

## Economic Dimensions of Human Rights in Transition Economies

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### Introduction

Economic dimensions of human rights have received little attention in the burgeoning literature on economies in transition, despite the fact that the majority of the population have been made worse off in the process of transition to a market-oriented economy. Indeed, for many people the transition has deprived them of their basic rights of economic security and employment. Some short term economic and human costs were expected by the policy-makers and their advisers, but the economic transformation in Eastern Europe and the former Soviet Union has proved much more difficult and lasting, much more costly than was expected at the beginning of transition. This explains why relatively little attention was paid to the human costs of transition beyond the establishment of a minimum social safety net which turned out to be woefully inadequate to deal with the disastrous consequences of the shock-therapy policies.

More seriously, there is a tendency among the proponents of such policies to justify ex post the costs of transformation as some kind of "rites of passage", a cleansing and beneficial process. After describing the dramatic falls in output and employment, as "transformational recession", Kornai<sup>2</sup> adopts a moral posture by asserting that "in this type of recession a painful process of natural selection takes place, but the trauma has a healthy cleansing effect". A similar attitude is adopted by Aslund<sup>3</sup> who sees the depression and the accompanying hardships as the result of "the desired economic transformation, a beneficial change that will raise quality". Neither Kornai nor Aslund talks about the need to compensate the victims of the recession. Their economic rights are ignored or it is assumed that they will improve once the transformational process is completed.

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1 Department of Economics, University of Sydney.

2 Kornai J "Transformational Recession: The Main Causes", (1994) 19, *Journal of Comparative Economics*, p 47.

3 Aslund A "Lessons of the First Four Years of Systemic Change in Eastern Europe" (1994) 19 *Journal of Comparative Economics*, pp 31- 32.

The primary purpose of this paper is to examine the effects of transition on the economic rights and well-being of the majority of the population in the former centrally-planned economies of Eastern Europe and the Soviet Union. However, before we embark on this exercise, it is proposed first to raise some general issues about the economic dimensions of human rights (or simply economic rights) and secondly, to discuss the nature and structure of economic rights in the former Soviet-type economies. These discussions are set out in the next two sections of the paper; they provide the theoretical and historical background to the current state of economic rights in economies in transition which is discussed in the fourth section. The final section (V) of the paper offers some concluding remarks about missed opportunities and prospects of economic rights in Eastern Europe and the former Soviet republics.

Before embarking on this discussion a note of warning is in order. Both Eastern Europe and the former Soviet Union are far from homogenous regions. The countries of the two regions had somewhat different institutional arrangements and were at different stages of economic development. Similarly, in the post-Socialist era they adopted somewhat different strategies of transition and have different experiences in the area of economic rights and social security.<sup>4</sup> It is therefore dangerous to generalise about the economic conditions of human rights in Eastern Europe and the former Soviet Union. Nevertheless, these countries have a lot in common both under the old centrally-planned system and in the current process of transition to the market. In any case, the focus of the paper will be on the experience of Russia and Ukraine, the two most populous countries.

## Economic dimensions of human rights

Without subscribing to the common fallacy among economists of equating "economic welfare" with "total welfare", it is true to say that a person's material well-being is essential for her functioning as a human being. But human beings can function at different levels, ranging from one of survival at more or less subsistence with low life-expectancy, to a more complex and affluent level, enjoying a high degree of "effective freedom", autonomy, self-respect, power over others, and participating actively in the affairs of the community. There is little doubt that one can have a meaningful and satisfying life at subsistence level. Indeed, some of us deliberately choose poverty as a way of life, and we often come across people, particularly in Third World countries, who are poor but not miserable. Such people accept hardship with resignation and take great pleasures in small mercies.

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4 European Trade Union Institute, *Labour Markets, Wages and Social Security in Central and Eastern Europe*, (Brussels, 1995).

Conversely, there are rich people who are miserable and unhappy, and seem to lead meaningless lives. Fortunately, the distribution of happiness is less unequal than the distribution of income and wealth.

This is, of course, not a justification for poverty or for the existing distribution of income and wealth. On the contrary, we need to eliminate poverty and modify the existing distribution, preferably by imposing a ceiling on the level of income. Like many people, I am disturbed by the recent trend of awarding corporate managers salaries calculated in millions of dollars. While people may not agree on the need for a ceiling on the level of income, there is broad consensus on the need for a floor that would guarantee individuals economic security which is essential for their well-being and self-development. Economic security is a fundamental human right — a right to be well-nourished, well-sheltered, to be clothed and healthy.

Without economic security one cannot formulate and pursue a life plan of one's own choosing. One would always be engaged in survival activities with little or no time left for self-reflection and self-development. Choosing is part of living, an essential component of the bundle of human rights. Indeed, a life without meaningful choices, governed by the dictates of survival is one of slavery. Freedom of choice can be crucial for the person's quality of life and well-being. However, freedom of choice like most other human rights can never be absolute. Individuals are free relative to the number of constraints they face, including the effects of their choices and actions on the freedom of others. Freedom is, of course, a complex notion, but the notion that is relevant to economic rights is the freedom to do the things a person would like to do, to exercise her human rights. Accordingly, people should have equal access to those resources that are essential for a "decent" life, a life chosen for themselves and one that embodies their genuine desires and plans. This does not mean that people should be provided with unlimited access to resources to enable them to live a life of luxury. The fact of scarcity implies that the right to unlimited access by some people to limited resources will conflict with the economic rights of other people. Indeed, inequalities of income and wealth implies inequalities of economic and non-economic rights. While economic rights enhance the freedom of some people, they restrict the freedom of others. Arguably, this provides the moral justification of controlling the economic rights of the rich through taxation and other means, in order to redistribute resources in such a way that everyone in society has at least the basic human rights of economic security.

Since the material conditions of our lives have direct effects on the opportunities and options and, in turn, influence our tastes and characters, there appears to be a *prima facie* case for people having a say or control over basic resources, or "primary goods". Such control constitutes a basic economic right. Primary goods are defined

by Rawls as "things that every rational man is presumed to want, and include income and wealth, the basic liberties, freedom of movement and choice of occupation, powers and prerogatives of offices and positions of responsibility, and the social bases of self-respect".<sup>5</sup> The control over oneself and one's immediate environment gives the individual a sense of economic security and self-esteem. As already stated, without this security people would find it difficult to make plans for the future, to have a say in self-determination and to provide for their family's needs. In extreme cases, the absence of economic security means a concern not about the future, which may be regarded by some people as a kind of luxury, but rather about the present, how to keep oneself or one's family alive let alone comfortable.

In principle, economic security can be guaranteed by two types of welfare system: (i) a social safety net that is focused on relieving poverty and (ii) a system that is aimed at eliminating poverty. Of course, it is possible to combine both elements. Indeed, there seems to be an emerging consensus about the major components of an adequate safety net. They are "income support; employment services, such as labour market information and job counselling; programmes to increase the quality of labour, including training and micro-enterprise development; direct employment activities, such as public works; and health services that are adequately funded".<sup>6</sup>

Apart from the obvious distributional and political objectives, this broad definition of the social safety net has important efficiency features both through direct investment in labour and by protecting lower income workers and unemployed individuals. Both measures make a major contribution to labour mobility and hence to the efficient operation of labour markets. It is argued that the twin targets of efficiency and equity requires dual instruments: a genuine labour market and a system of income transfers (*op cit*, p 2). The income transfer in addition to its equity function liberates the labour market from the pursuit of distributional objectives. Hence "the safety net has an additional efficiency function which makes it an integral part of the economic system" (*ibid*).

Even with the broad definition of the social safety net, there is still an unsatisfactory separation of efficiency and equity objectives. It is convenient for analytical purposes to make that distinction and to allow the market system to take care of efficiency and the welfare system to look after equity. It seems a neat solution as well as reasonable. It also seems reasonable to propose that the market should be the principal

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5 Rawls J *A Theory of Justice*, (Harvard University Press, Cambridge, 1971) pp 60-65.

6 Barr N *Income Transfers and the Social Safety Net in Russia*, Studies of Economies in Transition Paper No. 4, (The World Bank, Washington DC, 1992).

mechanism for the allocation of resources and distribution of economic goods in a society, and only those citizens whose failures in the market leave them with little or no access to basic resources are eligible for the state supply of basic welfare provisions. However, there are two main problems with this conception. First, the objectives of efficiency and equity are much more closely interconnected than is generally believed. Indeed, they are two sides of the same coin, and hence we should not treat them separately. Of course, sometimes they do conflict with one another but more often than not they reinforce one another, particularly if we take a longer-term perspective. In the long-run efficiency is good for equity and equity is good for efficiency.

Secondly, the problem of leaving the bulk of the task of distributing goods to the market is that the market itself distribute goods neither according to what people morally deserve nor in a way that maximises efficiency (given the imperfections of markets). This does not mean that the market should have no role in the distribution of income. On the contrary, properly understood the market is indispensable for efficiency and equity. Despite its imperfection, the market provides a basis for valuation which is essential for any effort to allocate resources efficiently and equitably. But it should not be assumed that the outcomes in the market place are just, equitable or even efficient. The conditions for such outcomes are seldom attained in the real world. Nevertheless, the market remains essential both for its allocative and creative function, but it is not sufficient. It needs to be regulated and supplemented by state activities. There is increasing evidence, both theoretical and empirical, that "a well-functioning market" is a regulated market, or rather that a well-functioning economy is a mixed-economy of market and state institutions and decision-making.

Arguably, a well-functioning economy and/or just society must not only support those citizens who fall below the poverty threshold, it must also directly provide those resources (education, health, transport etc) which are required by individuals to participate in the labour force and in their own communities. A guaranteed minimum income is necessary but not sufficient for self-development and well-being; it forms only one part of the bundle of economic rights. A guaranteed minimum income tends to make people dependent on the welfare system and except for "creative" recipients, it tends to make people mere passive consumers of goods and services. Hence where state programmes are designed to benefit only those already poor, welfare recipients often suffer from losses of self-esteem because the recipient of such benefits is often contingent on being a "failure" in the game of market competition. Accordingly, it is desirable that economic rights be guaranteed through the market rather than through welfare. This implies that the right to employment should be part of the bundle of economic rights.

Here the usual distinction made in the literature on property rights between 'income rights' and "control rights" becomes significant.<sup>7</sup> For in so far as autonomy or independence is a basic human right and in so far as control connect more directly with autonomy than do income rights, it follows that control over the goods required for autonomous living must be a priority of state economic policy. The task of the state is not to put people on welfare, since that will make them dependent, but to take people off welfare and empower them with the resources and opportunities to participate in the economic and social life of the community. Amartya Sen has insisted on the approach of seeing poverty as "capability failure". He argues that "the re-orientation from an income-centred to a capability-centred view gives us a better understanding of what is involved in the challenge of poverty".<sup>8</sup>

The current demand by the neo-liberals to roll back the welfare state, because it is making people too dependent and destroying their creative abilities, is a noble objective. But unfortunately the neo-liberals have no programme of creating employment, no major programmes for the state to guarantee the economic rights of the citizens, and certainly they do not have a capability-centred view of the genesis of poverty. Properly conceived, an alternative programme that is designed to empower people to participate in the economy will probably involve a bigger role for the state, at least in the short-term, than the present welfare system. Indeed, the state would have to operate on both the supply and demand sides of the labour market. There is ample evidence that training alone cannot do much to empower workers when the demand for labour is inadequate. Hence an activist macroeconomic policy and a greater degree of intervention in the labour market, through the provision of incentives to "create" more employment, are needed.

However, recent and current attempts in a number of countries to increase the level of employment have met with limited success. Modern technology makes it cheaper to provide people with income rather than employment. But this is often judged on the basis of the narrow economic calculus of balancing private costs and private benefits. A proper and broader calculus of social (economic and non-economic) costs and benefits might give a better guidance regarding the optimal level of employment. But given the importance of employment for many people, who see it as a utility or a primary good, rather than a disutility or a means of obtaining an income, it should be on the list of desiderata that makes up the social welfare

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7 Christman J *The Myth of Property: Toward an Egalitarian Theory of Ownership*, (Oxford University Press, Oxford, 1994); Gruenbaum J *Private Ownership* (Routledge and Kegan Paul, London and New York, 1987).

8 Sen A *Inequality Reexamined*, (Harvard University Press, Cambridge, 1992) p 151.

function. Seen in this way, employment becomes an ultimate objective to be achieved with minimum costs and not to be traded off with other objectives.

In short, employment ought to be included in the bundle of economic rights because it meets a self-fulfilling need, which is important for human dignity and self-esteem. It is a meaningful way of participating in the life of the community and contributing to the welfare of society. A guaranteed minimum income might be seen as a more fundamental objective than employment and more feasible than a secure job. Apart from Sen's insistence on moving from an income-centred to a capability-centred anti-poverty policy, a guaranteed income carries the stigma of charity, of getting something for nothing, and thus may not satisfy our deep psychological need for being creative and our instinct of workmanship. For those who cannot be employed, it is their basic right to have some control over their own destiny. They should be given the resources that enable them to make effective choices regarding their basic needs. This means choosing their own doctors, schools for their children and other choices employed people on minimum wages make. The more meaningful choices they make the more they exercise their economic rights. A life without significant choices is a life of slavery — a life without economic rights. It is of some significance that the perception of poverty by the unemployed indicates that the employed themselves see poverty precisely as lack of substantive freedom (*op cit*, p 151).

## **Economic rights in the former Soviet-type economies**

Much of the recent and current discussion of economies in transition by newcomers to the former Soviet Union and Eastern Europe is coloured by the totalitarian/command model of state socialism. The earlier generation of sovietologists, such as Maurice Dobb, Peter Wiles and Alec Nove, were very much aware of the enormous gap between the *de jure* model and the reality of Soviet-type economies. Arguably, the command model provides as much insight into the *modus operandi* of the former centrally planned economies as the perfect competition does into the working of advanced capitalist economies. With respect to the theme of this paper, the command model suggests the relative absence of economic rights. To begin with, ownership rights of individuals were restricted to consumer goods. Private ownership of land and means of production were forbidden. There were, of course, exceptions. In Poland, for example, the form of land ownership was predominantly private. Also, individuals in all former socialist countries could own livestock and a certain amount of capital goods. They could also set up private enterprises provided they did not exceed a certain number of hired workers. In reality, ownership rights were not clearly defined and strictly enforced, and, for those economists who believe in the fundamental importance of property rights for the performance of the economy, this was a contributing factor for the demise of the former socialist economies.

However, since the Managerial Revolution, the question of who controls or decides what has become just as important as, if not more important than, who owns what. More recently, the discussion has shifted to the relative importance of "income rights" and "control rights". As indicated in the previous section control rights should be included in the bundle of economic rights. The command model suggests that all or most important economic decisions were made at the top of a highly centralised structure of decision-making and imposed on subordinate bureaucrats and managers of state-owned enterprises to be implemented. The command model does not allow for meaningful consultation with subordinates or for the flow of information from the periphery to the centre. The model, as the name suggests, is borrowed from the military, and not surprisingly it works only in cases of emergency, and even then at an enormous cost of resources. In short, under the command model, except for the central decision-makers, economic agents are depicted as passive recipients of orders/commands. In particular, consumers and workers exercised little right in choosing their consumption pattern, occupation and place of work.

With some notable exceptions, the reality was rather different from the command/totalitarian model. The centralised structure and authoritarian procedure of decision-making and control were not as effective as the command model would lead us to expect. The actual structure of decision-making was much less centralised than the formal structure. Whether the authorities liked it or not, there was a great deal of de facto decentralised decision-making. Central decision-makers could not dominate the private and public spaces of ordinary people. The complexity of economic decisions, the sheer number of decisions that have to be made for the economy to function made the command model obsolete. In attempting to control one dimension of social and economic life, party leaders and their agents left another to flourish. Thus the limits of the state to control everything, or even the most important decisions, enabled millions of people to bypass the system through the "coloured" or parallel market, and to exercise their economic rights to "truck and barter" and obtain the resources necessary for their survival and growth. Even managers of state-owned enterprises resorted to the parallel market with the approval of officials in order to fulfil the official plans.

When one takes account of the de facto decentralisation of decision-making, the inevitable consultation with subordinates and experts as well as the flow of information from the bottom-up, the actual decision-making process was far from being one of command.<sup>9</sup> Indeed, it resembled more a bargaining model of decision-

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9 Haddad L "The Disjunction Between Decision-Making and Information Flows: The Case of the Former Planned Economies" in Peter Groenewegen and Bruce McFarlane (eds) *Socialist Thought in the Post Cold War Era*, (Journal of Contemporary Asia Publishers, Manila, 1995).



making between the centre and the periphery. The relative bargaining power of the two parties varied according to circumstances and the nature of the product or economic activity. Both theoretical and empirical (anecdotal) evidence suggest that in many instances the commands that managers of state enterprises received were written by the recipients themselves.<sup>10</sup> Further, contrary to a common fallacy consumers and workers exercised the right of choosing their own consumption pattern as well as their choice of occupation, albeit the range of consumer goods available was much narrower than that found in advanced market economies.

The gap between the *de jure* model and the reality of the former centrally-planned economies meant that many people behaved as if they possessed economic rights, provided they did not challenge the legitimacy of the regime. Citizens were guaranteed basic economic needs including a free public health care system, free education, practically free housing, and secure job. These were not strictly speaking economic rights that could be defended in courts of law. They were conventions or privileges awarded to citizens who refrained from criticising openly the system. To the extent that economic and other rights depended on the 'goodwill' of the leaders, they were frequently violated.

It is interesting to record that in the latter part of the 1960s, the movement for individual rights — claims by individual or groups of individuals to be left to pursue certain kinds of activity independently of surveillance or control by the state — did not emphasise economic rights. The movement focused on political democracy, nationality rights, human rights, socialist — legality, and least of all economic rights.<sup>11</sup> Indeed, Sakharov,<sup>12</sup> one of the co-founders of the movement for individual rights, said that "the Soviet Union demonstrated the vitality of the socialist cause which has done a great deal for the people, materially, culturally and socially, and like no other system has glorified the moral significance of labour". In fact, the democratic movement was not opposed to the collective ownership of property. It recognized the importance of economic security and the certainty of finding an alternative job. Full employment was guaranteed by the centrally-organized economy, by the high rate of investment, and perhaps by the inefficiency of the system. Not only is there a benefit in terms of individual well-being and social status attached to employment, but in economic sense it employed workers as long as the loss to production was less than the social

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10 Lane D *The Soviet Economy and Society*, (Blackwell, Oxford, 1985).

11 Lane D *The Socialist Industrial State: Towards a Political Sociology of State Socialism* (George Allen & Unwin, London, 1978) pp 104-108.

12 Sakharov A D *Progress, Co-existence and Intellectual Freedom* (Andre Deutsch, New York 1968).

security payments plus the cost to society of having dissatisfied unemployed people. Evidently, the authorities decided that it would be better, on the whole, to have unemployed people inside rather than outside the factory.

In addition to security of employment the worker in the "socialist state" was guaranteed a minimum wage, without excessive hardship at the work place (given the widespread use of disguised unemployment). Maternity leave for one year was granted to women. Education and medical care were provided free by the government, and very cheap holidays were organized by unions for their members. Life expectancy and infant mortality in the 1970s and early 1980s were comparable with the OECD countries. Housing was practically free, but conditions were poor. In 1981, 20 per cent of families still lived in communal flats, sharing kitchen and bathroom facilities.<sup>13</sup> There were undoubtedly pockets of poverty but this was not officially acknowledged and so there was little attempt to measure it. As there was full or over-full employment, the authorities refused to recognize the existence of poverty. Finally, there was no notion of a pension fund. The absence of any worker contribution was regarded as one of the achievements of the "socialist state". It was a deliberate policy to keep the private component of the total wage as low as possible, while increasing the social component.

As mentioned in the previous section, economic rights must not only include a guaranteed minimum income and employment, but also the freedom of workers to choose their occupation and place of work and consumers to choose the content of their consumption basket. Both of these rights were more or less guaranteed under the former Soviet system. The Stalinist legislation of 1940-1942 which deprived workers of the right to change jobs without permission and made provision for direction of labour (the forced labour system) fell largely out of use long before their official repeal in 1956. Without a genuine labour market to enable workers to change jobs freely, economic rights would become meaningless. It would be in effect a system of slavery. Clearly, the existence of a labour market is absolutely crucial for the exercise of one's economic right. Other markets in this respect are less important. Contrary to a common view, the Soviet system had a genuine labour market though it was far from perfect. A small percentage of the labour force (2-3 per cent) was allocated directly to industries and geographical regions. This segment of the labour force was confined to party officials and new entrants into the labour force. Further, housing shortages prevented free mobility of labour. Indeed, this was the main reason for the internal passport system which was designed to stop the flow of labour from rural to urban areas so that the familiar phenomenon of shanty towns in Third World countries would not develop.

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13 Lane D *The Soviet Economy and Society*, (Blackwell, Oxford, 1985) p 62.

Despite these constraints labour turnover was rapid — reflecting the state of full employment or over employment. The restriction on consumer choice was evident by the relatively narrow range and low quality of consumer goods (especially consumer durables). Consumer's choice was also restricted by keeping the private component of the total wage as relatively low as possible. However, the common contrast of consumers' sovereignty under capitalism to its absence in the former centrally planned economy is a fallacy. The consumer is nowhere sovereign. The comparison is really between the spectrum of choice available to both consumers. It is well-known that in the former centrally-planned economies the spectrum was much narrower than in advanced market economies.

In short, basic economic rights were more or less guaranteed under the old Soviet-type system. Indeed, the achievement of full employment is one of the outstanding successes of the Soviet system. The authorities could have easily achieved a greater degree of efficiency had they been prepared to accept the price of unemployment. In my view, they made the right decision of keeping unemployment inside the factory. Efficiency is not everything. By opting for full employment at low level of efficiency, the authorities integrated economic rights into the economic system and in so doing, they removed the stigma of welfare payment and the loss of self-esteem. It avoided the creation of a class of unemployed people that is a permanent feature of capitalism. The authorities were right in viewing work as a basic fulfilment of human life and therefore an important dimension of human rights. Further, there was a serious attempt to persuade people "that all jobs are worthy of respect". Hence the glorification of manual work. In fact manual labour was better paid than non-manual or intellectual work.

## **Economic rights in transition economies**

The collapse of the "command economies" meant the loss of economic security and employment for many people. More than seven years since the collapse, an effective social safety net has yet to be put in place to compensate for the loss of basic economic rights that the former system had guaranteed. Even without the benefit of hindsight, it was clear that the move from central-planning to a market-oriented economy would lead to a drop in output and employment. In effect the transition, which is from a supply-constrained to a demand-constrained system implies a drop in demand below potential supply, and thus it is contractionary.<sup>14</sup> Clearly, there was no need for

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14 Haddad L "The Importance of Effective Demand in Transition from a Supply — to a Demand-Constrained Economic System", paper presented at an International Conference on Demand Rehabilitation, Finance, Trade and Technology, University Pantheon, Sorbonne, Paris, 29 September–1 October, 1994.

further contractionary policies to achieve macroeconomic stability. In the event the authorities, acting on advice from the Bretton Woods institutions, opted for "shock-therapy" strategies which not only reduced aggregate demand below supply but also caused potential supply to fall, thereby generated dramatic falls in output comparable to or worse than those experienced during the Great Depression of the 1930s.

The extent of the fall in output, employment and wages varied from country to country. It was worse in the two most populous countries, Russia and Ukraine, and thus affected millions of people. Within a relatively short period of a few years more than half the citizens — possibly as high as 80 per cent, who were already living on low incomes became impoverished. The extent of the poverty is reflected by the fact that over 80 per cent of the labour force in Russia was engaged in survival activities to supplement their low wages.<sup>15</sup> The official employment figures do not reveal the actual extent of unemployment. Many people are officially employed, but either do not turn up to work, because it does not make economic sense for them to do so, or they turn up to work but are not paid. Real wages have dropped by more than two-thirds since 1988.<sup>16</sup> Moreover, the social component of the total wage has been significantly reduced with disastrous consequences. Thus the health and educational systems are in disarray; the death rate is soaring; women die in childbirth at five times more than before 1989 and ten times more than they do in the West; suicides have jumped by 50 per cent and crime rates have risen rapidly. Russia's population has stopped growing since 1991 and life expectancy which was previously comparable to that of the OECD countries has dropped to Third World levels.

Clearly, up until now the transition has been quite disastrous for the majority of the population. This is reflected in a number of elections in which the former communists have been returned to power. This cannot be simply explained in terms of the politics of nostalgia, or the yearning for the old days, but rather as an expression of dissatisfaction with the process of transition which has left them impoverished and deprived of their basic economic rights. For many, perhaps the majority of the population "the bad old days never looked better". They seem to have already forgotten the hardships, the shortages, the long queues, and the shoddy products. Interviews with ordinary citizens in Russia and Ukraine suggest that people remember more the stable prices, job security and employment, and the very

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- 15 Rose R (1993) "Contradictions Between Micro and Macro-Economic Goals in Post-Communist Socialism" *Europe-Asia Studies*, 45.
  - 16 European Trade Union Institute, *Labour Markets, Wages and Social Security in Central and Eastern Europe*, (Brussels, 1995).

cheap holidays organized by trade unions. People do not pretend to have been rich under state socialism, just comfortable and even poor, but they were not economically insecure and miserable.

Now they have more economic freedom and face fewer legal restrictions on ownership, accumulation of wealth and movement than citizens in the OECD countries. Indeed, the economies in transition are much less regulated than the advanced market economies. In Russia the situation is often compared with the early period of American capitalism when there was little regulation of the economy. The Russians themselves refer to the current state of their economy as "anarchy without the market". The economic freedom that allowed people to exercise their economic rights of accumulating wealth has so far been confined to a small segment of the population — perhaps no more than 10 per cent. These people have become the nouveau riches flaunting their wealth publicly, while the great majority of the population are struggling to survive from day to day. Increasingly, the citizens of the former centrally-planned economies are asking whether it was necessary to change the whole system, to give up their basic rights of economic security and employment for the right of accumulation of personal wealth which only a few can exercise effectively.

It is often pointed out by IMF and World Bank officials and other Western advisers that conditions in economies in transition are not as bad as they look. Thus the decreases in output and employment are exaggerated, it is argued, because the official statistics do not capture the full growth of the private sector. It is estimated that something like 10-20 per cent of the official estimate of the fall in output is due to the neglect of the new activities in the private sector.<sup>17</sup> Further, it is argued, the falls in output do not reflect the improvement in the welfare of the population due to the availability of more and better quality goods in shops and the elimination of queues. However, the improvement in economic rights or economic welfare in economies in transition flowing from greater freedom of mobility, economic activity and improvement in consumers' choice is largely confined to the small segment of the population that managed to take advantage of the new opportunities. But for most people the newly acquired economic freedom is seen as meaningless or ineffective. A reported interview with a Russian citizen sums up the feeling of many

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17 Aslund A (1994), "Lessons of the First Four Years of Systemic Change in Eastern Europe", *Journal of Comparative Economics* 19, pp 31-32; Borensztein E Derikas D and Ostry S (1993) "An Empirical Analysis of the Output Declines in Three Eastern European Countries" *IMF Staff Papers* 40; Berg A (1994) "Does Macroeconomic Reform Cause Structural Adjustment? Lessons from Poland", *Journal of Comparative Economics* 18.

of his fellow citizens: "I am tired of all this stuff about freedom, we need work not freedom". In East Germany where unemployment reached 30-40 per cent of the labour force, many people are having a second thought about the transition. In particular the women had good jobs, big apartments and cheap day-care. Now they have lost all these things. In Eastern Europe, while there is hardly anyone who wants the old political system back, most people feel that the new freedom given to them is not of much use. Some feel that under the old system they had the means to travel or choose an alternative lifestyle but were not allowed to. Now they are allowed to do what they want to do, but have not the means. In this respect, their actual position has not altered significantly.

In the current chaotic situation in Eastern Europe and the former Soviet Union, the lack of access to housing, work or welfare benefits is even greater in certain countries such as Latvia and Estonia, where minorities have been denied the right of citizenship and the accompanying political and economic rights. Citizenship in these countries confers complete access to the labour market and eligibility for the full range of welfare benefits. In general, we tend to focus on the political rights granted to citizens, but in the economies in transition economic rights may be more important; they determine life chances. Disturbing reports in the Russian press reveal that some Russians in the Baltic states were evicted from their flats, prohibited from owning land and other natural resources, and from purchasing housing.<sup>18</sup> Clearly, for the non-citizens of these states the transition has been catastrophic.

With hindsight it is quite clear that the transition to the market economy has been mismanaged. No one expected the transition to be smooth and without economic and human costs. However, many of the costs could have been avoided had the policy makers and their advisers paid sufficient attention to the speed and sequencing of reform measures.<sup>19</sup> In particular, it should have been obvious that the transition would put significant stress on all aspects of welfare benefits. Hence a comprehensive social safety net should have been established and funded before the transition had started. In the event, no social system to support unemployed workers and their families and pensioners, whose incomes were dramatically reduced by high or hyper-inflation, was established until the transformation process was well in progress. Even after it was established the pressing demands of macroeconomic stability conflicted with the increasing welfare needs of the majority of the

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18 Barrington L (1995) "The Domestic and International Consequences of Citizenship in the Soviet Successor States", *Europe-Asia Studies* 4.

19 Haddad L (1995) "On the Rational Sequencing of Enterprise Reform" *The Journal of Communist Studies and Transition Politics*, March.

population. Wages and social security benefits (pensions and family benefits) did not keep pace with inflation. A comparative loss of real wages between 1990 and 1993 of 40 per cent is quoted, for example, for Poland and Bulgaria.<sup>20</sup>

The most serious consequence of mismanagement of transition is rapidly increasing poverty. Even the World Bank and other supporters of the favoured strategy of transition accept that poverty has increased rapidly since 1989. It is reported that "in Poland poverty is believed to have at least doubled, it has multiplied by several times in Russia and even increased by a factor of seven in Latvia (from 5 to 35 per cent), and it has at least quadrupled in Ukraine to reach a level of about two-thirds of the population. Other poverty estimates came closer to 50 per cent for individual countries".<sup>21</sup>

Evidently, the favoured shock-therapy strategy has led to excessive sharpening of income differentials, collapse of state-financed health and educational systems, a rise in white-collar lawlessness and asset-stripping. In particular, the collapse of the health system is having disastrous consequences on ordinary people. It violated their basic right of having health care. Despite its allocative inefficiencies in delivering health care, the health system under the planned system was comprehensive and accessible to all citizens. The number of physicians per thousand often exceeded by far the equivalent numbers in OECD countries. Similarly, the number of hospital beds exceeded that of almost all OECD countries. In Latvia, for example, it was higher than in Sweden and more than double the respective number in the UK.<sup>22</sup>

The next most important loss of economic rights felt by the population of economies in transition is guaranteed employment. Unemployment in the region increased from near zero to nearly 20-30 per cent. Social protection measures for the unemployed were first introduced in 1990-1991 but the lack of finance meant such measures were far from adequate. Even when finances become available, the payment of unemployment benefits will not compensate for the loss of employment. A more active employment policy is needed: the protection of existing jobs and creation of new ones; the development of appropriate forms of vocational training geared to the needs of private enterprise; the creation of public sector jobs particularly in housing construction especially in those countries (Ukraine and Russia) where housing was seriously neglected.

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20 European Trade Union Institute *Labour Markets, Wages and Social Security in Central and Eastern Europe*, (Brussels, 1995), p 129.

21 *Ibid*, pp 129-30.

22 *Ibid*, p 14.

It is of some significance that the Czech Republic which in 1993 had the lowest rate of unemployment in Eastern Europe (3.5 per cent) adopted a range of measures including subsidies to enterprises for creating new jobs and grants for those wishing to set up in self-employment or start new enterprises. There are also projects which are in the public interest and which are organized in collaboration with the local authorities, including charitable organizations and the churches. These projects enable work to be given to the unemployed for a maximum period of six months. Subsidies also exist to encourage the recruitment of young workers with academic or vocational training qualifications. Jobs reserved for the handicapped have also been created.

However, in all economies in transition policies to reduce unemployment have not been regarded a priority. This is primarily due to the favoured strategy of shock-therapy which is focused on achieving price stability as a pre-condition for the success of the transition. Indeed, as mentioned already, such a strategy, which leads to more unemployment in the short-run and therefore increases the need for welfare payments, conflicts with having a comprehensive safety net that captures most of the people seriously affected by the transition process. In my view, a gradual strategy would have reduced the cost of transition both in terms of fall in output and employment benefits, and thus would have been more compatible with the stability objective. Certainly, the conflict between economic welfare or economic rights and macroeconomic stability would not have been as sharp as it is under the current strategy of transition.

## **Conclusion**

The full employment guarantee of the planned economy was the main element of economic rights and social protection under the previous economic and social system. It was complemented by the provision of an employment-related social security benefits system which formed the social component of wages. The system was organized by trade unions and state-owned enterprises, and included health care, housing, holidays and education. Social assistance and welfare benefits as well as unemployment benefits played no major role. Thus economic rights were integrated into the economy. Recipients of social security benefits took such benefits more or less for granted as citizens of the "socialist" state. They did not feel a loss of self-esteem. Indeed, given the relatively low wages they received they felt that they were morally entitled to such benefits.

The transition to a market economy meant that full employment was no longer guaranteed. New needs arising from rising unemployment and the rapid increase of poverty levels, due to high inflation rates following deregulation of the economy and



liberalisation of prices, had to be met by the state. But the priority given to reducing the budget deficit to restore macroeconomic stability meant the lack of sufficient funding of the social assistance schemes that were set up after the collapse of the former socialist system. Consequently, people lost their basic right of economic security. Millions became impoverished over a relatively short period of time.

Clearly, the process of transition has so far been disastrous for the great bulk of the population, especially the 45-plus age group who feel deprived of everything they had worked for. They had relied on adequate pension, medical care and subsidised housing. Now even with the newly established social safety net their welfare benefits will be reduced. They fear the remainder of their working life is not long enough to allow them to replace the expected benefits from the old system with private savings and investments. Thus a major segment of the population has been denied the most important and fundamental economic right — economic security in old age. This is clearly unjust if only because the 45-plus age group has invested heavily in the old system; they worked hard and received low wages in anticipation of job security and economic security when they retire. Further, this age group seems to have had little or no say in changing the system. That is why they have little or no support for the current system, which brought them little benefits and a great deal of suffering and uncertainty. Perhaps, the only thing they might say in its favour is that it may bring more benefits for their children, if they turn out to be ambitious.

The younger generations by contrast are doing well under the new system. They invested far less than their parents in the old system. They are acquiring new skills and capabilities to cope with the demands of the new system. They are dynamic and entrepreneurial — some would say too entrepreneurial. By and large the younger people have both economic freedom and the capabilities to exercise that freedom to accumulate wealth through hard work, savings and investment. Unfortunately, however, so far only a small percentage of the population including the younger generation has benefited from the systemic change. Moreover, the more wealth this small group of people accumulates now with little or no restriction, the less opportunity remains for others to exercise their new economic freedom. Clearly, there has to be some intervention by the state to put a limit on the accumulation of wealth by the few. Economic rights are not absolute. They have to be regulated in the interest of the wider community.

The effects of transition on the “distribution” of economic rights should have been anticipated by the authorities. It is obvious that any major systemic change will affect different people differently. Moreover, it was not hard to see who was going to gain or lose most by the change. The former socialist countries had an excellent opportunity to compensate the losers, without taxing the gainers, simply by linking

the privatisation process to the development of the new social security system. The revenue from the sales of state assets should have been funnelled mostly to the 45-plus age group and to those rendered unemployed by the systemic change. Instead, the rush to privatisation in order to speed up the transition to a market economy led to mass privatisation which amounted to free distribution of state assets to all the adult population, irrespective of whether they were young adults or old, employed or unemployed, rich or poor. Justice demands that when people lose, through no fault of their own, by a change they should be compensated. Again, an alternative and a more gradual strategy of privatisation would have resulted in greater revenue for the state to channel into pensions and unemployment schemes to target those adversely affected by the transition. This would have relieved much poverty and suffering of the great bulk of the population.

Until the economies in transition recover their full productive capacity, unemployment and poverty will continue on a massive scale. Thus social protection mechanisms have to be devised and used to keep the dire side effects of transition bearable for the population. It will take many years to prevent poverty and re-establish a minimum level of unemployment — the basic rights that the old system guaranteed, despite its enormous inefficiency and other shortcomings.

In short, with some exceptions, the governments of countries in transition have granted human rights to their citizens but deprived them of their economic rights to exercise the newly won human rights. By contrast, the former communist regimes guaranteed the rights of economic security and employment but derived their citizens of basic human rights. Whether some prefer the new system to the old system or vice versa depends on their individual preferences and relative positions in the former and new regimes. But it seems for most people, their basic positions and demands have not changed. Previously they demanded "socialism with a human face". Now their demand has changed to "transition with a human face". ●