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Economic Reform, Social Policy and Political Poverty in Post-Soviet Countries

Introduction

Inherent in the radical societal transformation from socialism to capitalism are difficulties associated with the rearrangement and creation of markets and the institutions that govern them: unemployment appears and grows, citizens, particularly those from disadvantaged groups, disassociate themselves from politics, and poorly-funded welfare institutions are slow to address their demands, if they address them at all. For the social scientist, post-Soviet states represent a social engineering laboratory from which to assess the causes and consequences of radical societal transformations.

The purpose of this paper is to link strategies for economic, social and political reform to economic, social and political outcomes in post-Soviet states. I contend that the mode of reforms and the degree to which reforms are implemented strongly influences (a) the extent of economic inequality (what I refer to as “state-sponsored economic inequality”), (b) the form and magnitude of political inequality (what I refer to as “political poverty”) and (c) the efficiency or, rather inefficiency, of social policy to address the welfare needs of its most disadvantaged citizens.

Economic, social and political reforms are strongly interconnected: we cannot completely divorce the ideology of economic reform from the dominant political ideology, and both ideologies influence forms of social policies. Economic, social and political consequences are also strongly interconnected: with severe economic inequality, the number of citizens who turn away from politics rises, and consequently the under-funded social welfare institutions become deaf to the voices of the disadvantaged. Misery grows and social crises loom.

Forms of Reform

Economic, political and social reforms in the countries of the former Soviet Union were accompanied with major institutional transformation designed to re-create mechanisms of market economy and democratic legal statehood. The basic directions and stages of transitions in economic, social, and political development in Post-Soviet countries are:

- In the economy the transition period was characterized by decomposition of uniform economic space of the former Soviet Union and SEV, led to infringement trading and financial communications and communications between the labor markets.
- In the social and economic institutional sphere transition is carried out from institutional centralized planning systems to market based institutions.
- In the political sphere transitions are from a centralized political system to a more decentralized and democratic form of government.

For the post-Soviet countries the two major transformation strategies were “shock therapy” and “evolutionary stages”. Shock therapy is defined as the simultaneous and sharp reform designed to weaken the position of the states (“shock therapy”). “Evolutionary stages refers to a slowed and gradual stage-by-stage transition with preservation of state control. Shock therapy was the strategy of many states -- Ukraine, Kazakhstan, Russia, Kyrgyzstan -- and included the accelerated liquidation of old administrative structures and the forced creation of market institutions in economic and the social spheres. At the same time, the strategy of Belarus, Uzbekistan, Turkmenistan, and Tajikistan was evolutionary transformations, in a greater degree retaining state regulation of the economic and social spheres.

The major factors defining social transformation is the degree of state intervention in the economy and the social policy strategy employed by the state. The sometimes rather considerable property privatization in post socialist states influenced social development.

Degree matters: scales of economic privatization and social policy differed by country, as an analysis of dynamics of increase in share of private sector in economy shows (fig. 1).

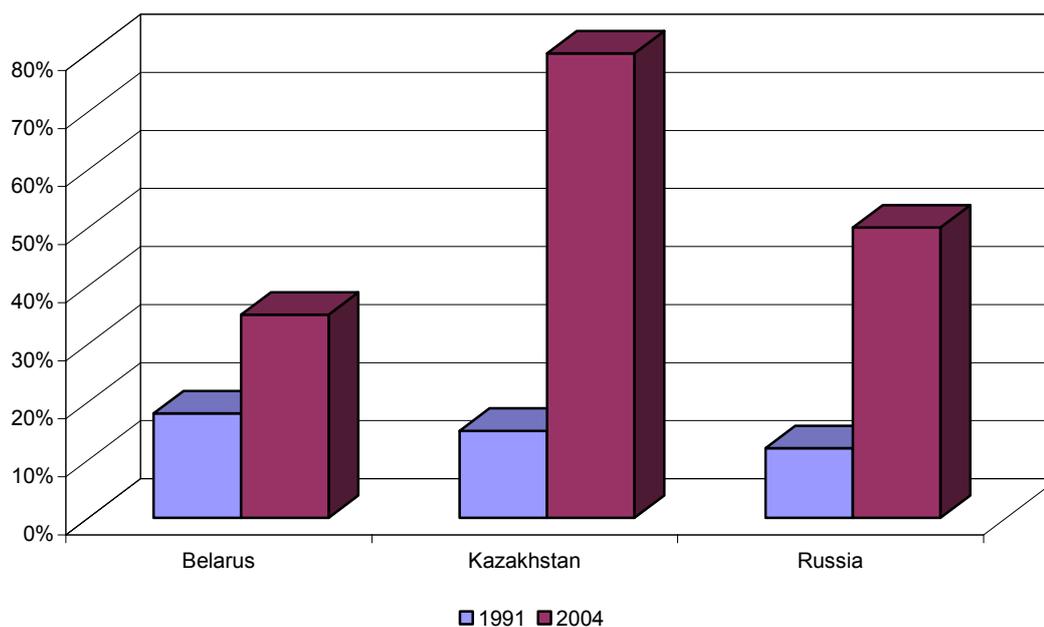


Fig. 1. Dynamics of increase in a share of a private sector (in % to total of the enterprises), 1991-2004

Distinction between “shock- therapy” and the evolutionary approach concerns the character of relations between the state and the market, and the degrees of admissibility of global influences on policy of transformations. Choice of means of reforms distinguishes regulation mechanisms of transformation processes in each state (Russia, Kazakhstan and Belarus).

Supporters of shock therapy – e.g. Russia and Kazakhstan -- postulate a contradiction between state responsibilities to its citizenry, on the one hand, and on the other hand, its limited ability to adequately address their demands. Shock therapists favor radical economic liberalization as the preferred way to create the necessary conditions for investments, capital accumulation and economic growth. They oppose heavy state regulation of the economic market. “Shock- therapy” radically reorients the balance of power and society in favor of an increase in the share of the private sector. Yet, this strategy is fraught with underestimation of the ability of the market to effectively regulate effective and fair social institutions that adhere to basic standards of an efficient market economy. An attempt to create a market economy without the basic social and economic institutions results in a sharp decrease in quality of life for most of the population.

The evolutionary way of development – e.g. Belarus and Uzbekistan -- creates conditions for a slow, steady character of economic growth which gives time and additional possibilities for correction of adverse situations. At the same time, the evolutionary way generates social problems connected with a slowed down formation of market infrastructure and complicates the transition from extensive to intensive economy of market type. Belarus preserves the state-oriented approach as manifested in state ownership of resources, planned regulation of manufacturing, distribution of resources and incomes, and state paternalism and autarchy. In the literature it is noticed¹ that transition theories must account for the fact that, while there are similarities across states, each new independent state uniquely experiences market reforms.

The general orientation of economic reforms in the Post-Soviet countries is guided by a capitalist model built with almost no theory on how radical economic transitions should be conducted. Absence of a developed theory of transition resulted in inconsistent economic

¹ Islamov B.A. The Central Asian states ten years after: How to overcome the traps of development, transformation and globalization. – Tokyo, 2001.

reforms. The economic crisis which the Post-Soviet states have all faced was not cyclic, but rather contained a structural character caused by transition contradictions.

State-Sponsored Economic Inequality

A distinctive feature of the present stage of development of all Post-Soviet societies is growth of economic poverty, defined here as the situation in which citizens lack a socially comprehensible standard of well-being because of low wages or delays with its payment. Poverty of the economically active is a common feature of post-Soviet transition societies and is one of the sharpest social problems in Russia, Belarus and Kazakhstan. That the able-bodied among the population cannot get a job with a decent wage, and thus cannot secure their own well-being is both a cause and a symptom of poverty. As a result, a considerable part of the population lives below the poverty line, even the working poor.

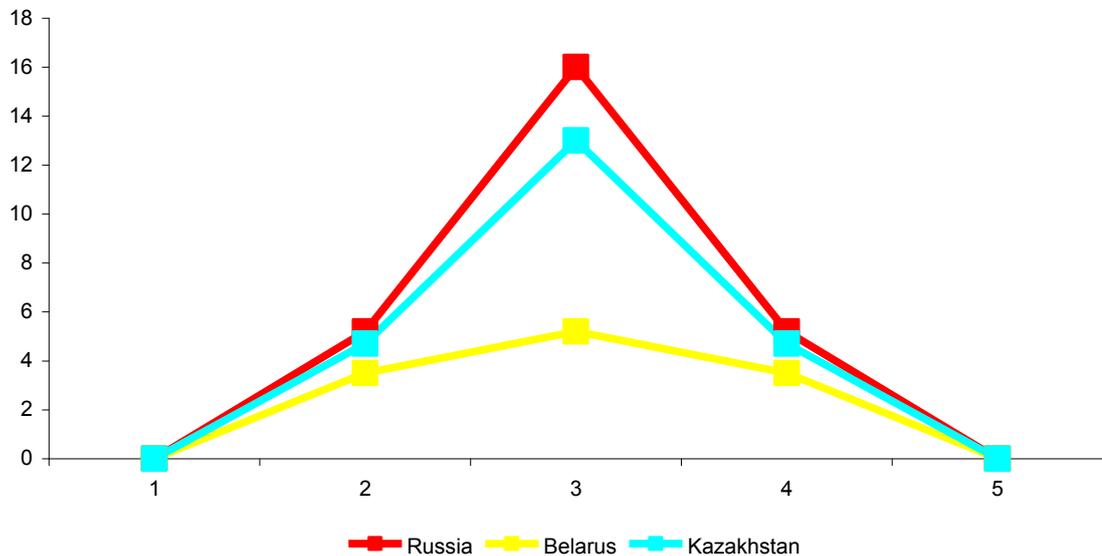
Among other consequence of "shock therapy" reforms was the reintroduction of extreme economic inequality. The modern situation both in Russia and in Kazakhstan can be characterized as stratification situation on "very rich" and "very poor". In Russia and Kazakhstan for first half rupture in incomes of the poorest and the richest has increased with 4,5 till 14-16 time, but even these indicators of the state statistics consider the majority of independent researchers underestimated. Last years the Gini coefficient in Russia, Kyrgyzstan and Kazakhstan is in limits 0,512-0,514. In the developed countries the Gini coefficient on the average it is equal 0,25-0,35.

A major consequence of economic growth in Russia and, in particular, the strategy Russia employed to generate growth, is social inequality. Russia is a two-layer society. One layer representing its top, superficial part, and another - reflecting its real inwardness. The first layer - rich Russia, concerns it approximately 15 % of the population. These people receive 57 % of monetary incomes, 92 % of incomes of the property and 85 % of all savings stored in banks own. The second layer - poor Russia. These are 85 % of the population of the country which receives only 8 % of incomes of the property and 15 % of all savings have. This extreme economic inequality generates shows signs of a social crisis.

In the countries which have chosen evolutionary way of development, processes of social polarisation of society aren't so appreciable. In Belarus having the lowest share of private sector in gross national product among the post-socialist countries, the Gini coefficient hasn't changed almost since 1992 and, according to the report of the Viennese institute of the international researches, made in 2001 0,34, (that much more low, than was at that point in time in Russia - 0,52), and factor of differentiation of monetary incomes of the population - 6,1, and on manufacture of total internal product Belarus in 2003 has exceeded level of pre-crisis 1990 on 4 %

Russia, Kazakhstan and Belarus represent opposite trends in economic inequality. In Russia and Kazakhstan, is the rising height of the economic pyramid, that is, increases in economic inequality, owing to difference in monetary incomes of various social groups. In Belarus the tendency is the reduction of this height (in the course of alignment of monetary incomes of different social groups of the population) (fig. 2).

Comparison of heights of an economic pyramid in Russia, Belarus and Kazakhstan (on factor of differentiation of average money incomes of the population)



For post-Soviet states, the opposite processes of state-sponsored economic polarization and forced economic equality threatens them all with social collapse. The excessive pulling of this pyramid, i.e. increase in social distance between poles of social strata, leads to social disorganization and social shocks. Excessive flattening of this pyramid also can have negative social consequences as equalising in incomes and wealth blocks innovative economic development and institutional environments. Although the economy grew, most people did not prosper.

Political Poverty

In the post-Soviet states there is massive "political poverty:" the discharge of citizens from effective participation in democratic process and their acceding of societal control -- the most important political and economic decisions -- to a narrow circle of ruling elite². In developed market economies, much regulation of social inequality resides in civil society, i.e. the socially-focused policy of the state and non-governmental organizations (NGOs) address the interests of various public groups. However in the Post-Soviet countries formation of civil society occurs in the conditions of severe shortage of trust in both state institutions and civil society organizations. Mass poverty fatally influences the political and civil activity of everyday people and separates citizens from public sphere.

As a result in public life two various tendencies of sociopolitical development are generated: 1) authoritarianism (in long-term prospect of the country with high level of inequality gravitate to authoritarianism); 2) a stable "pendular" inconsistent course external and the state internal policy, caused by absence of wide social base of the power, antagonism of elite. A combination of economic inequality and political poverty forms the fertile social soil from which populist authoritarianism and extremism takes root, and grows.

Inefficient Social Policy

² Bohman J. Public Deliberation. Pluralism, Complexity and Democracy. – Cambridge, Massachusetts, 1996. – P. 125.

This situation compels the Post-Soviet states to constantly develop new ways to protect itself, and, to an extent, its citizens, from the social costs of transformation. Thus, another major factor guiding system transformation of Post-Soviet societies is state policy strategy in the social sphere.

An essential feature of Post-Soviet social policy is the search for how to manage changed conditions. State paternalism -- a total, redistributive social policy -- was the leading tendency, which stands in stark contrast to the to shock therapy's completely liberalized, individualized social policy. In social policy of all reformed states there was transition from paternalism to subsidiarism, characterized by gradual refusal of simple one-dimensional decisions in favour of multidimensional approaches to decision-making.

In Kazakhstan social policy was toward liberalization of the political system as a whole, and liberally-conservative models became its theoretical base. The social security system in Kazakhstan Republic privatized at the first stage of reform in 1992-1993; since then the state substantially removed itself from social responsibility, and shifted the burden of social welfare to citizens. This response was both a backlash against socialist-era social policy and a consequence of shock therapy. Kazakhstan initially carried out the strategy to which Russia now attempts.

An intermediate model -- Belarus, partly Russia -- is characterised by state attempts to retain elements of state paternalism in social policy. The Russian model of social policy borrowed from the Soviet-era, at one time aspired to social protection, including mass unemployment, of almost all of the population. Social policy in this case originally focused mainly on rising costs of social expenses in the total expenses of the state; efforts to increase efficiency of social programs failed.

Inefficiency – i.e., substantial growth in the number of privileges and growing excess of social obligations of the state -- go hand-in-hand with state-paternalistic policies. For example, in Russia by the end of 90 years, the share of the population having social guarantees, privileges and the payments established by law, has made 70 %; on share of households with the average income below living wage 25 % of total sum of privileges realised by all households and grants while the others of 75 % were a share households with the average income above living wage were necessary only. This inefficiency led to a transition from state paternalism to the subsidiarian social policy model. In Russia taxes have been lowered and reform on monetization of social benefits is carried out. The principle of rights to social help as the basis of social welfare reforms is only for those households in which actual consumption is below a living wage.

In comparison with Russia and Kazakhstan, Belarus represents another model of social reform, of which there are three characteristics:

(1) Centralized state planning.

(2) two-sector, mixed state and private economy Privatization in Belarus didn't become end in itself as it was in Russia, and is considered as means of attracting strategic investors and production efficiency increase.

- Thirdly, economic paternalism. The help of the state to the enterprises is various: granting of privileges on customs and tax payments, tariffs for power resources; re-structuring of debts against the budget; it is right independently orders means of innovative funds etc.

- Fourthly, social paternalism of the state.

Belarus' evolutionary model of development has variety of advantages: economic growth; almost full employment of the economically active population; and one of the lowest indicators of social polarization. Belarus' choice in favor of the socially-focused market economy also generates a number of problems, including the problem of balance of costs with social and economic policy. While this policy provides positive economic improvement of the most disadvantaged segments of the population and reduces extreme economic divisions it comes at the expense of differential increase of wages and redistribution of incomes. High percentage of people engaged in low wage of work places most Belarussians at the bottom of the social ladder, and consequently, facilitates backwardness of the consumer market.

Carrying out of economic policy without essential changes creates real threats to social and economic development of the country evident in the increase in number of unprofitable

enterprises, growth of non-payments, decrease in volumes of investments, and the over-all falling of economic competitiveness. It is obvious that economic reform should be consistently and systematically directed toward liberalization, privatization, and the removal of barriers in enterprise activity.

Conclusions and Discussion

In this paper I argued that the form and magnitude of economic, political and social reform influences the forms and magnitudes of economic, political and social outcomes. I compared and contrasted two major reform types implemented in post-Soviet states: Shock therapy, represented by Russia and Kazakhstan, and evolutionary stages, represented by Belarus and Uzbekistan.

Shock therapy and evolutionary stages represent two different ideologies for rearranging and creating markets and institutions. Yet, thus far both have led to the interconnected issues of economic problems, political poverty and inefficient social policy. Shock therapy led to a sharp increase in both economic growth and economic inequality and evolutionary stages led to economic stagnation and lower levels of economic inequality: both led to an overly large percentage of the population who are poor and have few prospects for improving their economic situation. Because economic inequality influences political inequality, both shock therapy and evolutionary stages led to mass political poverty. Political poverty also influences the form and magnitude of efficiency in social policy. In both shock therapy and evolutionary stages, social welfare institutions are poorly-funded and often fail to address the needs of the disadvantaged. With little political voice, the large mass of the disadvantaged are not adequately heard by both governmental and non-governmental organizations.

Even though both shock therapy and evolutionary stages lead to similar general outcome of misery and social crisis, their different emphases on market solutions to economic, political and social issues represent different ways out. Shock therapy is overly-reliant on economic and political markets to solve social problems; the private sphere has no economic interest in reducing economic inequality and the government's reliance on civil society has yet to show any real sign of producing either political equality or social welfare institutions that are adequate to the task. Evolutionary stages' over-reliance on the state to solve social problems has led to an economy that cannot produce enough of taxes to fund the government's generous social welfare programs. A moderate approach, combining the best elements of shock therapy and evolutionary stages, may be the key to a better future: privatization can stimulate the economy and fund social welfare programs. At the same time, the state can redistribute economic resources in favor of a greater social balance, better meeting the needs of the disadvantaged.

A key factor in all of this is the degree of political poverty: too many citizens separated from the means of political power means that too many citizens' needs are not being met. In order to reduce political poverty, both the government and the citizens must work to reduce the distances between them. Governments must allow greater influence of citizens and their political organizations to have an adequate voice in government decisions, and citizens must exercise their rights to participate. In shock therapy, the government abdicates their responsibilities for creating these necessary democratic conditions, placing the responsibility on self-governing, laissez-faire economic and political markets. Evolutionary stages, while not relying on economic and political markets, can easily lead to widespread apathy.

Country-specific conditions also play a crucial role in the link between reforms and economic, social and political outcomes. Public opinion research conducted in Russia, Kazakhstan and Belarus in 2007 reveals the subjective perception of social problems and highlights cross-national differentiation in the consequences of reform ideology, particularly in the indicators of life satisfaction, perception of health, financial position, social optimism, and relationship to authorities¹. On the one hand is Kazakhstan (Belarus is similar) where positive moods prevail; on the other hand is Russia where many life satisfaction is low and people expect negative consequences as a result of the changes. Overall, Russians are negative about the state of affairs in their country. For example, almost a third of respondents in Belarus and Kazakhstan report that the economic and social situation as positive, as compared to 5 percent of Russians who feel this way. More than 50 % interrogated during inspections in Russia mark

presence of social intensity in society, at that time when in Belarus only 9 % of respondents have answered in the affirmative on this question. In Kazakhstan opinions were divided (31 % interrogated more likely agree with presence of social intensity in society and 28 % - don't agree) more likely.

ⁱ Empirical researches on which basis work is written, have been spent to 2007 by a uniform technique of mass interrogation ((questionnaire) poll; representative sample; N=4200). Research was spent in Kazakhstan (Atyrausky area, the South Kazakhstan area, the North Kazakhstan area), in Belarus (the Minsk area, the Grodno area), to Russia (the Novosibirsk region, the Kemerovo region). Survey was conducted by The Institute of Philosophy and Law of Siberian Branch of Russian Academy of Science; The Institute of Philosophy and Political Science of the Ministry of Education and Science of the Republic of Kazakhstan; The Sociology Institute of National Academy of Sciences of Belarus.