

Cambridge University Press

978-0-521-49365-9 - From the Soviet Bloc to the European Union: The Economic and Social Transformation of Central and Eastern Europe since 1973

Ivan T. Berend

Frontmatter

[More information](#)

From the Soviet Bloc to the European Union

The Soviet Union's dramatic collapse in 1991 was a pivotal moment in the complex history of Central and Eastern Europe, and Ivan Berend here offers a magisterial new account of the dramatic transformation that culminated in ten former Soviet bloc countries joining the European Union. Taking the OPEC oil crisis of 1973 as his starting point, he charts the gradual unraveling of state socialism in Central and Eastern Europe, its ultimate collapse in the revolutions of 1989, and the economic restructuring and lasting changes in income, employment, welfare, education, and social structure which followed. He pays particular attention to the crucial role of the European Union as well as the social and economic hurdles that continue to face former Soviet bloc nations as they try to catch up with their Western neighbors. This will be essential reading for scholars and students of European and economic history, European politics, and economics.

IVAN T. BEREND is Distinguished Professor of History at the University of California, Los Angeles.

Cambridge University Press

978-0-521-49365-9 - From the Soviet Bloc to the European Union: The Economic and Social Transformation of Central and Eastern Europe since 1973

Ivan T. Berend

Frontmatter

[More information](#)

From the Soviet Bloc to the European Union

*The Economic and Social Transformation of
Central and Eastern Europe since 1973*

IVAN T. BEREND



CAMBRIDGE
UNIVERSITY PRESS

Cambridge University Press

978-0-521-49365-9 - From the Soviet Bloc to the European Union: The Economic and Social Transformation of Central and Eastern Europe since 1973

Ivan T. Berend

Frontmatter

[More information](#)

CAMBRIDGE UNIVERSITY PRESS

Cambridge, New York, Melbourne, Madrid, Cape Town, Singapore, São Paulo, Delhi

Cambridge University Press

The Edinburgh Building, Cambridge CB2 8RU, UK

Published in the United States of America by Cambridge University Press, New York

www.cambridge.org

Information on this title: www.cambridge.org/9780521493659

© Ivan T. Berend 2009

This publication is in copyright. Subject to statutory exception and to the provisions of relevant collective licensing agreements, no reproduction of any part may take place without the written permission of Cambridge University Press.

First published 2009

Printed in the United Kingdom at the University Press, Cambridge

A catalogue record for this publication is available from the British Library

Library of Congress Cataloguing in Publication data

Berend, Ivan T. (Tibor Ivan), 1930–

From the Soviet bloc to the European Union : the economic and social transformation of Central and Eastern Europe since 1973 / Ivan T. Berend.

p. cm.

Includes bibliographical references and index.

ISBN 978-0-521-49365-9 (hardback)

1. Europe, Eastern – Economic conditions – 1989– 2. European Union – Europe, Eastern. 3. Europe, Eastern – Economic conditions – 1945–1989. I. Title.

HC244.B3882 2009

330.943 – dc22 2008039995

ISBN 978-0-521-49365-9 hardback

ISBN 978-0-521-72950-5 paperback

Cambridge University Press has no responsibility for the persistence or accuracy of URLs for external or third-party internet websites referred to in this publication and does not guarantee that any content on such websites is, or will remain, accurate or appropriate.

Contents

<i>List of figures</i>	<i>page</i> vii
<i>List of tables</i>	ix
<i>List of boxes</i>	xi
<i>Preface</i>	xiii
Introduction	1
1 The economic factors in the collapse of state socialism and the new international environment, 1973–1989	6
Economic crisis, slowdown, and technological transformation in the West and lack of adjustment and decline in the East after 1973	7
The absence of opportunities for technology transfer	27
The new international environment: end of the Cold War and the “new world order”	38
The “Washington consensus”	42
2 Radical transformation and policy mistakes: dramatic economic decline in the early 1990s	50
Deregulation and macroeconomic stabilization	50
Marketization	53
Privatization	57
Policy mistakes and decline	65
3 Toward better times: the European Union and its policy of eastward enlargement	79
The European Union’s interest in enlargement and integration	81
The <i>acquis communautaire</i> and membership in the Union	88

The European Union's impact on the transformation of future candidate countries	102
The European Union of twenty-seven countries	105
4 Recuperation and growth: the role of foreign direct investment	107
Capital inflow and foreign direct investment	108
Complementary specialization within the international production network	124
5 Economic restructuring: transforming main sectors, economic recovery, growth, and weaknesses	134
Restructuring the economy: infrastructure and services, the most dynamic sectors	134
Agriculture	144
Industrial restructuring	153
Restructured foreign trade	164
Economic recovery and growth	168
Economic weaknesses	173
6 Transformation and social shock	177
Longing for Western life and starting to adopt it	177
The social pain of transformation	182
Societies in shock	195
7 Lasting changes in the structure of income, employment, welfare institutions, education, and settlement	205
Living standards, unemployment, and poverty	205
A withering welfare state	213
Changing demographic trends	221
Educational changes	226
Structural changes in society	231
Settlement structure: unchanged urbanization level, but changing cities	246
8 Epilogue: the future of catching up in the European "melting pot"	255
<i>Bibliography</i>	267
<i>Index</i>	288

Figures

1.1	Consumption of electricity, 1990 (based on Mitchell, 1998)	<i>page 24</i>
1.2	Telephone lines/100 inhabitants, 1980 (Ehrlich and Révész, 1991: 83)	24
1.3	GDP growth rates compared, 1950–1973 and 1973–1992 (Maddison, 2001: 186)	35
1.4	GDP growth rates between 1973 and 1990 (based on Maddison, 1995a; 2001)	36
1.5	Regional disparities, GDP/capita 1989 (based on Maddison, 2001)	36
2.1	The private sector in Central and Eastern Europe, 2004 (Jeffries, 2004: 166, 208, 245; EBRD, 2003: 16)	65
2.2	Transformational decline in five countries, 1989–1993 (based on Mitchell, 1998)	75
2.3	Hungarian agricultural decline, 1989–1992 (EBRD, 1996)	76
2.4	Inflation rates in Central and Eastern Europe, 1989–1995 (EBRD, 2000)	76
2.5	GDP/capita, nadir, early 1990s (Maddison, 1995a; 2001)	77
3.1	The EU’s financial assistance to Central and Eastern Europe, 2000–2006 (based on European Commission, 1999)	99
4.1	Total foreign direct investment in the former Soviet bloc countries, 1989–2004 (EBRD, 2005b: 19)	115
5.1	Employment in the service sector, 2005 (Economist, 2005b)	139
5.2	Total energy consumption/capita, 2004 (Economist, 2005b)	140
5.3	Agricultural employment, 1980s and 2004/05 (Economist, various years)	145
5.4	Deindustrialization, 1990–2004 (Economist, 2005b)	154
5.5	Increased role of foreign trade in Central Europe (four countries), 1990–2005 (Economist, 2005b: 34)	166

5.6	Reorientation of Central and Eastern Europe’s trade, 1989–2005 (Economist, 2005b)	167
5.7	GDP/capita, 1989–2002 (EBRD, 2003: 56)	170
5.8	The role of small and medium-sized companies (up to 100 workers), 2004 (Dyker, 2004: 308–09)	175
6.1	Poverty (population with less than 35–45 percent of average wages), 1989 and 1995 (UNICEF, 1994: 2; Milanovic, 1996)	189
7.1	Real wages, 2003 (1989 = 100) (United Nations, 2004: 167; Van Kempen, Vermeulen, and Baan, 2005: 45, 67)	209
7.2	Poverty (\$4.30/day), 2001	211
7.3	Ratio of people to hospital beds, 1993–2003	216
7.4	Social protection expenditures, 2003 (in €) (Eurostat, 2005a)	219
7.5	Births outside marriage, 2004 (Eurostat, 2005a; Maddison 1995a; 2001)	223
7.6	Decline in fertility, 1900–2004 (Rallu and Blum, 1991)	225
7.7	Enrollment in universities, 2004 (Van Kempen, Vermeulen, and Baan, 2005: 82, 134, 159, 193)	229
7.8	Occupational structure, 1975–2000 (based on Maddison, 1995a; 2001; United Nations, 2002)	234
7.9	Deurbanization: number of urban inhabitants, 1989–2004	247
8.1	Central and Eastern Europe’s economic backwardness in historical perspective, 1820–1989 (Maddison, 1995a: 228)	256
8.2	Annual growth rates, 1993–2003 (based on Maddison, 1995a)	259
8.3	Comparative economic growth, 2005 (Economist, 2005a)	260

Tables

Table 1.1	The spread of the telephone in Europe (in thousands)	<i>page</i> 15
Table 1.2	Per capita GDP of Central and East Europe as a percentage of Western European GDP	34
Table 1.3	Comparative GDP growth rates/capita	35
Table 1.4	The growth of GDP/capita compared (1973 = 100)	36
Table 1.5	Regional disparity, GDP/capita (regions as a percentage of the West), 1950–1998	37
Table 2.1	Industrial output and animal stock in 1993 as a percentage of 1989	74
Table 2.2	Decline of GDP/capita in transforming countries in the early 1990s	77
Table 3.1	Budget commitments of the European Union 2000–2006, in billion €, 1999 prices	99
Table 4.1	Cumulative inflow of FDI	116
Table 5.1	The service sector in the Central and East European economy, 2005	138
Table 5.2	Total energy consumption/capita in 2004	141
Table 5.3	The role of agriculture in the economy in 2005	145
Table 5.4	Industry’s role in the economy in 2004	154
Table 5.5	Labor productivity, 1990–2007	164
Table 5.6	Gross industrial output, 2003	165
Table 5.7	EU-25’s and Germany’s role in Central and East European foreign trade in 2004	167
Table 5.8	GDP growth, percentage change from previous year, 1994–2007	169
Table 5.9	GDP growth rates between 1993 and 2003	170
Table 6.1	Decline in consumption in ten transition countries, 1989–1994/95	188
Table 7.1	Unemployment (as a percentage of civil labor force), 1995–2007	208

Cambridge University Press
978-0-521-49365-9 - From the Soviet Bloc to the European Union: The Economic and Social
Transformation of Central and Eastern Europe since 1973
Ivan T. Berend
Frontmatter
[More information](#)



LIST OF TABLES

Table 7.2	Fertility rate: children per woman	224
Table 7.3	Occupational structure as a percentage of economically active population	234
Table 8.1	Central and Eastern Europe’s (nine countries) GDP/capita as a percentage of Western Europe (twenty-three countries) and the overseas West (four countries)	256
Table 8.2	GDP/capita in PPP ECU	262

Boxes

Box 2.1	The Gdańsk Shipyard – the most Polish factory	<i>page 69</i>
Box 3.1	The Albanian “pyramid scheme civil war”	80
Box 4.1	The European Bank of Reconstruction and Development	111
Box 4.2	Central and Eastern Europe: Volkswagen land	125
Box 5.1	A forgotten country: Moldova	150
Box 5.2	The largest minority in Central and Eastern Europe: the Roma	155
Box 6.1	How to become a billionaire in ten years: two rich men in Hungary	182
Box 6.2	The richest Poles: Jan Kulczyk and Zygmund Solorz-Zak	184
Box 6.3	Homeless people flood Budapest after 1990	191
Box 7.1	Kings knock at Balkan doors	237
Box 7.2	Communists reinventing themselves as nationalists? The case of Slovakia	241
Box 7.3	Changing the skyline: a new type of urban architecture	250

Cambridge University Press

978-0-521-49365-9 - From the Soviet Bloc to the European Union: The Economic and Social Transformation of Central and Eastern Europe since 1973

Ivan T. Berend

Frontmatter

[More information](#)

Preface

Between 1990 and 2003, I worked on and published an informal trilogy on the complex history of Central and Eastern Europe during the nineteenth and twentieth centuries (I. Berend, 1996; 1998; 2003). Now I am going to present a volume on the exciting economic and social history of postcommunist transformation of these countries that led to their joining the European Union. The beginning of the story, however, goes back to 1973, the year when a gradually emerging, long-lasting, and fatal crisis became manifest, signaled a turning point, and undermined the state socialist regime, leading to its collapse in 1989. Without understanding that period and its main problems, one cannot understand the post-1989 transformation process and its difficulties.

Some readers might be familiar with my 1996 Cambridge University Press book, *Central and Eastern Europe 1944–1993: Detour from the Periphery to the Periphery*. The last two decades I discussed in that earlier book will be covered again in this volume. This reexamination is necessary because of the quarry of information I mined during the past decade and a half, the huge reservoir of new statistical and scholarly research, including my research on the most striking and controversial new development of the world economy, globalization (I. Berend, 2008).

The historical perspective on developments after the collapse of state socialism is equally important. It facilitates deeper research and a clearer historical picture of that period. Last but not least, the post-1973 Central and East European trends in this book are compared to the Western economic trends: the drying up of its special sources and the halt of postwar exceptional prosperity. The West, however, embarked on a new road and responded positively to the challenge of globalization. This comparison contributes to a better understanding. This work, consequently, presents a novel approach to the history of the last decades of the twentieth century and a more complex view than the one that I wrote more than a decade ago.

Cambridge University Press

978-0-521-49365-9 - From the Soviet Bloc to the European Union: The Economic and Social Transformation of Central and Eastern Europe since 1973

Ivan T. Berend

Frontmatter

[More information](#)

The sudden historical transformation of Central and Eastern Europe inspired a large amount of research and publications. Many of the works discussed either certain periods of that history, or certain countries, and even more often some elements of the complex story such as the process of privatization, the role of foreign investments, rising poverty, elite change, etc. The new feature of this volume is its complexity, covering the entire region of seventeen countries and the combined economic and social process of an uncharted historical road. Furthermore, I have put the region's transformation into the framework of Europe and of its East–West relations.

This history is yet unfinished. Writing about the unfinished present is like shooting at a moving target. Besides, contemporary history also poses another difficulty. Paradoxically enough this is the overwhelming richness of information. Millions of facts, figures, pieces of information, and highly diverse, contradictory, and controversial evaluations make the picture confusing and sometimes result in a lack of transparency. The puzzle here is how to put these millions of pieces together or, using another metaphor, how to build the mosaic picture, in which small pieces are positioned in such a way that they depict the complexity of the real world. It is a real challenge.

I feel, however, some special encouragement and advantage. The rise of state socialism, its crisis, the 1956 Hungarian Revolution, the attempt at reform, its partial success, strong limitations, deep crisis and final failure, the feeling of the *must* of change and the longing to join Europe were all part of my personal life. Furthermore, between 1973 and 1993, I was a minor actor in the story I am going to write about. I participated in the reform process, and in the late 1980s chaired a committee of economists and worked out the first transformation, marketization, and privatization plan for Hungary. I was a member of an international advisory committee on transformation for three more years, and in the years I was working on this book I have been member of a European Union-initiated internal advisory Economic and Social Council of Hungary.

Does it mean that I can write this history *wie es eigentlich gewesen*, as it really happened – as Leopold von Ranke defined the goal of history writing? Most contemporary historians harbor doubts about this possibility in general, and speak about serious limitations of cognizance and cognizability. Presenting the transformation's decade-and-a-half-long complex economic and social history, the emerging new order in *statu nascendi* may, however, help a better understanding of the present and also the future of the region. That is the goal of this work. My interpretation, my

Cambridge University Press

978-0-521-49365-9 - From the Soviet Bloc to the European Union: The Economic and Social Transformation of Central and Eastern Europe since 1973

Ivan T. Berend

Frontmatter

[More information](#)

PREFACE

XV

view on the events, may – I hope – contribute to a collective effort to discover the truth.

Every study is the result of a collective effort. I am grateful to all of my fellow economic historians, statisticians, and sociologists who published inspiring works over the past decade and a half on various aspects of the Central and East European transformation. Without their results I would have not been able to cope with the immense task of writing this complex and comparative history of economic and social changes.

As always in the past eighteen years, I received inspiration and assistance from the University of California Los Angeles, my working home, which helped my research with its intellectual atmosphere, frequent debates, and conferences. Teaching also gave major inspiration and a permanent incentive for further research. Last but not least I should like to mention the outstanding collection of UCLA's Young Research Library and the research grants of the Academic Senate that helped my work tremendously.

This book gained its final form with the contribution of my friend, David Summers, who made a superb job of copyediting the typescript. I am also highly grateful for the anonymous reviewers and the professional staff of Cambridge University Press for their essential advice and careful preparation of the publication.

My heartiest thanks go to Kati, my wife, whose love, friendship, and intellectual contribution have had an indescribable role in accomplishing this book.