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BUILDING MARKET DEMOCRACY IN EASTERN EUROPE
IN THE CONTEXT OF NEO-LIBERALISM

by

MARKETA GEISLEROVA

A thesis submitted to
the Faculty of Graduate Studies and Research
in partial fulfilment of
the requirements of the degree of

Master of Arts

Department of Political Science

Carleton University

Ottawa, Ontario

September 20, 1999

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**BUILDING MARKET DEMOCRACY IN EASTERN EUROPE
IN THE CONTEXT OF NEO-LIBERALISM**

submitted by

Marketa Geislerova, B.A. Hons.

in partial fulfilment of the requirements

for the degree of Master of Arts

Chair, Department of Political Science

Thesis Supervisor

Carleton University
October 14, 1999

ABSTRACT

The collapse of Communism in Eastern Europe propelled the spread of market democracies world-wide. It coincided with an unprecedented widening and deepening of what observers have invariably labelled globalisation. This dynamic global context and its discourse had tremendous impact on the transformation of the region. It informed, legitimised and facilitated the neo-liberal transformation blueprints. After a decade of reforms, the outlook for the development of market democracies is becoming increasingly pessimistic. This thesis assigns the responsibility for the setback to the neo-liberal blueprints themselves. It argues that their logic, discourse, and methods obfuscated the development of a market democracy in the region by evolving the communist legacies they were aimed at correcting.

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INTRODUCTION

i. The Statement of the Problem

The collapse of Communism in the former Eastern Block propelled the ascendancy of neo-liberalism as the dominant ideological paradigm of our time. The thesis claiming the end of history captured the sentiments of the expiring 20th century and shaped the approach to transforming the crumbling authoritarian regimes of Eastern Europe to western style market democracies.¹ Most East Europeans, free at last to live in truth, embraced enthusiastically the idea of the “West.” Euphoria about “re-joining” the Western civilisation, accompanied by a backlash against anything cognitively socialist, facilitated a paradigm shift and thrust Eastern Europe into the midst of a perceptibly globalised world.

Avalanche of Western advisors descended on Eastern Europe, including missionaries from international financial institutions and Harvard professors. New universities and schools sprung up offering courses in business and classical economics besides establishing liberal arts curricula. The teaching of liberal giants as Adam Smith, John Locke or Stuart Mill replaced those of Karl Marx and Vladimir I. Lenin almost as fast as the Berlin Wall came down. The neo-liberal paradigm filled the ideological

¹ Reference to Francis Fukuyama, “The End of History,” *The National Interest* 16 (Summer 1989): 3-35.

vacuum left behind by a discredited Communist regime to become the only credible alternative to the failed socialist experiment. Reform blueprints reflecting this brave ideological metamorphosis were drawn and swiftly implemented.

The neo-liberal discourse postulated that the growing openness of the international system necessitates the East European countries open up their “antiquated” economies to the dynamic financial and trading flows as soon as possible. Openness would not only generate benefits associated with foreign capital access, gains from trade, and foreign direct investment, but also allow the East European economies become an active part of the increasingly integrated and interconnected world. The consequences of being left behind in the competitive environment of this “borderless” world would be significant. One may only glance at the colossal “developmental” problems facing most of the marginalised regions of Africa, Asia or Latin America.

Underscoring the structural “necessities” for integration posed by the globalised character of the international system, the neo-liberal discourse envisioned the advantage of rapid integration to rest in the achievement of “irreversibly” democratic governance as well. Therefore, the neo-liberal discourse postulated that integration would eventually not only bring East European living standards up to par with their western counterparts but that open markets would inevitably bring democracy.

The discourse assumed that the formal introduction of market democracy would change human motivations and ultimately the behaviour of individual actors. While reforms were market-driven, the introduction of democratic provisions (i.e., institutions, processes, procedures, rules and regulations generally attributed to a market democracy

in the West) would lead the East Europeans to change their behaviour to that generally observed in the western market democracies. In this sense free market, first and foremost, and democratic provisions, constructed from above, were to act as the vehicles for broad economic, political and social change (i.e., transformation from Communism to democracy).² The opening of the East European countries, accompanied by radical liberalisation and deregulation efforts, together with the concomitant domestic adjustment, was to expedite this “switch,” bringing them magically into the prosperous realm of Benjamin Barbers’ McWorld, the anachronisms of the Communist era left irretrievably behind.³

Integration into the global economy thus constituted a fundamental reform strategy in itself. In this vein, the IMF staff wrote that “the re-integration of the transition countries into the world economy is an essential element of their transformation process.”⁴ Similarly, the leading reform strategist in Eastern Europe, Jeffrey Sachs, extrapolated in reference to the Polish reform programme:

[e]conomic harmonisation with the Western Europe and eventual membership in the European Community are fundamental goals of the East European countries -- and they determine the fundamental strategy guiding the reform effort.⁵

² The term transformation will be used throughout this paper rather than transition. Transition, used most frequently by the neo-liberal reformers themselves, refers to a linear process with a clear beginning (Communism) and an end (liberal market democracy). It was precisely in this way that reforms were conceptualised by their neo-liberal proponents. However, developments in Eastern Europe point to a fact that the progress towards a liberal market democracy may not be as linear and predictable as the neo-liberals originally assumed. Instead, the process of “transition” is characterised by growing uncertainty and unpredictability. Its course is no longer “steered,” it has assumed a *sui generis* quality. Therefore, the term transformation depicts better the fluid situation most of Eastern Europe finds itself now.

³ Benjamin Barber, *Jihad vs. McWorld: How Globalism and Tribalism are Reshaping the World* (New York: Ballantine Books, 1995, 1996).

⁴ IMF, *Globalisation: Opportunities and Challenges, World Economic Outlook: a Survey by the Staff of the IMF* (Washington DC: IMF, May 1997), 93.

⁵ Jeffrey Sachs, *Poland's Jump to the Market Economy* (Cambridge, Massachusetts: MIT Press, 1994), 5.

The optimism of the transformation blueprints drawn at the close of the Communist era stands in stark contrast to the current developments in the region. There is no doubt that after a decade of neo-liberal reforms, the East European countries are “ready for business.” Their borders are open, currencies largely convertible, most enterprises privatised, competition allowed and encouraged, relatively stable macroeconomic conditions exist. Moreover, structures generally associated with democratic governance are also in place. All countries have new Constitutions, set of new political processes, and a few democratic elections behind them. There is no doubt that 1989 brought basic political freedoms including, freedom of association and expression.

However, market economies are either far from being prosperous or benefit only a few. Meanwhile, almost all East European countries suffer from a democratic deficit, severity of which varies across the region. The social and demographic costs associated with the launching of the transition are mounting everywhere, to differing degrees. Just recently we have seen the Russian and Ukrainian economies plunge into a crisis of unprecedented proportions with reports claiming the imminent end of sustainability in some regions. In some countries, workers in certain public sectors as well as privatised companies have not been paid for months or longer. Public infrastructure is crumbling. Large gaps in income, consumption, and living standards in general are surfacing and classes of subaltern growing without being addressed. Signs of great wealth and luxury

are visible alongside the signs of poverty and social immiseration. The hope that capitalism would bring prosperity is all but dashed for millions of people.⁶

The development of a civil society with a “democratic political culture,” or in George Soros’ terms the development of an open society, the *sine qua non* of any genuine democracy has not yet occurred.⁷ The rule of law in many instances remains arbitrary, sporadic and politicised. In some cases, the rule of law is “instrumentalised” by elites for their own purposes. Upon travelling in Eastern Europe one may be surprised to find the same behavioural patterns that were common under Communism in a somehow evolved

⁶ The promise and hope of economic reforms in Eastern Europe was undoubtedly growth and relative prosperity. By prosperity is meant a decent standard of living for all, including those who are unable to fend for themselves within the framework of a market economy. A functioning market involves a relative social equality (a large middle class) besides the freedom of individuals to “truck and barter,” comparable to that experienced in the Western liberal market democracies. In short, the goal of reforms was a better life than that under Communism.

⁷ George Soros, “Toward Open Societies,” *Foreign Policy* 98 (Spring 1995): 73, argues:
[a]n open society is a form of organization that can be loosely described as democracy. But the concept of open society is more comprehensive. It means not only a democratically elected government but also a society that is not dominated by the state. Such a concept relies on a strong civil society and the rule of law. And it is not enough for the government to be elected by a majority; it must also respect minorities and minority opinions.

On this topic you may also consult, George Soros, “The Capitalist Threat,” *The Atlantic Monthly* (February 1997).

The notion of a democratic political culture that this paper adheres to draws in part on Soros’ perception. Democracy is perceived here as much more than elections, and the sum of institutions, laws, rules and regulations generally associated with democratic governance. What makes democracy work is people’s beliefs, values, and attitudes towards the “political.” Democracy requires a civil society: a political culture that includes a relatively active grass-roots or community participation or at least interest, care, and stake in one’s broader environment (be it political, social, or economic), a certain level of trust and confidence in the political process and the mechanism of redress (i.e., the rule of law), a certain knowledge of how they both work, as well as the willingness to subordinate one’s will to them.

On the governance side, democracy requires, as Joseph Schumpeter would argue, among other things, a set of intelligent politicians of good character; a manageable agenda, professional administration and, most importantly for the purposes of a “civic” culture a “democratic self control.” Respective parties in government as well as the voters must respect the division of labour that the democratic system allocates to each. More generally, actors understand and willingly submit to what is delineated as their role within the democratic system and what is considered “right” or “wrong” within that system. Moreover, the plural nature of any democracy also requires values such as tolerance and the ability to compromise. For a brief analysis of Schumpeter, see, for instance, Gabriel A. Almond and Sidney Verba, ed., *The Civic Culture Revisited* (Toronto: Little, Brown and Company, 1980), 21.

mutated form. Abuse of the system and widespread corruption have remained systemic. State elitism and paternalism, technocracy, societal atomisation, apathy, feelings of anomie, low efficacy, distrust of the political, retreat to the private; all seem to flourish and evolve in the new context of neo-liberalism. The public has become disillusioned with “democracy” and prospects for a better life. Frustrations are reflected, for instance, in rising tides of intolerance towards minorities (in some countries, outright racism towards Romas) anti-Semitism, impatience with women’s issues and persistent sexism that is in many cases systemic.

This situation leads one to question the validity of the neo-liberal prescriptions for transformation and the capacity of the neo-liberal vision to deal now with these pertinent problems. But not only that, the entire transformation is in question. Is the path to democracy sustainable under such conditions? Can democracy develop amidst poverty, inequality, disillusionment and anomie? Can an equitable market economy develop without state intervention? Can democratic institutions and practices take root alongside a virtual state desertion and elite rule? Has “post-communism” become a permanent condition rather than being a phase in a progressive continuum?

ii. The Purpose of the Paper

The overarching purpose of this paper is to inquire as to why the neo-liberal reforms in Eastern Europe fell short of their promises. Why have the reforms implemented in Eastern Europe after 1989 not resulted in the development of western market democracy? Why do doubts abound about the prospects of democratic

consolidation and prosperity of the region now, even among the neo-liberals themselves?

As Joseph Stiglitz, the Senior Vice President and Chief Economist of the World Bank, himself, recently asked during an Annual World Bank Conference on Development Economics, “why the failures?”⁸

After a decade of neo-liberal reforms the time may be ripe to reassess the often laid claims that transformation has been hindered due to:

1. the incompetence of policy makers in Eastern Europe,
2. the fact that reforms were not radical enough,
3. some lingering Communist legacy (the Legacy of Communism Approach)⁹, or
4. some East European inherent traits (*homo sovieticus*).

Stiglitz aptly points out charges have often been falsely laid that reforms failed because they were not radical enough or because they were not enforced. He states:

Not surprisingly, those who advocated shock therapy and rapid privatisation argue that the problem was not too much shock and too little therapy, but that there was too little shock. The reforms were not pursued aggressively enough. The medicine was right; it was only that the patient failed to follow the doctor's orders! Other defenders of the recommended reform programs argue that the failures were not in the design of reforms, but in their implementation. One of the Russian reformers recently quipped that there

⁸ Joseph E. Stiglitz, *Whither Reforms? Ten Years of the Transition* (Paper prepared for the Annual Bank Conference on Development Economics, Washington, D.C.: April 28-30, 1999), 3. [Internet].

⁹ At the outset of the transformation process a fierce debate developed between those who perceived the developments in Eastern Europe as those comparable to transformations in other developing countries and those who argued that the Communist experience was so unique that any such comparison was impossible and folly. Among the comparativists belonged, for example: Philippe Schmitter and Terry Lynn Karl, “The Conceptual Travels of Transitologists and Consolidologists: How Far to the East Should They Attempt to Go?,” *Slavic Review* 53, no. 1 (Spring 1994): 173-185 or Russell Bova, “Political Dynamics of the Post-Communist Transition: A Comparative Perspective,” In *Liberalisation and Democratisation: Change in the Soviet Union and Eastern Europe*, ed. Nancy Bermeo (Baltimore: The Johns Hopkins University Press, 1991, 1992), 113-138. The area specialists, or the proponents of the “Legacy of Communism Approach” included Valerie Bunce, “Should Transitologists be Grounded?,” *Slavic Review* 54, no. 1 (Spring 1995): 111-127; or Sarah Meiklejohn Terry, “Thinking about Post Communist Transitions: How Different Are They?,” *Slavic Review* 52, no. 2 (Summer 1993): 333-337.

was nothing wrong with the laws they enacted except non-enforcement.¹⁰

The purpose of this paper is to challenge these contentions and to attempt to argue that it was the neo-liberal blueprint itself that is at the root of the problems facing Eastern Europe today. It is the neo-liberal blueprint itself that has largely contributed to the conditions that exist in Eastern Europe -- conditions under which the development of a market democracy is questionable and the evolution of the post-communist condition becomes a real danger.

iii. *The Hypothesis*

The hypothesis disclaims incompetence, insufficient shock, Communist legacy, or East European inherent traits as the causes of the reform's failure. Instead, it states that the neo-liberal blueprints themselves are at the root of the East European malaise. This hypothesis will be advanced through two main arguments:

The first will address the neo-liberal blueprints and their discourse theoretically. *I will attempt to argue that the logic of "disembedded" or "out-of-context" neo-liberalism does not coalesce with the logic of a market democracy as it appears in the West now.* To demonstrate this point I will elaborate on the basic neo-liberal assumptions and the challenges they pose for the development of a democracy. The neo-liberal assumptions addressed in this paper will include:

1. the centrality of the individual,
2. the supremacy and reliance on the market mechanism and

¹⁰ Joseph E. Stiglitz, *Whither Reforms? Ten Years of the Transition*, 3.

3. the distrust of the state.

Second, I will attempt to show that the discourse accompanying the reforms and the methods used to usher in change reflected these basic neo-liberal assumptions. Rather than facilitating market democracy, they actually obfuscated its development. *I will propose that neo-liberalism, in the context of post-communism, obfuscated the development of a market democracy and evolved Communist legacies instead.*

The approach to transforming Eastern Europe saw the market, in the first place, and democratic provisions, in the second, as the agents of social change in and of themselves; sufficient conduits of democratic behaviour, values and attitudes. *However, the “externality” of the Market-led Institutional approach was not a market democracy but a specific post-communist system. This system is characterised by a particular type of a market economy adjusted to the “idiosyncrasies” stemming from decades of central planning, governance that is only formally democratic, and a society that is undergoing a cognitive and material “social adaptation crisis.”* More specifically:

1. Neo-liberal policies did not contribute to the development of a free market economy as it exists in the West but a post-communist market in which actors, conditioned by decades of central planning, “truck and barter” with little restraint. In this environment of impunity, facilitated by the neo-liberal reforms, they maximise their profits most by using the “idiosyncrasies” of the transforming plan economy rather than erecting a new system. Thus, they evolve the particularly post-communist economic arrangement they aimed at correcting.

2. Side-lining the public, the neo-liberal blueprints assigned an exclusive role to implement and enforce the reforms to a “state-authority.” In Eastern Europe, neo-liberalism facilitated an environment of impunity amidst communist collapse. In this environment democracy remains superficial and the structurally powerful are free to manipulate the communist legacies to their own advantage. Political and economic elites, often from the ranks of the “discredited” Communist nomenclature, collude to better facilitate the accumulation of wealth and amassment of power, more often than not, at the expense of the general public. Neo-liberal reforms did not lead to an emergence of a democratically governed regimes in Eastern Europe. They obfuscated the transformation to democracy by evolving the Communist legacies of elitism, technocracy, marriage of the political and economic, paternalism, arrogance and apoliticism (i.e., the lack of political contest, debate, and meaningful political life). Today, the political in Eastern Europe has been privatised and politics virtually archaised.
3. There was no systematic plan for the development of civil society in Eastern Europe. The universal neo-liberal plan not only ignored society as an entity but deliberately discouraged its active participation in the reform process. This deliberate de-politicisation, compounded by state desertion and the semi-legitimate nature of state-authority, did not contribute to the development of an open and democratic society. On the contrary, it obfuscated its development by evolving the communist legacy of de-politicisation and societal atomisation. It enhanced the structural inequalities and discrimination (gender, race) that prevailed in Communist societies despite all the

cosmetics showing otherwise. Moreover, neo-liberal reforms commodified social relations and contributed to the re-creation of an “80-20” society.

In addition, I will also attempt to demonstrate that the neo-liberal reforms never really meant to usher in a market democracy. It is apparent from the neo-liberal discourse that the overriding goal of the transformation was not the development of a market democracy per se but the integration of the East European economic space into the global economic system. Upon studying the blueprints closely, one realises that the development of a democracy was almost incidental to the plans of economic integration. In order to achieve this goal a certain political climate had to be created and sustained. This new political climate facilitated economic integration at the expense of developing a democracy. Moreover, due to the uncompetitive, rundown state of the East European economies/industry one may argue that the ultimate goal of the reform process might have been the submission of the East European economic space to the global system rather than integration.

The conclusions generated by these arguments lead one to think that the logic of neo-liberalism facilitated what may be referred to as a permanently post-communist state. This state broadly corresponds with notions of some pre or post-democratic era. The spiritual or ideological nihilism of large segments of East European societies corresponds with the death of history thesis and the post-modern rejection of narrative. In the particular circumstances of post-communism, the neo-liberal reforms facilitated an environment in which the focus shifts from substance to form, from democratic to post-democratic, and from ideological to nihilistic.

iv. *A Note on Methodology and the Organisation of the Paper*

This paper aims to evaluate the ability of the neo-liberal blueprint to facilitate market democracy in Eastern Europe. The lens through which this evaluation will be conducted corresponds to approaches associated with the field of International Political Economy (IPE). This approach is apparent through the paper's emphasis on market-state-society relations and the reliance on authors belonging to the IPE school of thought including, Stephen Gill, Robert Cox, Jan Aart Scholte, and others.

Nevertheless, it is the role of the first Chapter to provide a methodological guide to the rest of the paper. In that Chapter the conventional approach to transformation expounded by a cohort of mainstream neo-classical economists, represented by clerks and advisors of the International Financial Institutions and such authors as, for example: Jeffrey Sachs, Zia Qureshi or Anders Aslund, will be dissected and the theoretical flaws of imposing disembedded neo-liberalism laid bare. Through Chapters II, III and IV, the impact of the reforms on the development of a market democracy in the region will be taken up. Chapter II will focus on the transformation of the centrally planned economy to a free market economy. Chapter III and IV will look at the evolution of a democratic governance and an open society, respectively.

The logical way of measuring the success of the neo-liberal endeavour would be to compare the output of reforms with the blueprints' theoretical goals. However, the task becomes complicated because the blueprint's goals are very vague. The goal was a

market democracy or capitalism.¹¹ Since the neo-liberals assume that a democratic government is invariably ensured by a capitalist economy, capitalism, *in the neo-liberal sense*, also implies a political arrangement that is democratic (i.e., market democracy). Nevertheless, besides this vague definition, the goals of the neo-liberal reform blueprints were reflected in the proponents' promises of a better and a more prosperous future, of a political system and standards of living comparable to that of Western democracies.

This observation makes the neo-liberal tendency of measuring only the measurable ("the means") insufficient. What makes the Western democracies work is not only the existence and longevity of their electoral systems or the sum of institutions, laws, regulations and rules generally attributed to a democratic regime; but a democratic political culture. Therefore, the outcome of the blueprints should be measured against the goals implied by the promises of a market economy as it exists in the modelled countries, rather than against what the neo-liberals apparently assume is sufficient and required for a democracy to flourish. Indeed, this paper will show that, based on the reform blueprints, what the neo-liberals assume is sufficient and required for the development of the modelled democracy is in fact quite inadequate.

¹¹ The distinctions between the various kinds of capitalisms (i.e., Anglo-American, Nippo-Rheinish, of Japanese) are largely besides the point. The broad interpretation stresses the general characteristics of *any* capitalism, including legal and regulatory provisions for private property, the expansionary tendency of capital in seeking and taking advantage of new markets, and the concomitant spread of consumerism. However, the neo-liberal drive to diminish the role of state in economic management coupled with the structural constraints of the global economy (erected largely as a result of neo-liberal policies) make the Anglo-American model particularly pertinent, especially for Eastern Europe and the developing world. Incidentally, it is in this broad sense that capitalism was understood by the leading proponent of neo-liberal reforms in the East. Jeffrey Sachs himself stated that the finer points of choosing between different sub-models of capitalism can be put off until later, once the core institutions (i.e., private property) are firmly in place. Jeffrey Sachs, *Poland's Jump to the Market Economy*, 5.

CHAPTER I

BUILDING DEMOCRACY IN EASTERN EUROPE: THE NEO-LIBERAL BLUEPRINT FOR TRANSFORMATION

I will attempt to argue that the logic of “disembedded” or “out-of-context” neo-liberalism does not coalesce with the logic of a market democracy as it appears in the West now.

I will propose that neo-liberalism, in the context of post-communism, obfuscated the development of a market democracy and evolved Communist legacies instead.

... I will also attempt to demonstrate that the neo-liberal reforms never really meant to usher in a market democracy. It is apparent from the neo-liberal discourse that the overriding goal of the transformation was not the development of a market democracy per se but the integration of the East European economic space into the global economic system.

The *logic* of the neo-liberal blueprint does not necessarily coalesce with the logic of a democratic society. Indeed, its basic assumptions, namely: 1) individualism, 2) faith in the market, and 3) the reliance on an “authority,” generated an environment that is not particularly conducive to the development of a democracy.¹² On the contrary, it is more likely that in the post-communist context neo-liberalism obfuscated such a development. Rather than steering the East European countries on the path towards a liberal market democracy, it evolved post-communist legacies.

¹² The authority to implement blueprints in Eastern Europe and structural adjustment programs elsewhere was vested in the state. However, the phenomenon of the diminished state and the elitist state, discussed in following Chapters, precludes discussion of a state *per se*. In this sense the neo-liberal elites that formally represent the state “make policy.” Their power flows not from the state (i.e., legitimate, representative and accountable body) but their mandate to implement neo-liberalism. Therefore, the term authority is used instead of state — depicting the *semi illegitimate* role the elites play in transition societies.

The *discourse* of globalisation, within which the reforms broadly fall, shows that the overriding goal of the reforms was integration, not prosperity or a democracy. The discourse itself was profoundly undemocratic. It preached 1) a top-down approach, 2) relied heavily on abstract textbook models, 3) was largely foreign driven, and 4) undoubtedly, disciplinary.

The *method* to reforming Eastern Europe flowed from the logic and discourse of neo-liberalism. Reforms were market-driven and involved top-down institution building. The method saw the ultimate goal of reforms – a prosperous democracy as a mere externality of open markets, in the first place, and democratic provisions, in the second. Democracy became meaningless in the process of transformation, its achievement based on a leap of faith, a simplistic theoretical model.

I.1. Assumption #1: Individualism and Open Society

Liberalism is inherently an individualistic theory. The basic assumption behind liberal economics, as Stephen Gill points out, is a “possessively individualistic model of motivation.” Gill further adds, “motivation is provided by fear and greed, and is reflected in the drive to acquire more security and more goods.”¹³ This assumption reflects the belief in an extensive propensity of individuals to pursue their own material self-interest. For an extreme liberal like Margaret Thatcher, “there is no such thing as a society,” just a mass of self-interested individuals.

¹³ Stephen Gill, “Globalisation, Market Civilisation, and Disciplinary Neoliberalism,” *Millennium: Journal of International Studies* 24, no. 3 (1999): 419.

Reflecting this basic assumption is the tendency of the neo-liberal blueprints world-wide to overestimate the capacity of the “trucking and bartering” individuals to influence broad social, economic, and political change (trickle down theory). It is difficult to imagine an open and caring society where values such as social equality and a relatively even distribution of income and wealth are considered as mere incidences of ambitious individualism, rather than ends in themselves. Soros seems to have a similar doubt, he contends:

[a]n open society may also be threatened from the opposite direction -- from excessive individualism. Too much competition and too little cooperation can cause intolerable inequities and instability. Insofar as there is a dominant belief in our society today, it is a belief in the magic of the marketplace. The doctrine of laissez-faire capitalism holds that the common good is best served by the uninhibited pursuit of self-interest. Unless it is tempered by the recognition of a common interest that ought to take precedence over particular interests, our present system -- which, however imperfect, qualifies as an open society -- is liable to break down.¹⁴

Values and institutions of an open society need to be sustained, he further argues.¹⁵ In an extreme case, the excessive focus on an individual undermines the social cohesion of a given society. How could a democracy flourish without collective interests and actions? How could collective rights of minorities, underprivileged and under-represented be voiced? How could social equality be achieved? A myriad of similar questions arises when one thinks about the implications of excessive individualism on the ability of a democracy to function.

¹⁴ George Soros, “The Capitalist Threat,” 48.

¹⁵ Ibid.

The focus on the “universal” human being also allows a general disregard of the cultural, socio-economic, as well as political context in which change is perceived as desirable. The neo-liberal blueprints are universally implementable precisely because of this disregard of the context. It is also because of this disregard that they often fail, at least in establishing a viable democracy.

I.2. Assumption #2: Markets vs. Politics

As the staff of the IMF -- an epitome of the neo-liberal thinking, argues, experience has shown that no centralised system is capable of gathering and processing the requisite information and co-ordinate activities among consumers, workers, and producers as efficiently as a decentralised market. They go on to say:

In a market economy, the “invisible hand” of the price system transmits to consumers, workers, and producers information about relative scarcities, preferences, comparative advantage, and technology.¹⁶

This “superior co-ordinating capability of the market” ensures efficient allocation of resources by maximising production capacities and consumption possibilities in the context of scarcity.

Based on the rationale of the self-regulating market, the liberals often go as far as to separate the economic sphere from the social and the political. Since bureaucratic and administrative channels, in other words, the state, is incapable of managing information and co-ordination of the actions of millions of firms and households, economics becomes a realm for trained economists and experts to command. The pressures stemming from

¹⁶ IMF, *World Economic Outlook: A Survey by the Staff of the IMF* (Washington D.C.: IMF, May 1990): 69.

fears and concerns of various “interest groups,” including labour, are perceived as a negative interference with the neutrality and capacity of the market.

This train of thought is clearly evident from a list of examples or rather prescriptions for governments to follow in order to cut organisational costs and cope successfully in the globalised environment. Outlined by John Dunning, an economist of a neo-liberal inclination, they include: governments’ policies aimed at insulating policy-making processes from the “strongest (and most undesirable) pressure groups” in order to “reduce chance of uninformed or biased media coverage in forcing governments into ill-advised or hasty decisions.” Dunning further contended that “the absence of strong sectoral interest groups, e.g. farmers and left-wing labour groups, which might press for interventionist measures by governments other than those which are market facilitating” would, among other things, reduce the effectiveness of rent seeking by special interest groups, relieve the policy making process from the pressure of day to day politics, and minimise the possibility of ideological conflicts and undue emphasis being placed on the redistribution of incomes as short-term social good.¹⁷

Similarly, Zia Qureshi states:

Protectionist pressures are bound to arise when change produces losers as well as winners and exacts adjustment as the price for its benefits, as international economic integration inevitably does. Pressures from industries and groups that will need to adjust to stronger international competition will continue to test the firmness of policy makers’ commitment to more open markets, in both developing and industrial countries.¹⁸

¹⁷ John Dunning, “The Advent of Alliance Capitalism,” in *New Globalism and Developing Countries*, ed. John Dunning and Khalil Hamdani (Tokyo: UN University, 1997), 13.

¹⁸ Zia Qureshi, “Globalisation: New Opportunities, Tough Challenges,” *Finance and Development* (March, 1996): 30.

She authoritatively adds: "Protectionist pressures to slow or reverse integration must be resisted, since that would make both industrial and developing countries lose -- and lose dearly."¹⁹

Dunning and Qureshi's list of prescriptions serve as excellent examples of the neo-liberal vision of neutral, self-regulating and apolitical markets. In this neo-liberal technocratic utopia state would be run by efficient economists. Flexible and competitive markets would take over the regulating, productive and redistributing functions that formerly belonged to the state. It is in this light that Gill asserts:

[t]he aim of (the neo-liberal) "political economy" is to create a market society along these lines (i.e., based on neutral self-regulating price mechanism), and thus to sweep away barriers to the free play of market forces, with the state providing "public goods" that the market might fail to supply fully. *The private realm of civil society thereby determines politics and the state.* In this sense economic liberalism is not simply a theoretical doctrine. It is also a form of political action that has tended to justify and promote the ascendancy of the capitalist class in the societies where it is practiced -- that is in capitalist market societies.²⁰

Drawing on the above elaboration, the market forces actually become to dominate the political, making the Polanyian analysis of disembeddedness relevant today. Karl Polanyi writes about the implications of liberal policies in the 19th century Britain:

A self-regulating market demands nothing less than the institutional separation of society into an economic and political sphere... Such an institutional pattern could not function unless society was somehow subordinated to its requirements. A market economy can exist only in a market society... A market economy must comprise all elements of

¹⁹ Ibid., 31.

²⁰ Stephen Gill, "Knowledge, Politics, and Neo-liberal Political Economy," in *Political Economy and the Changing Global Order*, ed. Richard Stubbs and Geoffrey R. D. Underhill (Toronto: McClelland & Stewart Inc., 1994), 79. Italics added.

industry, including labor, land, and money... But labor and land are no other than the human beings themselves of which every society consists and the natural surroundings in which it exists. To include them in the market mechanism means to subordinate the substance of society itself to the laws of the market.²¹

Polanyi further points out that since labour, land, nor money are produced for sale their commodity description is entirely fictitious.²² “To allow the market mechanism to be sole director of the fate of human beings and their natural environment, indeed, even of the amount and use of purchasing power, would result in the demolition of society.”²³ His dispassionate description of the 19th century Britain, where “human society had become an accessory to the economic system” seemed to have fallen on death ears today.²⁴

It is dubious that a system that treats humans and their habitat as a commodity could lead to the development of a democratic/open society anywhere. Furthermore, the neutral market assumption reflects a neo-liberal rationality that, as Gill points out, is largely instrumental and concerned with finding the best means to achieve calculated goals.²⁵ The market mechanism of supply and demand has no capacity to comprehend the qualitative (i.e., that which does not have a price). Consequently, concepts including human need are ignored. In a sense, however, by ignoring one thing and not ignoring another, the market mechanism does, in fact, confer value. As Naila Kabeer contends in the context of a feminist perspective:

²¹ Karl Polanyi, *The Great Transformation: The Political and Economic Origins of Our Time* (Boston: Beacon Paperback, 1957; Boston: Beacon Press), 71.

²² Ibid., 72.

²³ Ibid., 73.

²⁴ Ibid., 74.

²⁵ Stephen Gill, “Globalisation, Market Civilisation, and Disciplinary Neo-liberalism,” 418.

Despite the claim by economists that pricing mechanism is a neutral arbiter of values, it is in reality deeply value-laden: it creates constant slippage in development thinking between using prices to *measure* value to using them to *confer* value. Thus the value of a 'good' is seen to lie, not in its ability to satisfy human need, but in the price that it commands through the interplay of supply and demand in the market place.²⁶

Markets are also unable to comprehend the underlying power relationship inherent in every society. Without political intervention, the market is subordinated to and reflects the structural inequalities and discrimination in a given society. Consequently, market-led policies often benefit those who have structurally more power. This power could be based on wealth, connections, gender, race, ethnicity, social status or a combination of these factors. Often, de-politicised reforms lead to enhanced inequality along these lines. Moreover, only a privileged few can reap the benefits of unregulated markets, leaving the majority of people marginalised.

Therefore, markets without politics can be characterised by the following traits:

1. They are ecologically myopic.
2. They are insensitive to human need.
3. They reflect power relationships underlying a given society and enhance structural inequalities and discrimination.
4. They benefit only a few (usually those in a position of power) at the expense of the majority.

²⁶ Naila Kabeer, *Reversed Realities: Gender Hierarchies in Development Thought* (London: Verso), 76.

It is of no surprise, therefore, that market-led policies often undermine the social cohesion of a given society. The reliance on self-sufficient competing individuals and disregard for social and political context lead to:

1. Fragmentation due to societal atomisation (i.e., private “trucking and bartering” individuals vs. a community).
2. Inequality on the basis of income and wealth, as well as connections, race, ethnicity, gender, and social status.
3. Marginalisation, as those who benefit from the unregulated market are few and those who are left out constitute a majority.

The prospects for the development of a democracy amidst social disintegration are obviously poor. The impact of the market-led policies on the societies of Eastern Europe will be elaborated upon in more detail in Chapter IV. Nevertheless, it is clear that widespread anomie related to social decay hinders mobilisation for democratic values. Indeed, it may actually lead to the subversion of an incipient democratic regime and perpetuate the post-communist legacies.

I.3. Assumption #3: The Neo-liberal “State,” Authority vs. Legitimacy

In the neo-liberal blueprints, the primary role of the state is to implement the blueprints’ prerogatives. Any further involvement in a country’s economy is generally deemed as negative. It is seen as an interference with the neutral forces of the market economy and individual “liberty.” State’s role should be limited to the protection of private property, national defense, and other public goods which the market fails to

realise. In other words, state's role should be to facilitate the smooth functioning of markets.

Nevertheless, the state is assigned an exclusive right to the reform process. The input of society is not only deemed unimportant but also dangerous since it could undermine the neo-liberal plans. It is hardly conceivable, that such a method of change would lead to a development of a democratic/open society. On the contrary, the blueprints seem to undermine any grass-roots and community involvement in order to foreclose possible opposition to the neo-liberal reforms. Society is practically opted out of politics.

The liberal suspicion of states is even further evolved in the contemporary environment characterised by unprecedented expansion of capitalism throughout the world. The growing interdependence and interaction of free markets makes liberalism a hegemonic as well as a disciplinary ideology. The neo-liberals argue that the global environment of mobile capital and transnational production necessitates that states maintain economic policies conducive to such an environment. States are pressured, therefore, to facilitate conditions for unfettered markets by pursuing economic policies aimed at low inflation and competitiveness. Neo-liberalism becomes a prerogative. It ceases to be just an alternative among other ideologies.

Robert Cox calls this growing responsibility of the state to the international market the "internationalisation of the state." According to him, the common feature of this trend is to:

[c]onvert state into an agency for adjusting national economic practices and policies to the perceived exigencies of the global economy, where heretofore it had acted as the

bulwark defending domestic welfare from external disturbances.²⁷

This environment necessitates that norms and regulation are compatible with the functioning of the global economy and that they are backed up by an efficient judicial system aimed at enforcing them -- a situation leading to a general harmonisation of the capitalist regulatory system (i.e., legal framework concerning private property or a regulatory framework for the functioning of secondary markets). While the state remains relevant, its functions have generally shifted from the provision of welfare to nurturing "sound" economic environment conducive to the competitive global economy. Policies associated with inflation such as, for example: deficit spending or excessive wage growth are seen as inhibiting "investor confidence" -- stigma that became highly undesirable for it could gravely destabilise national economy. In short, as Cox contended:

Governments were made to understand that a revival of economic growth depended on business confidence to invest, and that this confidence depended on "discipline" directed at trade unions and government fiscal management.²⁸

This so called "competition state," to use Philip Cerny's expression, has been effectively rupturing the umbilical cord connecting its institutions to the society by failing to provide those public goods it was set up to provide in the first place, at least in the West. Indeed, all the three broad categories of public goods: regulatory, productive/distributive, and redistribute, are being systematically dismantled. The regulatory functions of states are being undermined by the technological ability to evade

²⁷ Robert Cox, "Global Restructuring: Making Sense of the Changing International Political Economy," in *Political Economy and the Changing Global Order*, ed. Richard Stubbs and Geoffrey R.D. Underhill (Toronto: McClelland & Stewart, 1994), 49.

²⁸ Ibid.

supervision and enforcement. The productive/distributive functions are abandoned as public enterprises find themselves in the midst of the “efficiency” crisis. Meanwhile, the welfare state is being dismantled through various privatisation, marketisation and commercialisation schemes to relieve fiscal pressure. In the process the state itself becomes marketised, reduced to an agent to the globalisation process itself.²⁹

The exclusive role of the state in structural adjustment programmes as well as transition blueprints actually reflects the neo-liberal endorsement of the internationalised state and the competition state. The impact these two phenomena have on representative democracies and the social cohesion of particular countries are well evidenced. The contention that governments are first, increasingly held ransom to global market forces and second, that they are becoming more accountable to international institutions associated with the global market than their electorates are gaining ground. Attention is also increasingly being paid to the phenomenon of social disintegration, or what Cox would call an organic crisis.³⁰

Structural adjustment programmes and transition blueprints have in effect conveniently institutionalised and legalised the entities internationalised state and the competition state. In Eastern Europe in particular, the neo-liberal blueprints first, gave the state-authority the exclusive power to reform in the neo-liberal image so that

²⁹ Philip G. Cerny, “What Next For the State?” in *Globalization: Theory and Practice*, ed. Eleanore Kofman and Jillian Youngs (New York: Pinter, 1996): 124.

³⁰ The link between globalisation and the erosion of democracy was explored by a myriad of authors, among them, for example: Stephen Gill, “Globalisation, Democratization, and the Politics of Indifference,” in *Globalisation: Critical Reflections*, ed. James Mittelman (Boulder, Colorado: Lynne Rienner Publishers, 1996), 205-228; Hans-Peter Martin and Harald Schumann, *The Global Trap* (Montreal: Black Rose Books, 1997); Benjamin Barber, *Jihad Vs. McWorld*; Ellen Meiksins Wood, “Modernity, Post-modernity, or Capitalism?” *Monthly Review* 48 (July/August, 1996): 21-39; Jan Aart Scholte, “Global Capitalism and the State,” *International Affairs* 73, no. 3 (July 1997): 427-452.

integration can proceed unhindered and the formerly communist economies subordinated to the global economy. Second, the blueprints gave the state-authority the mandate to dismantle the public sphere in order to create a competitive environment conducive to “business” at the expense of citizens. The implications of this institutionalisation on the development of a democracy are dire. The internationalised competition state:

- 1) forecloses public input,
- 2) undermines state’s accountability to its electorate,
- 3) undermines state’s representativeness of its electorate,
- 4) often undermines social cohesion.

These trends lead one to think about the state as semi-legitimate. Its authority is somehow based on a consensus due to the “understanding” about the inevitability of neo-liberalism and the residual faith in the legal state.³¹ However, the undemocratic nature of neo-liberalism (i.e., its discursive, top-down, foreign driven, and disciplinary nature) combined with the erosion of the legal state have a de-legitimising effect and pose challenges for the future of democratic governance.

I.4. Discourse and Policies of Globalisation

With the collapse of Communism in the East and the decline in the appeal of the left in the West, the most profound barriers to the expansion of “capitalism” – a shorthand for free markets and liberal democracy, disappeared. Unwittingly fortified by the utter failure of real existing socialism and the post-modern rejection of grand

³¹ By legal state I mean a democratic state with clear, transparent and reflexive links to the society (i.e., where the links between the government and the society are tenuously institutionalized as in the Western liberal democracies).

narratives, capitalism on a global basis became perceived by many as the only viable system of the ascending century. The launching of reforms in Eastern Europe reflected this late 20th century liberal torrent as much as the switch from import substitution policies to export oriented strategies in the developing world or the conservative policies of traditionally left or left-of-center parties in Sweden or Canada.

Indeed, what has become known as globalisation seemed to have dealt a final blow to all “leftist utopias” and “third paths.” Leaders around the world became to perceive the phenomenon as inevitable, irreversible and politically neutral. Almost everywhere, government policies became subordinated to the torrents of the global economic system. Dissenters became to be seen as naive theoreticians who do not understand anything about how the “real” world works.

This trend can be evidenced by frequent utterances by world leaders, echoed by a myriad of like-minded neo-liberal journals and newspapers, among which *The Economist* or the *Financial Times* are perhaps the most prominent. Canada’s Finance Minister, Paul Martin, for instance, stated: “Protectionism is not left-wing or right-wing. It is simply passé,” or “Globalisation is neither right-wing nor left-wing but simply a fact of life.”³² The sober message delivered to the Russian audiences by President Bill Clinton during his visit to Russia about the necessity and, indeed, inevitability of buying into the global economy amidst, and perhaps despite of, Russia’s virtual economic collapse and imminent political crisis was also quite instructive. While many Russians watched their national currency to become a worthless piece of paper, their savings wiped out as if by a

³² Edward Greenspon and Anthony Wilson-Smith, *Double Vision: The Inside Story of the Liberals in Power* (Toronto: McClelland-Bantam, Inc., 1997), 98.

stroke of a pen (that is if they had any since many of them have not been paid their wages for months and longer), prices rising once again and food shortages reappearing; Bill Clinton emphasised the necessity to press forward with radical economic reforms that would accelerate Russia's reintegration into the global economy.

Despite this strange ideological oblivion and unshakeable conviction, it would appear fairly evident that it is policies rooted in liberal economics and liberal thought that legitimise and propel the trends conveniently labelled by neo-liberals as globalisation. Neo-liberalism is undoubtedly the theoretical backbone of globalisation and the proponents of neo-liberalism its agents.

The neo-liberal wisdom has it that, aided by great technological advances in telecommunication and transportation; the unprecedented acceleration and virtual deregulation of capital flows, intensification of trade links, and more recently foreign direct investment, have ushered in an interdependent and interacting world in which the economic policies of states largely depend on each other. The aftermath of the Bretton Woods system saw rapid growth and concomitant deregulation of capital flows. Facilitated by improvement in communication technologies, these trends have led to an emergence of a monetary regime characterised by massive and virtually instantaneous shifts in volumes of financial assets -- literally detaching money from its territorial base into what Jan Aart Scholte calls a "cyberspace of banking computers."³³ Capital mobility contributed to the accumulation of foreign debts as mobile "international" capital created an alternative to financing previously done through equity or taxation policies. The result

³³ Jan Aart Scholte, "Global Capitalism and the State," 439.

has been, as Cox aptly pointed out, a “decoupling of finance from production”³⁴ as well as growing interdependence among states in capital creation/availability.³⁵ Moreover, since production itself depends on an increasingly “supraterritorial” credit creation, finance seemed to have acquired the upper hand in determining economic activity — leading Cox to propose that “finance has become an independent power, an autocrat over the real economy.”³⁶

This state of affairs allowed also a virtual detachment of production from its territorial base. Since money knows not borders, why should production financed by such extraterritorial funds. The switch from the Fordist production methods to more flexible or lean production methods (easily segmentable and transportable) allows for an enhanced mobility of production as well (footloosness). Indeed, due to widespread liberalisation of trade and investment flows the value of foreign production of firms has been growing so rapidly in recent years as to exceed trade volumes.³⁷ The ascending liberal international framework for production has been labelled by neo-liberals “alliance” capitalism. Within this framework, firms utilise the open system with the view to increase profits by “going global,” creating strategic alliances with foreign firms (i.e., joint ventures or other co-

³⁴ Robert Cox, “Global Restructuring: Making Sense of the Changing International Political Economy,” 48.

³⁵ Another interesting tendency, that unfortunately largely oversteps the bounds of this theses, has surfaced as a result of these trends. Since money has been detached from its production base it has acquired almost an artificial quality. As Peter Drucker stated: “in the world economy of today, the ‘real’ economy of goods and services and the ‘symbol’ economy of money, credit, and capital are no longer bound tightly to each other; they are, indeed, moving further and further apart.” Peter Drucker, “The Changed World Economy,” *Foreign Affairs* 64, no. 4 (Spring 1996): 783. Similarly, Paul Hirst contends that the huge sums that are traded daily on the world’s financial markets represent repeated dealings largely divorced from trade. He goes on to state: “Such financial flows do little to enhance real economic performance as represented by the production and exchange of goods and services, while this very divorce of the markets from normal economic activity and the huge volumes traded has the potential for creating damaging instability.” He would argue that this tendency confirms the bogus nature of the globalisation “euphoria.” Paul Hirst, “The Global Economy — Myths and Realities,” *International Affairs* 73, no. 3 (July 1997): 410.

³⁶ Robert Cox, “Global Restructuring: Making Sense of the Changing International Political Economy,” 48.

³⁷ John Dunning, “The Advent of Alliance Capitalism,” 48.

operative alliances), or simply fusing through mergers or acquisitions.³⁸ Meanwhile, the core periphery distinctions claimed by the now “defunct” dependency theory are blurred as the classical core/periphery exchange of raw materials for manufactured goods (trade) is replaced by a diversified network of production. The rationale behind “alliance” capitalism has been largely to reinvigorate profit margins by creating new economies of scale from increased turnover, to capture new markets, or to take an advantage of a country’s incentive structures (enhancing comparative advantage through cheap labour cost, cheap raw materials, tax havens, low environmental standards, etc.), to name just the most cited examples.³⁹

³⁸ The most significant force in this process has been the multinational firm. However, as Robert Cox points out other more structural elements, such as technological dependency of less technologically developed countries on inputs, serves as an integrating element of production as well. Robert Cox, “Production and Hegemony: Towards a Political Economy of World Order,” in *The Emerging International Economic Order*, ed. Harold Karan Jacobson and Dusan Sidjanski (Beverly Hills: Sage, 1982): 47.

³⁹ However, as John Dunning contends, recently firms have expanded their territorial horizons, “not so much to exploit existing competitive advantage, but to protect or enhance these advantages and their global positions by acquiring, or gaining access to, new resources and capabilities.” It is this rationale that has led to the increasing number of mergers and acquisitions in the 1990’s. By diminishing competition through mergers and acquisitions, firms are better positioned to “protect” their own survival on the global as well as domestic markets. John Dunning, “The advent of Alliance Capitalism,” 27-28.

The critics of the neo-liberal interpretation of globalisation argue, similarly to Scholte, that the current system has nothing in common with “alliances.” She states:

the overall trend in the present context of globalisation has been decidedly towards increased combinations, and the tendency to merge in response to global market competition shows little sign of abating. As a result largely of strategic alliances, mergers and acquisitions, globalizing capitalism has brought increased concentration of ownership and power to many areas of production.

Another problem with the neo-liberal concept of alliance capitalism is that mergers and acquisition aim at creating a web of suppliers and producers under the axis of one multinational firm, leading to a growing pertinence of intra-firm trade which implies “intra-firm” pricing systems and limits the benefits of foreign direct investment to local economies (i.e., local suppliers are locked out while prices may be easily transferred for the purposes of tax or remittance evasion). The recent trends in globalisation have thus contributed to an emergence of oligopoly in the world economy with obvious implications for the “fairness” of the ascending “alliance” capitalism as well as the trickle down theory. Indeed, one could argue that the adjective “alliance” is rather a misnomer, as the global economy approximates more the allegory of the survival of the fittest rather than any co-operative alliance. Jan Aart Scholte, “Global Capitalism and the State,” 437-8.

The growing world-wide mobility of finance and footloosness of production creates an environment in which states are pressured to implement economic policies that prove facilitating to the inward movement of global capital and production and that aim at avoiding global slowdown or crisis by causing instability, especially in the financial system. These objectives are reflected in the blueprints for reforming Eastern Europe and other parts of the world deemed as requiring change. Indeed, the blueprints were mastered in a way so that the East European economic space is integrated into the global economic system as soon as possible and that the integration is irreversible. In fact Eastern Europe was to be reformed through its integration to the global economic system.

The neo-liberals argued that the integration into the global capitalist system would inevitably bring economic as well as institutional convergence or at least “harmonisation.” Open markets, unrestrained by “protectionist” tendencies facilitate an environment of “perfect” competition. Under such a condition, knowledge, technological knowledge in particular, is accessible to all equally and facilitates the “adjustment” towards best practice, be it pricing or production methods. According to Robert Boyer, in this way the conventional convergence theorists expect that “competition and emulation among alternative configurations lead simultaneously to homogeneity in institutional setting and common standards of living.”⁴⁰ The proposition that economic openness through such means as liberal trading regimes or convertible currencies brings prosperity

⁴⁰ Robert Boyer, “The Convergence Hypothesis Revisited: Globalisation but Still the Century of Nations?” in *National Diversity and Global Capitalism*, ed. Suzanne Berger and Ronald Dore (Ithaca: Cornell University Press, 1996): 29-59.

is perhaps one of the most venerable tenets of classical economics, dating back to Adam Smith.⁴¹ As Jeffrey Sachs and Andrew Warner argue:

[t]he main reason for expecting economic convergence is that the poorer countries can import capital and modern technologies from the wealthier countries, and thereby reap the ‘advantages of backwardness.’”⁴²

Therefore, there has been a “widespread push,” according to a World Bank economist, towards the liberalisation of trade and deregulation of capital markets, increasing internationalisation of corporate production and distribution strategies, and technological progress that is rapidly dismantling barriers to the international tradability of goods and services and the mobility of capital.⁴³

Compounded by this push, the environment of mobile global capital and footloose production has served as an impetus for the switch in the developing world from import substitution policies to export-led growth policies aimed at generating foreign exchange and technology transfer through facilitating foreign production. In the East, similar “structural” pressures, buttressed in open exertions by the international financial institutions, to deregulate the financial sector and liberalise trade were experienced. Underlying these pressures is the neo-liberal notion that the only chance the “backward” countries have at catching up is to integrate into the global world economy. Integration, accompanied by “sound” business environment would alleviate or solve the perennial problems of: 1) scarcity of financial capital, 2) lack of advanced technology, 3) access to foreign markets; it would also: 4) improve skills, 5) reduce unemployment and

⁴¹ Jeffrey D. Sachs and Andrew Warner, “Economic Reform and the Process of Global Integration,” *Brookings Papers on Economic Activity* 1, 25th Anniversary Issue (1995): 2-3.

⁴² Ibid.

⁴³ Zia Qureshi, “Globalization New Opportunities, Tough Challenges,” 30.

6) rejuvenate local economy. Economic environment underscored by “rational” macroeconomic policies aimed at maintaining low inflation levels and competitive microeconomic conditions would facilitate stable currencies and a country’s readiness to be “opened for business” – a situation inevitably leading to foreign investment inflow and a concomitant technological transfer. Indeed, states must be increasingly able to compete on the international markets for capital or a place in a trading regime or face isolation and stagnation. As Zia Qureshi argues:

Countries best placed to benefit from the new opportunities offered by globalization are those that are rapidly transforming their policies and structures to support outward-oriented growth – adopting trade, investment, and exchange rate policies conducive to greater openness and competitiveness, and underpinning these reforms with a stable macroeconomic foundation...For economies that remain inward looking, the risk of becoming marginalized is greater than ever; not only will the stream of new growth opportunities fed by surging international trade and investment continue to pass them by but, in a more integrated world, poor policies may increasingly be penalised by a flight of domestic resources.⁴⁴

In respect to Eastern Europe Zhen Kun Wang contends:

Greater openness will fuel faster growth in productivity, trade volumes, and national income. At the same time, integration helps lock countries onto the path of open trade, while membership in international institutions, such as World Trade Organization (WTO), spurs domestic institution building...Speeding the removal of existing trade barriers and carrying out further direct integration efforts should bring the largest and most immediate benefits for transition countries.⁴⁵

⁴⁴ Ibid., 31-33.

⁴⁵ Zhen Kun Wang, “Integrating Transition Economies into the Global Economy,” *Finance and Development* (September 1996): 21.

These policy prescriptions by the leading international organisations contributed to a situation where a general belief that no alternatives exist to this “developmental” model buttressed among policy makers, be they of the developing world, Eastern Europe, or the developed industrialised core.⁴⁶ Moreover, as Qureshi’s quote indicates, not implementing policy prescriptions could have serious consequences. Therefore, the nature of the neo-liberal discourse is not only hegemonic, but also disciplinary.

It would also appear fairly self-evident that the structural constraints imposed by the mobility of global finance and production are not politically neutral or self-generating. On the contrary, they are closely connected with those who have a vested interest in the preservation of the neo-liberal global system. It is these actors that are also responsible for generating the discourse of globalisation, so easily recognisable on the pages of such journals as *The Economist*. Among these actors are the representatives of national, and particularly Western, governments, executives of multinational corporations (including financial institutions), leaders of various international organisations (financial and developmental), as well as associated privileged workers and smaller firms. This transnational elite forms consensus by the means of unofficial and official fora such as, for example: the Trilateral Commission, the Bilderberg conferences, the Club of Rome, the OECD, the Bank for International Settlement, the IMF, the WB or the G-7. Through these bodies or fora the interests of the transnational elites are

⁴⁶ Indeed, this homogenisation of approaches poses a problem, while these broad regions of the world display great political, socio-economic as well as cultural differences the medicine is largely the same. It is the singular neo-liberal approach to managing the world that allows us to put such widely different regions into the same category. In this sense one may perceive the reform processes in Eastern Europe as a part of the same process that led to the fall of social democracy in Sweden. For the later see, Jonas Pontusson, “At the End of the Third Road: Swedish Social Democracy in Crisis,” *Politics and Society* 20, no. 3 (September 1992), 305-332.

institutionalised and legitimised. Guidelines are then transmitted through policy making channels of the national governments and large corporations. As a result, power within the state becomes concentrated in agencies that are the most connected with the global economy, such as the offices of the President or Prime Minister, Treasuries and Central Banks. Meanwhile, agencies identified with domestic clients become increasingly subordinated.⁴⁷

The neo-liberal prescriptions for reform in the East were generated mostly by this transnational “nexus” in conjunction with a small East European elite and transmitted precisely in the way described above. Accompanying this “transmission” was an avalanche of globalisation related discourse on the benefits of open markets and the utter folly of protectionism. The complete rejection of anything “planned” or “social” fuelled the enthusiasm of the Western liberals and the journey to McWorld began for the East Europeans.⁴⁸

The blueprints not only reinforced the negative consequences to democratic development of neo-liberal assumptions discussed in the preceding three points, they were inherently undemocratic in and of themselves. The discourse reaffirmed the following notions:

- 1) society is a sum of individuals,
- 2) the market is the best co-ordinating mechanism for arranging social relations and

⁴⁷ On agency in globalisation see, Robert Cox, “Global Restructuring: Making Sense of the Changing International Political Economy,” 49; or Stephen Gill, “Globalisation, Market Civilisation, and Disciplinary Neo-liberalism,” 400-401.

⁴⁸ McWorld is a term coined by Benjamin Barber. It signifies those segments of the world that are integrated, linked and that benefit generally from globalisation. Along side this world, exists the Jihad, an expression denoting the disposed, de-linked, uprooted and generally bewildered by the homogenising trends of the globalising world. These words are not antithetical, according to Barber, they are inherently singular, playing each other off – they are both integral parts of the same process. Benjamin R. Barber, *Jihad vs. McWorld*.

3) the state has only a limited role to play.

It was neo-liberalism that paved the way for withering away of states as well as ushering in of atomised and fragmented market societies. The discourse also reflected the hegemonic (i.e., there are no alternatives) and disciplinary (i.e., there are negative consequences if advice is not followed) nature of neo-liberalism. The exclusionary, mostly foreign and always top-down approach to reforming Eastern Europe hardly contributed to the flourishing of a democracy. The methods were uncomfortably comparable to those used by the Communists few decades earlier.

I.5. Method: The Assumed Relationship between the Market and Democracy

The blueprints also reflected a conviction that efficient market economies support democratic order. Spreading of markets was, therefore, equated with “making the world free for democracy.” In this sense political order was based on the efficient functioning of the market itself.

Premised on the primacy of markets over state, the neo-liberals have been assigning an ever greater freedom to market forces – a trend apparent from the structural adjustment programmes in the developing world as well as from the reforms in the East. The key to both is opening up the “backward” economies to “rational” (i.e., competitive, unrestrained) pressures of the global market forces, which necessarily requires domestic restructuring or adjustment in the neo-liberal image. Meanwhile, the building up of a responsible state apparatus able to support the wide range of democratic institutions is secondary, for the *onus* of this task is on the self-interested individual.

L.6. Method: The Reliance on Form

The neo-liberal assumptions preclude consideration of a country's history, culture, politics, or society, in other words, the content of a system. This disregard for particularity allows them to rely on universal forms/institutions as key to political, social and economic transformation. Indeed, for the neo-liberals institutions, procedures and rules are the necessary and sufficient vehicles for change. This often leads in the neo-liberal discourse to the confusion between means and ends. For the neo-liberals the fact that elections occur and Constitutions are passed means that democracy has triumphed. Similarly, macroeconomic stabilisation and the number of privatised companies point to the success in market reform. However, the fact that standards of living are worsening and the quality of democracy remains fragile is beyond the capacity of a neo-liberal to comprehend. The goal of reforms was a better life, not a creation of formal edifices of a democratic capitalism that may or may not contribute to its achievement in the future.

Leszek Balcerowicz complains that it is only "trained economists" who comprehend the promise contained in the *theory behind the reform process* and the necessity of trade-offs. He argues:

[f]ew people act like trained economists. Instead, most people base their judgements on the comparison of present with past (i.e., as supposed to a hypothetical past in which the decline in living standards would have occurred if the system had not changed), and this, of course, is always exploited by the opposition, which tends to attribute the deterioration to government policies (i.e., the reform programme).⁴⁹

⁴⁹ Leszek Balcerowicz, "Eastern Europe: Economic, Social and Political Dynamism" in *Pursuit of Europe*, (1995), 110.

Balcerowicz's statement is loaded with meaning. He states that it is a folly to compare the present to the past since the past would have gotten worse, had the reforms not been implemented. He brandishes "most people" for not being able to recognise the disadvantages of a hypothetical past along with trained economists like himself. As the real past was better for "most people" in Eastern Europe than the present, Balcerowicz is imploring them to forget the present. Instead, he asks them to think about how badly things could have gotten in the past and how much they could improve in the future.

This train of thought not only shows the arrogance with which the neo-liberals approached the reform process but its "theoretical" nature as well. In theory, things will get better. In the meantime, however, the ultimate goal of a better life is subordinated to creating conditions for its achievement. In the process, the conditions become the goals in and of themselves. The universal (i.e., ahistorical, acultural, asocial, apolitical) nature of neo-liberalism allows them to believe that the conditions for a better life consist of introducing markets and free elections. In this way, liberal market democracy becomes an externality of the Market-led Institutional reforms. It is for this reason, for example, that Robert Daniels approximated the reforms in Russia to Dorothy's journey to unknown for truth and self-discovery in his article "Russia's Road to Oz: Utopian Reform vs. Modern Reality."⁵⁰ The neo-liberal blueprints could be described as such across the entire region.

⁵⁰ Robert Daniels, "Russia's Road to Oz: Utopian Reform vs. Modern Reality," *Dissent* 42 (Summer, 1995): 307-312.

1.7. Neo-liberalism in the Reform Blueprints

Authors including Peter Gowan, Alice Amsden, Jacek Kochanowicz and Lance Taylor, as well as Barber, stress the role the Western neo-liberals had in shaping the ambiguous path of the post-Communist transitions.⁵¹ They espouse the view that the West simply bullied the post-communist region into submissive acceptance of Smithian *laissez faire*-style restructuring. While this analysis is partly true, it largely misses the internal dynamics in embracing neo-liberal reforms in the region. The impetus for radical reforms in Eastern Europe was generated not only by the perceived or real character of the global economy but also by the backlash among large segments of population against everything “social” or “planned.” Opportunism and power might have also played some role in the ascendancy of the new and undisputed reform elite.

The reform teams that drafted the transition blueprints in Eastern Europe, represented by such leaders as Leszek Balcerowicz in Poland, Vaclav Klaus in former Czechoslovakia, or Yegor Gaidar in Russia, are undoubtedly among those actors that impacted significantly on the course of the East European developments, at least in the initial stages of the reform experiment. Those “native” teams can be considered as influenced by and as being a part of the so called Washington consensus. The input of Western advisors including, Jeffrey Sachs (an economics professor from Harvard) into the economic reforms in Poland as well as former Yugoslavia is well known and

⁵¹ Peter Gowan, “Neo-liberal Theory and Practice for Eastern Europe,” *New Left* 213 (September/October, 1995); Alice Amsden, Jacek Kochanowicz, and Lance Taylor, *The Market Meets Its Match: Restructuring the Economies of Eastern Europe* (Cambridge: Harvard University Press, 1994); Benjamin Barber, *Jihad Vs. McWorld*.

significant; the ideological preferences for such figures like Milton Friedman by Vaclav Klaus, likewise. Undoubtedly, these reform teams re-enforced the neo-liberal vision of a globalising world. They form an integral part of Cox's *nebuleuse*.

According to the neo-liberal reformers, the global economic environment characterised by capital mobility and global production made the integration of East European countries a crucial prerequisite for successful reforms. Indeed, as Jeffrey Sachs argued, the joining of the West was crucial for the East European countries since it would generate the inflow of:

1. new technologies,
2. managerial talent,
3. organisational methods and
4. capital needed to overcome the legacy of Communist "mismanagement."⁵²

The goal of reforms was capitalism. A market economy without any disqualifying adjectives. In other words, a system with such core institutions as nearly complete private ownership, private financial markets, or active labour market. The transition was to be decisive and comprehensive since "you don't try to cross a chasm in two jumps."⁵³ Meanwhile, speed was considered essential for the following four main reasons:

1. The reform could be seen as a seamless web (i.e., reforms were interconnected and inseparable, therefore, there was no room for sequencing and arbitrary divisions).
2. Since it was impossible to gradually change the entropic communist bureaucracy it had to be side-stepped and market "let to do its job."

⁵² Jeffrey Sachs. "What is to be Done?" *The Economist*, 13 January 1990, 21.

⁵³ Ibid.

3. Reforms had to be implemented quickly in order to avoid inevitable societal discontent and capitalise on the initial euphoria about the end of Communism.
4. Last, speedy reforms were necessary to introduce (in order to diminish monetary overhang) and consequently curb hyperinflation.

The role of the West was to be considerable and generous.⁵⁴

The reforms were to be implemented in two broad stages, the first entailed economic liberalisation, macroeconomic stabilisation, and privatisation while the second involved more structural policies such as public investment budgets or regional policies. Economic liberalisation entailed freeing of most prices (price liberalisation) as well as opening of trade by reduction of tariffs, elimination of quotas, and ending licensing of trading firms. The goal of liberalisation was to create a set of market-clearing relative prices. This was to be achieved not only by price liberalisation accompanied by reductions of subsidies but also by exposing firms to international competition by opening up to the West. As Sachs contended sensible prices were vital for efficient resource allocation. With market-clearing prices and with competition from foreign trade, governments would have a strong and demonstrable basis for closing down enterprises that suffer chronic losses. That in turn would send ripples of discipline throughout the state sector. The opening of East European countries to the West required that national currencies were at least partially or internally convertible (current account convertibility was necessary for trade, capital account convertibility was initially restricted). Convertibility was perceived as essential and was to be achieved through

⁵⁴ Ibid., 23.

sharp devaluation combined with restrictive macroeconomic policies, financial control over state enterprises (i.e., enforcing hard budget constraint) and the maintenance of positive interest rates. Liberalisation was also to include the lifting of restrictions on private economic activity by the creation of a legal basis for private property such as drawing up of commercial codes, company laws, or judicial enforcement of contracts. The achievement of macroeconomic stability required tight monetary and fiscal policies reflected in the enforcement of hard budget constraint, control of wages and balanced budgets. Its accomplishment, therefore, necessitated restrictions on domestic money supply as well as sharp cuts in subsidies. Meanwhile, privatisation aimed at converting state enterprises into corporate form, followed by transfer of ownership of state enterprises to the private sector through sales, free distribution, or other means. It was assumed that privatisation would take some time, the state enterprises were to be subjected to real market discipline in the meantime. This was to be achieved by allowing private firms and importers to compete; by eliminating subsidies, cheap credits and tax concessions; by ending borrowing on the basis of central government guarantees; by anti-trust policies to break up industrial giants; and by forcing loss makers to close.⁵⁵

In sum, the role of the reform government was to broadly liberalise, deregulate, and to make the economic environment overall conducive to private competition, including the maintenance of restrictive macroeconomic policies and the provision of adequate regulatory framework. In this sense, the governments were to let the market forces do their job in resurrecting capitalism (i.e., perceived as a market-based liberal

⁵⁵ Ibid., 22. Also see, Jeffrey Sachs, "Crossing the Valley of Tears in East European Reform," *Challenge* 34, no. 5 (September/October 1991): 27; or IMF, *World Economic Outlook: A Survey by the Staff of the IMF*, 69-70.

democracy) from the rubble of the inefficient and antiquated post-communist economies. Intervention was merely in line with the limited roles of the competition state -- an entity ushered in by the necessities of the contemporary global economic system. This economistic approach, however, proved fallacious in the circumstances of the post-communism, giving rise to a specifically *post-communist market economy* with its own characteristics and increasingly *sui generis* processes -- development with real and far reaching implications for the state and society relations as well as the future viability of the modelled market-based liberal democracy in Eastern Europe.

L.8. Neo-liberalism and Democracy

The neo-liberal policies reflected in structural adjustment programmes and transition blueprints do not, in general, contribute to the development of a democracy for the following two reasons:

First, the logic of neo-liberalism creates an environment that is not conducive to such a development. In particular, its excessive focus on individualism and market undermines social cohesion, often leading to fragmentation, inequality, and marginalisation. The neo-liberal context of reforms also leads to the institutionalisation of A) the internationalised state and B) the competition state. As a result the “state” is minimalist, conforms to the demands of the global market economy and international institutions associated with it. Meanwhile, it dismantles the public sphere so that it can serve international business interests better. The impact on democracy is also clear in the inability of the public to participate in the reform process, to be represented by accountable governments and to be able to mobilise amidst a social crisis. This neo-

liberal logic is reflected in the methods implemented to reforming the Eastern European economies. They were market-led and relied on form (i.e., institutional change). Therefore, the label “Market-led Institutional approach” depicts well the method by which neo-liberals planned to reform the formerly planned economies.

Second, upon reflecting on the reform blueprints, it becomes evident that integration was the overarching goal of the reforms. The discourse and policies of the blueprints clearly indicate that democracy was a mere externality of the reform process.

This chapter attempted to show that excessive neo-liberalism is not particularly democratic not does it facilitate an environment in which democracy can flourish. In the context of post-communism neo-liberal policies actually obfuscate the transformation to a liberal market democracy. In a sense, they evolved the Communist legacies they were aimed at transforming. These trends are apparent in the market, state and society -- discussed in this order in the following three Chapters.

CHAPTER II

POST-COMMUNIST MARKET ECONOMY: THE IMPLICATIONS OF THE MARKET-LED INSTITUTIONAL APPROACH ON THE DEVELOPMENT OF THE MARKET IN EASTERN EUROPE

... the “externality” of the Market-led Institutional approach was not a market democracy but a specific post-communist system. This system is characterised by a particular type of a market economy adjusted to the “idiosyncrasies” stemming from decades of central planning, governance that is only formally democratic, and a society that is undergoing a cognitive and material “social adaptation crisis.”

Neo-liberal policies did not contribute to the development of a market economy as it exists in the West but a post-communist market in which actors, conditioned by decades of central planning, “truck and barter” with little restraint. In this environment of impunity, facilitated by the neo-liberal reforms, they maximise their profits most by using the “idiosyncrasies” of the transforming planned economy rather than erecting a new system. Thus they evolve the particularly post-communist economic arrangement.

II.1. The Neo-liberal Logic Behind Reforming the Planned Economy

The proponents of neo-liberal reforms in Eastern Europe expected that market-led reforms accompanied by essential integration into the global capitalist system would contribute to the elimination of “inefficiencies” generated by the formerly planned economies, while forcing actors to behave “rationally.” In this way, it was assumed, the formal introduction of the market mechanism and its related institutions would serve as a vehicle of social change by its own right. Democracy *per se* was secondary to the creation of the market.⁵⁶ Reforms had to be fast and irreversible, building up democracy

⁵⁶ While formally, mass democracy was introduced immediately through free elections, plural political systems, in other words, legalisation of an environment generally observed in the Western democracies, their

would take a long time. Therefore, the rationale was to start with economic reforms whereby the communist bureaucracy would be side-stepped. Reform would be depoliticised in this way to neutralise the vested communist interests in influencing the reform process. Eventually, democratic political culture would grow, democracy become institutionalised, and peoples' values and attitudes change.

In other words, as Jacek Kochanowicz pointed out, it was assumed that state intervention and, in particular state ownership, led to inefficient allocation of resources while a decentralised market and private ownership would motivate economic agents to a more rational behaviour. The growth of market opportunities would in turn promote entrepreneurship and eventually lead to economic growth.⁵⁷ Reforms would thus provide a framework in which the operation of individual initiative rewarded by economic success in competitive market conditions would be sufficient to launch the transformation process itself.⁵⁸ Emphasis was laid on "government failure" rather than "market failure."

For instance, rapid privatisation, combined with the opening of the planned economy, and economic liberalisation, would force the managers of some state and the newly privatised companies to react "rationally" in accordance with international prices to the forces of supply and demand in as much they would be forced to manage their resources more efficiently (i.e., rationally) and if unable to adjust to the new competitive

tenuous institutionalization and the development of a democratic political culture (i.e., nurturing of democratic values) was considered as a long-term goal in which the government does not have much role to play.

⁵⁷ Jacek Kochanowicz, "Transition to Market in a Comparative Perspective: A Historian's Point of View," in *Stabilisation and Privatization in Poland: An Economic Evaluation of the Shock Therapy Program*, ed. Kazimierz Z. Poznanski (Boston: Kluwer Academic Publishers, 1993), 233.

⁵⁸ J.A. Kregel and Egon Matzner, "Agenda for Reconstruction of Central and Eastern Europe," *Challenge* 35, no. 5 (September/October 1992): 33.

environment they would simply go bankrupt and find new opportunities in the emerging market economy. This rationale was to take the state out of the equation. The neutral, rational forces of the market were to re-arrange, on their own, the economic basis of an entire geographical region from the increasingly inefficient and cumbersome centrally planned Communist economy to a prosperous decentralised capitalist economy. The faith in the capacity of the market was astounding.

By taking the state out of the reform process or de-politicising the reform process would allow the reformers to sidestep the entropic communist bureaucracy. Thus Sachs contends with respect to the Polish reforms:

It was here that economic logic and political logic coalesced. I stressed that the idea of radical reform was not just an economic strategy, but also a political strategy to overcome Solidarity's lack of personnel and control in the ministries (and indeed the lack of any qualified personnel at many key points in the administration apparatus). The point was simple: if the reformers do not control the ministry of foreign economic relations, all the more reason to let the foreign exchange market to allocate foreign exchange! If the reformers do not control the price division of the ministry of finance, all the more reason to let markets determine prices.⁵⁹

Balcerowicz argues that privatisation should be rapid for the same reason. Besides increasing economic efficiency, hastening the period of transition and reducing related uncertainty, rapid privatisation de-politicises the economy. Balcerowicz goes on to say:

In a situation where a large state sector retains its position for an extended period of time, there is a great danger of political influences returning to the economy and affecting economic efficiency, thus impairing the overall standard of living. A large public sector, by its very nature, is liable to be politicised sooner or later. Having a large public sector

⁵⁹ Jeffrey Sachs, *Poland's Jump to the Market Economy*, 43.

capable of functioning according to strictly economic criteria is an utopian dream.⁶⁰

However, contrary to the neo-liberal expectations, it was the market forces that conformed to the “inefficiencies” of the planned economy rather than the other way around. This tendency produced a situation of a “reversed rationality,” in the neo-liberal economistic sense. In this context, economic actors reacted to the market forces conditioned by the post-Communist legacies with utmost rationality by taking advantages of irregularities, gaps in legislation, uncertainty and other factors caused by the systemic collapse in order to amass profit. In the process they were sure to use every inch of political and economic power they had to achieve their goals. The state desertion made the path clear for plundering of public resources in the name of profit-making (in the post-communist sense). It was the neo-liberal theory that turned out to be a utopian dream. Nothing ever works on “strictly economic criteria.” The contention that markets are neutral mathematical mechanism is as utopian as the dream of a just and equitable Communist society.

The designers of the neo-liberal reforms assumed that the “governability vacuum” left behind by discredited Communist state could be replaced by the “self-regulating” and value neutral mechanism of the market. They disregarded the point that the underlying logic of a *disembedded* free market is contained in the goal to realise maximum gain. For a market economy to benefit the majority, other elements must exist. Culture of trust, reliable institutions, transparent legal framework, sense of certainty, the ability to forecast, are all required for a market to benefit the majority.

⁶⁰ Leszek Balcerowicz, “Eastern Europe: Economic, Social and Political Dynamics,” 117.

Moreover, the state must take care of market externalities and public goods. Indeed, as Stiglitz and others pointed out:

[t]he success of a market economy cannot be understood in terms of narrow economic incentives: norms, social institutions, social capital, and trust play critical roles. It is this implicit social contract, necessary to a market society, that cannot be simply legislated, decreed, or installed by a reform government. Some such “social glue” is necessary in any society.⁶¹

Similarly, Domenico Mario Nuti contended, market in the modelled Western liberal democracies is much more than just an informational network connecting economic agents supplying and demanding marketable rights. Markets involve time stratification of memories, expectations, traditions, legislation, jurisprudence, trust, reputation -- without them a market is a pale imitation, indeed, a grotesque caricature of the real thing.⁶²

This “social glue” or “the much more” of developed market economies was to spring up somehow miraculously by the act of the invisible hand in Eastern Europe. But not only that. Democracy itself was to grow on the pillars erected by the market. The reformers, relying heavily on textbook *ceteris paribus* models ignored the fact that, as Stiglitz contends:

[i]t has long been recognised that a market system cannot operate solely on the basis of narrow self-interest. The information problems in market interactions offer many chances for opportunistic behaviour.⁶³

⁶¹ Joseph Stiglitz, *Whither Reform? Ten Years of the Transition*, 8.

⁶² Domenico Mario Nuti, “The Restoration of Markets in East-Central Europe,” in *Europe: Central and East, Volume 6: Critical Perspectives on Historic Issues*, ed. Marguerite Mendell and Klaus Nielsen (Montreal: Black Rose Books, 1995), 87-8.

⁶³ Joseph Stiglitz, *Whither Reform? Ten Years of the Transition*, 8.

In a further stage Stiglitz concludes on the imperfections of the markets and failures of neo-classicism: “one of the most important ways in which real economies diverge from textbook models is in the problems of asymmetric information, imperfect monitoring, and opportunistic behaviour.”⁶⁴

The excessive faith in the ability of the market to usher in broad social, economic and political change, combined with the peculiar oblivion to possible market failure, resulted in a situation whereby rather than contributing to an erection of a new system the market fed on the “idiosyncrasies” of the Communist era because in doing so it found the most “efficient” venue for its self-realisation – the attainment of a maximum gain.

A related conundrum is that the rationality and neutrality of the market assumes ahistoricity and universalism. Indeed, the neo-liberals assumed that the market mechanism was easily transplantable across geographical and, indeed, historical boundaries. However, the experience of Eastern Europe with its reforms falsifies this claim. This paper ventures to argue that part of the reason why the introduction of the market in Eastern Europe did not generate predicted outcomes is in part because it is a historically and spacially bound phenomenon embedded within social and political structures.

What East Europeans desired to achieve in market-oriented reforms was not the *laissez faire* market economy that characterised the pains of the 19th century but the market economy as it appears in the modelled Western liberal democracies, in the neighbouring France, Sweden or Switzerland. But this was simply impossible to achieve

⁶⁴ Ibid., 12.

since, as Kochanowicz aptly argued, the market was a historical process and quite a long process at that, in each and every case -- a process in which the state invariably played a pivotal role (that was not merely market-facilitating but also restrictive and regulating).⁶⁵

Under the circumstances of post-communism the market took on characteristics reminiscent of all historical periods in which it was free to reign in the name of gain and success, and much more. The proponents of the reforms seemed to have not only completely disregard the falls in the tribulations of the turbulent history of the modelled Western free market economy and the indispensable insulating and regulating role of the state in such a process, but the long-standing legacy of Communism as well. Despite the historical hindsight that various studies of the erection of the market economy in the West provide, the building up of the market economy in the East mirrored the Polanyian analysis that warns with lucidity about the dangers and tendencies of an unrestricted market on a society. This omission was compounded by the conscious decision to simply ignore the Communist past. As a result, a particularly predatory market economy grew in Eastern Europe, feeding on Communist legacies to maximise profits.

The problem in Eastern Europe is further aggravated since there exists no opponents to excessive economic liberalism (they have been largely side-lined or discredited). Therefore, the counter-movement that pressures the state to restrict the *laissez faire* economy and insulate society from its adverse consequences (largely connected to the commodification of human beings, nature, and means of exchange) is lacking. And while *laissez faire* economy in Eastern Europe was undoubtedly the product

⁶⁵ Jacek Kochanowicz, "Transition to Market in a Comparative Perspective: A Historian's Point of View," 234.

of a deliberate state action, the lack of the counter-movement (i.e., social forces that mobilise to counter the excesses of a market economy) leaves state with little impetus to spontaneously intervene.⁶⁶

II.2. Starting Conditions: The Communist Legacies⁶⁷

The reformers' view of the market as a simple neutral mathematical mechanism allowed them to disregard both, the specificities of post-Communism as well as the historicity of the modelled market itself. Consequently, they did not think twice about superimposing the market as *the* vehicle of social change on a region that was significantly different than that on which the blueprints were based on nor about the negative consequences of apolitical markets of which anthropologists and historians warn us.

At the close of the Communist era, the East European societies resonated by decades of totalitarian/authoritarian rule.⁶⁸ Among the post-communist characteristics that influenced the most significantly the implementation of the neo-liberal blueprints in the region were the following:

1. Society was de-politicised. This de-politicisation expressed itself in 1) social atomisation, 2) general retreat from the political to the private (privatisation of

⁶⁶ This topic will be elaborated in full in Chapter 4.

⁶⁷ This section is relevant to the entire paper, not just this Chapter. It is located here to facilitate continuity in the text.

⁶⁸ The verdict on whether Communist societies should be considered totalitarian or authoritarian is still out. In order to differentiate them from other non-democratic regimes, referred to usually as authoritarian, and recognize that, perhaps, at certain times in the troubled East European history Communism was totalitarian, I will call them both – totalitarian/authoritarian.

political protest), and 3) general suspicion and disdain for political office and process.

2. A systemic tendency to abuse the system existed.
3. Society was “infantised” by decades of political suppression and heavy reliance on the provision of public goods (including, employment, education, health care, child care, and so on).
4. State was paternalistic in exclusively ruling the society according to what the state-elites perceived as good and required.
5. There existed a tendency to rely on abstract technical models on the part of the state as well as society.

The Communist societies across the region were characterised by high levels of social atomisation and a general retreat from the political to the private. The inability to meaningfully participate in the political process combined with lack of confidence, fear, and distrust (often aided by laughable incompetence, as in the case of the feeble Jakes government in former Czechoslovakia or the period of gerontocracy in the former Soviet Union) in the expiring authoritarian regimes contributed to general suspicion and disdain for the “political.” The society was virtually de-politicized by the decades of repression. Many people perceived politics to be the realm of politicians rather than ordinary citizens.⁶⁹ As a result, the majority of the citizens even now do not participate in the political process, except during elections. This environment of mass political ineptness/apathy leaves ample maneuvering space for the new elites.

⁶⁹ On this topic, see, for instance, Sharon Wolchik, *The Repluralisation of Politics in Czechoslovakia*, paper prepared for presentation at the conference on “Emergence of Pluralism in East Central Europe” UCLA, 10-12 September 1992, Electronic News-group, 14.

The socialist contract rapidly eroding and the standard of living declining, people were forced to constantly abuse the system to get anything and anywhere. Stealing state property and use of bribes was widespread. In order to get around the “side-effects” of Communist prerogatives (i.e., constant shortages, unpredictability of state bureaucrats, etc.), people had acquired certain “skills,” including evading government regulation, arbitraging away some of the inefficiencies in government regulations for private profit, or operating at the interstices between the legal and illegal world.⁷⁰ Other talents included, for example, cultivating relationships with key individuals and judicious payments of bribes or exchanges of favours with other people whose goods or services one needed. The list could go on. In the context of a morally as well as financially bankrupt system, such a behaviour was rational and understandable.

At the same time, the Communist regime provided, at least initially, a level of social security. Everybody had an employment, access to education, health care, child care and range of other social services. In communist systems, the society relied heavily on the state for its welfare. (The fact that the quality of the services was often poor and their delivery often depended on one’s political affiliation is important but besides the point for the purposes of this argument.) All grass-roots or community based activity was suppressed at its incipient stages. Society had no say in how it functioned. In a sense the society was infantised, rid of its responsibility not only to the state but also each individual member to the other.⁷¹ One of the consequences of this “infantisation” is the inability of the society to mobilise in order to protect its “public good” or to cope with

⁷⁰ Joseph Stiglitz, *Wither Reform? Ten Years of the Transition*, 7.

⁷¹ Judy Batt, *East Central Europe from Reform to Transformation* (New York: The Royal Institute of International Affairs, 1991), 45.

the disintegration of the public sphere. It also contributes to the fact that elites often maintain power only because of the utter reliance of society on strong leadership.

The Communist regimes were rapidly decaying. Needless to say, they were genuinely totalitarian/authoritarian as far as they were not accountable to the society at large (except, perhaps, indirectly through the social contract) and as far as they were repressive. Institutions and processes of the so called “democratic centralism” were entirely cosmetic and subordinated to the principle of one-party rule. As their ideological verve subsided, the ruling elites became increasingly opportunistic. However, at the initial stages of the Communist experiment, the Bolsheviks relied on top-down, overly theoretical approaches to socio-economic change, backed by their counterparts in the Soviet Union who were ready to intervene in case opposition should arise to the Bolshevik’s grand plans. The Communist state was inherently paternalistic, assuming it knows best what a “good society” requires and wants.

This technocratic state paternalism was mirrored by the prevalence of technocratic attitudes among the society at large. The elitist temptation was compounded in that people tended to search for complete ready recipes and displayed unrealistic faith in application of technical expertise and abstract systemic models. The combination of the two tendencies was termed by Judy Batt as “technocratic-elitist” temptation -- a phenomenon characterised by the reliance on leadership and by excessive faith in the abilities of elites to concretise abstract models.⁷²

⁷² Ibid., 45.

In this particularly post-Communist environment the blueprint for transformation was implemented. The society was prone to technocratic elitism. Meanwhile, no basis for grass-roots or community engagement existed. On the contrary society was atomized and private. Since very little political consciousness existed, not to speak of a democratic political culture, notions such as 1) civic responsibility (i.e., the responsibility of members of a society to the state as well as the responsibility of one member of a society to another), 2) state accountability and 3) representativeness of the state (i.e., the sovereignty of the people) were underdeveloped. Consequently, systemic abuse was considered logical and not morally binding even after the arbitrary Communist regime collapsed.

The valueless Market-led Institutional approach to reforms assumed these systemic characteristics would simply wither away on their own in the face of the new market opportunities and challenges. However, they did not. Instead, they evolved and mutated in the context of neo-liberalism, contributing to a permanently post-communist condition.

II.3. Post-communist Mutations of the Market

While communist elements persisted in the East European societies, the totalitarian/authoritarian state structures crumbled without any replacement (the point of reforms was not to let anything arise until market economies are firmly established). The political and socio-economic conditions indicated a general unpreparedness for the requirements, burdens, and costs a capitalist economy system would exact. There was no

state *per se* (i.e., the structures of the state collapsed and nothing new was created, instead, elites stepped in) nor a society in a Western liberal democratic sense (i.e., large middle class that could function as a buffering mechanism). What took decades to develop in the West was to spring up in months in the East.

Rather than launching reforms aimed at the long-run development of a free market economy, firmly embedded in social and political basis (as in the liberal democracies in the West), the economistic approach to reforms in Eastern Europe contributed to a creation of a “hollow shell” without content. The “raw” market mechanism was introduced relatively quickly. However, its institutionalisation and the development of an entrepreneurial “culture,” that resulted in the modelled Western liberal democracies from long standing historical processes and state involvement and made the market economy actually so attractive to the eyes of the East Europeans, were simply missing. Instead of a market economy as may be seen in France or Sweden, a particular brand of what will be referred to as a post-communist market economy developed in Eastern Europe. While its inspiration was a Smithian ideal-type of a market economy, its mechanism was conditioned by the particular post-communist environment that prevailed, contrary to all the reformers’ assumptions.

The neo-liberal reforms created an environment in which, similarly to the Communist one before, it makes sense to cheat and abuse the system. Privatisation is a good example of this tendency. As Stiglitz points out, the method of privatisation in Eastern Europe aimed at first and foremost transferring state owned enterprises to private hands. Some would say that property was simply given to those that already had access to

it (often the members of Nomenclature themselves). In this sense one may speak of “legalising access to property” rather than privatisation. Further considerations were simply ignored. Thus, privatisation schemes resulted either in “robber baron” capitalism, as is the case of Russia where, after 1995 the “loans-for-shares” plan allowed government “clients” to acquire enterprises by giving them licence to print money, or in a private property system where corporate governance and ownership are so divorced from each other that it makes more sense to “asset strip” and “tunnel” than to “re-deploy assets in a way that would provide foundations of wealth creation,” as was the case, for example, in former Czechoslovakia (voucher privatisation).⁷³ Therefore, the neo-liberal aim to de-politicise the reform program failed. The *naiveté* of neo-liberals in thinking any such thing could be possible actually 1) allowed the communist bureaucrats and managers to *particularly* (i.e., without any institutional/state constraints) abuse the system outright as in the Russian privatisation scheme and/or 2) led to a situation where it makes more sense to abuse the system than to try to reform it, as in former Czechoslovakia.

It is in this context that company managers engage in activities such as, for example:

1. intentionally bankrupting firms to buy them back cheaply,
2. establishing private firms to do preferential and more profitable business with the state enterprises they manage,

⁷³ Joseph Stiglitz, *Wither Reform? Ten Years of the Transition*, 5, 10-12.

3. accepting unfavourable joint ventures and take-over offers that provide personal benefits, while rejecting favourable offers that put the manager's personal position at risk,
4. maintaining "zombie" enterprises, in which incompetent managers simply run down the bank balances and other capital of the enterprise, while failing to adjust to the new market conditions.⁷⁴

In a similar vein, share-holders in newly privatised enterprises also tend to be keener to squeeze "their" company quickly rather than to help it grow slowly. In the Czech Republic, for example, scams such as the following occur:

1. Powerful shareholders induce a company management to make loans to shell companies which then disappear.
2. Another scam involves buying assets at inflated prices or selling them very cheaply while the insiders dispose with their shares accordingly before the news leaks out.

In Slovenia, for example, companies are forced to pay prohibitively high dividends.⁷⁵

More generally, it is also this environment that allowed the devastating pyramid schemes to wipe out most of invested savings in Albania, that allowed a range of travel agencies in the Czech Republic to proclaim bankruptcy after raking in money of unsuspecting summer vacationers and then stranding them abroad, or that allowed the Mafia in Russia to literally control a large segment of the post-Communist

⁷⁴ This list is taken from an article by Jeffrey Sachs in which he evaluates the progress of the liberal reforms, he attributes the problems mostly to incompetence, inconsistency and lack of urgency of the competition state to implement reforms rather than the impossibility of such a task due to wrong assumptions. Jeffrey Sachs, "Crossing the Valley of Tears in East European Reform," 29. For a similar analysis also see, Anders Aslund, "Reform Vs. 'Rent-Seeking' in Russia's Economic Transformation," *Transition* 2, no. 2 (January 1996): 12-16.

⁷⁵ Edward Lucas, "The Next Revolution," *The Economist*, 22 November 1997, 13.

economy – a situation that led some observers to equate the market economy there with the Mafia itself. The list could go inexhaustibly on.⁷⁶

Among the main characteristics of this post-communist market economy is a tendency to see the market as an opportunity for speculation rather than production.⁷⁷ Meanwhile, success in the (capitalist) game requires many of the same assets and “talents” called for under the old communist system (bribes, bending rules, semi-legal and illegal activities, and so forth).⁷⁸ Indeed, many people abandoned useful and productive activities in favour of relatively unproductive activities that appeared to be lucrative in the short run or simply resorted to crime unable to cope with social dislocation.⁷⁹ The rapid and unprecedented freedom in economic activity aimed at attaining short run maximum gains is realised most “efficiently” not by side-stepping the old bureaucracy or erecting a new entrepreneurial system but by abusing the legacies of the old planned economy.

These “mutations” are not results of incompetent implementation of the reforms, bad habits of East European people, nor insufficient shock or therapy, but the consequences of implementing the standard neo-liberal reforms in the post-communist environment. As Stiglitz aptly argues:

[c]orruption and rent seeking may itself have been increased by the manner in which the reforms were conducted, which both destroyed the already weak social capital (through bankruptcies in the context of

⁷⁶ On the Albanian experience with laissez faire, see for example, Patricia Cayo Sexton, “Remember Albania: A Fairy Tale,” *Dissent* (Summer 1997): 23; on the criminalisation of Russia see Benjamin Barber, *Jihad Vs. McWorld*, 257.

⁷⁷ Robert V. Daniels, “Russia’s Road to Oz: Utopian Reform vs. Modern Reality,” 312.

⁷⁸ Thomas Weisskopf, “Russia in Transition: Perils of the Fast Track to Capitalism,” *Challenge* 35 (September/October 1992): 31.

⁷⁹ *Ibid.*, 30.

underemployment) and which enhanced opportunities and incentives for such activities.⁸⁰

On another page he goes on to say: “Think for a moment why we condemn oligarchs and managers for asset stripping and looting that leads to the demise of an enterprise. One might say that they are within their legal rights as shareholders.”⁸¹ Yet one last statement he makes in his speech hits the nail on the head:

Hopes that privatization would lead to restructuring “by the market” have been widely disappointed. Part of the blame, as I have noted, should be assigned to privatization methods that created little incentive for restructuring as opposed to “tunnelling” value out of firms.⁸²

Indeed, it was the neo-liberal reforms that gave rise to the environment conducive to short-sighted economic activity at the expense of overall economic development. It was also these reforms that foreclosed the ability of the state to intervene constructively in the erection of the market economy on behalf of the society after creating and maintaining the minimum economic conditions conducive to “business” in the global era (i.e., restrictive monetary policies, regulatory framework for inducing competition, etc.).

II.4. Post-communist Market and Democracy

The conditions of a post-communist market economy led to a creation of an economistic, materialistic and me-oriented environment where the attainment of short run quantitative gains is preferred to the long run considerate development, where human need is largely ignored, inequalities mounting and the pool of marginalised poor growing.

⁸⁰ Joseph Stiglitz, *Whither Reform? Ten Years of the Transition*, 9.

⁸¹ *Ibid.*, 13.

⁸² *Ibid.*, 15.

The impact of the reforms on social cohesion will be explored in more detail in Chapter IV. Nevertheless, it is dubious that in such an environment liberal market democracy could flourish.

The analysis of the market in Eastern Europe attempted to show that post-communist idiosyncrasies are evolved, for example, in the new private property system. The legalisation of access to property (rather than privatisation) has ushered in a strange clientalist environment where managers and share-holders, while having the same “profit logic,” do not behave in the same fashion as their counterparts in the West. It makes more “economic” sense for them to engage in semi-legal and semi-immoral activities than to attempt to “internalise” on their own some kind of entrepreneurial spirit that has been a part of the culture in liberal market democracies for decades. It is dubious that this culture would persist if market relations were not institutionalised and embedded within a “social glue” that Stiglitz talked about even in the West. How, then, is this culture supposed to develop on its own in the context of communist collapse and “value-less” neo-liberalism?

The construction of the market in Eastern Europe shows the flaws in the neo-liberal approach. The hands-off approach to market reform resulted in a particular post communist economy, leading one to conclude that:

1. Markets are not neutral, apolitical and easily transplantable mechanisms. They are systemic components.
2. Markets do not have the capacity to build a culture of a democratic/open society, instead, their logic is to generate profits within the system/context they operate in (are

part of). In the case of Eastern Europe, this context was a collapsing planned economy. The market mechanism embedded itself within this context. Without state intervention, the market adopted the post-communist idiosyncrasies because by doing so it achieved most effectively what it has always meant to achieve – profits.

CHAPTER III

FORMAL DEMOCRACY AND ELITE RULE: THE IMPLICATIONS OF THE MARKET-LED INSTITUTIONAL APPROACH ON THE GOVERNANCE IN EASTERN EUROPE

Side-lining the public, the neo-liberal blueprints assigned an exclusive role to implement and enforce the reforms to a "state-authority." In Eastern Europe, neo-liberalism facilitated an environment of impunity amidst communist collapse. In this environment democracy remains superficial and the structurally powerful are free to manipulate the communist legacies to their own advantage. Political and economic elites, often from the ranks of the "discredited" Communist nomenclature, collude to better facilitate the accumulation of wealth and amassment of power, more often than not, at the expense of the general public. Neo-liberal reforms did not lead to an emergence of democratically governed regimes in Eastern Europe. They obfuscated the transformation to democracy by evolving the Communist legacies of elitism, technocracy, marriage of the political and economic, paternalism, arrogance and apoliticism (i.e., the lack of political contest, debate, and meaningful political life). Today, the political in Eastern Europe has been privatised and politics virtually archaised.

III. 1. The Neo-liberal Logic Behind the Implementation and Enforcement of Reforms

The tenets of the neo-liberal approach to transformation, or what Stiglitz refers to the "Washington consensus" doctrines of transition,⁸³ epitomised by the so called shock therapy programmes, encompassed a notion of a reform from above which would ultimately take advantage of its speed and scope in sidelining the generally "ignorant" public and thereby preventing large segments of society from "meddling" with the grand plan of systemic transformation. The public was thus deliberately and skilfully

⁸³ Joseph Stiglitz, *Whither Reform? Ten Years of the Transition*, 4.

circumscribed from the reform process. The reform governments took advantage of impunity generated by neo-liberalism, euphoria brought about by the end of Communism as well as the public's inexperience with a democratic process, to institute policies that were inevitably going to be unpopular and, therefore, would have created a public outcry under normal circumstances.

The reform governments in Eastern Europe, co-opted a partnership with those institutions and individuals who act as conduits of the neo-liberal globalisation such as, for example: the International Monetary Fund, the World Bank, the World Trade Organisation, other various channels of official financial and technical assistance, as well as private investors and banks. In conjunction with this neo-liberal "nexus," as Gill would aptly label such a cosmopolitan grouping, the reform governments not only marginalised the opposition, but also sidelined large segments of "their" own public.⁸⁴

The discourse of globalisation, compounded by a general backlash in Eastern Europe against anything planned and social, facilitated the relatively smooth transfer of power from the defunct communist regime to the reformers. The neo-liberal discursive context allowed the new government and economic elites to ridicule any alternatives that may have existed to the Anglo-Saxon model of *laissez faire* economy. All the "third paths" were banished as utopias, while the neo-liberal model was propounded as being scientific, based on the unfailing logic of mathematical models. All critics were stereotyped into reactionary Communists or populist nationalists. The cult of *laissez faire* won the day, at least for a while.

⁸⁴ Stephen Gill, "Globalisation, Market Civilisation, and Disciplinary Neoliberalism," 418.

Thus, as Robert Daniels suggests, Yeltsin embraced radical reform policies “opportunistically” in order to outmanoeuvre Gorbachev after the August Putsch of 1991. Subsequently, he liquidated the USSR, and proceeded to implement shock therapy, without any empirical calculation as to its applicability or its impact.⁸⁵ The same could be said about elites in other East European countries, but perhaps the most vivid examples that come to mind are Vaclav Klaus’ reforms in the Czech Republic or Leszek Balcerowicz’ plan for the transformation of Poland.

The role of the new reform governments was to implement the reform package put together by the “Washington consensus” group, period. As Balcerowicz points out: “The task for Central and East European countries is to build efficient and strong democracies able to continue the process of economic transformation.”⁸⁶ The new governments were to launch market oriented reforms aimed at integrating into the global economy, while dismantling the remaining vestiges of the Communist state machinery. In this way they were to, in effect, institutionalise the phenomena of the internationalised state and the competition state. They were to implement shock therapy and “wash their hands” of any further responsibility. Markets would do their job, while the former bureaucracy would be sidestepped.

Democracy would grow on the heels of the market economy. Elections, in the first place, and other democratic provisions, in the second, would be introduced immediately, together with unleashing basic political freedoms that the Communist regime suppressed. Meanwhile, tenuous institutionalisation of these new democratic

⁸⁵ Robert Daniels, “Russia’s Road to Oz: Utopian Reform vs. Modern Reality,” 308.

⁸⁶ Leszek Balcerowicz, “Eastern Europe: Economic, Social and Political Dynamics,” 110.

elements would take time; the development of a civic (and civil) culture likewise. The focus on elections and the economy permeated the transformation process. The rest would just somehow happen latter. This is what Balcerowicz states about the requirements of democracy in one of his articles:

This (i.e., efficient and strong democracy able to continue the process of economic transformation) requires, among other things, good electoral law, which would reduce excessive fragmentation of the party systems and the related instability of governments and constitutions, which should include norms limiting harmful spillovers from political struggle into the economy. For example, one such norm should protect the stability of public finance and therefore the stability of money from populist attempts to gain popularity by implementing increased expenditures which could only be financed through inflationary measures.⁸⁷

The Market-led Institutional approach to reform let democracy to struggle alone amidst economic collapse, political flux, and social disorientation. It was assumed that somehow, people would mobilise “for democracy” from the morally and politically bankrupt condition that Communism brought. It was assumed that the society would shed its de-politicised and infantised character to extol civic virtue all on its own. It was assumed that the new elites would take on its democratic responsibilities. Accountable to their electorates, they would not be tempted by power or money as their predecessors for decades before them. They would transform the discredited state machinery into a legitimate body, representative, accountable and professional. Technocratic, unaccountable elites they would be no more.

⁸⁷ Ibid.

The environment that the Market-Led Institutional approach ushered in the context of post-communism was not only indifferent to democracy; it actually obfuscated its development. The valueless market approach contributed to the creation of a superficial democracy run by political elites, in better case scenarios, and by economic elites or Mafia in the worse. In a sense the development of the elitist superficial democracy could be attributed to neo-liberalism (i.e., top-down approach, side-lining society, reliance on authority for implementation and enforcement, etc.) feeding on the legacies of Communism (i.e., de-politicisation, infantisation, paternalism, and technocratic elitism).

III. 2. The Implications on Governance: Formal Democracy and Elite Rule

The implications of the Market-led Institutional Approach on democratic governance will be taken up in the following sequence:

1. First, the phenomenon of a neo-liberal “state” will be addressed.
2. The second problem elaborated in this section will be the erection of a formal or a superficial democracy.
3. Finally, the consequences of the diminished state and formalistic state institutions on governance will be explored.

III.2.1. *The Neo-liberal “State”*

As a result of the Market-led Institutional Approach, the new reform governments effectively diminished the state through which they were to represent their electorate and

through which they could steer and facilitate the systemic political and economic reforms in an accountable fashion. As Osvaldo Sunkel aptly pointed out during Forum 2000 -- a conference that took place last year in Prague on the Discontents of Globalisation:

Very deep down, the issue is the relationship among state, market and society. In the neo-liberal economic package, the market would appear to be the overriding principle -- subduing, subsuming state and society. As a result of the pervasiveness of this concept, we are now witnessing private globalisation and public void.⁸⁸

The new reform governments have virtually deserted the public sphere in most East European countries -- a trend that has contributed, among other things, to the deterioration of social cohesion in the region, addressed in the following Chapter. This state desertion is in line with the prerogatives of the competition state and facilitates what Cox has labelled the internationalisation of the state. In the name of fiscal austerity there has been a systematic withdrawal of the "state" from the cumbersome and huge public sphere that the communist regime left behind. Labour, housing, and the energy markets have been "liberated." Health care and the educational system have been partly privatised together with child care and other public provisions. The remaining public infrastructure is crumbling and the delivery of social goods often deficient. In extreme cases, such as Russia or Romania, the state has no budget to pay its employees.

The Market-led Institutional approach has led to the transformation process being at the mercy of the global market economy. The prerogatives of the internationalised state apply to Eastern Europe as much as to Canada or the United States. "States" must not only ensure a competitive environment for business to flourish (i.e., minimal state

⁸⁸ Osvaldo Sunkel, "Private Globalization and Public Void," *Transitions* 3, no. 11 (November, 1998): 8.

intervention in the economic sphere) but to maintain conditions conducive to the inward movement of capital as well as production (i.e., non-inflationary macroeconomic policies aimed at exchange rate stability). Policies associated with inflation such as, for example: deficit spending or excessive wage growth (i.e., real wage growth in excess of productivity) were literally “demonised.”⁸⁹

The lessons of the May 1997 currency crisis in the Czech Republic and the August 1998 economic collapse of Russian ruble evidence the argument of the internationalised state well. In both cases, the pressures of the global economy contributed to the economic malaise. While the Russian economy collapsed as a result, the Czech government implemented a series of “correcting” measures that, in effect, reversed a relatively generous fiscal policy aimed at alleviating the pains generated by the reforms and caused the abandonment of a semi-fixed exchange rate (that was meant to function as a nominal anchor). The policy goal of the Czech macro-economic stabilisation and restoration of investor confidence came at the expense of a large segment of the Czech society.

The neo-liberal blueprints in fact legitimised the entities of competition state and internationalised state. As a result, the public sphere was attacked and links between governments and their electorates challenged. In this sense, state became diminished and semi-legal in as much it became more accountable to the forces of the global market economy than to its own public.

⁸⁹ There was actually a debate at the outset of the reform process in former Czechoslovakia initiated by Vaclav Klaus, at that time the Minister of Finance, about making debt unconstitutional so that future generations are spared the burden of repayment.

III.2.2. Formal Democracy

State institutions (however diminished), procedures and processes, as well as political culture generally attributed to democratic governance remain deficient and largely only formally established. The Market-led Institutional approach to reforms has contributed to the erection of a superficial or formal democracy. This phenomenon may be compared to what Latin American specialists call “restricted democracy” or “low intensity democracy” in the post-authoritarian context.⁹⁰ As Nancy Thede contends:

Analysts who propose this label argue that many regimes in the Americas have the formal trappings of democracy (relatively free and fair elections, relatively efficient legislatures and government bureaucracies) but very little of the qualitative structures and processes which allow for citizens to have a real say in the administration of public affairs.⁹¹

It would appear that rising number of political scientists preoccupied with democratic transformations in the South and East alike have come to the conclusion that elections and the formal introduction of other democratic “rules” as well as political rights and freedoms are not sufficient for democracy to flourish. Rules and rights have to be tenuously institutionalised.

The experience of Eastern Europe confirms this hypothesis. While free elections have become common, political rights and freedoms unleashed and democratic rules introduced the rule of law often remains arbitrary. While laws are passed in a semblance of a democratic procedure they are often non-transparent and sometimes simply wither away after a period of virtual non-functioning. The political process in general is

⁹⁰ Nancy Thede, *Democracy and Human Rights in the Hemisphere* (Montreal: International Centre for Human Rights and Democratic Development, 1997), 3.

⁹¹ Ibid.

deficient. In some countries, such as Russia or Slovakia (under Vladimir Meciar), a constitutional struggle over rules and powers continues to this date. The legality of Yeltsin's rule by decree has been frequently questioned in the Western press and academia alike. In Slovakia, the Meciar government frequently tended to break constitutional laws, disregard verdicts of the Constitutional Court, and to develop clientalist relations with the economic sector.⁹² Active public role in the political is also circumscribed. Society is not engaged in policy making and its input is often foreclosed outright. The story is the same across the region to varying degrees.

III.2.3. *Elite Rule*

The state desertion of the public sphere and the formalistic aspect of the democratic institutions have contributed to a situation where elites rather than a state machinery runs the affairs of countries in Eastern Europe. This situation is compounded by the fact that by attempting to de-politicise the reform process and letting the market take over, an environment was created in which those located in the right places take advantage of their positions of power. The particular circumstances of a diminished state and market dominance have contributed to a strong link between the political elites (those who formally run politics) and the economic elites. As Stiglitz points out in regard to privatisation:

While privatization was supposed to “tame” political intrusion in market processes, privatization provided an additional instrument by which special interests, and political powers, could maintain their power. For instance,

⁹² For the analysis of democracy in Slovakia, see, for instance: Sona Szomolanyi, ed., *Slovensko: Problemy konsolidacie demokracie: spor o pravidla hry pokračuje* (Bratislava: Slovenske zdruzenie pre politicke vedy, Nadacia Friedricha Eberta, 1997).

in a variety of dubious arrangements, political allies of the reformers “bought” assets (e.g., with money borrowed from the government or from the banks to which the government gave charters), with part of the “profits” generated thereby being recycled to support the political campaigns of the reformers.⁹³

On another page Stiglitz states with clarity:

[t]he resulting program of transferring assets to the private sector without regulatory safeguards has only succeeded in putting the “grabbing hand” (attributed by neo-liberals to the state) into the “velvet glove” of privatisation. The “grabbing hand” keeps on grabbing with even less hope of public restraint.⁹⁴

Furthermore, by disregarding the underlying power relationships inherent in every system, the neo-liberal reformers paradoxically often gave trump cards to those they wanted to “neutralise” the most – the opportunistic layer of the old communist nomenclature. Therefore, not only is the market in effect “commanding” the reform processes with consequences described in the previous Chapter, while the state is diminished and weak, the market is often dominated by former Communists themselves.

Michel Wyzan argues:

The people who have risen to the top of the new order often have familiar faces. Much of the old Communist Party nomenclature – and sometimes the upper echelons of the secret police – has transformed itself into a new economic elite.⁹⁵

Similarly Roman Frydman, Kenneth Murphy, and Andrzej Rapaczynski argue:

According to a former leading politician in Romania, 80 percent of new Romanian millionaires were part of the nomenclature. Many had been in the arms industry and have since built their fortunes on arms trading... A survey

⁹³ Joseph Stiglitz, *Whither Reform? Ten Years of the Transition*, 20.

⁹⁴ *Ibid.*, 21.

⁹⁵ Michael Wyzan, “The Winners and Losers of Privatization,” *Transition* 2, no. 2 (26 January, 1996): 4.

of Russia's top 100 business people compiled by Moscow's Applied Politics Institute found that 61 percent of the country's new rich are former members of the nomenclature. A Polish economist who trace the careers of several hundred top members of the nomenclature from 1988 to 1993 found that over half turned up as top private-sector executives. The numbers in Hungary are reported to be even higher than in Poland.⁹⁶

The fact that the members of the nomenclature were so successful in converting their political domination into economic power through their connections, favourable positions in enterprises and bureaucracy, or illegally amassed capital might not be as disconcerting as the fact that the neutral neo-liberal environment ultimately enabled them as well as others to abuse the new-found freedom to their advantage (economic as well as political) at the huge cost to the general population and an overall economic development. As Frydman, Murphy, and Rapaczynski point out, in Hungary, for example, factory managers and their cronies manipulated privatisation laws to insulate themselves from any external control, "spinning valuable assets into separate subsidiaries of which they became part owners and leaving the state with empty shells and liabilities."⁹⁷ The situation is particularly serious in Russia, where as Donald Jensen argues, a small oligarchy of ex-communist political leaders together with bankers, media tycoons, industrialists, and bureaucrats -- often called the Party of Power -- dominate the "commanding heights" of Russia's politics and economy -- its key government positions,

⁹⁶ Roman Frydman, Kenneth Murphy, Andrzej Rapaczynski, "Capitalism with a Comrade's Face," *Transition* 2, no. 2 (26 January, 1996): 5.

⁹⁷ *Ibid.*, 6.

financial and industrial assets, mass media outlets and instruments of coercion.⁹⁸ Grigory

Yavlinsky calls this new Russian elite “robber Barons.” He argues:

No one doubts that these nomenclature capitalists have had a profound impact on the Russian economy, but their market of insider deals and political connections stand in the way of an open economy that would benefit all Russian citizens. The robber-baron market cannot tackle important social and economic questions. It is primarily concerned with issues that affect its master’s short-term power and prosperity.⁹⁹

On the next page he goes on to say:

Russia’s robber barons are stifling their homeland’s economic growth by stealing from Russia and investing abroad. In the late 1990’s, Russia has no emerging middle class, and the oligarchy, which is deeply involved in the government, can alter policy for its private benefit.¹⁰⁰

The state is not only too weak to address the “systemic” abuse of the economy by the new economic elites and various crooks by reigning them in or by changing the environment in which this abuse is perpetrated (an environment it itself facilitated through the market-led institutional reforms), but its members are often closely involved with the economic elite’s activities. Indeed, in an extreme case, such as Russia, the government seems to be penetrated or at least partly controlled by the economic elite, leading commentators to refer invariably to Russia’s capitalism as “crony,” “phoney,” “robber,” and in the case of Alexandr I. Solzhenitsyn “savage.”¹⁰¹ (As Yavlinski pointed out, one of Russian tycoons, who became the core of Yeltsins’s re-election campaign,

⁹⁸ Donald Jensen, *How Russia is Ruled – 1998*, Radio Free Europe/Radio Liberty: <http://www.rferl.org/nca/special/rwwhorules/index.html>

⁹⁹ Grigory Yavlinsky, “Russia’s Phoney Capitalism,” *Foreign Affairs* 77, no. 3 (May/June 1998): 69.

¹⁰⁰ *Ibid.*, 70.

¹⁰¹ Alexander I. Solzhenitsyn, “To Tame Savage Capitalism,” *The New York Times* (November 28, 1993): E11.

claimed in an interview published by *the Financial Times* in November 1996, to control more than one half of the Russian economy).¹⁰²

The chaos brought about by the systemic transformation, characterised by legal vacuum and compounded by weak states, often in collusion with a small privileged economic elite, ex-communist or not, give rise to an environment ripe for semi-legal and illegal activity as well as outright criminality. The boundaries of what is public or private, legal or criminal (and in extension moral and immoral – there is a difference if a persons cheats because of an utter systemic necessity and because of a selfish greed) are blurred. In some cases, as Jensen points out, “Russian organised crime groups have in many ways supplanted the state in paying protection, employment, and social services, activities that the state can not longer provide.”¹⁰³ In a sense, Mafia, in Russia, has stepped in for the diminished state. Indeed, in an August 1997 poll asking respondents “who do you believe runs Russia?” 52 percent selected as their first choice “the Mafia, organised crime,” followed by the state apparatus (21 percent), the president (14 percent), regional authorities (11 percent) and the government (10 percent).¹⁰⁴ Barber comments on the situation in Russia in the following manner: “There is no need to choose between Mafia and democracy or the Mafia and the free market: the Mafia *is* the free market. The Mafia *is* democracy.”¹⁰⁵

¹⁰² Grigory Yavlinsky, “Russia’s Phoney Capitalism,” 69.

¹⁰³ Donald Jensen, *How Russia is Ruled*, 1.

¹⁰⁴ Peter Rutland and Natasha Kogan, “The Russian Mafia” Between Hype and Reality,” *Transitions* 5, no. 3 (March 1998): 26.

¹⁰⁵ Benjamin Barber, *Jihad Vs. McWorld*, 257.

III. 3. Building up Democracy in the Context of Elitist Superficial Democracy

How could democracy as we know it in the West flourish in such an environment? In Eastern Europe the whole notion of the “political” is being challenged. While elites rule with impunity, society is opted out of the reform process, decimated by the neo-liberal medicine. Without active civil society there can be no democracy, as Stiglitz points out:

People need to take an active and constructive role in their self-transformation; to a large extent, they need to be in the driver’s seat. Otherwise the reform regime is only using bribes and threats to induce outward changes in behaviour insofar as behaviour can be monitored – but that is not transformation.¹⁰⁶

In a sense, many of the old communist characteristics, that the reforms were aimed at correcting or changing evolve into another form (condition) that may be labelled post-communist. Although semi-legitimised by the globalisation rhetoric, the government remains elitist, largely divorced from and unaccountable to its electorate. Most of the elites are as arrogant and as paternalistic as they were before the collapse of Communism – claiming the knowledge of the “ultimate truth” in market reforms, claiming to know what the society needs and deserves, using simple abstract *ceteris paribus* textbook models extracted from the realities of developed capitalist economies to usher in a complex socio-economic and political change in regions experiencing a systemic collapse. The connection between the political and the economic remains, but now the ideal behind this marriage is not a just and an equitable society but power and money. Democracy is as superficial and cosmetic as democratic centralism used to be

¹⁰⁶ Joseph Stiglitz, *Whither Reform? Ten Years of the Transition*, 9.

under Communism. The new elites imitate their counterparts in the West while using the semantics of democracy to amass power amidst an ideological vacuum.

Politics across the region, to varying degrees, has experienced a certain “archaisation” in a sense that elites command “outside of the framework of a legal state” -- a situation similar to some pre-democratic, or rather post-democratic condition. The prerogatives of globalisation (i.e., competition state and the internationalised state) legitimised a semi-legal state where the government has deficient links to its electorate. The semi-legal condition of the state created a context of impunity for its new masters. In this context, the East European elites, having no internalised democratic political culture nor institutional barriers (i.e., informal democracy), “instrumentalise the rule of law” and collude with economic elites (to a much greater extent than the neo-liberals propose within the context of a competition state). In Russia, feudal tendencies of calling segments of political elites a “family” or a “clan” surfaced. In Moscow, for example, there is Yuri Luzkov’s clan and Boris Berezovsky’s clan, also called “The Family.” Both clans are involved in political parties, have key political figures in their midst, clear sources of financing (business, industry, government contracts), as well as mass media subsidiaries and allies.¹⁰⁷ This situation approximates more feudal lordship than a democratic society.

Politics in Eastern Europe is more about power and money than contesting political ideologies. Neo-liberalism with its rhetoric of no alternatives has not particularly contributed to the development of a vibrant political spectrum. It is perhaps

¹⁰⁷ For an analysis of a struggle for the post of a mayor of Moscow through the “feud” lens see an article by Geoffrey York, “Russia’s Future Hostage to Rivalry of Mayor, Tycoon,” *The Globe and Mail*, 9 September 1999, A 10.

this apolitical nature of the “political” in Eastern Europe that makes populism and nationalism so appealing. It is certainly this ideological poverty that facilitates the “privatisation of the state” (public) by the elites.

CHAPTER IV

THE IMPLICATIONS OF THE MARKET-LED INSTITUTIONAL APPROACH ON THE DEVELOPMENT OF AN OPEN SOCIETY IN EASTERN EUROPE

There was no systematic plan for the development of civil society in Eastern Europe. The universal neo-liberal plan not only ignored society as an entity but deliberately discouraged its active participation in the reform process. This deliberate "de-politicisation," compounded by state desertion and the semi-legitimate nature of state-authority, did not contribute to the development of an open and democratic society. On the contrary, it obfuscated its development by evolving the communist legacy of de-politicisation and societal atomisation. It enhanced the structural inequalities and discrimination (gender, race) that prevailed in Communist societies despite all the cosmetics showing otherwise. Moreover, neo-liberal reforms commodified social relations and contributed to the "re-creation" of an "80-20" society.

IV. 1. The "Lack" of Neo-liberal Logic Behind the Development of Civil Society and Economic Recovery

There was no systemic plan to ensure that civil society develops in Eastern Europe. Similarly, the economy was let to its own devices after the initial "shock" to recover and resume growth. However, the development of civil society was actually deliberately obfuscated. The neo-liberals took advantage of the de-politicised (i.e., political protest was private, resulting in an en masse retreat of the society from the public to the private sphere) and infantised society to implement the reform blueprints. Grass-roots involvement and the public role in the transformation process was discouraged from the outset. Combined with this perpetuation of a de-politicised and infantised society was the withdrawal of the state from the public sphere and the introduction of the market as the overarching "co-ordinating" mechanism of social,

economic, as well as political relations. The effect of these developments on the social cohesion and public mobilisation for democracy was grave:

1. The societies in Eastern Europe became commodified. Everything that was previously free, or based on political and other criteria, suddenly acquired a price.
2. Social atomisation was perpetuated on the basis of the neo-liberal faith in the individual propensity to “truck and barter.”
3. Structural inequalities and discrimination were enhanced. A case in point is the study of the growing gender inequality addressed in this paper as well as pervasive discrimination against the Roma community. Income inequality also became grave.
4. The majority of those marginalised poor has been growing.

The de-politicisation of the society, deteriorating social cohesion, and the “apparent” lack of alternatives (discourse) contributed to growing social anomie and the “privatisation of political protest.” On a general level this privatisation is expressed in populism, nationalism, passivity; on the individual level in trends including, rising rates of alcoholism, divorces, suicides and mental disorders.

In the context of post-communism, neo-liberalism led to the evolution of political alienation and societal atomisation through its neglect of public input and emphasis on individual initiative. De-politicisation of the society is further evolved by the neo-liberal discourse that ushered in the entity of the semi-legitimate state and value-less ideology of money that has no alternatives. What is new is the growing inequality and marginalisation – tendencies contributing to the development of social organisation that approximates more Charles Dickens’ analysis of industrialising Great Britain in *the Tale*

of Two Cities rather than a modern democracy with a large middle class. The state of the society in Eastern Europe acquires a post-communist, post-democratic flavour.

In order to evaluate the social and demographic implications of the Market-led Institutional approach in Eastern Europe, first, I will briefly outline the macro-economic consequences the reforms had on the region. The economic decline that the East European countries experienced was unprecedented and it resonates still now. It is useful to remember just how serious the economic situation became between 1989 and 1991. Second, I will address the social and demographic costs related to this economic decline. Third, the implications of the deteriorating social conditions, combined with other factors, such as de-politicisation and state withdrawal on the development of a democracy and the evolution of post-communism in the region will be assessed.

Survey and material used to collect data on this topic show a strong correlation between the socio-economic conditions of a particular society and the development of a democratic (i.e., equitable, socially cohesive) system. While the impact varied from country to country, depending on various factors such as their initial conditions, the approach to reform or vulnerability to external factors, the general socio-economic trends point in the same direction (with only a few exceptions). Nevertheless, it has become clear that as transformation goes on, regional differentiation intensifies, especially between Central and Eastern European countries as well as them and the Soviet successor states. Large variation is also apparent among the Baltic states and the CIS countries. Keeping in mind these variations, this piece is aimed at evaluating the systemic change from Communism to liberal market democracy. I will draw on cumulative,

comparative statistics from the entire region when possible, noting large exceptions and discrepancies in observed trends. Specific country profiles will also be used to demonstrate particular points.

IV.2. The Economic Background

VI.2.1. Remembering the Initial Shock – Macroeconomic Indicators

The immediate impact of the reforms on the macroeconomic performance of countries of Eastern Europe and the former Soviet Union are widely evidenced and known. The reformers argued that the decline of the region's economies would be painful, albeit short. The collapse of output (industrial as well as agricultural), trade, accelerated rate of inflation and unemployment, accompanied with decline in real wages, were all considered as necessary pains of "adjustment" for the planned economies. It was assumed that after this adjustment (i.e., integration into the global economic system, becoming competitive, etc.), the basic macroeconomic indicators would stabilise and growth would resume as other structural and institutional reforms proceed (i.e., privatisation, restructuring, development of the legal and regulatory system, etc.). The macroeconomic data presented in the following three tables are a reminder of just how painful this initial "adjustment" turned out to be. (The most dramatic changes are highlighted in bold).

Table 1.**Eastern Europe and the Former Soviet Union: Rates of Growth, GDP, 1984-1992 (Annual % change)**

	1984	1985	1986	1987	1988	1989	1990	1991	1992
Eastern Europe & USSR	3.4	2.0	3.5	2.6	4.5	2.3	*-5.0	-15.9	-12.0
Former USSR	3.0	1.7	3.6	2.8	5.3	3.3	-2.1	-17.0	-15.0
Eastern Europe	4.6	2.6	3.2	2.3	2.7	—	*-12.1	-12.5	-2.6
Bulgaria	3.4	2.7	4.2	6.1	2.6	-1.4	-11.8	-23.0	-9.7
Czechoslovakia	2.1	2.2	1.8	0.8	2.6	1.3	-4.7	-16.6	-5.3
GDR	5.4	5.5	3.9	3.3	3.1	2.4	*-25.1	—	—
Hungary	2.7	-0.3	1.5	3.8	2.7	3.8	-4.0	-8.0	—
Poland	5.6	3.6	4.2	2.0	4.4	0.2	-12.0	-9.3	3.0
Romania	5.9	-0.1	2.4	0.8	-0.5	-5.8	-8.2	-13.0	-9.6

* Discontinuity in the series

Source: United Nations, *World Economic Survey 1992* (New York: UN, 1992), 187.

The above table shows the dramatic decline of growth in the region, especially between 1989 and 1990. In some countries (Poland, Bulgaria) the decline exceeded 10%.

The table below shows disaggregated data on the decrease in industrial output, agriculture, investment, and volumes of export and import.

Table 2.
Eastern Europe and the Soviet Union: Output and Demand Indicators, 1984-1991 (Annual % Change)

	1984	1985	1986	1987	1988	1989	1990	1991
Industry, gross product								
Eastern Europe	4.9	3.9	4.6	3.2	3.3	-0.1	-18.9	*-18.7
USSR	4.1	3.4	4.4	3.8	3.9	1.7	-1.2	-7.8
Eastern Europe & USSR	4.3	3.5	4.5	3.6	3.7	1.2	-6.2	*-9.9
Agriculture, gross product								
Eastern Europe	6.8	-0.9	1.8	-2.8	2.0	0.1	-7.8	*-3.0
USSR	-0.2	0.1	5.3	-0.5	1.7	1.3	-2.8	-7.0
Eastern Europe & USSR	2.1	-0.2	4.1	-1.3	1.8	0.9	-4.4	*-5.8
Gross Investment								
Eastern Europe	2.4	3.6	4.5	3.2	2.4	-1.4	-13.6	*-21.4
USSR	1.9	3.0	8.3	5.7	6.2	4.7	0.6	-7.0
Eastern Europe & USSR	2.1	3.2	7.3	5.0	5.2	3.2	-2.8	*-10.8
Export Volume								
Eastern Europe	7.0	2.5	-1.2	1.4	3.6	-1.9	-7.9	-16.1
USSR	2.5	-4.3	10.0	3.3	4.8	--	13.1	-25.0
Eastern Europe & USSR	4.6	-1.0	4.4	2.4	4.3	-0.9	-10.7	-21.1
Import Volume								
Eastern Europe	3.9	5.8	4.8	3.4	3.3	1.2	-8.6	-14.7
USSR	4.4	4.7	-6.0	-1.6	4.0	9.3	-1.4	-40.0
Eastern Europe & USSR	4.1	5.3	-0.6	1.0	3.6	5.0	-5.1	-27.4

* Discontinuity in the Series

Source: United Nations, *World Economic Survey 1992* (New York: UN, 1992), 192.

Table number 3 shows the dramatic initial hike in inflation, especially in Poland, Romania, and Bulgaria. The increase in inflation rate was accompanied by a decline in real wages across the region (i.e., nominal wage rate did not keep up with the inflation rate). These trends effectively wiped out the savings of households (reducing monetary overhang) and contributed to a subordination of labour to capital (as real wages dipped and threat of unemployment arose).

Table 3.

Eastern Europe and the USSR: Inflation and Real Wages, 1984-1991

	1984	1985	1986	1987	1988	1989	1990	1991
Bulgaria								
Consumer Prices (P)	0.7	1.7	2.7	2.7	2.4	6.2	19.3	249.8
Real Wages (Wr)	3.2	1.4	1.6	4.3	3.7	-1.2	-10.6	-45.0
Czechoslovakia								
P	0.9	1.3	0.4	0.1	0.2	1.5	9.9	57.9
Wr	0.8	0.3	1.1	1.9	2.1	0.8	-5.6	-24.0
GDR								
P	—	—	-0.2	0.5	2.2	2.3	-2.5	—
Wr	2.0	-4.1	3.7	4.9	0.7	0.2	—	—
Hungary								
P	8.3	7.0	5.3	8.6	15.5	18.8	28.9	35.2
Wr	3.6	2.6	1.9	-0.4	12.1	-4.3	-3.8	-5.0
Poland								
P	15.8	14.4	17.3	25.5	59.0	259.5	584.7	70.3
Wr	0.5	3.8	2.7	-3.5	14.4	8.3	-27.3	2.0
Romania								
P	1.1	0.4	0.3	0.4	1.7	0.9	5.7	305.5
Wr	5.5	1.5	0.7	0.2	0.9	3.1	11.6	-28.3
Soviet Union								
P	-1.3	0.8	1.9	1.9	2.3	1.9	5.3	196.0
Wr	3.8	2.2	0.9	1.8	5.9	7.3	6.6	-10.2

Source: United Nations, *World Economic Survey 1992* (New York: UN, 1992), 194.

IV.2.2. Ten Years of Transformation – Macroeconomic Indicators

The assumption that recovery would follow fast on the heels of the virtual economic collapse of the Communist economies did not materialise. Indeed, as the following table shows, after ten years of transformation efforts, undoubtedly characterised by signs of *recovery from the initial shock levels*, all but two countries recovered their 1989 levels of output, Poland by 1996 and Slovenia in 1998.

Table 4.**Real GDP/NMP in the ECE (Economic Commission for Europe) Transition Economies (Indices, 1989=100)**

	1980	1985	1986	1987	1988	1989
Eastern Europe	88.7	94.8	97.8	99.4	100.8	100.0
Baltic States	67.8	81.4	85.6	89.0	96.0	100.0
CIS	77.5	90.4	92.4	93.9	98.1	100.0
Total	80.3	91.4	93.7	95.2	98.7	100.0

Table continues

	1990	1991	1992	1993	1994	1995	1996	1997	1998
Eastern Europe	93.2	82.9	78.9	78.7	81.9	86.7	90.0	92.0	93.4
Baltic States	97.8	89.9	67.9	58.2	55.2	56.4	58.8	63.7	66.5
CIS	96.8	90.9	78.0	70.4	60.3	56.9	55.0	55.5	54.0
Total	95.9	88.8	78.0	72.3	65.9	64.7	64.2	65.3	64.5

Source: United Nations Economic Commission for Europe, *Economic Survey of Europe, 1999, no. 2*. (New York and Geneva: United Nations, 1999), 65.

The brief comparative look at the GDP levels between the decade characterising the end of Communism and the first ten years of transitions, presented in Tables 5. and 6. is also quite telling. The declines in the latter period are drastic and show just how serious the economic collapse in Eastern Europe really was.

Table 5.**GDP per capita (Exchange rate basis, 1993 Dollars)**

	1981-1990	1991-1997
Economies in Transition	2 261	1 553

Source: United Nations, Department of Economic and Social Affairs, *World Economic Survey and Social Survey 1998: Trends and Policies in the World Economy* (New York: United Nations, 1998), 125.

Table 6.**Growth of GDP (Annual % change, exchange rate basis, 1993 Dollars)**

	1981-1990	1991-1997
Economies in Transition	1.6	-5.3

Source: United Nations, Department of Economic and Social Affairs, *World Economic Survey and Social Survey 1998: Trends and Policies in the World Economy* (New York: United Nations, 1998), 125.

As Tables 7. and 8. show, while employment levels slumped, the unemployment rate did not become pervasive. However, account must be taken of hidden unemployment

and underemployment. Moreover, in some countries, including Russia and Romania, contractual employment does not necessarily mean that workers get wages regularly. The mining sector, educational sector, as well as other privatised companies are often unable to pay their employees. As an alternative, companies pay in semi-finished and finished products. This tendency contributes to the evolution of an economic system based on barter – a system that is more reminiscent of feudalism or primitive stages of capitalism than an evolved market economy. Nevertheless, the category of unpaid workers should be somehow incorporated into unemployment figures since it has significant impact on basic human security and other economic indicators.

Table 7.

Total Employment in the ECE Transition Economies 1980, 1985-98 (Indices, 1989=100)

	1980	1985	1986	1987	1988	1989			
Eastern Europe	94.7	96.6	97.4	98.0	97.9	100.0			
Baltic States	94.9	98.0	98.8	99.4	99.6	100.0			
CIS	94.3	97.8	98.3	98.9	99.3	100.0			
Total	94.0	97.5	98.1	98.7	98.9	100.0			
continues	1990	1991	1992	1993	1994	1995	1996	1997	1998
Eastern Europe	97.0	90.7	85.0	82.3	82.3	81.9	82.5	82.7	--
Baltic States	98.5	98.9	94.4	89.0	83.2	80.6	80.1	80.9	65.1
CIS	100.2	98.9	96.5	94.1	91.3	90.4	89.6	88.3	--
Total	99.3	96.7	93.3	90.7	88.6	87.8	87.4	86.6	--

Source: United Nations Economic Commission for Europe, *Economic Survey of Europe, 1999, no. 2*. (New York and Geneva: United Nations, 1999), 68

Table 8.

Registered Unemployment in the ECE Transition Economies 1990, 1994-1998
(Per cent of labour force, end of period)

	1994	1995	1996	1997	1998
Eastern Europe	13.6	12.5	11.7	11.9	12.6
Baltic States	5.3	6.6	6.4	6.3	7.3
CIS	4.4	5.8	6.6	7.6	9.0

Source: United Nations Economic Commission for Europe, *Economic Survey of Europe, 1999, no. 2*. (New York and Geneva: United Nations, 1999), 69.

The next table indicates that after an initial sharp increase in the inflation rate, prices were relatively stabilised.

Table 9.
Inflation in Central and Eastern Europe (CEE) and the Baltic States and CIS
(Change in year-end retail/consumer price level)

	1992	1993	1994	1995	1996	1997	*1998	**1999
CEE and the Baltic States								
Median	199.2	35.6	26.0	21.6	13.1	10.0	6.5	6.2
Mean	511.0	166.6	31.1	18.5	37.7	66.4	7.9	8.3
CIS								
Median	1,395.0	2,082.5	1,220.5	100.8	31.8	13.0	18.3	16.5
Mean	1,702.4	4,584.7	1,391.2	363.1	63.0	32.1	32.4	42.3

* estimate

** projection

Source: European Bank for Reconstruction and Development, *Transition Report Update, April 1999* (London: European Bank for Reconstruction and Development, April 1999), 9.

As Table 10. indicates, both, value and volume of export and import declined overall (with some minor exceptions) after 1995, with the balance of payments on the current account deteriorating (Table 11.). Table 12. shows that foreign direct investment has been consistently rising over the past decade with pronounced differentiation across the region. Poland, Czech Republic, Romania, Hungary, Kazakhstan and Russia were the countries receiving the biggest bulk of FDI while Albania, Armenia and Tajikistan fared the worst.

Table 10.**Changes in Value and Volume of Exports and Imports, 1988-1997 (Annual % change)**

	1988	1989	1990	1991	1992	1993	1994	1995	1996	**1997
\$ value of EX										
CEE	2.3	-1.8	-3.3	*-7.5	7.5	*8.8	16.3	30.1	5.7	7.4
CIS***	-2.2	0.4	-5.1	-21.0	*10.5	1.9	19.0	29.9	10.9	-1.6
\$ value of IM										
CEE	-3.0	1.7	3.6	*-3.0	14.0	*14.1	14.1	37.0	16.5	6.7
CIS	7.9	12.0	0.0	-30.1	*-6.7	-21.3	10.2	24.4	6.7	15.9
Volume of EX										
CEE	6.1	-1.5	-6.3	*-8.1	8.5	*8.9	0.2	16.7	4.5	0.8
CIS	4.9	0.1	-13.0	--	--	--	--	--	--	--
Volume of IM										
CEE	3.0	4.1	-8.4	*-2.4	12.0	*14.3	13.0	11.4	17.9	7.6
CIS	3.9	9.3	-1.4	--	--	--	--	--	--	--

* break in a series

** preliminary estimates

*** Former Soviet Union and since 1992 countries of the CIS

Source: United Nations, Department of Economic and Social Affairs, *World Economic Survey and Social Survey 1998: Trends and Policies in the World Economy* (New York: United Nations, 1998), 145.**Table 11.****Balance of Payment on Current Account, 1987-1997 (Billions of Dollars)**

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	**1997
CEE	0.4	0.9	-2.1	-6.5	*-3.8	-2.1	*-9.1	-4.6	0.5	-12.0	-11.6
CIS***	7.3	2.9	-0.8	-4.8	-0.8	*-5.5	2.9	-2.9	*9.3	11.4	4.6

* break in a series

** preliminary estimates

*** Former Soviet Union and since 1992 countries of the CIS

Source: United Nations, Department of Economic and Social Affairs, *World Economic Survey and Social Survey 1998: Trends and Policies in the World Economy* (New York: United Nations, 1998), 148.**Table 12.****FDI Inflow (1990-1999)**

Net Inflows recorded in the Balance of Payments (Million of US Dollars)										
	1990	1991	1992	1993	1994	1995	1996	1997 revised	1998 estimate	1999 projection
CEE and The Baltics	351	1,800	3,154	4,185	3,833	9,675	8,140	9,309	16,083	15,244
CIS			226	871	1,568	3,783	4,511	7,647	5,088	4,726
Total	351	1,800	3,380	5,056	5,425	13,471	12,663	16,986	21,286	20,070
FDI-inflow as a % of GDP										
CEE and The Baltics								1.8	3.0	
CIS								1.3	1.2	
Total								1.6	1.7	

Source: European Bank for Reconstruction and Development, *Transition Report Update, April 1999* (London: European Bank for Reconstruction and Development, April 1999), 12.

Overall decline in consumption levels were apparent with some variation across the region, with the exception of Croatia, Czech Republic, Poland, Romania, Slovenia, Estonia, and Lithuania, where they surpassed their base 1989 levels (Table 13.). Real gross capital formation also declined from the 1989 base year, with the biggest persistent dips registered for the CIS, with the exception of Azerbaijan, and relatively also Moldova. Eastern and Central Europe has done relatively well, with levels higher than in 1989 except for Romania.¹⁰⁸

Table 13.
Real Total Consumption Expenditures in the ECE Transition Economies (Selected Countries)
(Indices, 1989=100 or earliest year available thereafter)

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
Bulgaria	100.0	100.6	92.3	89.4	86.2	82.3	80.7	75.3	64.0	--
Croatia			100.0	87.2	85.3	92.0	106.6	109.2	--	--
Czech Republic	100.0	104.9	81.0	88.2	90.4	92.6	96.5	102.5	103.2	101.7
Hungary	100.0	97.3	92.2	92.8	97.9	95.6	89.3	86.6	88.6	--
Poland	100.0	88.3	94.9	98.2	103.0	106.9	110.4	118.4	125.6	--
Romania	100.0	108.9	96.0	90.7	91.8	95.3	105.5	112.9	108.0	104.1
Slovakia	100.0	103.3	76.9	75.6	74.3	71.6	73.9	82.0	85.5	88.5
Slovenia	--	100.0	91.6	88.8	99.1	102.6	110.2	113.1	117.2	--
Estonia	--	--	--	--	100.0	101.2	110.4	116.5	124.4	131.9
Latvia	--	100.0	76.7	49.2	46.5	47.4	47.0	50.8	52.7	--
Lithuania	--	--	--	--	--	--	100.0	102.6	112.3	--
Armenia	--	100.0	97.4	84.9	66.4	68.9	74.5	76.8	81.5	--
Azerbaijan	--	--	--	--	100.0	80.3	78.0	84.3	92.2	--
Belarus	--	100.0	93.4	84.0	82.1	72.1	65.3	67.4	73.8	--
Georgia	--	100.0	79.2	77.1	45.4	42.4	46.1	--	--	--
Kazakhstan	--	100.0	96.8	96.1	84.9	67.7	55.1	51.2	51.8	--
Kyrgyzstan	--	--	100.0	87.2	77.1	62.0	52.0	55.3	50.8	50.4
Moldova	--	--	--	--	100.0	82.6	90.3	99.8	111.6	105.3
Russian Federation		100.0	93.9	89.0	88.1	85.4	83.1	81.3	82.7	80.6
Ukraine	--	100.0	94.3	88.6	72.0	65.0	62.6	57.4	59.3	--

Source: United Nations Economic Commission for Europe, *Economic Survey of Europe, 1999, no. 2*. (New York and Geneva: United Nations, 1999), 66.

¹⁰⁸ See, United Nations, Department of Economic and Social Affairs, *World Economic Survey and Social Survey 1998: Trends and Policies in the World Economy* (New York: United Nations, 1998), 66.

IV.2.3. Current Economic Situation

Currently, the economic situation of some countries in the region is deteriorating yet again. The most visible evidence of this was the weakening of output and export performance which was noticeable throughout the entire region. The weakening of economic activity had a negative impact on labour markets, causing further unemployment. International trade was also weak and current account balances of most transition economies deteriorated. Most recent surveys assigned this development to the Kosovo crisis, the fall-out from the Russian economic crisis of August 1998 (especially in the CIS where, in some cases, trade almost completely collapsed) as well as the general slowdown of the world economy (1998).¹⁰⁹

Indeed, the rate of growth in Eastern Europe in 1998 was the lowest since 1993.¹¹⁰ According to the newest EBRD Transition Report (April 1999) full-year results for 1998 show growth for the region as a whole was negative, dragged down by Russia's 4.6% output decline.¹¹¹ Recently, an academician and Rector of the Academy of National Economy of Russian Federation was quoted by the electronic Johnson's Russia List commenting on the current situation in Russia:

Soon we'll mark 10 years from the date when Russia went into the conditions of permanent social-economic crisis (in 1990). Since 1989 the volume of production of big and middle industries reduced by 2.5 times, the volume of agricultural production reduced almost twice, investment - twice, GNP - 1,8 times, and the real income, at least twice.

¹⁰⁹ United Nations Economic Commission for Europe, *Economic Survey of Europe, 1999, no. 2*. (New York and Geneva: United Nations, 1999), 33.

¹¹⁰ Ibid.

¹¹¹ European Bank for Reconstruction and Development, *Transition Report Update, April 1999* (London: European Bank for Reconstruction and Development, April 1999), 3.

Until August we were at the bottom of permanent crisis,
and in 1998 this bottom had sunk down.¹¹²

He further pointed out that ten years ago the volume of annual GNP per capita placed the former USSR on the 30th place in the world. Today Russia is close to 70th place, with US \$3,000. Indeed, many indicators are returning back to the period prior to August 1998 only now.¹¹³ Meanwhile, in the Central and East European region average growth was 2.3%, driven by the sustained high growth rates in Hungary, Poland, the Slovak Republic and Slovenia, and the revival of output in Albania and Bulgaria.

Inflation rate seems to remain stable, however, it increased in some countries, especially the CIS, towards the end of 1998 as a result of devaluation. Capital flows to the region decreased sharply in 1998, with total inflows estimated at around US\$ 45 billion, down from \$US 61 billion in 1997. The variation in economic performance among countries in the region is widening. EBRD forecasts predict that growth in the Central and East European region will be around 3% while a decline of around - 4% is projected for the CIS, with - 5% projected decline in Russia.¹¹⁴ However, decline is also forecasted for Romania.

¹¹² David Johnson, *Johnson's Russia List #3421*, note 6.

¹¹³ Ibid.

¹¹⁴ EBRD, *Transition Report Update, April, 1999*, 3.

Table 14. Development of the Region's Economies from 1996-1999 – ECE Macroeconomic Indicators

	1996	1997	1998	*1999
Growth in real GDP (% change)				
Eastern Europe	3.8	2.3	1.5	2.2
Baltic States	4.1	8.4	4.4	3
CIS	-3.4	1.0	-2.8	0.1
Total	-0.8	1.6	-1.1	1.0
Industrial Output (% change)				
Eastern Europe	5.2	4.9	1.4	--
Baltic States	4.8	8.4	4.2	--
CIS	-3.4	2.6	-3.1	--
Total	0.3	3.7	-1.0	--
Inflation(% change Dec/Dec)				
Eastern Europe	--	--	--	--
Baltic States	--	--	--	--
CIS	--	--	--	--
Total	--	--	--	--
Unemployment rate (end of period %)				
Eastern Europe	11.7	11.9	12.6	--
Baltic States	6.4	6.3	7.3	--
CIS	6.6	7.6	9.0	--
Total	--	--	--	--
Merchandise EX (growth rate)				
Eastern Europe	3.0	6.4	9.4	--
Baltic States	17.6	23.0	3.3	--
CIS	10.2	1.8	-14.3	--
Total	6.7	4.9	-1.1	--
Merchandise IM (growth rate)				
Eastern Europe	14.5	6.5	8.9	--
Baltic States	26.3	26.7	7.3	--
CIS	5.9	18.7	-12.6	--
Total	12.7	10.6	3.1	--
Trade Balances (% of GDP)				
Eastern Europe	-9.5	-10.4	-9.9	--
Baltic States	-18.6	-21.9	-22.5	--
CIS	7.0	5.4	6.5	--
Total	-0.1	-1.4	-2.5	--
Current Account (% of GDP)				
Eastern Europe	-3.7	-4.2	-4.6	--
Baltic States	-8.2	-9.5	-11.0	--
CIS	1.2	-0.4	-1.3	--
Total	-0.9	-2.0	-3.2	--

Source: United Nations Economic Commission for Europe, *Economic Survey of Europe, 1999, no. 2*. (New York and Geneva: United Nations, 1999), 34, 35.

IV. 3. The Social and Demographic Consequences

The macroeconomic data presented above have far reaching implications on the societies living in the region. Nevertheless, they are only the tip of the iceberg. Combined with other trends associated with the end of Communism, such as 1) the break out of civil wars and large political and economic migration, 2) the phenomenon of state desertion from the public sphere, and 3) the particularities of the predatory post-communist market economy; the social and demographic consequences of the transformation are becoming more apparent. A myriad of studies has begun to surface showing the mounting costs of the East European transformations. Among them, the recent United Nations Development Programme (UNDP) Transition report, released on the 29th of July, 1999 is particularly damning. It presents a picture of slow economic recovery, growing regional inequalities, the appearance of a “Glass curtain” separating people within countries, and a growing human insecurity which is at the source of rising human violence. It states in the overview:

This report documents the scale of the human development losses associated with what appears to be a permanent transition – an era where change is rarely for the better. An era where the mantra of change and transition has begun to ring hollow. People had hoped for a change, which would expand choices – not a cruel process of trading off a few gains in liberty against many reversals to human security. For these countries, transition has involved an unbalanced sheet – few assets have been accumulated while the volume of liabilities is undermining social cohesion.¹¹⁵

¹¹⁵ UNDP, *Transition 1999: Human Development Report for Central and Eastern Europe and the CIS*, UNDP: <http://www.undp.org/rbec/pubs/hdr99/>.

The UNDP report identifies seven main costs of transformation. First, and the “biggest single cost of transition” has undoubtedly been the loss of lives represented by the decline in life expectancy in several major countries in the region, most notably in the Russian Federation, and most strikingly among young and middle aged men.” The trends in life expectancy have meant that several million people have not survived the 1990’s who would have done so if the life expectancy levels achieved in the 1980’s had been maintained.¹¹⁶

The second cost of transformation identified in the UNDP report has been the rise and persistently high level of morbidity, “characterised by higher incidence of common illnesses and by the spread of such diseases as tuberculosis that had been reduced to marginal health threats in the past.” The spread of sexually transmitted diseases and the related rising threat of an HIV/AIDS epidemic has also compounded the problem.¹¹⁷

¹¹⁶ Ibid., 5.

As the following comparative table shows, there are significant variations across the region in respect to this indicator.

Table 15.
Projected Life Expectancy at Birth in the Russian Federation and the Czech Republic

	Russian Federation		Czech Republic	
	Men	Women	Men	Women
1965-66	64.3	73.4	--	--
1979-80	61.5	73.0	--	--
1987	65.0	74.6	--	--
1990	63.8	74.3	67.5	76.0
1991	63.5	74.3	68.2	75.7
1992	62.0	73.8	68.5	76.1
1993	58.9	71.9	69.3	76.3
1994	57.6	71.2	69.5	76.5
1995	58.3	71.7	70.0	76.9
1996	59.6	72.7	70.4	77.3

Sources: *Human Development Report 1997: Russian Federation*, (UNDP, 1997), 31; and *Human Development Report: Czech Republic 1997*, (Praha: Institute of Sociology, Academy of Sciences of the Czech Republic, 1997), 83.

¹¹⁷ Ibid.

Michael Ellman's findings and analysis adds to the report's contentions. He argues that statistical data evidencing 1) a sharp decline in fertility (decline is widely dispersed across the region, but the levels are closer to the original pessimistic forecasts rather than the optimistic), 2) a sharp increase in mortality (the change varies from a very big increase in Russia to declines in the former GDR, Slovakia, and the Czech Republic) and 3) significant increase in the flows of international migration as a result of civil and ethnic strife in Eastern Europe, between 1989-94, all corroborate the traditional view that revolutions are costly. The high levels of mortality, especially in Russia, have been assigned to various factors, including ageing population, alcohol consumption, increased stress resulting from the socio-economic crisis, and the environmental and medical

The trends in morbidity are particularly compelling for the Russian Federation, as Table 16. indicates. The *Human Development Report 1997: Russian Federation*, 36, states, the changes in somatic and psychiatric morbidity of the population are linked to the deterioration of social situation in the country, and first and foremost, to the degrading state of sanitary and technological infrastructure (public sewage and utilities, water supply, waste storage), as well as the increasing prices for medicine.

Another report, supplied by the *Johnson's Russia List* #3418, note 1, states "in the last decade, the number of people suffering form mental disorders in Russia has more then trebled." The rising incidence of mental illness has been attributed to the "unfavourable social and economic situation in the country, social insecurity, unemployment, ethnic conflict, forced internal and external migration, and other factors that produce a condition of stress." Moreover, 4.5% of children suffer from mental disorder.

Table 16.

Trends in Morbidity by Different Nosological Groups between 1990-1995 in the Russian Federation

Disease	% changes between 1990-95
Respiratory Organs	-13.9
Blood and blood-generating organs	210
Urino-genital system	150
Endocrine system	150
Infectious diseases	35.5
Digestive system	33.4
Nervous system and sensory system	26.8
Oncological diseases	20
Cardio-vascular diseases	18.7
Psychiatric (registered)	3.4

situation. Ellman concludes by stating that the “transformation has turned out to be a demographic crisis.”¹¹⁸

Yet another report comments on these trends in the following manner:

The mortality and health crisis burdening most Eastern European countries since 1989 is without precedent in the European peace time history of this century. It signals a societal crisis of unexpected proportions, unknown implications and uncertain solutions.¹¹⁹

The following figures on the annual percentage change in population growth rates testify to the preceding analysis.

Table 17.
Growth Rate of Population (Annual % change)

	1981-1990	1991-1997
Economies in Transition	0.7	0.1

Source: United Nations, Department of Economic and Social Affairs, *World Economic Survey and Social Survey 1998: Trends and Policies in the World Economy* (New York: United Nations, 1998), 125.

The third cost of transformation has been the extraordinary rise in poverty – both income and human poverty. The report indicates that in Armenia, according to a household survey conducted by the Ministry of Statistics in 1996, about 55% of households were poor (according to a modest official poverty line based on a minimum consumption basket) and of these half were “very poor.” In Kyrgyzstan, according to the National Statistics Committee, 71% of the population had an income below the poverty line (based on the assumption that 60% of total income was spent on the food needed for survival). Over 18% of households had incomes below the “extreme” poverty line

Source: *The Human Development Report 1997: The Russian Federation*.

¹¹⁸ Michel Ellman, “Transformation as a Demographic Crisis,” in *Lessons From the Economic Transition: Central and Eastern Europe in the 1990s*, ed. Salvatore Zecchini (Boston: Kluwer Academic Publishers, 1997), 366-7.

¹¹⁹ Zsuzsa Ferge, “Is the World Falling Apart? A view from the East of Europe,” in *Long-term Structural Changes in Transforming Central & Eastern Europe (The 1990s)*, ed. Ivan Berend (Munich: Sudosteuropa-Gesellschaft, 1997), 109.

(defined as the level of per capita expenditure on food necessary for maintaining vital human functions). In Georgia in 1996, about two thirds of the population had incomes below the official poverty line. In Ukraine it was about 50%.¹²⁰

According to Thomas Mroz and Barry Popkin, 60% of all Russian families with three or more children live below the poverty line, while 45% of families with at least one child younger than age 7 live in poverty. Moreover, 47.6% of single-parent households and over 85% of households headed by a woman on maternity leave live below the subsistence level. Children in particular seem to be bearing the brunt of the reforms in Russia. In 1992 children younger than 18 years made up 27.2% of total population but accounted for 34.8% poor. The situation deteriorated by 1993 when the proportion of children did not alter but then they accounted for 37% of the poor. Overall 28.4% of all households fell below the poverty line in mid 1992, while 6.6% of all households received income less than one half of the poverty line. Households headed by a working individual made up about three-fifth of these households.¹²¹ On the individual level, the proportion of population in Russian living under the poverty line increased from 24% in 1992 to 32% in 1993, by autumn 1994 the proportion had decreased again to about 20%. However, estimates which take into consideration factors such as inflation, rise in prices of rent, water, electricity and telephone bills as well as the fact that the subsistence level on which the poverty line is established is completely insufficient for anything else but food and therefore can not be sustained for a longer period of time,

¹²⁰ UNDP, *Transition 1999: Human Development Report for Central and Eastern Europe and the CIS*, 5.

¹²¹ Thomas A. Mroz and Barry M. Popkin, "Poverty and the Economic Transition in the Russian Federation," *Economic Development and Cultural Change* 44, no. 1 (July 1996): 17.

show poverty figures to be even more staggering. Such studies estimate the incidence of poverty in Russia at as high as 58% of the population.¹²²

Human poverty – the lack of basic human capabilities, has also been on the rise. Malnutrition has been a serious problem in many countries. A recent study in Poland shows, for example, that 60% of the children suffer from some form of malnutrition. Income poor families have reduced their consumption of milk, meat and vegetables and rely on cheaper, lower quality foods. Iron deficiency is common. A 1996 survey in Moldova revealed that because of inadequate intake of vitamin A, between 20% and 50% of children had rickets. The number of low birth weight babies is on the rise, heralding future problems in child mortality and malnutrition. The most effected groups are pensioners, disabled, migrants and refugees, women and children.¹²³

The fourth cost of transformation has been the rise in income and wealth inequality. Countries showing high increase in inequality are Armenia, Hungary, the Czech Republic, FYR of Macedonia, Moldova, the Russian Federation and Slovakia. In Armenia, the Gini coefficient had risen to 0.60 by 1996, according to the Ministry of Economy and Finance.¹²⁴ A similarly high level has been reached in Moldova. As the report states: “inequality has reflected a shift in the factoral distribution of income from labour to capital, as well as a sharp widening of wage and earning differentials.” It has also reflected changes in relative prices, often with the prices of goods and services needed by the poor rising much faster than others. In Armenia, for example, between

¹²² Vladimir Mikhalev, “Social Security in Russian under Economic Transformation,” *Europe-Asia Studies* 48, no. 1 (1997): 5-25.

¹²³ UNDP, *Transition 1999: Human Development Report for Central and Eastern Europe and the CIS*, 6.

¹²⁴ A Gini coefficient of zero means perfect equality, a coefficient of one perfect inequality.

1991 and 1996 food prices rose by nearly 24,000%, whereas the prices of non-food items rose by 7,800%. In many countries including, Georgia, Russia and Ukraine, the share of average income spent on food rose as well.¹²⁵ However, the report qualifies the rise of inequality in the region is differentiated and the true volume of wealth of the newly rich is often not officially recorded, a fact that may understate the actual levels of inequality.

Table 18.

Adjustment and greater income inequality in selected transition countries 1987-88 to 1993-95*

Country by type of Adjustment	Increase in Income Inequality
Noncompensatory	
Russian Federation**	0.24
Ukraine	0.24
Estonia	0.12
Compensatory	
Bulgaria	0.11
Latvia	0.08
Belarus	0.05
Populist	
Slovenia	0.03
Poland	0.02
Hungary	0.02

* The increase in income inequality refers to the increase in the Gini coefficient.

** Between 1989-96 the Gini coefficient of Russia deteriorated from 0.24 to 0.48, a doubling of inequality
Source: United Nations Development Programme, *Human Development Report 1999* (New York, Oxford: Oxford University Press, 1999), 92.

The fifth cost of transition, according to the report has been rising gender inequalities. The report states that women have been systematically pushed out of the public life. Their access to paid employment has declined and their total work burden both within the household and outside it has increased. Many of the economic sectors in which women have been concentrated have suffered substantial job losses and reductions in pay. "The increased work burden of women has been directly related to cutbacks in social services and the withdrawal of the state from the provision of social protection."

¹²⁵ Ibid., 7.

For many women insecure low paid jobs and additional part-time work has been the only way of coping. Some felt compelled to resort to prostitution. Indeed, the report states:

Not only has women's economic security been on the decline, but also their personal security has been under increasing threat. Violence against women has been on the rise, with physical abuse from spouses within the household becoming a more noticeable problem and a rising number of women becoming victims of crime.¹²⁶

Similarly, Maxine Molyneux argues that there is ample evidence to show how the accumulated effects associated with the spread of neo-liberalism (through IMF adjustment programme packages, for example) fall upon the female sex. She argues:

The pattern found elsewhere in the world has predictably enough appeared in the post-communist state. Disaggregated statistics from Slovenia, Poland, the former USSR, from Eastern Germany and Romania, (but not Hungary) have identified women as a significant social category among those most adversely affected by the social processes entailed in economic restructuring and the redefinition of the role of the state. They constitute a significant proportion of the poorest, most disadvantaged sectors of society; they form a majority of the unemployed and a minority of those being hired.¹²⁷

Molyneux argues that the gender nature of adjustment programmes and transition blueprints is systemic. The trend towards the intensification of gender segregation in the economy is mirrored by the developments in the society as a whole. According to her, this is a result of structural as well as situation discrimination against women at the workplace. Reports from all regions show that women are less likely to be hired, trained or promoted, and more likely to be laid off. In addition "men only" vacancies are

¹²⁶ Ibid., 8.

¹²⁷ Maxine Molyneux, "Women's Rights and the International Context: Some Reflections on the Post-Communist States," *Millennium: Journal of International Studies* 23, no. 2 (1994): 287-313.

reported as widespread. In the Slovak Republic in February 1991, there were 7,563 vacancies but only 29% were for women. Women's wages, on average are already one third less than men's and are predicted to fall further still. Molyneux's analysis confirms the UNDP reports contentions, she goes on to say:

One general trend, a consequence of deregulation, is for women to enter informal sector and part-time work. These are both activities which are as yet relatively undeveloped (Hungary excepted), and are liable, at the bottom end, to be intensely exploitative and lacking the social protection that the formal economy affords. Symptomatic of this trend is the entry of young women into prostitution, a stark indicator of a new move towards the sexualisation of women's work.¹²⁸

Another group hit hard by the neo-liberal transformation has been the Roma community spread throughout the region. This racial discrimination reflects itself not only in the high unemployment and poverty figures but in state-endorsed policies and attitudes. The citizenship law passed in the Czech Republic after the separation of Czechoslovakia is a case in point. That law was "cleverly" directed at keeping the Czechoslovak Romas living in Slovakia out of the country or preventing some of those living in the Czech Republic from obtaining citizenship.

The sixth cost of transformation has been the deterioration of education. Real expenditures per student have fallen dramatically, especially in Azerbaijan, Bulgaria, and Georgia. In general, individuals have been expected to bear a growing burden of the cost of schooling. Families with higher incomes have begun to send their children to private colleges and universities, enhancing even further the rising inequity in the region.

¹²⁸ Ibid.

Enrolment and attendance rates have also fallen, expenditures on pre-school facilities have been slashed, with obvious implications for women's household work and employment opportunities. Cost of school attendance have risen because facilities, transport assistance, stipends and subsidies for books and school meals have all been cut. Increasingly, the quality of schooling has also declined, due to overcrowding, dilapidated facilities, lack of heat in winter, underpaid staff, lack of health checks among children and the pupils' erratic attendance due to difficulty in meeting expenses. One of the most worrying trends has been the unplanned partial privatisation of schooling at all levels, with obvious implications for the principle of universality in education.¹²⁹

The seventh and last cost of the transition identified in the report was the rise in unemployment, underemployment and informalization of employment. While the unemployment figures for the region are relatively low, they are often understated due to such qualifications as "administrative leave," "early retirement," or "inactive" status. There are also many underemployed and "discouraged workers" that are not officially registered as unemployed. Another problem that compounds unemployment is that many workers, despite contractual relationships with their employers, have not been paid, in some cases for many months. This is the case especially in the Russian Federation, Ukraine, Belarus and Kyrgyzstan.¹³⁰

Related to the costs presented above is also the rise in the informal activities across the region. Indeed, as the report states:

The region has had a long experience of "second economy" activities, but now it is endemic, involving some high-income illegal activities as well as many that are merely

¹²⁹ UNDP, *Transition 1999: Human Development Report for Central and Eastern Europe and the CIS*, 8.

¹³⁰ *Ibid.*, 9.

survival work, involving very low incomes. It covers numerous types of legal, quasi-legal and illegal activities, and almost by definition, is extremely hard to measure.¹³¹

Overall, the report argues “the transition process that started in 1990 has weakened the system and the structures that produced a relatively high level of human development.” A dramatic reversal started to take place in the 1990s as a result of which the majority of people have witnessed a severe contraction in some basic choices at the expense of widening others. “Out of 27 countries in the region, 15 have shown declines in their Human Development Index value and 20 have faced decreases in their HDI ranking between 1994 and 1995.” The drop is mainly attributed to decline in income levels, however, the worsening life expectancy and the deteriorating quality of education will translate into further decreases in HDI for many countries of the former Soviet Union.¹³²

Combined with the costs of transformation discussed above in the context of the UNDP report, the launching of the market-led institutional reforms initiated a systemic withdrawal or “desertion” of state from the public sphere. As Ferge points out, whether there was a shock therapy or not, practically all previous public securities have gone through the shock of collapse, or a fundamental change including, health, education, ownership, unemployment, inflation, weakening or loss of the calculability of the future of children, and so on.¹³³

¹³¹ Ibid.

¹³² Ibid., 3.

A Human Development Index has been developed to measure the level of development of countries in relation to three essential choices: to lead long and healthy life, to acquire knowledge and to have access to resources needed for a decent standard of living. For further explanation of how HDI is calculated, please consult the UNDP.

¹³³ Zsuzsa Ferge, “Is the World Falling Apart? – A View from the East of Europe,” 110-111.

Largely as a result of “letting the market do its job” the fabric of the post-Communist societies is increasingly characterised by social polarisation, not only on status and income lines, but also on the more traditional gender, race and ethnicity lines. The assumption of an emergence of a middle class did not materialise, instead, the pool of the marginalised poor has been growing, reaching unprecedented levels in such countries as, for example: Russia or Ukraine.¹³⁴ This development has serious implications for the future of social cohesion in the entire region.

Another, related cause in the social disintegration of Eastern Europe is the gaping ideological vacuum left behind by the discredited (as well as exploited) Marxist-Leninist ideology. The neo-liberal rhetoric of neutral markets and the end of history has undoubtedly played a role in the rabid descent of East Europeans into nihilistic consumerism. Rutland expresses this tendency with lucidity:

The year 1989 was a victory for the individual over the state, a reaffirmation of people’s rights to their own lives, for good or ill. It was not merely the end of an era, a shift from communism to capitalism. It also meant fundamental changes in the daily lives of millions of ordinary people, a shift in the relations between young and old, parents and children, men and women. Yet what sort of individual is important in the modern world? The individual as citizen? As a voter? As religious believer? As worker? Over the past century, any one of those roles might have answered that question. But in post-1989 Europe, there can only be one answer: the individual as a consumer. Late 20th century capitalism is above all consumer capitalism.¹³⁵

¹³⁴ On the fragmentation of the Eastern European social fabric, see, for example: Volodymyr Polokhalo and others, eds., *The Political Analysis of Postcommunism: Understanding Postcommunist Societies* (Kyiv: Political Thought, 1995), 177-225; as well as Weisskopf, “Russia In Transition: Perils of the Fast Track to Capitalism, 28-37. On the polarisation of East European society on particularly gender, but also racial lines see, for instance: Maxine Molyneux, “Women’s Rights and the International Context: Some Reflections on the Post-Communist States,” 287-313.

¹³⁵ Peter Rutland, “The Meaning of 1989,” 27.

As a result of what Gill has called the spread of market society on a global basis, social relations in Eastern Europe, as everywhere else have become increasingly commodified. Everything acquired a price, as increasing number of commodities (including commodified labour) became a subject of demand and supply on the market. This commodification, combined with state desertion has confirmed the victory of what Tatiana Kutlovets and Igor Klyamkin call in the Russian context the “post-soviet individualism.” They go on to say that the psychology of a “private” individual, not a “state” is one obviously dominating in the country, and for this individual the top priority is his/her own and his/her family’s well being. The distrust of the state has much to do with the phenomenon of “post-soviet individualism.”¹³⁶ This tendency undermines the development of a “social contract” between a state and society that is necessary in any functioning democratic system. It also atomises a society and plays into the hands of the inherently individualistic markets, where survival depends on the success of competition.

However, in the post-communist context, only a few benefit from the market economy. According to Ferge, market reform has been beneficial for only a small minority of 10% to 20%, which now has to pay extravagant prices for services that used to be public including, private health-care, private schools, or private pension insurance. The remaining 80% are unable to pay on the market. (A situation which is even more aggravated by the fact that international competition contributed to levelling of prices internationally but the level of wages and pensions have not kept up with the price hikes. With escalating fees and the collapse of the public sphere, many are loosing access to

¹³⁶ Tatiana Kutkovets and Igor Klyamkin, “Russian Ideas. Is it Possible to Reach Accord in a Splintered Society?” Quoted in *Human Development Report, 1997: Russian Federation*, 25

goods and services).¹³⁷ Moreover, those who reap the benefits of the *post-Communist* free market economy (through legal, semi-legal or illegal means) are usually those with connections, knowledge of the workings of the planned system, or a some start up capital. The plundering of the region's economies by the new capitalists, in the context of the market mutations, has been discussed in the previous section.

IV.4. Post-communist Anomie and the Development of Democracy

The rising costs of reforms discussed above within the framework of the UNDP report combined with the loss of basic existential securities in part, *as a result of state withdrawal*, and the altering of peoples "identities" due to sweeping change in Eastern Europe brought about varying levels of anomie across the region. Others have argued that the East European societies at large are in a state of "*social amnesia*" or "*social adaptation crisis*." However, I would argue that the crisis is quite systemic and the term anomie reflects it better. As Rudolf Andorka argues, anomie and/or alienation may be used interchangeably and mean "the unresponsiveness of the world to the actor which subjects him/her to forces he/she neither comprehends nor guides." Andorka adds, "both anomie and alienation include powerlessness, meaninglessness, unpredictability of the future, a lack of values, isolation from others, and self-estrangement."¹³⁸

Quotes and insights from the January 1999 issue of *Transitions*, noting the ten years anniversary of the revolutions, paint a bleak and desperate picture of the region and

¹³⁷ Zsuzsa Ferge, "Is the World Falling Apart? -- A View from the East of Europe," 112.

¹³⁸ Rudolf Andorka, "The Development of Poverty During the Transformation in Hungary," in *Long-term Structural Changes in Transforming Central & Eastern Europe (The 1990s)*, ed. Ivan Berend (Munich: Studosteuropa-Gesellschaft, 1997), 84-5.

confirm the hypothesis that the Eastern European societies at large are in a state of anomie. Indeed, from the esteemed contributors, not even one had much positive to say about the decade. Disillusionment and despair resounded throughout the pieces, making any involved reader anxious and uneasy. In his contribution, Peter Rutland, for example, wrote:

Ten years on, most countries of the region are living under liberal democracy and a market economy. And yet something is missing; there is a pervasive sense of hopes unfulfilled and sacrifices betrayed. There is a general feeling of anxiety and disappointment among those who are moving ahead, and an air of resignation and despair among those who have fallen behind. Capitalism brought inequality and uncertainty. Socialist societies were not completely egalitarian -- but at least most members of the communist elite hid their privileges. The rigid bureaucratism of state socialism had brought a high degree of predictability and security to people's lives, with respect to education, career, and livelihood.¹³⁹

In another piece, remembering the Russian activist Galina Vassilievna Starovoitova, who was gunned down in November last year, Vitali Vitaliev thinks about how would this unboundedly optimistic activist react to a recent survey conducted by the Institute of Psychology of the Russian Academy of Sciences. In this survey, Russian children, ages 6 to 15, were asked to come up with drawings on how they see their future. "The majority of drawings (all done in dark, depressing colours) depicted economical catastrophes, natural disasters, and economic collapse."¹⁴⁰

In his contribution, Miklos Harszi, comments on the decade in Hungary:

This tenth year of democracy is the first year in which the country is experienced modestly rising living standards, after 15 consecutive years of falling incomes. Without the

¹³⁹ Peter Rutland, "The Meaning of 1989," *Transitions* 6, no. 1 (January 1999): 27.

¹⁴⁰ Vitali Vitaliev, "Projections," *Transitions* 6, no. 1 (January 1999): 22.

liberal and somewhat elitist design of a Handshake transition, it would have been impossible to manoeuvre any democracy through a total reorganisation of life, ending up in a privatised, globalized, de-monopolized economy, with spectacularly growing class differences. With few exceptions it is the poor of Communism that have become even poorer, and the powerful of the ancien regime who have become the new upper class. So far, capitalism has not really delivered on its promise of a market-based social counterbalancing or the role of the middle class. Add to this injustice the shock of a newly unemployed one-tenth of society.¹⁴¹

This social amnesia is reflected in figures as well. For example, the number of suicides in Poland has increased by one third while in Romania by 25% (between 1998 and 1999). The social stress is putting strain on families. In Russia, for instance, the divorce rate has increased by 50% by 1993. Similar trends can be observed in Hungary, where the disillusionment with the new system contributes, as Andorka evidences, to rising rates of alcoholism, suicides and mental disorders.¹⁴² Furthermore, the erosion of human security and public safety often leads not only to passive disillusionment but also to strife and violence. As the UNDP Transition 1999 report states:

Growing human insecurity is at the source of human violence, and when democracy gets equated with misery its hope will turn into disillusionment, with many more volatile societies coming our way.¹⁴³

Disillusionment and anomie are also reflected in opinion polls. According to opinion polls conducted by the UN across the region, in Romania, for example, there is massive support for democracy and market economy at the structural level (i.e.,

¹⁴¹ Miklos Haraszi, "Hungary: Decades of the Handshake Transition," *Transitions* 6, no. 1 (January 1999): 34.

¹⁴² Rudolf Andorka, "The Development of Poverty During the Transformation in Hungary," 84.

¹⁴³ UNDP, *Transition Report 1999: Human Development Report for Central and Eastern Europe and the CIS*, iv.

theoretically). However, at the concrete functional level, Romanians display disappointment and serious lack of confidence. Furthermore the ability to influence governance is perceived to be very low. The report states:

[t]he withdrawal of the state from its previous functions as organiser and co-ordinator of economic activities, controller of social activities and producer of well being, as well as the resolver of difficult personal problems, has created a vacuum which has been filled to a small degree by the initiative of social actors, and to a greater extent by the chaotic lack of rules, the clash of personal interests and the struggle among power groups for resources.¹⁴⁴

It is no surprise that in this “vacuous environment” of statelessness, which is the basis for the growing criminalisation of the economy, the public feels powerless. In the table below, the disenchantment with democracy is quite apparent.

Table 19.
Influence of individuals on the country's leadership

How do you rate your chances of being able to influence the way in which the country is governed?							
	1990	1991	1992	1993	1994	1995	1996
Low	61.5	66.2	72.1	89.9	90.6	88	84.7
Satisfactory	22.9	20.2	15.0	6.3	6.5	9	10.2
High	15.6	13.6	12.9	3.7	2.9	3	5.1

Source: United Nations Development Programme, *National Human Development Report: Romania 1997* (Romania: May 1997), 85.

Similar situation can be found in Moldova where the results of an opinion poll carried out in 1996 by the association “Flux Opinion Polls” show that 82% of those questioned are not satisfied by the level of democracy there. Furthermore, comparing the results of opinion polls over a five year period (1992-1996), a stable decline is observed in the level of trust in the state institutions. The report further states that the question asking which of the central power institutions could actually contribute most efficiently

¹⁴⁴ UNDP, *National Human Development Report: Romania 1997*, 84.

to the settlement of the political, economic and social problems which the society was facing, created many difficulties for the respondents. 42% of those questions could not mention any institutions at all.¹⁴⁵

In the Czech Republic public satisfaction with the regime has been relatively stable (with the share of those dissatisfied slightly higher) until 1996 when the number of dissatisfied people began to grow and the number of satisfied decrease. According to the figures published in the mid 1997 the ratio is around 4:1. The figures expressing public confidence in state institutions mirrors the development in the degree of satisfaction. The confidence levels in all constitutional institutions (the President, Government Chamber of Deputies as well as the two years old Senate) are on decline.¹⁴⁶

Table 20.
Public Confidence in Constitutional Institutions (in%)

Year	1996			1997		
Month	4	7	10	1	4	7
Confidence in the						
President	76	79	78	87	66	65
Government	48	48	45	50	38	26
Chamber of Deputies	24	41	32	34	25	18
Senate	--	--	--	21	23	18
Lack of Confidence in the						
President	20	19	20	12	31	33
Government	46	24	52	47	59	71
Chamber of Deputies	68	32	61	60	69	76
Senate	--	--	--	42	52	66

Source: United Nations Human Development Programme, *Human Development Report: Czech Republic 1997* (Praha: Institute of Sociology, Academy of Sciences of the Czech Republic, 1997), 37.

According to Andorka, Hungarians also display high levels of dissatisfaction with their income level, standard of living, and the general economic and political conditions

¹⁴⁵ UNDP, *1997 National Development Report: Republic of Moldova* (Chicinu, Moldova: UNDP, 1997), 8-9.

¹⁴⁶ UNDP, *Human Development Report: Czech Republic, 1997*, 35-36.

in their country. Despite the relatively good economic performance, dissatisfaction seems to be among the highest in Hungary from the former communist countries.¹⁴⁷

However, far the biggest despair is described in the UN Development Report on Bulgaria. It states:

The deep economic crisis, the decomposition of the old social structures, the transformation of social relations, the uncertainty of the present and the unpredictability of the future contribute to the formation of a mass crisis consciousness. It characterises the way of thinking and acting of broad segments of the population. *This consciousness is marked by the dominance of material values, minimisation of expectations, limitation of personal goals and aspirations and by resignation and passiveness. The problem of individual survival turns into an existential one. This leads to a closure into the narrow frames of everyday life, to personal and group isolation, to social alienation and to distancing from macro social processes.*¹⁴⁸

This state reflects itself in mass frustration and apathy towards the political. According the report, the attitude of large groups of the population towards political life is passive and formal. The withdrawal from the political process is influenced by “the disappointment with the political reality, with the competence and morality of the politicians and with their capability of solving social problems.”¹⁴⁹ In *Jihad Vs. McWorld* Barber quotes one Russian sociologist as saying: “There are more completely passive people in this country than the rest of the world put together. If they aren’t planning to kill themselves, it’s because they’re too passive to bother.”¹⁵⁰

¹⁴⁷ Rudolf Andorka, “The Development of Poverty During the Transformation in Hungary,” 83.

¹⁴⁸ UNDP, *Human Development Report: Bulgaria 1997*, 59. (Italics added).

¹⁴⁹ Ibid., 66-67.

¹⁵⁰ Benjamin Barber, *Jihad Vs. McWorld*, 355.

The deep economic shock that resonates in Eastern Europe until now did not occur in a vacuum as neo-liberal economist would have it. The economic collapse impacted deeply the society within which it is embedded. Immediate shock reflected itself in the fall of output, decline of investment demand, accelerated rate of inflation (hyperinflation in some instances) that wiped out people's savings and a precipitous decline in real wages that together with the threat of unemployment subordinated labour. The decade following this shock was "lost" in trying to catch up to the initial 1989 levels. Meanwhile, unemployment steadily grew. Output began to slowly recover, price levels were stabilised, trade resumed and investment, including foreign portfolio and foreign direct investment began to grow.

However, by 1998, these positive trends (except employment levels) slowed down or reversed. This slow-down is usually attributed to the slow down of the global economy, Asian currency crisis, collapse of the ruble, or the conflict in Kosovo. Although it is very likely that these factors impacted on the path of the recovery, the mounting transformation-related difficulties (i.e., mutations, *sui generis* processes) are the main culprit behind the sluggishness of the East European economies.

The sustained economic malaise combined with other transformation-related occurrences (migration, ethnic strife, civil wars, etc.), desertion of the state and the nature of the semi-legitimate state have led to mounting social and demographic costs. Neo-liberal reforms ushered in a society that is post-democratic -- a society in which communist legacies are evolved within the context of a value-less ideology that equates money with meaning. Neo-liberal reforms obfuscated the development of an open and

democratic society directly by de-politicisation and indirectly by immobilisation due to social decay.

The Communist legacies of atomisation is evolved by the neo-liberal emphasis on the individual. The de-politicisation of society is evolved by deliberate side-lining of the public in contributing to the transformation process and by immobilising political process through impoverishment. Infantisation is perpetuated by imposing neo-liberal blueprints as the ultimate “truth.” Social inequality and discrimination, previously hidden behind the cosmetics of Communist egalitarianism and equality are enhanced and evolved to an extreme. A new development surfaced in the marginalisation of the poor majority. An evolution of post-communism in the context of neo-liberalism has not been the most “progressive” movement. It ushered in a “Tale of Two Cities” society with post-Communist legacies.

CONCLUSION

i. Summary of the Presented Arguments

This paper attempted to advance two main arguments in order to show that it was the neo-liberal reform strategies themselves that obfuscated the development of a western style market democracy in the Eastern Europe rather than the frequently stated causes (i.e., incompetence of policy makers, insufficient shock, lingering Communist legacy, or inherent East European traits). *The first argument, advanced in Chapter I, states that A) in theory, the logic of disembodied (out of context) neo-liberalism does not coalesce with the logic of an open and democratic system and B) the goal of the reforms was the integration of the East European economic space into the global neo-liberal structures rather than the development of a western-style market democracy.*

The neo-liberal excessive preference for individualism is detrimental to social cohesion and collectivist concepts that every democracy requires. The reliance on the market to usher in broad economic social and political change is based on *ceteris paribus* models that rarely reflect reality in the western democracies themselves. States have been and continue to be indispensable in ensuring not only that markets are actually competitive and fair but that market economies benefit all members of a society, not only those who are structurally advantaged by virtue of their social status, income, wealth, gender, race, ethnicity, connections and other factors. To assume that markets are neutral is to ultimately ignore all the injustices and inequalities (apparent or subconscious) that

exist in *every* society. Not only that, it is to enhance them by refusing to facilitate “equal starting conditions.”

While at its core, neo-liberalism distrusts the state, it requires that individualism and markets are enforced by an exclusive authority. This tendency reflects itself in the structural adjustment programmes as well as transition blueprints all over the “developing” and “transforming” world and reflects the Polanyian analysis of the “not so spontaneous” liberal state rather well. The neo-liberal reliance on state authority to enforce market relations is profoundly undemocratic and often not very effective. A real change in behaviour and attitudes must come from within. Mobilisation for democracy in transforming countries should not have to come in spite of the state but with its help.

The discourse of the blueprints indicates that what was at the heart of the transformation was not the development of a western style market democracy but the integration of the East European space into the global neo-liberal structures. Indeed, Eastern Europe was to transform itself *by* integrating into the global economy. Integration became a goal in and of itself. The neo-liberal discursive tactics were successful in manipulating people into trusting the neo-classical economic model to help build democracy and improve standards of living. The public “realisation” that integration was the *sine qua non* of a better life was a neo-liberal public relations triumph. It effectively “legitimised” globalisation.

The methods of ushering in the neo-liberal vision reflected these observations. Endorsing the supremacy of the market over society and politics they were market-led. Perceiving means as ends they were formalistic and “institutional.” Ends or values were

irrelevant. Market democracy was a mere externality of neutral markets and formal provisions.

The second argument, advanced through Chapters II, III and IV, postulated that the disembedded neo-liberal blueprints for reform not only obfuscated the transformation to a western style market democracy in Eastern Europe but evolved many of the communist legacies they were aimed at "correcting." This post-communist evolution in the context of neo-liberalism is apparent in the transformation of a centrally planned economy to a free market economy (itself), in the transformation of an authoritarian/totalitarian state to democratic government and in the transformation of a depoliticised, infantised and amorphous society to an open and democratic society.

Chapter II addressed the transformation of a centrally planned economy to a free market economy. The argument was especially advanced by looking at the results of privatisation on property relations, economic growth, and the development of an entrepreneurial culture. However, the logic applies to other elements of the economic transformation as well. Neo-liberal market reforms ushered in a system where economic actors, conditioned by decades of manoeuvring in the context of the centrally planned economy, "truck and barter" without any institutional or cultural restraint. When the "neutral" logic of the market (i.e., to make profits) was applied in the post-communist environment, the result was not modern capitalism but a particularly post-communist market economy. In this system communist legacies were perpetuated since the abuse of communist idiosyncrasies facilitated the profit maximisation logic. It is in this context

that managers and shareholders asset-strip and tunnel “their” enterprises rather than develop them.

In Chapter III, the implications of the Market-led Institutional Approach on the development of a democratic governance were elaborated upon. It was concluded that the neo-liberal context institutionalised the entities of “internationalised state” and “competition state” in Eastern Europe, *de facto* de-legitimising the “democratic” state. Once again, neo-liberalism ushered in an environment of impunity. The East European reformers were assigned an exclusive role to implement and enforce neo-liberal blueprints without any cultural, societal or institutional constraints (superficial democracy). Their role in the transformation allowed them to side-line the public and neutralise the opposition, evolving the Communist legacies of elitism, paternalism, technocracy, and arrogance. Moreover, the neo-liberal context of the post-communist transformations facilitated a collusion between economic and political elites.

In the final Chapter, the socio-economic consequences of neo-liberal blueprints were examined. This Chapter evidenced the economic collapse that characterised the outset of the transformation process and elaborated upon the current economic trends. Within this economic context, the social and demographic consequences of the reforms were taken up. Among the consequences of the Market-led Institutional reforms were these seven costs identified by the UNDP Transition Report 1999: 1) decline in life expectancy, 2) rise in the level of morbidity, 3) rise in poverty, 4) rise in income and wealth inequality, 5) rising gender inequalities, 6) deterioration in education, 7) rise in unemployment.

Accompanying these transformation costs was the emergence of systemic informal activities across the region, state desertion, fragmentation, nihilism, commodification, and marginalisation of the poor majority. The result of these trends is disillusionment with “democracy,” withdrawal of large segments of the society from the political to the private and a wide-spread apathy. This situation could be described as a post-communist anomie. The neo-liberal context not only obfuscated the development of an open democratic society by facilitating these negative social and demographic trends, it evolved the communist legacies of de-politicisation and infantisation and enhanced structural inequalities and discrimination.

ii. *The Implications of the Advanced Hypothesis*

On reflection the neo-liberal blueprints for transformation of Eastern Europe ushered in a system that merits the adjective “lumpen neo-liberal.” Lumpen neo-liberalism is a consequence of the legitimisation and institutionalisation of the “internationalised” state (i.e., state as an appendage of the global market forces) and the “competition” state (i.e., state as an agent and conduit of globalisation is as much it fosters environment beneficial to international capital, such as, for instance, commodification of public relations, suppression of labour or the dismantling of the public sphere). Lumpen neo-liberalism signifies the victory of individualism and free markets over community and social equity, the taking over of the legal state by the globalisation-empowered elites, and the re-emergence of an 80:20 society at the threshold of the 21st century.

Lumpen neo-liberalism endorses nihilism. Ideals, goals, and philosophies conflict with the individuals' goals as consumers. Instead of investing energy in abstract thinking people buy things. The ideologically and morally bankrupt environment left behind by Communism in Eastern Europe serviced the lumpen neo-liberal requirements of neutrality (valuelessness) rather well. The construction of a truly materialistic and consumerist society was possible. However, what does this mean for the development of a democratic political culture? What does this mean in a context where the majority does not have the purchasing power to benefit from a consumerist ideology? Democracy in the West did not grow out of rabid consumerism. It was a result of an involved struggle. I would venture to say that the development of a democratic political culture in the context of this peculiar post-communist nihilism is highly unlikely.

All these developments, divergent from the modelled market democracies, point to a conclusion that "post-communism" is no longer a term that depicts a transcendent condition. Transformations in Eastern Europe can not be seen as steered any longer. In many instances, they acquired a *sui generis* quality.

The movement "away" from democracy apparent in the East European transformations equates post-communism with a "post-democratic" era. In this time, politics is archaised, public sphere captured by elites with feudal tendencies, political protest or mobilisation is privatised, and markets are unrestricted and predatory. Nihilism and the discourse of the death of history also enhances the "post-modern" aspect of the current developments in the region. There is no narrative (except the neo-liberal one if

we may call it so) and no capacity for an anti-systemic movement. Meanwhile, particularity is encouraged as long as it facilitates consumerism.

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