

THE SOCIAL COSTS AND CONSEQUENCES OF THE TRANSFORMATION PROCESS

Michael Ellman¹

“I want to ask you for forgiveness, because many of our dreams have not been realised, 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)

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?

2. What were the costs?

a) 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 yearly 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

¹ Professor of economics, Faculty of Economics & Econometrics, Amsterdam University. Email: ellman@fee.uva.nl. I am very grateful to N. Barr, D. Bezemer, N. Chandra, S. Clarke, P. Ellman, V. Kontorovich, D. Lane, M. Harrison, V. Shlapentokh, M. Spoor, S. Stephenson and W. Swaan for helpful comments on the draft. The author alone is responsible for the interpretations offered and for the errors remaining.

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 four dollars (at 1990 international prices) per capita per day.

Table 1

Poverty during the transition

Country	Percentage of population in poverty		Total No. 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	3.5
Romania	6	48	1.3	10.8
Russia	2	39	2.2	57.8
Ukraine	2	26	1.0	13.5
Total	2.7 ^a	25.4 ^a	6.82	88.2

Source: B.Milanovic, *Income, inequality and poverty during the transition from planned to market economy* (Washington D.C., World Bank, 1998), p.77. 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.

Note: a) Unweighted arithmetic average.

According to Table 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 88 million, i.e. there appear to be 81 million new poor. (Nearly all the poor – 82 million or 93 per cent – live in Romania, Ukraine and Russia.) 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 81 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 1, 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.² 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 seven fold in 1992-96 (from 3 per cent to 20 per cent).³ 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.⁴ 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.⁵ 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.⁶ 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 1994.⁷ 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 FSU 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 1989-90 period

² S. Clarke, “Poverty in Russia”, in P. Stavrakis (ed.), *Problems of economic transition* (Armonk, NY, M. E. Sharpe, 1999).

³ 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.

⁴ B. Milanovic & B. Jovanovic, *Change in the perception of the poverty line during the times of depression: Russia 1993-96* (Washington D.C., World Bank, 1999, mimeo).

⁵ A. Ferrer-i-Carbonell & B. van Praag, *Poverty in the Russian Federation* (Amsterdam, Faculty of Economics, Amsterdam University, 2000, mimeo).

⁶ N. Rimashevskaya & E. Yakovleva (eds.) *Rossiia 1997* (Moscow, Institute for Socio-Economic Problems of the Population, Russian Academy of Sciences, 1998), pp. 188-193.

⁷ UNDP, *Human development report for central and eastern Europe and the CIS* (United Nations publication, Sales No. E.99.III.B.6), p.23.

registered an impressive growth rate of 7.4 per cent in per capita family income...”⁸ 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 1989-90, and hence also part of the subsequent decline in real incomes, would be exposed as statistical 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.

b) 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 GDR) fell from about 193 million in 1989 to less than 170 million in 1996, i.e. by about 12 per cent.⁹ 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 2.

Table 2
Total formal sector employment in the transformation countries, 1990-97
(1989= 100)

	1990	1991	1992	1993	1994	1995	1996	1997
Albania	99.2	97.5	76.0	72.7	80.7	79.0	77.5	76.9
Belarus	99.1	96.6	94.1	92.9	90.4	84.8	84.0	84.1
Bulgaria	93.9	81.6	75.0	73.8	74.3	75.2	75.3	n.a.
Czech Republic	99.1	93.6	91.2	89.7	90.4	92.8	93.4	92.4
Estonia	98.6	96.4	91.4	84.5	82.7	78.3	77.0	76.6 ^a
Hungary	96.9	87.7	79.5	75.6	73.9	72.6	72.6	72.7
Latvia	100.1	99.3	92.0	85.6	77.0	74.3	72.3	73.7
Lithuania	97.3	99.7	97.5	93.4	88.0	86.4	87.2	87.7
Moldova ^b	99.1	99.0	98.0	80.7	80.4	80.0	79.4	78.7
Poland	95.8	90.1	86.3	84.3	85.1	86.7	88.3	89.5 ^a
Romania	99.0	98.5	95.5	91.9	91.5	86.7	85.7	85.8 ^a
Russia	99.6	97.7	95.3	93.7	90.6	87.9	87.2	86.5
Slovenia	96.1	88.7	83.8	81.3	79.3	79.1	78.7	78.6
Ukraine	99.9	98.3	96.3	94.1	90.5	93.3	91.3	88.5

Notes: a) Estimate based on data for first three quarters only. See UN/ECE, *Economic Survey of Europe*, 1998 No.1 (United Nations publication, Sales No. E.98.II.E.1), p.118.

b) Since 1993 excludes Transdnistria.

⁸ N. Kakwani, “Income inequality, welfare and poverty in Ukraine”, *Development and Change*, Vol. 27, No.4 (The Hague), October 1996, p.688.

⁹ UN/ECE, *Economic Bulletin for Europe*, Vol. 49 (United Nations publication, Sales No. E.97.II.E.23), p.24.

Source: UN/ECE, *Economic Survey of Europe*, 1998 No.2 (United Nations publication, Sales No. E.98.II.E.18), p.149.

Table 2 shows both the general fall in formal sector employment as well as the particularly sharp falls in some countries, e.g. Hungary and Latvia, which have lost more than a quarter of their formal employment during transformation.

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,¹⁰ 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.¹¹ 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 & Zsoldos have referred to Ukrainian workers in 1995 as being victims of “excessive wage flexibility”.¹²

c) 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 3.

¹⁰ 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; and 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.

¹¹ UN/ECE, *Economic Survey of Europe*, 1999 No.1 (United Nations publication sales No.E.99.II.E.2) p.136

¹² G.Standing & L.Zsoldos, *Labour market in Ukrainian industry: The 1995 ULFS* (ILO, Geneva 1995) p.55.

Table 3
(Registered) unemployment^a (per cent, end year)

	1990	1994	1995	1996	1997	1998
Albania ^b	n.a.	13.6	12.5	11.7	11.9	12.6
Bulgaria	1.8	12.8	11.1	12.5	13.7	12.2
Czech Republic	0.7	3.2	2.9	3.5	5.2	7.5
Hungary	1.7	10.9	10.4	10.5	10.4 ^c	9.1
Poland	6.5	16.0	14.9	13.2	10.3	10.4
Romania	1.3	10.9	9.5	6.6	8.8	10.3
Russia	n.a.	7.5	8.9	10.0	11.2	13.3

Note: (a) Registered unemployment for all countries except Russia. For Russia, Goskomstat estimates of unemployment according to ILO definition.

(b) Excludes emigrant workers.

(c) The labour force survey estimated the rate at 8.7 per cent.

Source: UN/ECE *Economic Survey of Europe*, 1999 No.2 (United Nations publication Sales No. E.99.II.E.3), p.69.

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 somewhat. On the other hand, in the Czech Republic, where it was initially low, it grew significantly in the late 1990s and by August 1999 had reached 9 per cent. 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.¹³ In April 1999 the labour force survey unemployment in 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 11.7 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.

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

¹³ UN/ECE, *Economic Survey of Europe*, 1999 No.2 (United Nations publication, Sales No. E.99.II.E.3) p.8.

the growth of dynamic enterprises.¹⁴ Its only positive role is to improve the financial position of the enterprises doing the sacking (assuming they evade severance costs).

d) 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 (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 4.

Table 4
Inequality during the transition

Country	Gini coefficient ^a (annual)		
	Income ^b per capita	Expenditure per capita	
	1987-1998	1993-1995	1993-1995
<i>Central Europe</i>			
Czech Republic	19	27	n.a.
Hungary	21	23	27
Poland	26	28	31
Slovakia	20	19	n.a.
Slovenia	22	25	n.a.
<i>Balkans</i>			
Bulgaria	23	34	n.a.
Romania	23	29	33
<i>Baltics</i>			
Estonia	23	35	31
Latvia	23	31	n.a.
Lithuania	23	37	n.a.
<i>CIS</i>			
Belarus	23	28	30
Moldova	24	36 ^c	n.a.
Ukraine	23	47	44
Russia	24 ^d	48 ^e	50

¹⁴ R. Jackman, "Unemployment and restructuring", in P. Boone, S. Gomulka & R. Layard (eds) *Emerging from Communism* (Cambridge Mass, MIT Press, 1998); S. Clarke, *New forms of employment and household survival strategies in Russia* (Coventry, ISITO/CCLS, 1999).

Source: B. Milanovic, *Income, inequality and poverty during the transition from planned to market economy* (Washington, D.C.: World Bank, 1998), p.41.

Notes: a) The Gini coefficient, which can vary between 0 and 100, compares the actual distribution of income to a perfectly equal distribution of income. 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 Netherlands, Japan and Germany 25-28; for the UK and the USA 34-36; and for Latin America about 50. According to the UNDP (1999 p.21) the Gini coefficient in China in 1995 was 45.

b) No account is taken of housing income (implicit housing subsidies and imputed income of owner occupiers). According to R.Buckley & 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, in Russia in the early transformation period, housing income was much more equally distributed than money income, so that the effect of including housing income is to reduce measured inequality significantly. In particular, they estimate that in Russia in 1992, including housing income has the effect of reducing the Gini coefficient of per capita income from 41.7 (money income only) to 35.4 (including housing income). It is likely that the situation in the other CIS countries was similar.

c) According to the UNDP, *Human development report for eastern Europe and the CIS* (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 the UNDP and World Bank data is uncertain.

d) It is possible that the level of 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 nomenclature, the Gini coefficient in the USSR in 1973 was 31. Naturally, the higher the Gini coefficient under the old regime, the smaller the increase in inequality associated with the transformation.

e) According to the official Russian statistics, inequality as measured by the Gini coefficient reached a peak of 41 in 1994, and has since declined, falling 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. See T. Mroz & B. Popkin, *Monitoring economic conditions in the Russian Federation: the Russian Longitudinal Monitoring Survey, 1992-96* (Chapel Hill, NC, University of North Carolina, 1997).

According to the data in Table 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), 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.¹⁵

e) Deterioration of public services and polarisation 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, Moldova and FYR Macedonia, the heating of schools in winter has become a serious problem. In many countries the provision of 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.¹⁶ Van Zon et al. have described the sad situation in Zaporizhzhya province, eastern Ukraine.¹⁷ After considering the situation of medical care, education, musicians & 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.¹⁸ According to the same report (ibid. p.13) 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 opportunity costs such as the cut in family income resulting from loss of work done on the family farm), migration,¹⁹ the decline in the quality of

¹⁵ J.Fleming & J.Micklewright, *Income distribution, economic systems and transition* (Florence, UNICEF, Innocenti Occasional Papers, Economics and Social Policy Series no.70) p.72.

¹⁶ 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.

¹⁷ H.van Zon et al., *Social and economic change in eastern Ukraine: The example of Zaporizhzhya* (Aldershot, Ashgate, 1998), chapter 7.

¹⁸ “Gosudarstvennyi doklad o sostoyanii zdorov’ya naseleniya rossiiskoi federatsii v 1997 g”, *Zdravookhranenie rossiiskoi federatsii*, 1999, No.1 (Moscow), pp. 11 & 14.

¹⁹ 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.

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).

Table 5
Basic educational enrolments (gross enrolment rates^a,
as a percentage of the 6/7 to 14/15 age group)

	1989	1996	1997
Albania ^b	90.8	87.6 ^c	n.a.
Bulgaria	98.4	93.6	94.0
Estonia ^d	96.2	92.8	93.7
Latvia	95.8	90.3	90.7
Russia ^{d,e}	93.0	91.4	90.8
Ukraine ^d	92.8	91.2	90.7

Notes: a) 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 UNICEF, *Poverty, children and policy: responses for a brighter future* (Florence, 1995), p.147.

b) 6-13 years.

c) 1994.

d) 7-15 years.

e) 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. See S. Webber, *School, reform and society in the new Russia* (Basingstoke, Macmillan, 2000), p.187.

Source: UNICEF, *Education for all?* (Florence, 1998), pp. 20-21 and 111; UNICEF, *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.

The situation shown in Table 5 – if the data is 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 one in ten children are being deprived of schooling. A sensible and successful policy initiative to deal with the drop-out problem was undertaken in Romania in 1993.²⁰ 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 – to only 89.6 per cent in 1992, subsequently

²⁰ UNICEF, *Poverty, children and policy: responses for a brighter future* (Florence, 1995), p.73.

increased and by 1997 had reached 95 per cent - higher than that of all the countries in Table 5.

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.²¹ In Russia too, educational inequalities have increased. According to a recent study,²²

“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 Roma children of 10 years old 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.²³

f) 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),²⁴ and tuberculosis, syphilis and hepatitis grew substantially (although syphilis declined in the late 90s). 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.²⁵ Similarly, the decline in the health of pregnant women in Russia in the 1990s seems partly to have been a result of the decline in their nutrition resulting from falling living standards.²⁶

²¹ UNICEF, *Education for all?* (Florence, 1998), pp. 45-46.

²² OECD, *Russian Federation* (Paris, Reviews of National Policies for Education, 1998), pp. 79 & 82.

²³ UNDP, *Human development report for central and eastern Europe and the CIS* (United Nations publication, Sales No.E.99.III.B.6), p.57.

²⁴ This was a result of the decline in immunizations in 1990-91. 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 2 immunized against DPT was about 93 per cent.

²⁵ “Gosudarstvennyi doklad o sostoyanii zdorov’ya naseleniya rossiiskoi federatsii v 1997 g”, *Zdravookhranenie rossiiskoi federatsii*, 1999, No.1 (Moscow) p.16.

²⁶ “Gosudarstvennyi doklad o sostoyanii zdorov’ya naseleniya rossiiskoi federatsii v 1997 g”, *Zdravookhranenie rossiiskoi federatsii*, 1999, No.2 pp. 15 & 18.

The decline in living standards has also had other adverse effects on health.²⁷ According to two officials of the Russian epidemiological service (*gossanepidnadzor*) :

“In recent years the state of the population’s health has been characterised by negative tendencies. There has been an increase in the number of diseases, including those of the digestive system (*alimantar’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 & weight] of children and adolescents have worsened.^[28] 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.”²⁹

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.”³⁰

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.

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 1998,³¹ 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.

²⁷ Alarming reports have been published in Russia about the declining health of young men called up for military service. For example, in the period 1990-95 their fitness is said to have declined by 32 per cent. Similarly. “in the last three years” (1995-97?) 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.

²⁸ 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 Mass), Spring 1999.

²⁹ V. Chiburaev & A. Ivanov, “Problemy organizatsii pitaniya naseleniya Rossii”. *ZNISO* No. 11, (Moscow) November 1999.

³⁰ *Statisticheskoe obozrenie* 1999 No.3 (Moscow), p.73

³¹ *Economist* (London), 12 December 1998.

g) Decline in fertility

There has been a sharp decline in fertility, as measured by the crude birth rate or the total fertility rate.³² This decline shows a wide 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.³³ 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 rose between the late 1980s and the mid-1990s despite the fact that the total fertility rate fell in that period.³⁴ Conversely, in Russia the completed cohort fertility rate has been below the population replacement rate for all cohorts born since the late 1930s,³⁵ which means that the failure of the population in the 1990s to reproduce itself can not be a result of a change in reproductive decisions under the influence of the transformation. The fact that the Russian population nevertheless increased in the 1970s and 1980s seems to have been largely a result of the 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 World War II.³⁶ Moreover, part of the decline in the crude birth rate and the total fertility rate can be considered a normal process of convergence

³² The crude birth rate is the number of births per thousand 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 sixty 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. If the timing of births fluctuates, however, this measure too 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) actually had. This is the most accurate measure of the extent to which generations are replacing themselves, 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.

³³ UN/ECE, *Economic survey of Europe*, 1999 No.1 (United Nations publication, Sales No.E.99.II.E.2) chapter 4; N. Vandycke, *The economics of the reproduction 'crisis' in transition Europe* (London, unpublished LSE PhD thesis).

³⁴ UN/ECE & UNPF, *Fertility and family surveys in countries of the ECE region: Hungary* (United Nations publication, Sales No.E.99.II.E.6), p.13.

³⁵ D.Lvov (ed) *Put' v XXI vek* (Moscow, Ekonomika, 1999), p.283.

³⁶ *ibid.*, p.287.

towards the low fertility norm in the EU. This seems to have been a significant factor in Slovenia, Czech Republic and Hungary, 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.³⁷ 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.³⁸ 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.

h) 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 Union³⁹ 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.⁴⁰ 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 neoliberal 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

³⁷ 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 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 USSR was already widely perceived by its population to be one of crisis.

³⁸ UN/ECE, *Economic survey of Europe*, 1999 No.1 (United Nations publication, Sales No.E.99.II.E.2), pp 193-194.

³⁹ By 'the European part of the former Soviet Union' is meant the European part of the former USSR plus the Asian parts of Russia. It excludes Central Asia and the Transcaucasus.

⁴⁰ V. Shkolnikov & 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?", *Lancet* 1997 No.350 (London).

factors, of which state collapse was very important, but where the policies of the neoliberal ministers who took office in the autumn of 1991 were also a factor.

Other writers have emphasised the importance of stress.⁴¹ 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, that followed the economic crisis of 1998, which 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.

Russian mortality, after reaching a very high level in 1994, declined significantly in 1995-1998 but then increased again in 1999. 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 neoliberals 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 mortality increase.

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 & Shkolnikov.⁴² They also point out that the divergence between 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 twenty years earlier.

i) Depopulation

⁴¹ J. Shapiro, "The Russian mortality crisis and its causes", in A. Aslund (ed) *Russian economic reform at risk* (London & 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.

⁴² A. Vishnevskii & V. Shkolnikov, *Smertnost' v rossii glavnye gruppy riska i priorityeity deistviya* (Moscow, Carnegie Center, 1997).

A major result of these demographic processes is that the region as a whole, and its most populous country in particular, 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 depopulation seems likely.⁴³ On present trends, the 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, 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 that Russia should encourage Chinese immigrants in western Russia⁴⁴) this is a controversial and unpopular position throughout the region.

This process of depopulation is sometimes described with the help of an extremely alarmist terminology. For example, Sergei Glazyev, the well-known Russian economist and Duma member, and a Minister in the 1992 Gaidar government, has described it as “genocide”.⁴⁵ 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,⁴⁶ which will be adverse for employers but may be favourable for employees.

j) 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 described⁴⁷ and also analysed by economists.⁴⁸ Apartment-dwellers have

⁴³ 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.

⁴⁴ Z. Zayonchkovskaya, “Chinese demographic expansion into Russia : Myth or inevitability”, in G.Demko et al *Population under duress* (Boulder CO, Westview, 1999).

⁴⁵ S.Glazyev, *Genocide. Russia and the new world order* (Washington D.C., Executive Intelligence Review, 1999), pp. 1-33.

⁴⁶ D.Lvov (ed.) *Put' v XXI vek* (Moscow, Ekonomika, 1999), p.304.

⁴⁷ For one such description, see A. Kucherena, *Bal bezzakoniya* (Moscow, Politburo, 1999).

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 of the national parliaments was frequently coveted primarily for the immunity from criminal prosecution which 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.

k) Growth of corruption

In the USSR there was extensive corruption,⁴⁹ 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,⁵⁰ then three transformation countries – Slovenia, Estonia & Hungary – are less corrupt than Italy, and one transformation country – Czech Republic – is only just more corrupt than Italy. However, a number of CIS countries – Moldova, Ukraine, Armenia, Russia, Georgia, Kazakhstan, Kyrgystan, Uzbekistan, Azerbaijan⁵¹ – are exceptionally corrupt (significantly 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 health/fire prevention/security/work safety/food safety 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 & Shleifer compared the extent of the 'grabbing hand' (i.e. corrupt officials) as it affected the

⁴⁸ Examples of such analyses are F. Varese, "Is Sicily the future of Russia?", *Archives européennes de sociologie*, Vol. XXXV, No.2 (Cambridge UK) 1994; S.Pejovich, "The transition process in an arbitrary state: The case for the Mafia", *IB Review*, Vol.1, Nr.1 (IMAD, Ljubljana) 1997.

⁴⁹ 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).

⁵⁰ www.transparency.de

⁵¹ The countries are listed in order of increasing perceived 1999 corruption. Of the 99 countries included in the index, Moldova & Ukraine are the 75th most corrupt, and Azerbaijan the 96th. The CIS country with the best perceived corruption performance is Belarus which came 58th.

retail trade in Warsaw and Moscow.⁵² 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 to 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, Viktor Pyznyk, estimates that in order to open a small business in Ukraine, you need to hand out nearly 2000 dollars 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.”⁵³

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 and ultimately regime instability.

1) Armed conflicts

Unfortunately there have been a large number of armed conflicts in the transformation countries.⁵⁴ As Mukomel & Payin have noted:⁵⁵

“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 twenty 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).

⁵² T. Frye & A. Shleifer, “The invisible hand and the grabbing hand”, *American Economic Review*, Vol. 87, No. 2 (Nashville, TN), May.

⁵³ H. van Zon et al., *Social and economic change in eastern Ukraine: The example of Zaporizhzhya* (Aldershot UK, Ashgate, 1998).

⁵⁴ V. Mukomel & E. Payin, “The causes and demographic-social consequences of interethnic and regional conflicts in the post-Soviet Union”, in G. Demko et al. *Population under duress* (Boulder CO, Westview, 1999); M. Dinkic (ed.) *Final account* (Belgrade, Stubovi kulture, 1999).

⁵⁵ V. Mukomel & E. Payin op cit p.177.

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

3. Who paid them?

a) 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.

b) 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.

c) 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.⁵⁶ On the other hand, 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).⁵⁷

d) 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".⁵⁸ Family allowances are normally inadequate to compensate for this. Where they were substantial (eg in Hungary in the first half of the 1990s) they have frequently been cut in the interests of macroeconomic stabilization.

e) Refugees and displaced persons

The transformation has been accompanied by the creation of large number 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 Yugoslavia and the former USSR was one of the biggest social costs of the transformation process.

⁵⁶ E. Breeva, *Deti v sovremennom obshchestve* (Moscow, Editorial URSS, 1999), p.83.

⁵⁷ D. van Atta, "Household budgets in Ukraine: A research report", *Post-Soviet Geography and Economics* Vol. XXXIX No.10 (Palm Beach, FL), December 1998.

⁵⁸ UN/ECE & UNPF, *Fertility and family surveys in countries of the ECE region: Latvia* (United Nations publication, Sales No. GV.E.98.0.4), p.46

f) Women

The effect of the transition on women has been examined in an excellent UNICEF study from which much of the following is taken.⁵⁹ 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.⁶⁰ 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'. A survey of prostitutes in Riga in 1995 found that 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 tertiary education participation. 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.⁶¹) 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.

⁵⁹ UNICEF, *Women in transition*, Regional monitoring report No.6 (Florence, 1999).

⁶⁰ O. Zdravomyslova & M. Arutyunyan, *Rossiiskaya sem'ya na evropeiskom fone* (Moscow, Editorial URSS, 1998), pp. 157-161.

⁶¹ 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", in *The role of social sciences in the development of education, business and government entering the 21st century*

g) 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.⁶² This is so both with respect to homeless and destitute adults and with respect to street children. The former seems to be mainly a result of alcoholism and marriage break-ups, 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.⁶³ However, the UNDP 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 UN *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

(Kaunas, Kaunas Polytechnical University, 1999).

⁶² D. Lvov (ed.), *Put' v XXI vek* (Moscow, Ekonomika, 1999), p.146.

⁶³ UNDP, *Human development report for central and eastern Europe and the CIS* (United Nations publication, Sales No. E.99.III.B.6), p.42.

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.⁶⁴ 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).

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

⁶⁴ 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.

i) Russians

One social group which has suffered relatively more than others from the transition is the Russians. 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 break-up of the USSR was to leave about 25 million Russians in the non-Russian successor states of the USSR. 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 USSR their relative position on the labour market worsened dramatically. In the Baltic states and Kyrgyzstan privatization of farmland excluded 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.

j) Savers

The high level 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 effected many people very adversely, and in one country – Albania – led to a national uprising. Particularly badly effected were the holders of (the more than 220 million⁶⁵) deposits in the former Soviet state savings bank, which lost almost all their value in the great inflation of the early 1990s.

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 neoliberals 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.⁶⁶ 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

⁶⁵ At the end of 1990 there were 220 million deposits. During 1991 the number increased.

⁶⁶ B. Greskovits, *The political economy of protest and patience* (Budapest, Central European University Press, 1998).

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).

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 is an important factor 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.⁶⁷

5. How does the present system change compare with the previous one?

- a) The collapse of the Russian empire and the transition to socialism: Russia 1917-22

It is important to realise that the current transformation in eastern Europe is not an ordinary type of economic policy but a change of the socio-politico-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, in the three Baltic countries the expansion of the Soviet empire and the transition to socialism in 1940-1941 and 1944-1949, and in 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 Baltic and Central Asia), a major famine (in 1917-22, first in Central Asia, then in the Russian cities, and then along the Volga) and substantial emigration. In 1918-22, civil war, disease and famine seem to have caused about 12.5 million excess deaths.⁶⁸ Emigration seems to have been about another 2-3.5 million. These events constituted a demographic disaster (although less than that of World War II). 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.”⁶⁹ This erroneous statement shows a complete ignorance of what happened during the previous system change in the FSU area.

- b) The expansion of the Soviet empire and the transition to socialism: eastern Europe 1945-49

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

⁶⁷ Another factor not considered by Greskovits is the following. Exit is primarily relevant for the young and the 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. For a further discussion of this issue which is more focused on the CIS countries (Greskovits focuses mainly on central Europe) see S. Ashwin, “Endless patience: explaining Soviet and post-Soviet social stability”, *Communist and post-Communist Studies* Vo.31 No.2 (Oxford), 1998; and, P. Christensen, *Russia's workers in transition: Labor, management and the state under Gorbachev and Yeltsin* (DeKalb, ILL, Northern Illinois University Press, 1999).

⁶⁸ R. Davies et al (eds.) *The economic transformation of the Soviet Union, 1913-1945* (Cambridge, Cambridge University Press, 1994), pp. 63-64.

⁶⁹ UNDP, *Human development report for central and eastern Europe and the CIS* (United Nations publication, Sales No. E.99.III.B.6), p.13

in Poland in 1944-1947 seems to have cost about 20,000 lives.⁷⁰ The 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.⁷¹ The number of political prisoners seems to have been greater in Czechoslovakia, despite its smaller population.⁷²

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 World War II than of the change in the socio-political-economic system in the countries concerned.

6. Conclusions

- (1) The 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 change of system in the region.
- (2) These consequences included widespread impoverishment, a decline in employment, growth in unemployment, increased inequality, decline in publicly provided services, social exclusion, and in some countries a worsening of the health of the population.
- (3) 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.
- (4) In Russia there was a sharp increase in mortality in 1988-1994 and in 1999, 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 seems 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.

⁷⁰ According to a Communist writer, cited by W. Brus, "Postwar reconstruction and socio-economic transformation", chapter 22 in M. Kaser & E. Radice (eds.) *The economic history of eastern Europe 1919-1975* vol II, (Oxford, Clarendon Press, 1986) 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. Courtois et al., *Le livre noir du communisme*, (Paris, Laffont, 1997) p.439, losses on the anti-Communist side were about 9,000.

⁷¹ A. Paczkowski, *ibid.* p.445.

⁷² K. Bartosek, "Europe centrale et du sud-est", in S. Courtois et al., *Le livre noir du communisme* (Paris, Laffont, 1997).

- (5) It is not true that the declining population of Russia and some other countries are a sign that they are the victims of genocide. Some EU countries (Italy, Germany, Sweden) also have an excess of deaths over births. The long-term decline in the birthrate 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 birthrate in the former GDR in the early 1990s, clearly did result from the transformation. The high level of mortality in Russia did worsen during the transformation, but the break with pan-European trends goes back to the mid 1960s.
- (6) 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.
- (7) 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 live in the relatively unsuccessful countries.
- (8) The absence of widespread political opposition to neoliberal policies is not necessarily a sign that these policies have widespread support. It is partly a sign that 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 international support for the measures, and the gains to the elite from them, have combined to make them feasible, and for some people attractive, despite their social costs.
- (9) 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).
- (10) In the twentieth century the unfortunate people of the CIS were the victims of two imperial collapses and two abortive transitions (to an attractive socialism and to a civilized market economy) separated by only about seventy years.