

Economic change and social cohesion in Eastern Europe

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It is the prerogative of the author to question the premise of a predetermined title on which a paper is supposedly based. "Economic Change and Social Cohesion in Eastern Europe"¹ that is as the title sounds and thus the implied focus of this paper is deceptive for several reasons. It implies that social cohesion is a necessary prerequisite for the success of economic change. However, it is simply wrong to presume that full-scale social cohesion can and should be displayed in the face of any kind of economic change. I will attempt to present some of the reasons why this is so.

First of all, the title begs the question, what do we mean by economic change? Obviously, there are many different kinds of economic change. An adjustment in monetary policies, for example, does not require social cohesion and nationwide consensus. Such an adjustment can be carried out at the discreet will of a nation-state's government and/or central bank. Certainly, the implications of that policy adjustment must be politically explained and managed as far as its effects on social welfare and international relations are concerned. But such a case, the question of social cohesion or the lack thereof is rather immaterial.

However, if economic change implies more than policy adjustment, a transition from one social and economic system to another involving huge social dislocations, such as is the case in Eastern Europe that is an altogether different ballgame. The notion of a kind of social cohesion supporting systemic change is misplaced here as well, if only for the general desire of rational people for individual freedoms, economic and social welfare and democracy. After all, changes of such magnitude with their concomitant benefits cannot be

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¹ The topic was chosen for one of the panels of the IEEI Conference on *Democratic Transition in Southern Europe - Relevant Aspects for Current Experiences*, Lisbon, May 1992. László Láng's paper was not subsequently revised (N. Ed.).

delivered overnight; the transition from centrally planned authoritarian political and economic structure to market-oriented democratic societies will necessarily be painful and protracted. The process thus far has already shown that there are many unpleasant, at times unexpected, side-effects to contend with, a result both of decades of economic mismanagement and the fact that there is no precedent, no blueprint, this being the first attempt to carry out such a transformation.

No major structural change in world economic history has been accompanied by a sort of social unity and understanding. Structural change, by its very nature, involves social dislocation, with certain social groups being more or less privileged in relation to others. Blue- and white-collar workers, who entered industries, which are now bankrupt and obsolete, at a time when the sun was still rising, or at least the sunset was not yet imminent, cannot be blamed for disagreeing with the need to eliminate their jobs. This is even more true for social actors, who grew up and were educated under a system of central planning. They can hardly be indicted for accepting and living up to the well-known requirements which these regimes held up as prerequisites for individual existence and survival. Such people adjusted to the regime's requirements that seemed eternal and unchangeable right up to the final moments of their existence. Can they now be blamed for feeling lost and disorientated under the circumstances of an abrupt and unanticipated change of regime? "What good is this democracy, what good is this liberty, if in the old days I had no liberty but I had a job and bread and today I have liberty, but I don't have a job or bread..." However, we should not take the expression of such sentiments too much at face value.

Secondly, we have to ask what is meant by social cohesion? Did we really expect or even hope for a nationwide hallelujah for the hardships that inevitably go hand in hand with making the transition from one system to another? Or are we seeking popular acquiescence in the fact that life is as tough as it has ever been and in certain respects more difficult? The apathy and inertia, that years of so-called acquiescence under communist regimes bred and nourished in the populations of Eastern Europe, can hardly serve as a motor for responding and adapting to economic change and the new demands of market economics. Alternatively, are we referring to the notion that governments, be they communist, autocratic or democratic, will have to provide for a minimum of social welfare whatever happens? Is social cohesion indeed a general concept or is it simply a notion which is used to give clout to the new/old political elites, or some of its members, for the way "things have to be done?"

For the purposes of this paper, I will focus on the question of the minimum social support which is considered necessary, whether it is provided or not, to buy time with the populations of Eastern Europe; a demonstration by the new governments that they really do have the best interests of the people at heart, in order to sustain the momentum of systemic change, despite the social, economic and psychological hardships involved. However, this would seem to imply that there are "good", pro-change governments faced with "bad" or at least recalcitrant, incomprehending and biased societies. Indeed this unfortunate view is currently held by certain arrogant governments, or in certain government quarters of the East European theater. Their conjectures would seem to suggest, "We know better than you do what you do not even think is in your best interests"! This is the latest theme tune of the new authoritarianism emerging, or at least looming, on East European horizons. Moreover, it would be financially and psychologically an anathema for the new governments to even contemplate a social system which in any way tried to approximate the level and nature of social provision which was heralded by the former communist regimes in the name of "progress".

A recent article in the *Wall Street Journal* which highlights the problem of the social costs and consequences of economic reform in Latin America could just as easily have been written about the process of change in Eastern Europe. "Latin American governments essentially bought social peace through measures that led to hyperinflation and huge foreign borrowings; in the end those policies were unsustainable... Proponents of the current changes say the new policies may cause pain in the short term but should put the region on a sound footing to start anew. And with growth... will come greater opportunity for the region's people." In other words, we have to try to "grin and bear it".²

Inevitable disruption

The agenda for political and economic change was eloquently, even if the hindsight was somewhat naive, outlined in a Chatham House study by Judy Batt in 1989. *"In an ideal world"* she argued that what was most needed was a *"new type of leadership... with an altogether different power base - the authority from the support of a Parliament freely elected by the people... Electoral reform and resuscitation of genuine parliamentary politics not only provide the essential underpinning for reformist leadership; they also serve as an invaluable source of information on the popular mood, and as a*

² Thomas Kamm, "Shock Therapy: South Americans Find Economic Reform Has Initial Social Costs", *Wall Street Journal*, April 23, 1992, pp. 1, 10.

*means of legitimating... economic measures which may be far from universally welcomed among the wider public"; and that secondly censorship must be ended with the result of "opening up the press for airing of a much greater variety of views. This will generate confidence in published information, and... contribute to winning hearts and minds for the cause of reform"; furthermore "credible trade unions... and elected workers'" councils in enterprises must be established in order to generate confidence in the reform among the workforce"; and finally "political stability and national consensus, key conditions for the successful and consistent implementation of economic reform, will therefore depend heavily on the formation of an effective alternative governing team from among the emergent new parties and movements, a team committed to, and in close agreement on, the principles of economic reform and enjoying the majority support of the population."*³

In many respects, this widely shared "brave new world" vision has failed to materialize. The implied ideal of multiparty expert governments, relying on national consensus, has failed to materialize, albeit for the short period of the Mazowiecki government in Poland. To date, normal party structures have only evolved in Hungary, with 29 different "parties" winning seats in Poland's first free elections since the Second World War. In addition, a new "multi-partisanship" has not united behind a consensus-based, pro-reform action program. Rather, governments and political groupings are following, and understandably so, more narrowly focussed partisan objectives. The majority are probably "good democrats" and therefore, as yet, are not exploiting the inevitable dilemma between the priorities of fiscal stringency and welfare. But it is fair to ask how long will they resist such a temptation. There is everything but credible trade unions (let alone workers' councils) even in those countries where history or recent experience of labor movements has been exemplary, such as in Czechoslovakia and Poland, respectively.

Media censorship has indeed been widely lifted, but not in all countries and in some there have been attempts to reestablish government control over a media which is considered "too critical". The newfound, and likely short-lived, belief in the published word appears to be winning "hearts and minds" for the cause of populist demagoguery or longings for the petty freedoms and miserable stability of the recent past, as much as for anything else.

³ Judy Batt, "The Political Context", in J. M. C. Rollo *et al.*, *The New Eastern Europe: Western Responses*, Chatham House Papers, Pinter Publishers, London, 1990, p. 11.

The newly found power greed and intolerance of new elites notwithstanding, the current change in the post-communist world is, as Marvin Jackson argues⁴, necessarily disruptive for two main reasons:

It is technically impossible to orchestrate simultaneous change on all fronts of the inherited political, economic and social structures. Macroeconomic stabilization may run against institutional change; "marketization" may be impeded by the enhanced role of the state in creating new equilibria; dismantling the overarching role of the state may run counter to the processes of marketization and stabilization, etc. All the changes feed upon each other and so too do the delays and failures of changes in certain fields. Processes that in the long run may result in virtuous circles, may prove in the short run to be vicious ones.

It is politically impossible to raise the necessary support for the multitude of simultaneous economic and institutional changes which need to be introduced. Political stability can be undermined by economic instability and economic stabilization may be weakened and compromised by a need for consensus among the main political actors. Politics and economics clearly run against each other in Eastern Europe.

If changes are inevitably so disruptive (whether a big bang or gradualist approach is adopted), the losers are likely to lose more and the winners to gain more than would normally be the case. In this case, social polarization will be even more pronounced.

Misconceptions about East European populaces

There are two rather widespread misconceptions about the current state of mind of the East European people which I would like to explore and hopefully debunk.

The first is the belief that expectations of the new non-communist regimes were too high from the very start. Now that these expectations have failed to be realized, the social cohesion that allegedly existed in the glorious days of the revolution (and in the murky communist past) is progressively waning.

Such statements contain two fallacies. Although there was a more or less uniform rejection of communist models in all the countries of Eastern Europe, outside Russia, there was never a uniform acceptance of a single post-revolutionary socio-political model, encompassing, for the sake of generalities, multi-party parliamentarianism and economic

⁴ Marvin Jackson, "The Political Economy of Post-Revolutionary Central and Eastern Europe", in A. Clesse and R. Tokes (eds.), *The Economic and Social Imperatives of the Future Europe*, IEIE, Luxembourg, Nomos Verlag, 1992, pp. 372-373.

recovery and welfare. Secondly, expectations of an instantaneous disappearance of social and financial deprivation did not run too naively high in most of these countries. The new political forces have all come to power stressing that there will be "more tears" as they seek to remedy the economic chaos left behind by their predecessors. And populaces, for a short while, have accepted more tears. Indeed, popular dissatisfaction in the face of increased hardships has so far been displayed in a surprisingly subdued manner in all the countries of Central Europe.

South Eastern Europe, Romania in particular, and the post-Soviet republics may prove different, not because of higher expectations or better standards of living and welfare, but rather because even minimal hopes for political change and greater individual room for manoeuvre have been denied, and the people not surprisingly may feel both disappointed and deceived.

The other major misconception is that communism delivered a range of important social achievements, access to which is now being denied and hence the collapse of social cohesion in post-communist Eastern Europe. The argument that these "social achievements" (the provision of full employment, health-care, education, cheap housing etc.) were the primary reasons, besides the inherent institutional and individual flaws of communism, for the failure of these systems might be true, yet it does not hit home to the concerned populaces. Fiscal explanations rarely do. Nor do legitimate conjectures that communist regimes would have eventually been forced to cut back on "welfare" facilities even if they had lingered on for some time.

In general, the perceived social and welfare achievements of communist societies, and the concomitant social cohesion they produced, are overstated. For many years, Western specialists clung to an oversimplified view of the homogeneity of and cohesion in East European societies and the benefits of the social contract for which people were supposedly willing to sacrifice many basic freedoms. The Gdansk shipyard workers went on strike in 1980 demanding, among other things, an improvement in the working conditions of healthcare workers and an upgrading of general health-care facilities; they wanted wage indexation and better educational services. Thus, the more recent "post-communist" strikes, voicing similar demands, find their roots in 1980, at a time when the so-called "social achievements" of communism were still being fully provided. General social and health indicators in Eastern Europe also underline the inadequacies of these "achievements". The share of the workforce with secondary and higher education, prior to the 1989 revolutions, was half of the OECD average even in Czechoslovakia, Hungary and

Poland. Infant mortality per 1,000 births was double the comparable Western average, and life expectancy in Eastern Europe has been declining progressively since the mid-1970s and is now approaching the upper limits of third world standards.

Therefore, one must beware the danger of overstating past social achievements in these countries and attempting thus to explain the eclipse of a social cohesion which did not exist H only through the suppression of value differences.

Nevertheless, without throwing out the baby with the bathwater, it is true that parts of the respective populaces which are less sensitive to broader improvements in the quality of life (the freedom of the press, travel, emigration, private initiative, etc.) which have followed in the wake of systemic change, may now feel worse off. It is also true that because of the universal, though doubtful, social benefits provided by the communist regimes, East Europeans have in welfare terms a better, and in fiscal terms more costly, starting position than the transitional economies of the Iberian peninsula had in the 1970s. The access to pensions and unemployment benefits, as well as health care is much less limited, and relative to average wages it is better provided than e.g. in Portugal in the mid-1970s. In that sense, the East European economies can be considered premature "welfare states" where social benefits are higher than justified by their real economic conditions.

Who are the losers and who are the winners?

The emergence of new winners and losers is a wholly natural process. No change, however limited, can be accomplished without winners and losers. This natural process, however, is exacerbated by the fact that the possibility for non-disruptive political, economic and institutional change in Eastern Europe in the wake of the decay of communist regimes does not exist.

On the losers' side, one finds part of the former "nomenklatura". Not the whole nomenklatura to be sure, because i) the former civil service cannot and should not be replaced immediately; ii) those with some political talents have found their place in the new multi-party structure, in the parliaments, the municipalities and local governments; iii) others have been in a position to exploit their formerly privileged positions (international contacts, domestic "networks", etc.) to establish a new livelihood for themselves; and iv) still others, continuing in their competitive and opportunistic mode, have joined the ranks of the private sector. Consequently, the nomenklatura losers are mostly the competitive,

low- and medium-ranking apparatchiks who have indeed lost their previous institutional leverage and have proved unable to readjust without that leverage.

The losers are also the older generations, pensioners, one-parent families and the unskilled members of the workforce, that is, those social strata who were not particularly privileged by the old regimes either, yet took advantage of the social and institutional services the latter provided: employment for the unskilled and uncompetitive, egalitarian wages, subsidized food, utilities and housing loans, and child-care benefits, etc., however inadequate these may have been.

The semi-skilled blue- and white-collar workers of large state industries, especially those in their 40s and early 50s also find themselves on the losing side. As the market outlets for their output have disappeared, their jobs are no longer justified and the subsidies, which previously kept such non-viable state enterprises alive, have largely been removed. Few of these workers possess transferable skills, or an openness to retraining and education. Many of them have flocked into individual entrepreneurship, but rather unsuccessfully owing to their lack of knowledge of the rules of the game in private business. These people used to form the "middle classes" of "socialism" and now they are inevitably being downgraded to the lower strata of society or to downright "lumpenization".

On the other side of the fence, the range of winners includes a very narrow stratum of outspoken dissidents to the former regimes and a broader stratum of silent "dissidents" with a relatively unblemished past, who have now more or less reclaimed their "proper" place in the new hierarchies of the post-communist society and economy. This is a very diverse group of people ranging from those who were actually victimized by the previous regimes on political or ideological grounds to the petty careerists who joined the dissident ranks in 1988-1990 when any real danger of discrimination from such a move no longer existed.

The former elite of the second and third economies of communist regimes also find themselves on the winning side. They not only accumulated sufficient capital in between the cracks of the central planning system, which is ripe for investment now that the doors to private ownership have been opened, but also they acquired skills and attitudes which are now very much in demand. Of course, the money they are circulating is dirty money, but what else other than "dirty money" could be accumulated in the old times?

The highly skilled blue- and white-collar workers with a capacity to adjust also rank among the winners. Those with language capabilities can now travel abroad freely, take temporary

jobs in the West, accept employment and research offers, etc. which in the past they had to refuse or else accept emigration in return for these positions. They can also find employment with relative ease in the new private business sector, foreign or domestic. These people find themselves in a privileged position on account of their skills, rather than on the basis of a differing scale of merit, which operated in former times.

It cannot be emphasized enough that the eclipse of "communism" is a net, long-term gain to literally everybody in and outside the former communist world. However, as economics suggests, long-term gains are (and have to be) discounted against the present. And unfortunately, the discounted value of the future is low for most of the East European populaces. The more disadvantaged they are the less discounted future gains matter.

What are the implications?

Definitely not that "post-past" coalitions are bound to emerge in any of the countries of Eastern Europe. Irrespective of current and continuing hardships, it is an implausible proposition that society as a whole would tolerate such a return. A return to the past is not possible, not only because of the changed regional and international environment, but also because the political and social elites of the past (communist or whatever) have been dispersed on the winning and losing sides of the current changes. New elites are being/have been formed according to different criteria from those of the past. Why would these dispersed characters suddenly reunite in a kind of coalition, given the process of differentiation which has taken place?

Nor is the implication that the social dislocations will lastingly interrupt or halt the process of economic change. Not because economic change is inevitable or otherwise (this is a different issue altogether), but because the winners of the current and very disruptive changes will increasingly be in a position to influence the political processes in these countries. The winners will determine the outcomes, not the losers. The biggest losers, the most disadvantaged elements of society, have never been renowned for fermenting revolutions.

Beyond the basic fact of a lack of social cohesion, in order to turn the clocks back or at the very least to put a halt to the processes of change, the populaces in these countries must be politically active (in order to be in a position to organize, spread the word, offer alternatives, however vague). They are not.

The already remarkably low turnout rates in the first post-communist elections are likely to drop to as low as 30%. In Poland's first free elections in October 1991, only 42.5% of the eligible populace turned out to vote. In Hungary, the count has been even lower.

For the moment, this passivity is a good thing. If people were politically more active, the lack of social cohesion would be potentially more dangerous. Given the suppression of democratic expression under the former communist societies, people have little experience in organizing and finding suitable channels and outlets for their discontent. The fledgling structures of civil society are still in the early stages of development. Besides, sheer apathy seems to be the name of the game, rather than some form of revolutionary anger and zeal. Moreover, years of authoritarian government taught the people of Eastern Europe that rather than overt political action, it was more expedient to keep a low profile, to go unnoticed and to find loopholes within the existing system, be it crime or tax evasion. People prided themselves on what they could get away with. It was a noble cause.

This passivity, however, not only handicaps long-term transition but also tends to breed national populism in most of Eastern Europe. This is a dangerous but doomed phenomenon, largely because the number of people in Poland, Hungary or Czechoslovakia who can be moved by a kind of populist demagoguery is, if not decreasing, definitely stagnating. In Poland, Tyminski's voters are not taking to the streets every two days calling for his return. In Slovakia, fewer and fewer people are turning out in support of Meciar's demonstrations and in Hungary, the Small-Holders' Party recently managed to bring a mere ten thousand people onto the streets instead of the anticipated two hundred thousand.

However, none of the above suggests that the lack of social cohesion during a period of profound economic change is without consequence. Even if the worst forms of populism and ethnic nationalism will not be widespread in Central Europe, and probably not in Bulgaria, Ukraine and the Baltics either, though there the chances are greater, legitimate political forces and governments will always be tempted to play populist, third-way, Eastward sounding tunes.

Eastern Europe is not faced with the danger of some sort of Hitler, a post-Versailles, Weimar Germany, but rather with the prospect of apparently "decent", conservative, post-communist, social-democratic or even liberal political forces resorting to some kind of nationalistic, xenophobic, anti-modernization movements as a means of engendering support and preserving their own power positions. So, the West's job is not to watch out

for the potentially dangerous undercurrents of these societies, but rather to guard against the ruling elites, parties and governments.

The countries of Eastern Europe are experiencing a much delayed and long overdue form of regional capital accumulation. This process has always and everywhere caused huge social dislocation, with the emergence of a new societal stratification (entrepreneurs, workers etc.); and it is certainly not a "fair" process, as it necessarily involves a different distribution of society's "goods" and "ills". Nonetheless, it is still an unavoidable historical processes.

This also implies that talk about creating a "social market economy", frequently voiced in Hungary and sometimes in Czechoslovakia, is either nonsense, pure naivety and self-deception or nothing more than a palliative-phrase for the sake of the people. None of the countries and governments in the region have the money or tools to implement such a system (whatever they may mean by it and I'm not convinced they themselves know). Moreover, at this stage in the transformation of these countries, it would even be mistaken.

Above all, in these countries, domestic savings need to be channelled into investment. If there is a lack of local private investment in the region, then the whole notion of a foreign investment-based recovery will be stunted. Apart from several large deals negotiated directly with governments, foreign investors are very interested in whether the local people trust their country and economy enough to invest in it themselves. In the long run, nobody will invest if the local people don't.

From a social point of view, the advocacy of a "social market economy" with extensive provision of social networks, benefits and subsidies again threatens to dilute and discourage the urgently needed domestic investment. People won't feel the necessity to invest in the future of their own countries. At the end of the day, a basic form of crude force is needed to make people invest.

However pessimistic it may seem, there is little that can make a real difference to this cumbersome and traumatic process. At the most, i) sufficient incentives for governments and individuals to "behave themselves": what you will have in the short run - politically, economically, socially - if you behave; ii) punishments: what will happen if you don't. There are times when the West, the United States, the European Community or the Atlantic Community can hold out - you can do what you like but there are the consequences; and finally and probably most important, iii) role models: political role models for Eastern

Europe provided by the West are probably much more important than is realized. Foreign aid can only be useful in the immediate or very long run.

In conclusion, the picture though not doomed is certainly rather gloomy. Given the inherent contradictions between economic change and social cohesion, change in Eastern Europe will be much more protracted than the optimists would predict. The issue is neither a question of a return to the past nor the past perfect (i. e. pre-communist times). Rather, the whole process of economic change will be one of muddling through, even with the best domestic efforts, the most competent governments and the most generous offers of Western assistance that we can have or even dream of.