Edited by Gareth Dale

FIRST THE TRANSITION, THEN THE CRASH

Eastern Europe in the 2000s

First the Transition, Then the Crash

FIRST THE TRANSITION, THEN THE CRASH

Eastern Europe in the 2000s

Edited by Gareth Dale

First published 2011 by Pluto Press
345 Archway Road, London N6 5AA

www.plutobooks.com

Distributed in the United States of America exclusively by
Palgrave Macmillan, a division of St. Martin's Press LLC,
175 Fifth Avenue, New York, NY 10010

Copyright © Gareth Dale 2011

The right of the individual contributors to be identified as the author
of this work has been asserted by them in accordance with the Copyright,
Designs and Patents Act 1988.

British Library Cataloguing in Publication Data
A catalogue record for this book is available from the British Library

ISBN 978 0 7453 3116 4 Hardback
ISBN 978 0 7453 3115 7 Paperback

Library of Congress Cataloging in Publication Data applied for

This book is printed on paper suitable for recycling and made from fully managed
and sustained forest sources. Logging, pulping and manufacturing processes are
expected to conform to the environmental standards of the country of origin.

10 9 8 7 6 5 4 3 2 1

Designed and produced for Pluto Press by Chase Publishing Services Ltd
Typeset from disk by Stanford DTP Services, Northampton, England
Simultaneously printed digitally by CPI Antony Rowe, Chippenham, UK and
Edwards Bros in the United States of America

Contents

1 Introduction: The Transition in Central and Eastern Europe — 1
Gareth Dale

2 Marx on 1989 — 21
G. M. Tamás

PART ONE RUSSIA: CLASS AND POWER IN THE AGE OF PUTIN

3 Workers in Modern Russia — 49
Mike Haynes

4 Russia's Foreign Policy from Putin to Medvedev — 74
Gonzalo Pozo

5 Autocratic Neoliberalism and Beyond: Russia's Caesarist Journey into the Global Political Economy — 100
Owen Worth

PART TWO FROM THE BALTIC TO THE BALKANS: MARKET REFORM AND ECONOMIC CRISIS

6 Twenty Years Lost: Latvia's Failed Development in the Post-Soviet World — 119
Jeff Sommers and Jānis Bērziņš

7 The Ukrainian Economy and the International Financial Crisis — 143
Marko Bojcun

8 Poland and the Global Political Economy: From Neoliberalism to Populism (and Back Again) — 169
Stuart Shields

9 The Czech Republic: Neoliberal Reform and Economic Crisis — 187
Ilona Švihlíková

10 From Poster Boy of Neoliberal Transformation to Basket Case: Hungary and the Global Economic Crisis — 203
Adam Fabry

11 Serbia from the October 2000 Revolution to the Crash 229
Martin Upchurch and Darko Marinković

12 Conclusion: The 'Crash' in Central and Eastern Europe 251
Gareth Dale and Jane Hardy

Notes on Contributors 265
Index 268

1
Introduction: The Transition in Central and Eastern Europe

Gareth Dale

It is over two decades since the economies of Soviet Central and Eastern Europe (CEE) experienced their 'transition' to the market.[1] The ongoing restructuring of the region has been the subject of successive waves of analysis as new events occur: the accession of erstwhile Warsaw Pact members to the European Union (EU) and NATO, the 'colour revolutions' in Georgia, Ukraine and Kyrgyzstan, and the oil and gas price boom which fuelled the Russian economy's return to growth. The global recession of 2008–9 has ushered in a new phase, and it is this, the impact of the world economic crisis on CEE, that provides the central focus of this volume.

The chapters in this volume cover a representative range of CEE countries, from the former Soviet Union to the Visegrád Four (the Czech Republic, Hungary, Poland and Slovakia), including states both big (Russia) and small (Latvia), and which are within and outwith the EU and NATO. The tenor of contributions is critical. While acknowledging that the freedoms achieved in much of CEE – of speech, assembly, organisation and the vote – represent resounding victories for the mass movements of 1989, contributors take issue with the mainstream account of the transition, according to which archaic economies and closed societies gave way, aided by aid and expertise from the West, to efficient markets and democratic polities. Instead, they paint a picture of persistently low productivity and repeated crises, of self-serving Western involvement, of retrenched forms of servitude and 'managed democracy' and of an undergrowth of rent-seeking and corruption that flourishes within the market environment.

In this introductory chapter we set the scene with a summary analysis of the demise of the Soviet economic model and the broad social and political trends that bore upon the events of 1989,

before surveying the arguments made in the substantive chapters concerning the 'transition' of the 1990s.

THE DEMISE OF THE SOVIET MODEL

Although state ownership of the means of production was nominally socialist, G. M. Tamás and Stuart Shields (Chapters 2 and 8) argue, the Soviet-type economies were constructed from a recognisably capitalist set of constituent parts: the separation of the means of production from the producers, wage labour and the coercion to work, money and the drive to accumulate capital – an imperative that was decreed by both geopolitical and geo-economic competition. The Soviet Union found itself positioned outside, and in competition with, what some authors call the 'liberal-capitalist heartland'.[2] For some of the nineteenth and much of the twentieth centuries, the 'catch-up' attempts by challengers to the liberal heartland powers, relying as they did on the direct mobilisation of people and allocation of resources, constructed forms of state that were relatively differentiated from society, proactive in economic development and heavily reliant on centralised administration. It was a 'variety of capitalism' that flourished especially at times when intense geopolitical competition coincided with economic de-globalisation, and where backward economies led by modernising elites engaged in catch-up industrialisation. De-globalisation – the breakdown of international trade and capital flows – encourages the 'nationalisation' of domestic economies. Militarism draws states into an economic coordination role, notably of the arms industry and other strategic sectors. And where a low propensity to save meets a high demand for investment, coercion offers a solution – where the land is barren and productivity low, as Nigel Harris put it, 'only a very powerful army and police force can snatch the surplus for national investment between the peasant's hand and mouth'.[3]

Geopolitical competition on the basis of economic backwardness locked the Soviet Union and its allies into a peculiar economic structure, characterised by relative autarky, an emphasis on heavy industry, a high savings ratio, allocation by administrative decision and an extensive use of political incentives and ideological appeals geared to increasing output. These features, Oskar Lange and others have noted, are typical of war economies.[4] In the words of the vice president of the GDR's State Planning Commission, they represented an attempt 'to transpose the economic rationality of capitalist enterprises onto the national economy as a whole'.[5]

Although 'backward' compared to the liberal heartland, the Soviet-type regimes were in many respects brazenly modern. They mobilised their populations in the service of rapid economic growth and a future-oriented ideology;[6] they applied science and technology systematically to the production process and Taylorist techniques to the labour process; and they imposed performance targets on employees within all social institutions. At least during the early decades, moreover, social mobility was rapid. As Tamás describes:

> The change from village to town, from back-breaking physical work in the fields to technological work in the factory, from hunger, filth and misery to modest cafeteria meals, hot water and indoor plumbing was breathtaking – and the cultural change dramatic. Also the route from illiteracy and the inability to read a clock face to Brecht and Bartók was astonishingly short.[7]

The Soviet model proved well adapted as a framework for capital accumulation within backward economies during a world-economic epoch of relative autarky. In the 1950s and 1960s large parts of CEE industrialised and some oversaw successful shifts of investment into high-tech sectors, such as aerospace and electronics. However, structures that had evolved in the 1930s and 1940s became obstacles to competitiveness as the ability to gain external markets and organise production on a transnational basis became a divider between winners and losers in the world economy. The Soviet system was structurally resistant to the trend. Trade was mediated through export and import licences and administered by cumbersome foreign trade organisations. Trade aversion was compounded by nonconvertible currencies and by treatment by the major Western states as 'least favoured nations'. Limited market size, small-scale production, a low degree of specialisation and high depth of production, and low productivity all tended to reinforce one another.

The phase of economic globalisation that set in during the 1960s and 1970s strengthened tendencies towards polarisation in which market leaders and firms with monopolies from product or process innovations – typically the most advanced enterprises and sectors based in the OECD – stood to reap surplus profits on an enhanced scale while others suffered declining terms of trade. Contrary to David Ricardo, international trade liberalisation tends to benefit regions with concentrations of absolute ('competitive') advantage.[8] Trade between such regions and those with little or no areas of absolute advantage, instead of bringing mutual benefit,

steers the latter towards persistent trade deficits, foreign exchange strangulation and mounting debt.

Whereas in the early and mid-1970s the low cost of borrowing encouraged import-led growth, that strategy proved unsustainable when, in the early 1980s, interest rates soared and demand fell away, provoking acute crisis – in East Germany and Poland, just as in Peru or Mexico. While exports from the Soviet Bloc to OECD countries had surged during the 1970s, they slumped in the 1980s.[9] In the 1980s, then, CEE policy-makers were in a double-bind. They were torn between autarky (both in its national and Comecon-wide forms), which spelled stagnation, on the one hand, and on the other closer integration into the world market, which bore the prospect of increasing debt and dependency. If integration was a rational gamble, the odds of succeeding were long, given the relative weakness of CEE economies. Integration exacerbated their vulnerability to fluctuations in global demand, interest rates and to the dictates of 'hard' world standards and prices which exposed their lagging productivity. The greater the level of integration, the less their control over the pace and direction of economic development and the greater their dependence on Western technology and credits. Each Comecon economy was gradually 'sucked into a chaotic, disorganised, world system', as Chris Harman put it in 1977, a process that involved an intermeshing of economic crises East and West.[10]

Comecon integration could offer little in comparison with Western-led globalisation. Its basis was the sale of the Soviet Union's raw materials at below world market prices to its allies in the West in exchange for manufactured goods – transactions that were conducted in soft currencies and administered by bilateral treaties. But foreign exchange scarcity drove Comecon's members to prioritise exports to the West to an ever greater degree. Competition for Western markets, loans and investment infiltrated the supposedly cooperative relations between its members. Each jostled for position over trade and good relations with the 'non-socialist abroad', as manifested, for example, in bilateral trade deals struck with the European Community by Hungary, Poland and the USSR. In the 1980s, Comecon transactions converged towards world prices and were increasingly denominated in US dollars. Moscow hiked the price of oil, a move that somewhat ameliorated its economic plight but at the cost of undermining its hegemony – for pipelines carrying cheap oil had complemented military might as the skeleton of Comecon.

Perceiving their own and the hegemon's decline, CEE ruling classes lost faith in the Soviet model and looked to alternative methods for securing the conditions for capital accumulation. But this led to divisions. The *fact* of continuing relative decline meant that any serious opening to global competition would be destructive, with major bankruptcies and mass unemployment. But the *prospect* of further decline strengthened calls for radical reform. By the mid-1980s Poland had turned in this direction, as had Hungary, whose leaders began to tout its enterprises for sale in Western business centres ('even if they became 100 per cent foreign owned').[11] Gradually and inexorably, the Soviet model hollowed out from within; ideas of a 'socialist market economy' and political pluralism gained ground. As a result, as Harman pointed out at the time, it did not require a great deal of pressure for the entire edifice to collapse: 'the old people at the top raved about betrayal and even fantasised about telling their police to open fire. But key structures below them were already run by people who, at least privately, accepted the new multinational capitalist common sense.'[12]

TRIBUTARIES OF 1989

It is conventionally supposed that the starting pistol for CEE's transition was fired in 1989. But a zero hour it was not. If the events of that year were unpredictable, they were influenced by broader economic and political trends. I shall consider five of these, most of which date to the mid-1970s.

The first was the demise of the various types of 'national economic' model, including Soviet-style state capitalism, national planning in the West and import-substitution industrialisation in the South. This was hastened by the re-emergence of a world financial market. Offshore currency markets were permitted by Washington (and built up by the dollar deposits of, *inter alia*, Soviet and Chinese institutions). The mid-1970s witnessed a loosening of capital controls in the United States and then Britain, followed by the deregulation of stock exchanges. These changes facilitated a spectacular growth and centralisation of international banking, insurance and securities markets. The role of finance capital in organising the restructuring of capital grew exponentially, and the deregulation of national capital markets eroded the walls of that captive pool of savings on which Keynesian policies had been based.

The second was a slowdown in global economic growth and the return of crises. Whereas in the 1960s and early 1970s per capita

annual global growth averaged around 3 per cent, the corresponding figure for the three decades since 1980 has been only around half as high and financial crises have become more frequent. As outlined by Jeff Sommers, Jānis Bērziņš and Adam Fabry (Chapters 6 and 10), these first two trends were linked: financialisation and economic globalisation should be understood in part as responses to the crisis of the mid-1970s.

The third, responding to the second and drawing confidence from the first, was the ascendancy of neoliberal economic policy and ideology. Narrowly defined, neoliberalism is taken to refer to an economic doctrine: in essence, a new edition of the neoclassical orthodoxy of the early twentieth century, with its commitment to market 'self-regulation', albeit with several updates (the monetarist analysis of inflation, supply-side theory and the deployment of 'enterprise models' which allow arms of the state to be run like businesses).[13] In a broader sense, it refers to a regime of policies and practices that claim fealty to that doctrine, including a structural orientation to export-oriented, financialised capital, deep antipathies to social collectivities, open-ended commitments to market-like governance systems, privatisation and corporate expansion.[14] There is, as David Harvey has argued, necessarily a divergence between the regime of practice and the doctrine itself, since the doctrine, if applied consistently, implies a world that could never exist. Rather than applying neoliberal doctrine, Harvey contends, elites around the world have deployed neoliberal concepts to furthering a class project. 'Neoliberalism' in this sense describes a range of highly interested policies that have brought enormous wealth to the owners of the means of production, while inflicting insecurity, the loss of public services and a general deterioration in the quality of life on workers and the poor.[15] Having adopted an extreme form of statism during global capitalism's étatist phase, much of CEE swung to the opposite extreme during the subsequent neoliberal phase – most egregiously in the case of Latvia, discussed by Sommers and Bērziņš (Chapter 6).

The fourth trend was the geographical spread of liberal-democratic government. From the mid-1970s breakthroughs in Southern Europe onwards, a substantial number of states adopted parliamentary government, albeit with key areas of public life handed to private interests, quangos or international organisations, and sequestered from democratic will-formation. Meanwhile, socio-economic polarisation encouraged a 'revolt of the elites' (Lasch), alongside alienation and insecurity among society's losers. As the voice of the latter

weakened, political parties succumbed increasingly to plutocratic interests, and mechanisms of interest representation corroded.

In CEE in the 1980s the long-established normative arguments for political liberalisation came to be supplemented by pragmatic ones linked to economic decline and the 'pull of the West'. In their discussion of democratisation in economically stricken countries in the Second and Third Worlds, John Walton and David Seddon summarise three of these pragmatic claims.[16] One is that democracy provides a relatively stable political environment for business. Another, that the neoliberal ideology propagated by the international financial organisations and lender governments favours weak, non-interventionist states. Liberal democratic governments fit this bill 'because they dilute state power to a level acceptable to diverse coalitions, just as they give greater power to the free play of markets'. Finally, debt and austerity contribute to 'partial state breakdown', as the sacrifices required by structural adjustment exceed the normal limits of patronage and coercion practised by authoritarian governments, attenuating the ability of regimes to ingratiate supporters and bureaucratic retainers through subsidies and favours, even as austerity policies enhance the need for acquiescence, or even cooperation, from the masses. Nowhere was this more apparent than in Poland in 1989. As General Jaruzelski remarked, after initial steps towards democracy had been made, 'we tried economic reforms time and again. But we always met with public resistance and explosions. It is very different now. Now, with a government that enjoys public confidence, it has become possible to demand sacrifices.'[17]

The fifth and final trend to be discussed here was the global downturn that affected labour movements and exerted a powerful impact more generally on social movements and the political Left. For labour worldwide, the last major upturn was in the late 1960s and early 1970s, but as the struggles of those years ebbed, control over industrial action shifted from the rank and file to full-time officials. As their industrial muscle weakened, workers placed greater reliance on the traditional parties of the Left, but these, in the context of the mid-1970s crisis, were pledged to rescuing the economic situation for the 'nation'. The project involved making workers pay for the recession, with the ensuing hardship justified by the union machines in the name of 'realism'. The rescue packages were broadly similar in different countries: in Britain the 'Social Contract'; in Italy the 'Historic Compromise', in Spain the 'Moncloa Pact'. Nowhere were rank-and-file movements sufficiently organised or influential to pose

an alternative. The collapse of the '1960s Left' was all too evident; the stations of its descent, in CEE as well as the West, are charted by Tamás in Chapter 2.

The burgeoning labour movements of the 1960s and early 1970s had strengthened concurrently with anti-imperialist campaigns and movements of the oppressed. Conversely, the defeats and demoralisation of the later 1970s and 1980s exerted a constraining effect on workers' consciousness, narrowing horizons and lowering aspirations, and this influenced other social movements too. There now appeared to be two opposed trends: workers' movements, retreating, demoralised and tied to social-democratic bodies, and 'new social movements', gaining fresh life. Reflecting this conjuncture, social scientists concluded from the defeats suffered by labour either that mass movements were a thing of the past or that radicalism would henceforth have to take 'self-limiting' forms – ideas that chimed with the sensibilities of many a dissident intellectual in the Soviet realm. This represented an 'acceptance of the present', an embrace of defeat and a naive idealisation of Western institutions which, Tamás and Shields observe (Chapters 2 and 8), was to shape 1989 and its aftermath. In the context of a global social movements' downturn, many CEE oppositionists turned away from conceptions of grassroots social transformation and towards a liberal approach – initially, around the slogans 'market socialism' and 'civil society'; thereafter, 'democracy, markets and Europe'. In parts of CEE, reformers even pushed a market-fundamentalist agenda, encouraged by Western foundations and governments.[18] In consequence, the neoliberal juggernaut which was heading towards the region encountered surprisingly little organised resistance.

NATO ABHORS A VACUUM

In terms of international relations the 'transition' centred on the roll-back of Russia and the advance of NATO. In the process, the answer to an abiding question of Cold War historiography – whether containing Soviet communism was the reason for Washington to station forces in Europe or merely a pretext to justify their presence and NATO's existence – revealed itself. Initially, Western leaders, including US Secretary of State James Baker, promised that there would be no eastward expansion of NATO, a guarantee that cleared the way for Moscow's compromise over Germany.[19] With a naivety that he was later to regret, Mikhail Gorbachev trusted these pledges and did not demand written assurances. Baker, Margaret Thatcher

and – emerging from the shadows to whisper in George Bush's ear – Richard Nixon all fretted that negotiations with Gorbachev might lead to the denuclearisation of Germany or even the end of the US military presence in Europe. Baker in particular feared that the Soviet Union might exploit the geopolitical breach to build new security institutions around the Commission on Security and Co-operation in Europe, demoting the USA's status in Europe from invited overlord to hired gun. But that was not to be. The USA, following its strategic goals of maintaining its presence in Europe and preventing EU–Russian rapprochement,[20] tore up the promises to Gorbachev and pressed ahead with NATO expansion. Since then, US policy towards Russia has taken the form of 'a relentless, winner-take-all exploitation' of its post-1991 weakness, as Stephen Cohen puts it, which has culminated in its encirclement by a necklace of US and NATO bases in former Soviet republics, from the Baltics to Georgia, Azerbaijan and Central Asia.[21]

In the long run, as Gonzalo Pozo and Owen Worth explain (Chapters 4 and 5), NATO expansion, together with other forms of geopolitical and geo-economic humiliation, pushed Russia into opposition to the West, to the extent that, under Vladimir Putin, Atlanticism was all but banished from its political culture.[22] But in the short run, during Boris Yeltsin's presidency, Atlanticism prevailed, as Pozo documents (Chapter 4). Russia took on enormous foreign loans in exchange for 'rash political compromises', and US citizens (Yeltsin's 'Chicago boys') and institutions were roped in to push forward a programme of privatisation in which productive resources were disposed of at fire-sale prices, in a fraud-ridden process that Russians came to refer to as the 'great grab'.[23]

Elsewhere in CEE the geopolitical algebra was different but the push to prise open the region's economies to unrestricted access for Western capital was similar. Economic coercion was involved, as with the IMF's insistence on austerity and rapid privatisation as conditions for loans, but there was also extensive investment in the ideological underpinnings of the project, by USAID in particular.[24] In Latvia, Sommers and Bērziņš (Chapter 6) recount, economic policy was captured by a group of Latvian-American neoliberals known as the 'Georgetown Gang', who devoted their efforts to establishing a neoliberal comprador regime. Experts from the World Bank and IMF descended on the capital cities of the region armed with their now infamous one-size-fits-all plan, the thinly disguised aim of which was to advance the cause of corporate globalisation. Across CEE, the plan was applied. 'Stabilisation programmes' centred on liberalisation of

prices and of foreign trade, and restrictive fiscal and incomes policies, to reduce state spending and lower wages. 'Structural measures' involved privatisation, banking reform and the slashing of industrial policy and welfare. Stabilisation and structural reform would, it was assumed, combine to usher in a swift and prosperous transition. Given the new market environment, trade liberalisation would permit capital inflows, which would in turn spark an export-driven growth surge, with low wages and proximity to EU markets providing a competitive advantage. As the state sector withered, new, small enterprises would take up the slack, absorbing much of the labour shed.

For those of a neoliberal persuasion, the early 1990s was a heady time. 'Like Western Europe after World War II', gushed Daniel Gros and Alfred Steinherr,

> Eastern European countries now have the historic opportunity to create *ex nova* optimal economic and social institutions and thereby free their latent energies.

Embrace of the world market would enable them to out-compete the stagnant corporatist economies to the West, and to

> leapfrog those Western countries whose oligarchic and inward-looking politico-institutional framework [had] not had the chance to be dynamited away.[25]

In reality, the dynamite was applied to the economic substance of CEE. Liberalisation of prices, trade and capital flows led swiftly to the collapse of Comecon's trading and payments systems. By the end of 1990 all intra-Comecon trade was conducted in hard currencies and at world market prices, resulting in the breakdown of the trade links between the states that were emerging from Moscow's retreating imperium. But exports elsewhere could not compensate for collapsing intra-Comecon trade. With outdated technologies, the poor quality of many commodities and lack of distribution and marketing connections, few CEE manufacturers succeeded in breaking into external markets, and protectionism of the major powers (EU, North America) made matters worse. In addition, CEE suffered a profound fiscal crisis, exacerbated by the deflationary effects of structural adjustment.

In this light, the comparison with Western Europe was naive, bordering on absurd. That region occupied a mighty position within the world system in 1945 and put its power to use; its *wirtschaftswunder* was ignited by postwar reconstruction; it

benefited from a worldwide economic boom (and Marshall Aid); and it had nurtured its industries with infrastructure support and tariff protection. CEE, by contrast, had occupied a semi-peripheral position for centuries and was now attempting to play catch-up during a period of relatively weak global demand and fierce competition from low-wage producers in 'emerging economies', and in the absence of significant aid or debt cancellation. Whereas 90 per cent of Marshall Aid was in grant form, this applied to only 10 per cent of aid to post-communist Europe in the early 1990s.[26] Only Poland received major Western support, in the form of the cancellation of half of its debt to both public and private creditors and an EU assistance programme, with favourable treatment for agricultural imports. Hungary, by contrast, boasted the world's highest per capita debt and was obliged to earmark for debt servicing much of the revenue it raised by privatising state-owned corporations.[27]

The golden promise of the transition period was foreign direct investment (FDI), but inflows depended on buoyant domestic growth and that was undermined by the very measures designed to entice it, as outlined above. For the entire region, from Plzeň to Vladivostock, FDI in the five years from 1989 amounted to a mere two-fifths of the flow to China in 1993 alone. Meanwhile, rapid liberalisation enabled capital to evacuate the region, as Mike Haynes and Owen Worth point out (Chapters 3 and 5). Remarkably, more money left Russia in 1992–8 than the aggregate capital flight from Brazil, Venezuela, Mexico and Peru in 1979–87, the years of the Latin American financial collapse.[28]

Taking the period 1990–2010 as a whole, much of CEE experienced a regional Great Depression; in GDP terms it was a lost two decades. Far from 'leapfrogging' Western economies, much of the region has lagged further behind. In this, Poland represents the exception, but even an economy such as the Czech Republic which belonged to the next most successful tier was to take 18 years to return to the ratio of GDP *vis-à-vis* the EU average it had registered in 1989.[29] In Hungary, another of the 'success stories' of the region, the structural adjustment of 1988–95 destroyed more economic assets than did the Second World War, along with 1.5 million jobs.[30] Georgia, Ukraine and most of former Yugoslavia experienced catastrophic decline, as documented by Bojcun, Upchurch and Marinković (Chapters 7 and 11).[31] Russia succumbed to an economic meltdown unprecedented in peacetime (Chapter 3). Between 1992 and 1998 its GDP declined by almost half and industrial production by over half – more than that experienced by the USA during the Great Depression. Its grain

harvest more than halved in the five years from 1993, dropping beneath even its level of 1913. Money disappeared from much of economic life such that, by early 1998, half of industrial sales were completed through barter.[32]

For the mass of the population in the region the consequences were cataclysmic. Double-digit inflation, Haynes points out (Chapter 3), scythed through families' savings in Russia, as it did in Belarus, Bulgaria, the Baltic States and beyond. Between 1990 and 1992 wages plummeted – by 44 per cent in Poland, 22 per cent in Czechoslovakia.[33] In no country affected by the Great Depression of the early 1930s did real wages decline as steeply as they did in CEE during the 1990s.[34] Even ten years after the transition, only in the Czech Republic had the average wage crept back above its 1989 level, and in many countries (including Lithuania, Russia and Ukraine) it remained below half that level. In Russia the fall was particularly precipitous: in 1992, the average citizen consumed 40 per cent less than she had in the previous year.

The consequence of this onslaught on livelihoods included a depreciation of life itself. Haynes draws attention to Russia's soaring mortality rate, which rose most rapidly in those regions where income differences yawned the widest.[35] The average Russian man today can expect to live until 62, down from 68 in the 1980s. No other industrialised country has ever experienced such a reverse.[36] In the light of immiserisation and social regression on the scale of the Great Depression it is little wonder that, when asked if life for most of their compatriots is now worse than it had been before 1990, many answer in the affirmative: 62 per cent of representative samples in Bulgaria and Hungary; 72 per cent in Ukraine.[37]

THE EU AND THE CONSOLIDATION OF THE NEOLIBERAL PROJECT

As Shields discusses (Chapter 8), the EU is the key conduit through which the neoliberal model is being institutionalised throughout Europe, both West and East.[38] The main thrust of the Phare programme, for example, was to prepare countries for EU membership by insisting on policies of economic deregulation and liberalisation. Dangling the carrot of EU membership, Brussels pushed would-be member states towards a peculiarly radical variant of the neoliberal model. Having to conform to EU rules regarding state aid and competition policy wedded these countries to the liberalisation of trade and investment in a way that made it difficult to accede to demands for protectionism or retreat.

Two projects that aimed to consolidate the neoliberal project in Western Europe were extended to the new member states in the East. The first was the Single Market, the aim of which was to restore Europe's global competitiveness via the liberalisation of previously protected sectors (for example, services, utilities and telecommunication), supplemented by further rounds of privatisation. While the rhetoric was of innovation, competitiveness and economies of scale the reality was the reorganisation of European capital over a wider territory, as manifested in rolling waves of mergers and acquisitions. The second was monetary union, which removed barriers and reduced transaction costs and, additionally, created a stick with which to force Eurozone states to reduce public spending through the restrictive monetary policy inscribed in the convergence criteria of the Maastricht Treaty and Stability and Growth Pact.

The EU's self-marketing as a solidaristic 'club' conceals stark hierarchies and *realpolitik*. Its powerful economies initially engaged with CEE as a prospective market for agricultural surpluses and other exports, as a market for bank loans and as investment opportunity, with the hyper-liberalisation of the region also serving the interests of those sections of the ruling class who wished to see similar processes take root in the West. With the creation of the Eurozone a new type of core–periphery relationship was established, with weaker economies – Hungary and Poland, as well as Greece, Portugal, Spain and Ireland – serving as markets and debtors for the stronger Western European states, above all Germany. However, as this volume shows, installing neoliberalism was less than straightforward. The crisscrossing interests of different states and domestic elites, together with struggles from organised labour, made the process protracted and the outcomes a political compromise, particularly regarding privatisation and welfare.

If the principal beneficiaries of the transition were Western capital and institutions (the EU and NATO), sections of the pre-1989 *nomenklatura* in CEE emerged as winners too. Even before 1989, company managers in parts of CEE had begun to convert their control over productive property into ownership, diverting cash flows to private companies and asset-stripping state concerns. As rules on property ownership were liberalised, entrepreneurs from party and other official backgrounds established quasi-state financial and trading organisations. They benefited from insider knowledge and the 'protection' afforded by connections to the security services and credits they had accumulated through patron–client networks, as well as from first-mover advantage.[39] Others engaged in 'mafia'

activities, as the coincidence of weakened state regulation and the expansion of private business activity jump-started a market in protection and other forms of coercion.[40] *Nomenklatura* privatisation lies behind what some have seen as a puzzling aspect of the transition: the rapid mutation of former 'communist' parties into advocates of a neoliberal brand of social democracy. ('On a beautiful day in 1994', one account of an election in Bulgaria begins, 'as unexpectedly as they had fallen from power before, the communists came back to power as socialists who, in just a few years, had evolved into the biggest capitalists in the country'.[41])

Country by country, privatisation strategies varied widely. In Ukraine, in the 1990s, the prescriptions of the World Bank and IMF were rejected, and its privatisation programme was tilted towards local interests and against foreign investors, particularly in 'strategic' industries (see Chapter 7). In Poland, management buy-outs were the main method; privatisation occurred gradually in the early 1990s, before a sharp acceleration in 1995–6.[42] The Czech Republic, like Russia, preferred the relatively rapid method of privatisation by voucher, with regulations that favoured enterprise outsiders but not foreign investors.[43] It initially received plaudits from the World Bank and IMF, but, as Ilona Švihlíková explains (Chapter 9), its much-trumpeted promise of a dispersed ownership structure came to nothing. Instead, and contrary to expectations, most vouchers were snared by a handful of Investment Privatisation Funds, many of which underwent *de facto* nationalisation when they were unable to repay loans to state banks,[44] before those same banks were sold off to foreign financial institutions.

UNEVEN DEVELOPMENT AND FOREIGN (DIS)INVESTMENT

Economic restructuring in CEE has taken 'uneven and combined' forms, argues Fabry (Chapter 10).[45] At the most general level, it occupies a semi-peripheral position within the world economy, but this disguises stark differences: while a few areas have joined the 'global city', characterised by skilled labour and high productivity, larger swathes belong to the 'global sweatshop', with low-quality jobs in the primary sector.[46] Muscovites, as Haynes points out (Chapter 3), live as if on a different planet from their compatriots in the 'mono-cities' of the rustbelt. Many parts of CEE, including Russia and Ukraine (Chapters 3 and 7), experienced a regression in their place within the international division of labour, with a shift from producing high-skilled manufactures towards semi-

manufactures, agricultural goods and energy and mineral extraction.[47] Latvia, although encouraged by Western institutions to focus on the 'creative industries', has in fact made its mark as a transit and transaction point for asset-stripping, raw material exports and money laundering (see Chapter 6), as well as a major exporter of labour power. By many measures, the Baltic States are the worst places to work in the EU, with the lowest standards of living and the longest working hours. Spending on social protection per capita is a quarter of the EU average and income inequality is the most polarised.[48]

Other recognisable features of uneven and combined development are close ties between business and the state and a relatively high degree of dependence on foreign capital. Regarding the former, in parts of CEE the collapse of government institutions during the 'transition' of 1990–2 converged with a neoliberal commitment to 'roll back' the state to permit a high degree of state capture by comprador oligarchies and other business interests. This contributed in Serbia and elsewhere to 'wild capitalism' (diagnosed by Martin Upchurch and Darko Marinković in Chapter 11), in which rules and regulations are attenuated and ignored by corporate elites. In Ukraine, political parties tend to be vehicles for business interests and control over the gas industry was at the fulcrum of disputes between rival presidential candidates, as explored by Marko Bojcun (Chapter 7). But it is the political clout of business elites in Russia and the changing relations between business and the state that have attracted particular attention. In Russia the state bureaucracy survived the transition largely intact but became penetrated – and at one stage appeared to be captured – by business interests that thrived on monopolistic and rent-seeking practices.[49] As Pozo remarks (Chapter 4), the moment of the greatest power over the Russian state by business leaders was the mid-1990s. The relationship was then disrupted, first by the rouble crash of 1998, then by Putin's coming to power in 2000. The extent to which Putin represented a new departure should not be exaggerated. Already under Yeltsin, Russia's bureaucracy doubled in size, the proportion of *siloviki* (former members of the military and security forces) in top regime positions soared (from 5 per cent under Gorbachev to 47 per cent under Yeltsin), the budget of the Federal Security Service (FSB, successor agency to the KGB) trebled, the media was muzzled, the regions were subordinated to the centre, dissenting officials were dismissed, dissenting parliamentarians were overpowered by recourse to presidential fiat and parliament itself was subordinated – most dramatically through military attack in 1993. Putin himself

was promoted by an alliance of Yeltin's cronies, *siloviki* and market reformers, and during his presidency the intimate links between political and economic power-holders which had been established in the 1990s were not severed.[50] However, the tutelary authority exerted by the regime over business elites was vigorously reasserted, in a restructuring of state–capital relations analysed in detail by Pozo and Worth (Chapters 4 and 5).

As regards the role of foreign capital, from the mid-1990s inflows began to soar, and from 1996 FDI stock as a percentage of GDP in CEE surpassed the world average. By the beginning of the twenty-first century foreign ownership of the *non-financial* sectors, apart from the Czech Republic, Hungary, Estonia and Slovakia,[51] remained relatively low, but in the financial sector the picture was different. Even in Ukraine the trend has been towards outright foreign control (see Bojcun, Chapter 7), while in much of the rest of the region almost the entire banking system is owned by foreign (mostly Western European) banks, as shown in Table 1.1.

Table 1.1 Foreign Ownership of Banks, 2007[52]

	Percentage of (total, bank-owned) assets held by foreign banks
Slovakia	99
Estonia	98
Lithuania	90
Bulgaria	85
Czech Republic	85
Poland	75
Serbia	75
Hungary	65
Latvia	65

To entice foreign investors, many states adopted 'flexible' labour markets and low taxation on capital, but there is little evidence that such enticements actually worked. The 'FDI model' in Serbia, note Upchurch and Marinković (Chapter 11), far from enhancing competitiveness, spawned unstable and unsustainable growth. Hungary was notably friendly to foreign investors – for example, its method of privatisation explicitly favoured transnational corporations (TNCs)[53] – and it did attract more inward investment between 1990 and 1996 than any of its neighbours, yet its economy grew more slowly than theirs. Moreover, notes Fabry (Chapter 10), its dependence on foreign capital left it highly exposed to the 2008

sample content of First the Transition, then the Crash: Eastern Europe in the 2000s

- download Royal Assassin (The Farseer Trilogy, Book 2)
- *A Counterfeiter's Paradise: The Wicked Lives and Surprising Adventures of Three Early American Moneymakers online*
- Arctic Rising (Arctic Rising, Book 1) pdf, azw (kindle), epub, doc, mobi
- read online Civilization and Its Discontents

- http://kamallubana.com/?library/The-Grief-of-Others.pdf
- http://aircon.servicessingaporecompany.com/?lib/Jan-van-Eyck--The-Play-of-Realism--2nd-Edition-.pdf
- http://omarnajmi.com/library/After-the-Storm--Kate-Burkholder--Book-7-.pdf
- http://test1.batsinbelfries.com/ebooks/Neuroscience-For-Dummies.pdf