CHAPTER 4

INEQUALITY, POVERTY AND CONFLICT IN TRANSITION ECONOMIES

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1. INTRODUCTION

This chapter is not about the success of transition, a process which has profoundly transformed many societies behind the Iron Curtain in the short time-span since the late 1980s and early 1990s. Instead it focuses on how transition has influenced income distribution and social differentiation. Indeed, increased inequality, poverty and conflict have clearly been inter-linked phenomena in the transition processes that took place in Eastern Europe. The economic, social and political transformation of the countries of Central and Eastern Europe (CEE), the Baltic states and the Commonwealth of Independent States (CIS) was unprecedented in scale. Moreover, this complex process led to highly differentiated outcomes. Eight of the formerly socialist countries will soon graduate to the European Union; but transition has also caused widespread human suffering in many countries and regions. Strong economic contraction in most of the transition countries during the first half of the 1990s left millions of people without jobs or sufficient income during a period of galloping inflation which eroded real wages and pensions.

After economic recovery resumed in the mid-1990s, growth was accompanied by increasing inequality and marginalisation of large sections of the population. This affected not only traditionally vulnerable groups, such as the elderly and children, but also created a new class of “working poor”. Armed conflicts, mostly fought under ethnic banners, caused millions of internally displaced persons, refugees and hundreds of thousands of deaths and wounded, alongside the enormous destruction of infrastructure and losses of human capital. It is no surprise that internally displaced persons and refugees are amongst the poorest of society. Furthermore, in contrast to the urbanised transition countries in Central Europe, Ukraine and the western parts of the Russian Federation, much of South-eastern Europe (SEE) and the southern states
of the former Soviet Union are still largely rural with an accompanying higher relative risk of poverty.

While the more successful cases of transition, China and Vietnam, are rapidly reducing their absolute and relative poverty rates, in some parts of Eastern Europe, poverty, rural poverty in particular, was still increasing towards the end of the 1990s. A new periphery seems to be emerging, formed by SEE, including parts of the former Balkans and some of the heirs of former Yugoslavia. This is comparable to the periphery of the former Soviet Union formed by the states of the Caucasus and Central Asia and including some of the conflict-ridden Russian republics (such as Dagestan, North Ossetia and Chechnya) and the Republic of Moldova. With few exceptions, these countries have large (often majority) rural populations, and poverty is mostly more acute in the rural areas.

The poor countries of the CIS are Armenia, Azerbaijan, Georgia, Kyrgyzstan, Moldova, Tajikistan and Uzbekistan. These were recently grouped in the so-called “CIS-7” initiative of the World Bank and IMF which aims to resolve their development problems of high human insecurity and poverty. A similar grouping could be formed in SEE followed possibly by similar special attention and assistance. This chapter makes a plea to set up such a SEE-7 initiative, which would include Albania, Bosnia and Herzegovina, Bulgaria, Kosovo, FYR of Macedonia, Romania and Serbia and Montenegro. Though this grouping is justified by comparable levels of (under)development, there are nonetheless some significant differences.

First, Bulgaria and Romania are in a special position. Earmarked to enter the European Union in 2007 they currently benefit from a whole spectrum of pre-accession investment funds (ISPA) and strong incentives to change their institutional framework in line with the EU acquis communitaire. Second, in the heir states of former Yugoslavia, such as Bosnia and Herzegovina, Serbia and Montenegro and the FYR of Macedonia, there is still a high level of human insecurity caused by the most destructive and massive conflict that Europe has seen since World War II. Third, one member of the proposed SEE-7, Kosovo, is not an independent country; it is actually governed by a UN-led administration and is still an integral part of Serbia and Montenegro.

Differences are large in the CIS-7 as well. Uzbekistan has been reluctant to implement large-scale market reforms, but has done remarkably well in avoiding the contraction that characterised the rest of the CIS. Tajikistan is slowly recovering from a devastating civil war, but remains extremely poor, with Moldova a close second. Other states, such as Armenia, Azerbaijan and Georgia, still have enormous problems resulting from armed conflicts.

This chapter emphasises the dangers of developing (one or more) peripheries at Europe’s borders, pointing amongst others to a growing gap between these seven CIS states and Europe and the rest of the CIS. Emergence of such new peripheries will mean continued human suffering, social unrest and resumption of conflicts. The current CIS-7 and the proposed SEE-7 initiatives should lead to economic growth that reduces inter- and intrastate inequality and thus help to avert further marginalisation of large parts of the populations of the respective countries. The current tendency in transition countries, in particular under influence of the (post) Washington Consensus,