately addressed by the extended training of older workers.

The winners in the process of transformation are thus persons who are young, in good health, well educated, flexible, entrepreneurial and mobile, and those who have privileged access to enterprise assets. The

losers tend to be persons with any kind of handicap in terms of age, gender, education, health, mobility or ethnic origin. As for countries, relatively more successful are those which have been able to maintain a reasonably narrow income distribution and the social cohesion of their population even though they have not so far been able to achieve sustainable economic growth and social development.

All the transition countries have adopted new laws or substantially amended existing ones with the aim of creating appropriate regulatory frameworks for their labour markets in the new conditions. They have also established national employment services and introduced income support systems and employment promotion programmes. Also their social protection systems have been gradually reshaped. However, so far, employment and social policies have not been very effective in mitigating the negative social consequences, above all because of constrained social budgets as a result of economic decline, falling real incomes in the formal economy, tax collection problems and pressures to reduce public expenditure. The poor targeting of social policy to those in real need and an overwhelmingly passive approach of labour market institutions to solving unemployment problems have added to the distress. Moreover, in all transition economies employment and social policies have not been coordinated and only weakly linked to economic, education and other policies. Nevertheless, they have managed to mitigate some of the worst effects on certain socially weak groups, such as pensioners.

In order to improve the labour market and social situation, there is a need for coordinated policies in order to increase the demand for labour as well as improving labour supply. On the demand side, a major role is to be played by economic policy, by the active stimulation of economic growth, structural adjustment and creation of good quality jobs. National education and training systems also have to be reformed in line with the concept of life-long learning in order to improve the quality of human resources and the adaptability of the labour supply to the changing demand for skills. At the same time labour market policies and social protection measures need to be well designed and coordinated, directed towards increasing the employability and mobility of the labour force and creating incentives for people to work and take up jobs in the formal economy while discouraging dependence on welfare and informal work. The problem of high unemployment, forced inactivity and social marginalization of disadvantaged population groups has to be addressed by well formulated and properly targeted policies to improve their capacity and promote their employment and social inclusion.