

# Human Poverty in Transition Economies: Regional Overview for HDR 1997

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## Introduction

Since 1989 the countries of Eastern Europe and the former Soviet Union have suffered severe setbacks in human development and rises in human poverty - to an extent unprecedented in industrial countries during peace time. Crude death rates increased, and life expectancy, particularly for men, declined by as much as 5 years in Russia. Unemployment and income poverty sharply increased while real wages fell and income inequalities increased. Personal security declined due to the weakening of law enforcement, military conflicts and the proliferation of crime.

The systemic change also brought important gains in terms of human rights and political and economic freedom. It opened political choices, started a consumer revolution and stimulated entrepreneurship. The paper focuses, however, on the negative impact of the transition process which seriously limits, and not, as expected, enlarges people's choices. It aims at presenting the magnitude of poverty during the transition process in a context of pre-1989 trends. The paper argues that poverty in transition countries also has non-income dimensions, and that the reversal of adverse trends in income and non-income poverty is urgently needed. Anti-poverty policies should be part of a new strategy for transition building on a concept of human development.

The paper has four sections. The first section presents the successes and failures of socialism in eradicating human poverty. The second and third sections look into the changes in human poverty during the transition process. The last section discusses the prospects for poverty eradication.

The term transition economies refers to former socialist economies of Eastern Europe and the Soviet Union. It includes the following sub-groups: Eastern Europe (Czech Republic, Hungary, Poland, Slovakia, Slovenia), the Balkans (Albania, Bulgaria and Romania), the Baltic States (Estonia, Latvia and Lithuania), the CIS (Commonwealth of Independent States) which includes Russia, Ukraine, Belarus, Moldova, Azerbaijan, Armenia, Georgia, Kazakhstan, Kyrgyzstan, Uzbekistan, Tajikistan and Turkmenistan,

and the successor states of the former Socialist Federal Republic of Yugoslavia (Bosnia and Herzegovina, Croatia, Slovenia, Macedonia and FR Yugoslavia).

## **Poverty under socialism**

This section presents poverty trends under socialism. Estimates of income poverty draw on pre-1989 national estimates of poverty in Atkinson and Micklewright (1992) and Sipos (1992), and on the comparative study on poverty trends in Central and Eastern Europe by Milanovic (1991). Reference is also made to national studies for Hungary, Ferge (1991), Szalai (1992) and Poland (Golinowska 1995).

## **Poverty concept and research**

Historically, the ideology of socialism grew as a reaction to the human misery of the 'satanic mills' of capitalism. Socialist states claimed a commitment to the eradication of poverty within a framework of a just and equal society with high levels of social security. The latter was based on three pillars: full employment, consumer subsidies and a universal system of entitlement including free access to social services (health and education) and cash benefits which compensated for relatively low and flat wages. State enterprises played a key role in this system as life-time employers and providers of housing, child care, education and training, medical services, as well as offering leisure facilities at low prices or free of charge.

Officially, poverty was not recognized as a problem (and the word 'poverty' was not used in many countries until the late 1980s). Communist ideologues argued that the system provided good chances for a decent life to everyone. With free schooling, steady jobs with attached benefits and family allowances, and adequate pensions, there should be no poor people under socialism except for personal misfortune (such as serious disability or accident). From such a perspective, poverty was associated with pathological behaviour and "individual failure" due to lack of effort or as an explicit anti-social attitude (Szalai 1992). The poor - often identified with vagrants and "social enemies"<sup>2</sup> -- received little sympathy from authorities. <sup>3</sup>

But the claim that socialism eradicated poverty oversimplified the situation and many countries, including the Soviet Union, recognized the existence of social problems including households with low incomes ("Khruchev" minimum budgets). Hungary, Poland and Czechoslovakia and some other countries developed poverty research and measures to assess the living standards of the population-- "subsistence" and "social" minima (Annex: National poverty measures).

The concept of poverty in socialist research differed from that in market economies (Barr 1994; McAuley 1996). Social minima were designed to capture "underprovision" of households (a proxy word for "poverty") as compared to desired consumption patterns. The level of social minima was thus relatively high. These concerns were typical of poverty research in the former Soviet Union which focused on a "socially acceptable

living standard" based on an ideal diet and a set of living conditions that it was hoped all members of the former Soviet Union would attain (Mroz and Popkin 1995).

The results of socialist research on poverty remained largely confidential, and had little impact on anti-poverty policies which were shaped by ideology. Social assistance was underdeveloped and social workers were few. The only regular antipoverty programmes involved social and disability pensions. During the last two decades of socialism many countries used minimum wage policies to support people on low incomes. The poor did not have clearly defined rights to claim social assistance. Aid allocations were limited, occasional and handed, as Ferge (1991) suggests, only to "the deserving poor". Social assistance programmes were managed, at least in Central European countries, at a local level, usually through trade unions and municipalities.

### **Early success: more incomes, better health and education**

During the 1950s, 1960s and in some countries up to the mid-1970s, socialism was successful in reducing income poverty and improving people's health and education. Rapid industrialization created jobs and accelerated the upward mobility of large social groups: rural poor, unskilled workers and the jobless, opening up for them new choices and opportunities. Higher incomes allowed for a greater food-intake and a better diet. Housing and sanitation were upgraded and health coverage was expanded, lowering deaths and illnesses due to infectious diseases. Wide access to education dramatically improved literacy rates.

During 1950-1960 illiteracy dropped to low single digits, infant mortality was reduced by half (from 81 to 41 per thousand live births ) and life expectancy increased by 8 years for men and almost 10 years for women (Figures 1 and 2). Income poverty declined substantially in all countries in the region. In Hungary, the share of the population living at or near subsistence (or the social minimum) declined from the estimated 60 per cent in the early 1950s to 25 per cent by 1967 and then to 14% by 1972 (Ferge quoted by Sipos 1992; p. 43).

Political freedom was severely restricted however, and poverty was not completely eradicated. But income poverty, illiteracy, high deaths rates among children and adults -- common in all countries during the pre-war period - were gradually disappearing from the region. The early successes of socialism were linked with substantive investment in social infrastructure and broad distribution of gains from industrialization. "Catching up" effects due to low levels of pre-war development and heavy losses during the WWII also played a role.

### **The 1970' and 1980's : stagnation and lack of progress**

However in all countries during the 1970's and 1980's these positive trends stagnated or were even reversed - whether in terms of income poverty, life expectancy or health. Shortages of consumer goods, including food and housing and of public services such as medical care, became a source of severe deprivation. At the same time a lack of concern

for the environment during the period of accelerated industrialization started to take its toll.

### **Health deterioration and a shorter life- span for men**

By the late 1960s, health trends had deteriorated particularly for middle-aged men. Between 1965 and 1985 men's deaths in the USRR and Czechoslovakia rose by 42-44 per cent, in Poland and Bulgaria by 56 and 67%, and in Hungary (for men 45-49 years old) by 118%. Male life expectancy fell by one year with larger drops for Hungary (2.5 years) and the USSR (3 years). Health trends for women changed less but the improvement in life expectancy was sluggish (Figure 1 and 2).

The health trends in the region diverged from global trends. The gap in life expectancy between the countries of Eastern Europe and South-Western Europe (Greece, Italy, Portugal and Spain) - which had already closed around 1965 -- opened again. During the late 1980s the region also lost its relative advantage vis-a-vis the advanced Latin American countries (Costa Rica, Chile and Uruguay). Negative health trends in the region had stabilized, however, by the late 1980s and life expectancy started to rise again after 1985 (1987 for the USSR).

The main cause behind the rise of male mortality was the increased incidence of heart diseases and many of the premature deaths can be explained by an unhealthy diet and lifestyle--low intake of quality meat, fresh vegetables and fruits, a high consumption of cholesterol-rich food, heavy smoking and excessive consumption of alcohol. In the USSR, deaths due to alcohol poisoning quadrupled between the mid-1960s and 1978 (increasing from 12,500 to 51,000). In 1978 the total number of alcohol-related deaths (both directly and indirectly), was estimated at around 400,000 (i.e. almost a third of total deaths) (UNICEF 1994, p 26-29).

### **Environmental degradation**

Accelerated industrialization, urbanization and intensive farming had environmental costs. Chemical pesticides and fertilizers along with industrial waste and sewage polluted the region's air, water and soil - a result of the lack of effective water treatment facilities in most urban areas and of anti-pollution equipment in industry. At the end of the 1980s, pollution levels were much higher than elsewhere in the industrialized world.

By the end of 1980 some 17% of the territory of the former Soviet Union was officially declared to be in ecological crisis due to high levels of environmental pollution. The Chernobyl area in Ukraine and the Aral Sea in Uzbekistan are extreme cases of environmental damage. The Chernobyl accident in April 1986 affected more than 4 million people in Ukraine, Belarus and Russia, over a total area of 25,00 square kilometers. The health impact on adults and particularly on children is now well documented - including premature deaths, damage to the immune system, chronic pathologies and accelerated ageing. The human costs of this tragedy also include a loss of

assets, particularly land, as well as psychological trauma related both to reallocation and to anxiety about future health (Ukraine: NHDR 1995 and 1996).

In Uzbekistan, irrigation systems, built during the early days of socialism, fed by rivers that flow to the Aral, deprived the sea of large amounts of water. In addition the intensive agriculture and cotton industries developed in the Aral region polluted waters with fertilizers and industrial waste. Since 1960 about 3,400 square kilometers of sea have dried up and fishing villages are now some 40 kilometers away from the coastline. People in fishing villages lost their jobs and suffer from ill health (Transition, Nov-Dec.1995).

People in Eastern Europe also lived in a contaminated environment. The area called the "Black Triangle", located at the boundary of Czechoslovakia, Poland and East Germany, which has a concentration of heavy industry is regarded as the most polluted area in the world. The former Czechoslovakia has consistently had the world's highest toxic emissions per capita. Studies confirm a higher risk of respiratory diseases, allergies, retarded intellectual development and anemia among children in this region.

The degradation of the environment in former socialist countries affected the sustainability of human development. The Chernobyl accident in particular raised awareness of the risks from nuclear power plants using Soviet-made reactors and from radioactive waste from military activity.

### **The rise of urban poverty in Eastern and Central Europe**

In Eastern and Central Europe during the last two decades of socialism the incidence of income poverty increased substantially - in Poland rising from less than 10% to 23% of the population, and in Yugoslavia from 17% to 25%. In Czechoslovakia it stabilized at 7.5% and in Hungary at 10-17% (based on national income minima: Atkinson and Micklewright 1992; p.236).

The greatest increases were in the urban areas. Between 1978 and 1987, the poverty rates for Polish urban workers increased fourfold, from 6% to 25%, and for Yugoslavian urban workers they more than doubled, rising from 9% to 20%. In these two countries, the position of urban workers -- mostly white and blue collar workers in the socialized sector -- deteriorated as compared to farmers and pensioners. In the 1970s poverty among urban workers in Poland was less than one-half of that of farmers and in Yugoslavia less than one-quarter. These advantages disappeared in 1987 (Milanovic 1991; p.146). Scarce data suggest that in Romania too non-agricultural households were more likely to fall into poverty than farming households (Sipos 1992).

The risk of child poverty increased despite universal child and family support systems. During the 1980s even in Czechoslovakia - where total poverty rates were the lowest in the region - child poverty was a concern (Cornia and Sipos 1991).

### **Rural poverty, low pensions and income inequalities in the Soviet Union.**

The lack of an official poverty line prior to 1988 prevents an assessment of longer term trends. But there is no doubt that in the early decades of socialism people lived in miserable conditions, during the 1930s in Ukraine, for example, there was a massive famine. A number of people also lived on low incomes during the 1960s and 1970s (Matthews 1972; McAuley 1979). McAuley (1996) suggests that the incidence of poverty as measured by various poverty lines increased during 1980-1989.

The first official poverty assessment for the Soviet Union is based on the 1988 Goscomstat subsistence minimum (81 or 88 rubles depending on the prices used). According to this poverty line 40 million people - about 14% of the Soviet population - lived in poverty in 1989. The Goscomstat minimum (1988) was used in many studies (often adjusted downwards or upwards). Mroz and Popkin (1995), for example, use a 100 rubles cutoff line which results in a 16% poverty rate (1989).

Two features are typical of poverty in the Soviet Union during the pre-transition period. First, the difficult situation of the elderly --particularly in rural areas-- due to the low level of pensions. At the end of the 1980s over 90 per cent of the pensions of collective farm workers were concentrated in the two lowest brackets (up to 60 and up to 80 rubles) while only half of pensions of workers were at that level (Atkinson and Micklewright p. 238). Second, relatively high income inequalities. According to Atkinson and Micklewright (p.103), income inequality among Soviet households was not only the highest among socialist countries but was also comparable to (or even slightly higher than) income inequality in the UK. High income inequality was suggested also by Bergson (1984).

High income inequality in the Soviet Union was largely explained by variations in income distribution between republics. The incidence of low income was uncommon in the north (the Baltics) but more frequent when moving south. By the end of the 1980s over half of the low- income population in the Soviet Union lived in five Central Asian republics: Kazakhstan, Kyrgyzstan, Turkmenistan, Tajikistan and Uzbekistan. Uzbekistan had the largest population with incomes below 75 roubles --over 27% of total population. In Russia the share of people on low income was only 3.2%. Overall, Russia, with half the population of the USSR, had slightly less than a quarter of all people living at the lowest income (Atkinson and Micklewright p. 240-241).

Data on low income, however, should be interpreted with caution. Low income data do not take account of differences between the republics in household size, price levels, incomes from private plots and consumption patterns. Mountain shepherds in Uzbekistan --one of the poorest groups in the Soviet Union as measured by low income data -- also had access to extra earnings from private sales of meat. And their consumption patterns differed from those in urban centers. It is a rare Uzbek, who, as Lubin points out (Lubin 1984: p. 198-199), "dreams of trips to Paris, or even to Eastern Europe..., rarely would he or she wish to buy washing machines, or Soviet household amenities". Uzbek shepherds, Lubin argues, were very poor only by Western standards and " [w]ithin the framework of indigenous lifestyle, quite the opposite could well be the case".

## **Individual failure versus systemic failure**

Poverty under socialism had systemic, and not individual causes as believed by ideologues. The command economy could not generate enough resources for a steady improvement in material standards of the population and maintenance of social provisions. Economic failure of the system was due to the lack of mechanisms to stimulate technological innovations, labour productivity and entrepreneurship. Inefficient allocation of resources resulted in chronic shortages of housing, consumer goods (including non-basic food) and deteriorating access to social infrastructure (Kornai's shortage economy). Resource transfers from abroad, used during the 1970s to protect living standards, had dried up during the 1980s due to the large external deficits of most socialist countries .

The education and health sectors suffered from shortages of funding, bad management and resource allocation. During the 1980's medical services deteriorated in terms of both access and quality. The shortages of modern equipment, drugs and specialized medical staff hampered the ability to respond to 'new' diseases typical of societies where people live longer -- including cardiovascular, chronic and degenerative diseases. The long waiting lists for hospital places or for seeing a specialist encouraged payments to doctors. Overcrowded facilities were not modernized and lacked basic supplies (antiseptics, syringes, drugs) and medical equipment. The condition of health facilities was particularly bad in the Soviet Union. In 1988, one fourth of maternity hospitals had no hot water and 10% had no heating, 24% of hospitals had no sewage and 15% had no proper water supplies, 70% of children's hospitals lacked equipment to deal with emergency situations (Fenshback and Friendly 1992).

Late socialism was also characterized by widespread disillusion with socialist ideology. Political participation of workers in the decision making process was only a slogan and personal freedom was severely restricted. Channels of upward mobility became narrow and success often depended on political loyalty. In the 1980s access to social benefits narrowed. Access to housing and most consumer goods including food such as quality meat required bribes or privileges. Frustration was common. The Solidarity movement, born in Poland at the beginning of the 1980s to demand political participation and improvements in living conditions, helped voice similar concerns in other countries.

## **Summary and conclusions**

Despite official claims, socialism did not create the conditions for sustainable human development. It massively repressed political freedom. Significant progress during the 1950s and 1960s in education, health, income and consumption, was followed by stagnation or even reversal. By the end of the 1980s many noticeably lived below national poverty lines - in Poland, Yugoslavia, Romania, and the former Soviet Union particularly in the central Asian republics.

People's choices became substantially restricted due to political exclusion, shortages of consumer goods and low incomes, narrowing access to social services and degradation of the natural environment. Political concerns, rigidity of command system and communication problems did not allow for reforms within the system. Transition to market democracy had widespread social support in all countries. However, the results were far below the expectations.

## **Income poverty during transition**

Since the beginning of the transition process income poverty increased in all countries in the region. Impoverishment of people reflected economic crisis - a steep fall in output, massive unemployment, a fall in real wages and a rise in income inequalities. This section presents trends in income poverty since 1989.

### **Data sources and problems**

Internationally comparable data in this section are from Milanovic (1996) and UNICEF (1995). These two sets of poverty estimates are based on Household Budget Surveys (HBS) adjusted by macro - data (whenever they were higher than income from HBS) but differ in country coverage and methodology, including poverty line. Milanovic estimates are based on a poverty line of \$ 4 a day 1990 purchasing power parities (PPPs) and UNICEF (1995) on a poverty line equal to 60% of low income (low income was defined as 35-60% of the 1989 average wage). Other data used in this section include estimates for Luxembourg Income Study for Czech Republic, Hungary, Poland and Slovakia (A. Szulc 1996; Boyle Torrey et al 1996) which use both absolute (corrected social minimum) and relative poverty line (percentage of median income). Occasional reference is made to national poverty estimates.

Presented data should be treated only as indicative. All poverty estimates for transition economies, and particularly for the CIS, are subject to major statistical difficulties. The size of the "shadow economy"<sup>4</sup>, new design of HBS, weakness of national income statistics, rapid changes of prices (and thus purchasing power parities-PPPs), wages and incomes distort the results. In many countries, for example, HBS include now larger representation of high-risk groups (the unemployed, minorities, large families) which pushes upwards poverty rates. Underreporting of incomes has similar effects. Poverty rates based on expenditures (disclosed more openly than incomes) are lower than those based on incomes by a few percentage points in six transition countries (out of seven) for which such data were available (Milanovic 1996 p.100). Also the use of 1993 PPPs (instead of 1990 PPPs) modifies estimates for individual countries --by as much as 16-18 percentage points downwards for Bulgaria and Lithuania and 10-12 percentage points upwards for most central Asian republics. Overall, the use of 1993 PPPs increases the percentage of the population living below the poverty line of \$ 4 a day in transition countries from 32 % to 40% (Milanovic 1997 forthcoming).

Poverty estimates based on \$ 4 a day also reflect the problems of using the same poverty line for countries with different levels of development. Such a line could be too

low for the richer countries of central Europe (underestimation of poverty rates) and too high for many CIS countries (overestimation of poverty rates) (Zukowski 1995). It also has to be pointed out that few or no data exist for the former Yugoslavia and the Caucasus countries which are among those worst affected by poverty.

### **A steep increase in poverty**

All estimates show a steep increase of income poverty between 1988 and 1994. According to \$4 a day poverty line (1990 PPPs) the total number of poor people rose more than tenfold-- from 14 million to over 119 million raising the percentage of population living below the poverty line from 4 % to 32% (table 1). By \$ 1 a day --a World Bank poverty line for developing countries--the increase of poverty in transition countries was sixfold but poverty rates were low. Between 1987 and 1993 the poverty rate for the region increased from 0.6% to 3.5% of the total population (World Bank, 1996 p.4).

UNICEF estimates show a similar trend (table 2). Between 1989 and 1994 an additional 75 million people in the region fell into poverty (excluding the Central Asian Republics and Kazakhstan as well as former Yugoslavia, except for Slovenia). According to UNICEF estimates, about 8% of the Central European population and 35% of the population in the rest of the region, is poor. Some 110 million people live on low incomes and are at risk of falling into poverty.

As compared to the pre-1989 period geographical distribution of poverty has changed. Most poor people in the region now live in Russia and the Slavic countries of CIS (as compared to central Asia). In Eastern and Central Europe most poor live in the Balkans and in Poland Figure 3.

### **An uneven pattern of poverty increase**

The rise of in poverty was uneven by country. Five groups of countries with broadly similar trends and poverty levels can be identified: (i) Central Europe; (ii) the Balkans and Poland; (iii) the Baltics and Slavic republics of the CIS and (iv) the Central Asian republics of the CIS, (v) Caucasus countries (Azerbaijan, Armenia and Georgia).

- **Central Europe** (the Czech Republic, Hungary, Slovakia and Slovenia) where pre-1989 levels of poverty were low and the increase was modest. The poverty incidence rose from around 0% to less than 2% (Milanovic) and less than 6% (UNICEF).

Impoverishment of people in these countries, however, is demonstrated by UNICEF estimates of population with low income, which increased substantially, except for Slovenia.

- **Poland and the Balkans** (Bulgaria, Romania) where pre-1989 poverty was noticeable and the increase significant reaching double digits. Included in this group is Poland, the only country of Central Europe with high poverty rates.

- **The Baltics and Slavic republics of the CIS** (Lithuania, Latvia, Estonia and Russia, Ukraine, Belarus and Moldova). This group of countries experienced a sharp increase in

poverty to around 40% from low pre-1989 levels. Poverty increase differed by country-- rising to 23% in Belarus and Latvia, to 40%-46% in Estonia, Ukraine and Russia and 65% in Moldova. UNICEF data show a similar pattern of poverty increase for the Baltics and Moldova.

- **The Central Asian republics of the CIS** (Kazakhstan, Uzbekistan, Kyrgyzstan, Turkmenistan and Tajikistan). Here pre-1989 poverty was significant --in double digits, except for Kazakhstan--and the increase during the transition process was very steep, resulting in poverty rates above 50% of the total population and as high as 76% in Kyrgyzstan. In Tajikistan, according to national estimates, 80%-90% of the population was below the poverty line in 1993 (NHDR :Tajikistan 1996).

- **The Caucasus countries (Azerbaijan, Armenia, Georgia)**. All these countries have very high poverty rates and suffer from effects of military conflicts and collapse of civil society. Poverty estimates based on \$ 4 a day are not available for these countries. According to UNICEF around 65% of population in Azerbaijan live below the poverty line. But recent national estimates show that than 90% of people in Azerbaijan are below minimum consumption (Azerbaijan: NHDR 1996 p.25).<sup>5</sup> In Georgia, wages in the state sector (\$3-5 a month) are far below estimated costs of minimum subsistence (\$ 31 a month for an active adult) (UNDP 1996 p. 73).

### **Why did income poverty increase?**

Sudden impoverishment of population is explained by a drastic fall in real wages and an increase in income inequalities. Initially, poverty was driven by the fall of GDP, real wages and incomes. After the steep rise in 1990-1992, poverty rates stabilized in most countries or fluctuated within a narrow range (except for the Czech Republic and Estonia where they declined). In the second phase of reform (around 1993) poverty increases began to be driven by the income inequalities. The latter was led by many factors including liberalization, privatization and wage dispersion. The increase in wage inequalities was largely explained by the fast growth in earnings of skilled white-collar workers (Rutkowski 1996).

The extent of the fall of GDP, real wages and incomes differed among countries. It was generally much larger in the CIS countries and in the Baltics than in Eastern Europe. While in the Czech Republic, Hungary or Poland the GDP declined at most by 25% as compared to 1989 (except for the former Yugoslavia), in the CIS countries and in the Baltics the decline of GDP was on average close to 50%. Similar differences are also seen in levels of decline of personal incomes and wages. Minimum wage is now below 35% of average wage in 11 countries (out of 16), and is as low as 9% in Azerbaijan, Belarus and Russia (table 3 and 4).

The increase in inequality, though seen in all countries, was particularly striking in Bulgaria, the Baltic States, Russia and some CIS countries where GINI coefficients rose from 25 or less to 35-40 and above-- to about 50 in Kyrgyzstan (1993). In 1993 the top quintile of people in Russia received 20 percentage points more of total income than the top quintile did in 1988 -- mainly because of an explosive increase in the relative share of the very rich (World Bank 1996 p. 69).

Falling incomes have caused changes in household expenditure. The 'food share' now accounts for 60% or more of expenditures in Romania, Belarus, Moldova, Ukraine. And over 70% in Albania, Armenia, Azerbaijan and Georgia. Even in a few countries where 'food share' declined the 'basic needs share' in household expenditures increased. Consumption of meat, fish and related products declined by half in Estonia and Ukraine. In the Caucasus countries meat consumption declined from 40-50 kilograms to 10-17 kilograms per capita between 1989 and 1995 (table 5).

### **The losers: the "working poor", the unemployed and children**

Income poverty is mainly associated with low pay, unemployment, youth and low education. In surveys, poverty is analyzed according to socio-economic groups and demographic characteristics. However, in real life many of the losers have several risk factors. As well as having no work many of the unemployed are also young, low skilled, have large families and live in rural areas or small towns - a group of characteristics that greatly increases the risk of poverty.

### **The "Working poor"**

Most people in transition countries fall into poverty because their earnings from work are very low. In Russia in 1993, 66% of poor people had jobs and in Poland 60% (World Bank 1996a pp. 15 and 115). In many countries even a two-earner household cannot keep the family with two children above the poverty line. In Russia the ratio between the average wage and the poverty line fell from 4:1 to 3:1 and in Ukraine from 4:1 to below 2 which pulled a two-earner Russian family down to just above the poverty line and Ukrainian family down below that line.<sup>6</sup> A Polish two- earner family is less vulnerable but a family with only one working adult will still float around the poverty line (Milanovic 1996; p.125-127)). Under such circumstances women's paid work is an economic necessity.

People accept low pay because they have few job opportunities. Being formally employed in the state sector also allows them to maintain social benefits linked to the job such as cheap housing. In FYR Macedonia, Croatia, Hungary, Bulgaria and the Czech Republic one fifth of all workers fall into the low pay category (Rutkowski 1996 p.20). Low pay is common in Russia and the CIS countries where wage arrears worsen the situation. During 1993 and 1994 only 40% of the workforce in Russia was being paid fully and on time (VICIOM survey data in Klugman 1996; p.6). Keeping workers on low pay and delaying payment permit state enterprises to avoid massive lay-offs and keep the unemployment rate at artificially low level in Russia and many CIS countries (Standing 1996, 1995).

It is interesting to notice that being self-employed does not protect people from poverty as in Romania, Belarus and Slovakia. This may be explained by the vulnerability of small operations -- street vendors or family business -- which account for a large share of self-employment. Farmers also have higher than average risk from poverty (as compared to worker and pensioner households) (Milanovic 1996).

## **The unemployed**

Unemployment is strongly linked to poverty. In Milanovic study households with at least one unemployed person have poverty rates that are between 1 1/2 (Russia, Belarus, Romania) and 4 times higher (Poland) than the country average. In Poland and Bulgaria, unemployment explains around 30-35% of poverty (Milanovic 1996 pp. 120-123). Also Szulc's (1996) results show strong correlation of poverty with unemployment in the Czech Republic, Hungary, Poland, Slovakia and Slovenia.

Unemployment rates differ substantially by country. They are still low in the Baltics States (5-7%) and the CIS countries (1-4%, except for Armenia and Russia where they are 8-9%).

In Eastern Europe, except for the Czech Republic, unemployment rates are much higher, reaching double digits (UN ECE 1997). Despite differences in unemployment rates its structure is similar and is characterized by high levels of unemployment among women and youth. In Estonia 70% of all unemployed are women and in the Czech Republic, Poland and Russia around 60% . The share of youth in total unemployment is close to one third in a number of countries (in Romania it is almost 50%). Many countries also have high shares of long-term unemployed --as high 60% in Bulgaria and close to above 50% in Croatia, Hungary, Poland, Romania, Slovenia and Slovakia (table 6).

## **The unskilled and low educated**

In countries for which data is available there is almost no poverty among university graduates, except for Slovakia and Belarus. This is in sharp contrast with households headed by a person with only elementary education where the poverty risk is 20-60% above the average. Secondary education reduces the probability to less than half the average (Milanovic 1996 p.134). Szulc (1996) comes to similar conclusions.

Vocational skills, as a risk factor, differ by country according to the speed of industrial restructuring during which vocational skills learned in the past become obsolete. That is why in Poland and the Czech Republic, workers with vocational skills are more likely to be poor than in Slovakia and Belarus.

## **Children's poverty**

Since 1989, children's poverty increased and is now higher than for other vulnerable group --the elderly (figure 4). In Russia children poverty rates tracked the movement of household incomes and after the decline in 1993-1994 the rates increased in 1995. Also the prevalence of chronic malnutrition among Russian children (two years and younger) increased - from 9.4% in September 1992 to 14.3% in October 1995 (RLMS 1992-1995). Poverty rates are particularly high for children in single parent families and large families - in Russia 72% of families with three or more children are poor (UNICEF 1995 p. 9). Poverty rates for five-member families were between 150% and 250% higher than the average in countries included in Milanovic study.

The difference in poverty rates between children and the elderly is usually explained by better protection of pensions as compared to wages, unemployment and family benefits. The elderly are organized and are important as voters. Many also take early retirement -- a policy supported by governments -- and have extra incomes from small jobs. Income from pensions is steady in transition economies, and is often supplemented by extra incomes, while parents which children have insecure and low-paid jobs and families are less protected by social benefits (Cornia 1995; Fajth 1996; UNICEF 1995).

Between 1992 and 1996 family related social benefits were cut back disproportionately in most countries. The share of family allowances and maternity benefits declined in absolute value due to the steep fall in GDP, and in a number of countries also in relative terms - as in Azerbaijan, Bulgaria, Poland, Romania and Slovakia (table 8).

A few countries -- such as Hungary -- managed, however, to protect family benefits and these were effective in keeping households out of poverty. In Hungary the risk of being in the lowest 20% of income distribution would have been 27% and 52% for families with one child and three children respectively without family benefits -- instead of 19% and 26% (Bagdy 1996).

### **Female poverty**

The absence of consistent and comparable gender-sensitive household surveys and the lack of information on the intra-household distribution of resources limit analysis of female poverty. Studies, however, show a slightly higher poverty risk for females and female-headed households compared with men and male-headed households. The clearest example is Hungary. Poverty rates differ markedly between female- and male-headed households, especially if they are single adults with children (World Bank 1996c). In other transition economies such differences are small and depend on age. Elderly women are much more likely to be poor than elderly men. Poverty rates decrease for elderly men and for male-headed households in all countries and increase (Poland) or remain unchanged (Bulgaria, Russia) for women and female-headed households (Milanovic 1996). Also Szulc (1996) shows that a female headed household is one of three variables (along with unemployment and level of education) associated with poverty risk in the Czech Republic, Poland, Slovakia and in particular in Hungary.

Despite limited data from household surveys, an increase of female poverty since 1989 could be argued on several grounds (Ruminska-Zimny 1995). Women are exposed to labour-related poverty due to high female unemployment rates, which except in Hungary and Slovakia are higher than those for men (table 6) and traditionally low wages, by some 20-25% lower than men's. During the transition the wage gap between women and men has widened in several countries, such as in Latvia and Estonia. In 1994 in Latvia the female average wage was only 77% of males as compared to 81% (1992) and in Estonia 73% (1993) as compared to 80% (1992) (NHDR: Estonia 1995 and ECE/INSTRAW). The wage gap, however, diminished in Poland and Slovenia (World Bank 1996b p. 73).

Although it is true that women in many countries became successful entrepreneurs, most of them integrate more slowly than men into the private sector. New female jobs are difficult to find partly including due to the discriminatory hiring practices of private companies and unfavorable social climate. Many politicians in the region acknowledge that men's employment is a priority, encouraging women to stay home. Many feminized sectors of economy -- state administration and social sector (health, culture) -- are under steady pressure for labour cuts, and opportunities for taking advantage of the expansion of other feminized sectors --such as banking and financial services--are limited. The most serious constraint in competing for new, well paid jobs in the service sectors is women's lack of time to upgrade their knowledge and skills to the new requirements of market system, and many new jobs go to men.

Women were also most affected by the erosion of family related benefits. Demographic trends -- the rapid increase of births to unmarried mothers (the rate more than doubled in Bulgaria and is over 44% in Estonia figure 5), the rise in divorce rates (Russia, Ukraine) and the rising death rates for middle-aged men -- strengthen this effect. More women than in the pre-1989 period, form single-parent households, which are now less protected by maternity benefits and child-related transfers -- leading to poverty. In Poland in 1992, 67% of single mothers lived below the subsistence minimum ("Polityka", 8 June 1996).

Female poverty in transition economies has thus a time context. Since 1989 the pressure on women's time increased substantially. Women's paid work is an economic necessity and they have to adjust to more competitive labour market. At the same time they become more involved in household maintenance and family care. Survival strategies include cuts of commercial services -- laundry, clothing repairs, cooking and shrinking social protection increases the demand for 'caring' work.

Difficulties to reconcile productive, reproductive and "maintenance" functions result in "time poverty" which narrows access to basic capabilities -- health and in particular education. The lack of time to go to a doctor affects women's health. The lack of time to learn market skills increases the risk of unemployment and poverty. Vulnerability to "time" poverty is particularly high among single mothers. Young women in the region delay childbearing and marriage more often now than before 1989 as reflected by declining fertility and marriage rates.

### **Declining regions and small towns**

In the countries of eastern Europe income poverty is greater in the smaller towns and cities. (Milanovic 1996). This is largely explained by the better skills and education of people living in big cities and the diversity of employment opportunities, particularly in capitals such as Prague, Budapest or Warsaw. In Russia, the poverty rates in Moscow or St. Petersburg are less than 10% while in Altai territory (Russian Central Asia) it is 70% (World Bank 1996b p.70).

Regional differences in poverty rates are also partly due to the economically irrational siting of industries -- often creating one-company towns. Large state enterprises in engineering, metallurgy, mining -- the old leaders of industrialization -- around which these towns were built are going now through privatization and restructuring. They are reducing expenditures by cutting labour and also by getting rid of the 'social' burden -- day-care and medical centers, sports facilities, vacation resorts and houses they once owned and managed. In Slovakia the number of enterprise-run kindergartens declined from 773 in 1989 to only 196 in 1992 (Fajth 1994 p. 28). Though formally most of the social infrastructure has been taken over by the state in practice it is eventually being commercialized, privatized or abandoned. Enterprise restructuring thus affects jobs and social services.

So far, few countries have tackled the problem successfully. The most common approach is "wait and see" and the slow down of the restructuring process under social pressure.

### **The poverty gap and its dynamics**

The distance between the income levels of the poor and the poverty line in most transition countries is relatively 'shallow' --around 25%-30% as compared to a typical gap in middle income countries of 35%-40% (Milanovic 1996) and consumption patterns, assets, health or education level do not differ much between poor and non-poor. In Poland, as often quoted, 20% of recipients of social assistance own cars and 60% own color TV sets (GUS 1993 p.21). Also, as suggested by panel data, many poor people also move out of poverty fairly quickly. In Russia 63% of those in poverty in 1992 came out of it in 1993, and only 27.5% of very poor remained in the same situation (Mroz and Popkin, 1994).

Is poverty in the 1990s "less oppressive" than pre-1989? Such views are argued not only on grounds of the shallowness of the poverty gap but also because of the consumer revolution which allows for more rational budgeting, the lack of queuing, and the increase in leisure time (Szulc 1996). From the point of view of poor people this is a highly speculative argument. True, in the past incomes were stagnant, and often could not be exchanged for goods or services, but incomes were secure. Now, for large social groups the levels and security of their income have declined. For most people on low income there was no enlargement of consumer choice. And many feel even more excluded than in the past from the standard consumption norm.

The "shallowness" of the poverty gap should also be considered at an individual level. Many of the elderly, such as pensioners, with no link to the labour markets or workers about to retire stay in poverty forever once they slip below the poverty line. They then depend either on family support or on government policy to lift them out of poverty. Younger people (such as the short-term unemployed) -- particularly the more educated -- can escape from poverty on their own by learning new skills for example, or by moving to where there are jobs.

The uneven pattern of moving out of poverty is illustrated by the emergence of pockets of deep poverty in several countries. In Hungary -- one of the most advanced reformers in the region -- the number of the very poor is estimated at 500,000 people or 5% of the population. These people fall into four groups: households headed by a person who has been unemployed for more than a year (usually middle-age men with low levels of education); people with irregular connections with labour market: women on extended maternity leaves; and elderly female pensioners living alone (World Bank 1996c).

### **Anti-poverty policies**

Social policies have had a limited impact on poverty alleviation. During the first phase of the transition process, when the poverty increase was the steepest, the government priority was to move quickly towards a market economy. At that time, policy makers -- and the international community -- believed in an optimistic scenario for the transition process and transient character of poverty. Growth revival was expected to have an "accordion-like" effect pulling people out of poverty (World Bank 1996a).<sup>7</sup> The social policies of the early 1990s also avoided reference to solidarity, stressing instead self-reliance and individual responsibility (UNICEF 1995).

During the initial stage of "shock therapy" governments abandoned two pillars of the socialist welfare system: full employment and consumer subsidies (including those for housing and utilities). Under the pressure of contracting economies and shrinking tax bases they also allowed for the erosion of the third (and last) element of the old welfare system - cash transfers and free public services - even if the share of some social expenditures in GDP, such as unemployment benefits and pensions, increased in most countries.

The erosion of state protection occurred through several channels: a drop in the real value of public spending due to the contraction of GDP, the ineffective indexation of many cash transfers, the decentralization of responsibilities without transferring resources, and the commercialization of some services and benefits. The changes in social protection provided through enterprises were also abrupt and compounded the effects of shrinking state protection.

Anti-poverty actions lacked resources and social infrastructure, including trained staff. Since 1989 governments have had to establish a market-oriented social safety net for unemployment benefits and social assistance. Many countries started with the basics such as establishing data collection, poverty lines, and procedures for screening and monitoring.

### **Summary and conclusions**

Since the beginning of the transition process income poverty as measured by any real poverty line has increased in all transition economies. However, the increase differed from one country to another. Most poor people in the region now live in the Caucasus, Russia, Slavic countries of the CIS and central Asian countries.

The rise in poverty was widespread. And large segments of the population were pulled down below the poverty line, including the socialist middle-class: production workers, teachers, doctors, clerical staff and administrators as a result of fall of GDP and average wage, rise of unemployment and growing income inequality. In many countries a family of four with two working adults still had incomes close to or below the poverty line which explains the high poverty rates among children. People with low levels of education, those living in rural areas and small towns, as well women, had a high risk of poverty.

Policies have limited effects on alleviating poverty. The number of recipients of social assistance increased more quickly than resources. The welfare system of the past was substantially curtailed, partly due to the collapse of the social function of the labour market. Market-style social assistance schemes were just emerging and could not cope with sudden and across-the-board falls in incomes, worsening income distributions, open unemployment, and growing poverty.

### **Beyond income poverty: human costs of transition**

The transition process caused even more dramatic human costs than income losses. Most severe costs were the results of military conflicts and the health losses as reflected by rising death rates and the population crisis. This section also discusses the impact of the transition process on education and social exclusion.

#### **The death and population crisis**

The transition process has been accompanied by a population crisis never seen before in peace time in industrial countries. More people were dying than being born and the life span and population declined. The 'excess' deaths over the 1989-1994 period is estimated at 2 million people (Cornia 1996a;p.1). In 1994 only ten countries in the world had negative population growth. Nine were former socialist countries -- five former Soviet republics: Belarus, Estonia, Latvia, Russia, Ukraine, as well as Bulgaria, Croatia, Hungary and Romania. The tenth country with declining population was Germany which included east Germany, a former centrally planned economy. Crude marriage rates (CMR) also declined. Between 1989 and 1994 CMR dropped between 13% in Romania and 51% in Estonia. On average, the decline was at least twice as large as that recorded over the previous two decades (Cornia and Paniccia 1996; p.97).

The death rate increased fastest during the first two years of the transition process though the rises differed from one country to another. The increase in deaths was steepest in Russia and the Baltic States. In 1995 death rates stabilized in a number of countries, including Russia, though the upward trend continues in 'late' or 'inconsistent' reformers: Moldova, Ukraine, Belarus and Azerbaijan. In the Czech Republic, Slovakia and Poland it was modest and was followed by a return to pre-1989 trends. In Hungary, Romania and Bulgaria the crisis was more pronounced and death rates remained at higher, pre-1989, levels.

In all countries more men -- in particular aged 24-54 -- were dying than women. The rise of deaths was due to an increase in cardiovascular diseases (mainly for older men) and accidents, suicide, substance abuse and murder (mainly for younger men). During the first year of transition male life expectancy fell in all countries. Men in 11 countries (out of 17) expect now to have a shorter life span than in 1989. Life expectancy for women declined less. In 1995 it was, however, still below 1989 levels in 7 countries (out of 18). The largest decline was in Albania (-1.2 years) and Russia (-1.9 years). (table 9 and figure 6).

In Russia between 1989 and 1995 male life expectancy declined by 5 years (and if comparison is made between peak years--that is 1987 (high) and 1994 (low) --the decline in male life expectancy was 9 years). Russian men can now expect to live slightly over 58 years -- almost two years short of the official retirement age. That is less than men in two-thirds of developing countries including India (60.6) and Pakistan (60.9), and similar to men in Lesotho and Bolivia. Men in industrialized and rich Northern parts of Russia had shorter life expectancies than men in poorer and less prosperous Southern parts (in particular the Northern Caucasus). Female life expectancy in Russia -- which declined less -- is now similar to that of women in China and the Dominican Republic, and is still lower than in a quarter of developing countries (Cornia 1996;p.6).

Mothers and children were less affected by the health crisis. Maternal mortality rates improved or stagnated in all countries, except Bulgaria, Poland and Russia. Infant mortality rates (IMR) were erratic. In 1995 IMR was higher than in 1989 in several countries including Latvia, Lithuania and Belarus. A few countries also experienced higher under-5 mortality rates (table 10).

The depth of the mortality and population crisis was not proportional to the fall in output and GDP. Some 'better off' countries, such as Hungary, experienced a more severe deterioration, than 'worse-off' countries such as Albania or Armenia (UNICEF 1995 p. 20-22). Adult males at age 15 in Hungary, one of the wealthiest countries, would have more than twice the chance of dying within the next 50 years compared with their counterparts in Albania, one of the poorest countries (Goldstein et al. 1996 p. 14)

### **Why the crisis?**

The sudden rise in death rates is poorly explained. Mainstream arguments link the crisis partly with pre-1989 trends in health status and statistical problems. Factors to blame for the sudden rise of mortality are thus unhealthy life styles (e.g. alcohol, smoking, high fat diet) and environmental hazards, as well the weaknesses of health systems in dealing with chronic diseases on one side and on the other the underestimation of death rates in the pre-1989 period and the cohort effect. The fall in marriage and fertility rates are associated with the adoption of 'individualistic Western values' and greater sexual freedom (Murray and Bobadilla 1995; Fenshbach and Friendly 1992).

Though all these factors will have had an impact on health they cannot convincingly account for the magnitude of a crisis or its particular focus on men. Also after 1989

environmental pollution declined (largely due to fall of output), and in the second half of the 1980s the downward health trends of the last decade started to improve.

There is growing evidence that stress could be a major factor behind the death crisis (Cornia 1996 and Cornia and Panizza 1996). Sudden and poorly managed changes in the labour market (job insecurity, falls in wages, unemployment), impoverishment, growing inequalities and severe erosion of public goods such as law and order, health and education raised psychosocial stress. Threat to personal security due to military conflicts and violence added to this stress in many countries. Tensions within a family increased. Rapid changes in social hierarchy created stressful situations for the losers including the former 'labour elite' - the middle-aged, semi-skilled workers employed in heavy industry and party administration. They had to adjust to a loss of incomes and lifetime savings, as well as to a loss of self-respect and public recognition. The sense of deprivation was often deeper than the actual decline in incomes. Many people suffered from acute disorientation against the vanishing of skills and experience that once determined their social position. Anger, depression and helplessness, and a sense of failure drove up suicides and homicides in the region (table 11).

Table 11- *not yet available*

### **Access to health services**

After 1989 public expenditures on health contracted in many countries largely due to the decline in GDP but in some countries, including Russia, also in relative terms (table 10). There was, however, little downsizing and restructuring in the public health sector. The adjustment occurred through a reduction in capital expenditures and an erosion of real wages in the health sector rather than through cuts in medical personnel or privatization. In most countries, the number of medical staff and hospital beds per population remained unchanged.

The quality of basic health services, however, deteriorated. The lack of funds undermined everyday operations and the upgrading of old medical equipment and facilities. Underpaid doctors and health workers supplemented their incomes by moonlighting in the private sector and/or receiving unofficial out-of-pocket payments.

The privatization of health services was voluntary. It was most rapid in the area of dentistry and pharmaceuticals, slower for physicians and diagnostic services and negligible for hospital services. In view of the financial crisis, however, hospitals and other health institutions, introduced user fees -- often on an ad hoc, emergency basis (Goldstein et al. 1996). The cost of health care increased, with a few exceptions, in all countries in the region.

People with low incomes were most affected by the less equitable distribution of medical care and by deterioration in the quality of public services. They also faced great

uncertainty regarding the type of health care they could afford in future. Most countries look now for ways to improve the efficiency of health spending and discuss options regarding the 'hard core' of public health care, including privatization and changes in medical insurance schemes. The question remains what provisions will be made to ensure adequate access to health services for poor people.

### **The spread of STDs and HIV**

In Eastern and Central Europe, except Romania, and in Central Asia, the HIV/AIDS epidemic is recent. In 1995 the highest rate per million (9.9) was found in the Federal Republic of Yugoslavia. In some countries in the region -- Russia, the Baltic States and Ukraine -- a rapid spread of epidemics is indicated and is linked to drug abuse and sexually transmitted diseases (STD).

*Figure 7 - not yet available*

In Ukraine HIV infection was first registered in 1987 and the prevalence of the disease was increasing slowly (averaging 10-30 cases per year). In 1995, however, the number of new HIV cases increased 34 times as compared to 1994 and the total number of people infected by HIV rose to 1,490. In Ukraine New HIV cases were diagnosed across all regions (with a few exceptions) and 70% of this was drug related. The threat of a further spread of HIV is reflected by the more than tenfold increase in the incidence of syphilis between 1991 and 1995 (UNAIDS 1996).

The rise of HIV is particularly noticeable in big cities such as Moscow or St. Petersburg and cities bordering the Black Sea. The pattern of HIV spread -- its relationship to STD, drugs and prostitution in urban centers -- is similar to that which occurred in South Asia (UNAIDS 1996).

### **Trends in education**

Changes in enrollment in public education mostly affected tertiary level and pre-school enrollment. Some countries also experienced adverse changes in primary enrollment. Between 1989 and 1995 primary enrollment rates declined by 2-3% in Moldova, Ukraine and Russia; by over 3% in Estonia; by over 4% in Bulgaria and more than 12% in Georgia (table 12).

Pre-primary enrollment declined substantially in many countries due to a drop in the supply of kindergarten places, the introduction of user fees, as well as a decline in female employment. Enrollment declined by as much as 10%-25% in countries with traditionally high coverage rates. In Lithuania only 36% of children aged 3-6 years go to kindergarten (as opposed to almost 64% in 1989) and in Russia 54% (as compared to 69% in 1989). According to UNICEF this trend is worrying as apart from their custodial role kindergartens play an educational function. Increasing educational problems among children entering the first grade of compulsory education have been reported in several

countries including the Czech Republic (UNICEF 1995 p. 69). The introduction of user fees is particularly a barrier for low income families.

### **Access to education**

Since 1989 government expenditures on education have been erratic and affected by the contraction of GDP. The role of the state in the provision of basic education did not change much. The definition of free basic education, however, has become narrower and costs of education have increased (figure 7). Responsibility for pre-school age children was shifted from the government to parents. New legislation -- as in Poland and Russia -- emphasizes the complementary roles of states and families.

Public education systems, as with health systems, reduced costs through cutting subsidies on books or meals and for education at the primary and secondary level increased the share of out-of-pocket expenses -- such as for courses outside the mandatory curriculum. Underpaid teachers in public schools often seek part-time jobs - affecting the quality of teaching. In several countries, the gap between private and public education has widened.

In several newly independent states, such as the central Asian republics, education systems also face adjustment problems due to changes in the official language (from Russian). Under such conditions some people risk loss of basic literacy skills (Micklewright 1996).

### **Personal security**

After 1989 personal security in the region declined and people living in war-torn countries were most affected. The collapse of socialism revealed long suppressed ethnic conflicts and tensions. The split of two former federations: the Soviet Union and Yugoslavia was accompanied by military conflict and violence. As a result, about 45 million people (excluding Russia) now live in countries affected by war or civil strife. Almost 400,000 have been killed. And some 5.5 million have become refugees or internally displaced (table 13).

War-torn countries also had a 40-80% drop in GDP and frequently faced a total collapse of the state which can no longer provide basic 'public goods' such as law and order or offer a basic safety net. In Georgia in 1993 the tax/GDP ratio fell to 2.6% -- a fifth of that of a poor African country -- and in early 1995 after efforts to improve tax collection, reached 3.5%. (UNICEF 1995 p. 16-17).

Living conditions in these countries are miserable. People face severe psychological traumas and fear for their lives. Many families have temporary housing - often straw houses or plywood barracks. In Azerbaijan 60,000 people live in tent camps with restricted access to food, medical services and education (Azerbaijan: NHDR 1996 p.25). In many countries, health and education infrastructures were severely damaged. In Bosnia one-third of all health facilities and half of the country's school buildings have

been seriously damaged or destroyed along with 70% of total housing. The infant mortality rates in Bosnia doubled and food production satisfies only 35% of the country's needs (The World Bank: Transition November-December 1995).

The decline in personal security is also associated with a proliferation of corruption, fraud, illegal businesses (drugs, arms) and organized crime. The Russian mafia is not a single organization but a collection of 3,000-4,000 groups employing more than 25,000 people with networks in many countries in the region. It controls key sectors of the economy -- the energy, gold and diamond industries -- and has a strong influence on the financial and business sector. The mafia force "loans" out of banks, and also blackmail and take over legitimate businesses. Mafia groups "help" banks and enterprises to collect debts or "protect" new businesses. The scope of mafia activities in Russia is unprecedented. Recently several dozen Russian bankers have been murdered. In 1993-1994 the amount of money misappropriated from Russian banks through fake payments and documents and through false guarantees from foreign banks is estimated to no less than 4 trillion rubles (several hundred million dollars) ((World Bank 1996b p.97; Transition, November-December 1995; Economist 16 November 1996: interview with Russian Minister of Interior).

Though corruption and organized crime are a major concern in Russia, Lithuania, Ukraine and several CIS countries, similar groups operate in other countries. After 1989, crime increased in most countries including the Czech Republic and Hungary where the rates tripled (figures 8 and 9). The increase in crime reveals a weakness in the state and in public law enforcement. The old system has collapsed but it has not been replaced by a new one and the gaps are at times filled by others, including mafia groups. The consequences of this situation include rises in personal insecurity (particularly in the business community), the failure of many legitimate ventures and social losses due to rent seeking and tax evasion.

### **Exclusion and participation**

This section looks at changes in people's participation in (or exclusion from) emerging patterns of political, economic and social life. Despite expectations, lifting the restrictions on people's freedom did not improve across-the-board participation. Many people, defined by socio-economic group, gender or location, were left behind.

### **Political participation**

As a result of free elections, decentralization and the development of civil society gains in political participation were shared fairly widely. The rise of participation differed, however, by gender and women lost much of their political representation. Since 1989 the number of women in national parliaments declined from 20%-40% to single digits, with a few exceptions, and is also low in governments and at the level of executive power.

Women's political losses are explained by many factors such as elimination of the quota system and the weakness of the women's movement. The aggressive nature of the post-1989 power struggle, lack of self-confidence and the passive and often negative attitudes of women towards politics also played a role. Women's attitudes towards politics were largely shaped by past experience when high political representation was not linked with an impact on decision making. Finally, time constraints and the revival of paternalistic tendencies discouraged women's political participation. Underrepresentation of women in democratic structures limits their impact on building new institutions, undermines their position in collective bargaining and could have adverse effects on women's position in a society, and ultimately human development prospects in the region (Ruminska-Zimny 1995).

### **Economic participation**

The rise in economic participation was uneven among social groups, individuals and by gender, and was largely determined by access to the private sector. True, opportunities differed by individual characteristics such as risk taking and readiness to work hard but in general access to the private sector was difficult for those who lost state jobs and the emerging private sector had a limited demand for their skills and experience. For former semi-skilled industry workers and the scientific-technical intelligentsia the market economy excluded many people from economic activities through long term unemployment and/or early retirement (Tchernina 1996 p.17).

Family run businesses, which account for a majority of private enterprises in the region, did not create enough new jobs. And larger companies, particularly those with foreign capital, set high education standards and a low age limit for hiring (30 years old, and often less). A middle-aged former steel worker from a state enterprise has few opportunities to create a job for himself or herself. Not only would he or she lack market skills and experience but they would have practically no assets or savings nor would they have the collateral to gain credit even if they could afford the high interest rates. State supported infrastructure promoting small business is still underdeveloped. And the only viable option for many former state employees or people pushed into early retirement has been to seek a job in the "shadow economy".

The role of the "shadow economy" in lifting people out of poverty is questionable. Recent studies from Poland and Hungary (GUS 1995) indicate that the distribution of incomes in the "shadow economy" is biased towards the rich. The lowest reported income quintile in Hungary received about 20% of "shadow incomes" while the highest about 50% (quoted by Boyle Torrey et al. 1996 p. 5). The jobs poor people can get are low paid, short-term, and have no social benefits. Some also have limited work security since small companies -- as in buildings and construction - do not establish adequate work safety systems. Incomes from the "shadow economy" as a main source of income usually only allow poor people to float around the poverty line. The once new urban working class of the socialist era, as Julia Szalai describes for Hungary "if gradually forgotten during the final decades of socialism, .. also started to suffer full disenfranchisement in the new democracy" (Szalai 1992 p.40).

People in small towns and rural areas are also most frequently excluded from new opportunities due to the depressed local environment and low mobility. The exclusion of rural people in Russia -- who until the early 1960s had to have a passport to move freely around a country -- is described by Tchernina (1996 p. 69). Former "kolkozoes" which lost state support -- now peasant farm associations or stock companies -- are ill-prepared to face the market system and many are on the verge of ruin. A survey of living conditions of the rural population in the Nowosibirsk region (1994) revealed that expenditures for food exceeded 90% of family budgets in 59% of families (a similar share of families lived on per capita income below subsistence minimum).

Low labour mobility is associated with low supply of reasonably priced housing--a legacy of the past and slow development of new forms of housing credit and reforms of the housing market. Gaps in legislation regulating housing and land markets have been the source for legal or illegal profits for a small segment of the population (UNDP 1996b). In capital cities, where the demand for labour is high, housing costs are prohibitive but rents and housing are now also expensive in many provincial cities. The market price for a two-room apartment (50m<sup>2</sup>) in Khabarovsk in Russia was US\$ 30,000 in 1994. And the average annual wage in this region represented about 3% of this figure. The housing problem has been aggravated by a decline in new construction of around 40-50 % in most transition countries and up to over 70-80% in Armenia and Azerbaijan ((UNICEF 1995 p. 80).

### **Social exclusion**

The transition process has caused rapid changes not only in economic conditions but also in value systems and in the way people feel about themselves. From this perspective, social exclusion has many sources such as loss of previously acquired rights and position, a lack of access to the "typical" lifestyle (including that based on expectations) and difficulties in adjusting to a value system based on a market philosophy.

Many people in Russia, the countries of eastern Europe, and elsewhere in the region feel excluded because they are insecure, are struggling for subsistence and need to 'reproduce' the economizing skills of the pre-war poor -- reducing their use of heating, canceling elementary services (such as school meals for children) and delaying replacement of used clothes. These 'survival' strategies -- their parents thought they had left behind for ever -- are humiliating particularly for people in countries with higher standards such as Hungary (Szalai 1992).

Some people feel excluded because they do not adjust to rapid diversification of incomes and lifestyles or because they compare their living standard to their expectations. Many people are also confused about the value system which is now a mix of equity and solidarity of the past and profit-driven behaviour. Women in Kyrgyz Republic report that selling home-grown produce is stressful -- in their culture extra food within a family was always given, and not sold, to neighbors in need (World Bank 1996 p.72).

Homeless people -- a new phenomenon in the region -- represent an extreme case of social exclusion in the transition process. Anecdotal evidence comes mainly from capitals -- Warsaw, Budapest, Moscow -- and from large urban areas. According to the Russian Ministry of Social Protection about 60,000 children may live on the streets of Moscow (UNICEF 1995 p.81). According to police in Moscow 20,000 people in this city are homeless (New York Times 15 Oct. 1996).

Paradoxically, new political rights played a role in increasing the number of homeless people in many countries. Forcefully detained or hospitalized under the former regime 'deviants', alcoholics and vagabonds, who rarely had a home or a family, were largely released to freedom in all countries in the region after 1989. Without social assistance these people had no place to go and no income to live on (Szalai 1994).

### **Summary and conclusions**

The transition process affected the non-income dimensions of people's lives including basic capabilities. Death rates increased and life expectancy declined particularly in Russia, the Baltic States and most CIS countries. Personal insecurity increased and in war-torn countries is a threat to life. Corruption and crime often results in ruthless redistribution of assets and of access to resources. Primary enrollment in several countries, including Russia, was affected.

Establishing a market democracy increased political participation, but women's share in political representation was reduced. And many people were excluded from gains associated with economic freedom and entrepreneurship. Society became polarized into a rich minority and a poor majority particularly in Russia. Large social groups -- the grandchildren of the once-elevated peasant workers -- suddenly found themselves second-class citizens since with low incomes they had little access to quality health and often education. The outlook for middle-aged people with little schooling, living in small towns or rural areas became bleak.

Personal insecurity, ill health, loss of self-respect, a sense of failure and social exclusion narrowed down the opportunities for many people to live the life they value. Though often linked to income poverty, these non-income aspects of deprivation stand alone as a determinant of a low quality of life. Erosion of traditionally high stock of health and education in the region and weakness of law enforcement and governance system question sustainability of growth and human development in the region.

### **Prospects for poverty eradication**

The views on how fast people in transition countries will benefit from systemic transformation are now less optimistic. Although it is true that progress toward market democracy has been substantive in many countries, social costs of the transition process are high and persistent, even for the most advanced reformers who have improved

indicators for economic performance as well as selected social indicators. These costs also have many non-income dimensions such as erosion of basic capabilities (health and education), personal insecurity and psycho-social stress.

It is still being debated whether some of these costs could be avoided. Clearly their extent had been largely undervalued at the beginning of the transition process, as many advocates of shock therapy admit (Gomulka 1995). When socialism collapsed no one knew exactly what policies would work to transform centrally planned economies into market democracies. The adopted strategy was based on a liberalization and stabilization package, similar to structural adjustment programmes, designed by the World Bank for many developing countries during the 1980's. Entrepreneurship and market forces, once freed by bold institutional reforms, were believed to improve rapidly people's lives through economic growth. Deterioration of social well being, including unemployment and poverty, was supposed to be transient.

Against the experience of seven years this strategy is now critically evaluated under social pressure as initial post-1990 governments have been voted out or parliamentary majorities have been altered in all countries. The need for market reforms and growth in transition countries is not denied but the problem of how to compensate the losers remains central to policy debates in the region. For many countries, particularly in less advanced reformers with high poverty rates income poverty is likely to stay even if growth rates accelerate. A reduction of income poverty to 10% in Kyrgyzstan, for example, will take up to 11 years, and not much less in Moldova, Kazakhstan, Turkmenistan, or Ukraine, even under a favourable scenario of 5% average growth rates, and stabilization of income inequalities (Milanovic 1996 p. 103-104, based on \$4 poverty line). This may be too long to prevent the formation of an underclass of poor people, which so far, is an exception.

Market and growth alone did not, and could not, solve institutional and structural problems of the transition process (Reyment 1996). Unemployment rates in all countries in Eastern Europe (except for the Czech Republic), for example, remain high despite the expansion of the private sectors which is largely explained by a mismatch between the demand for and supply of skills (particularly for workers with vocational training). So far, there is also little evidence that growth reduces income poverty. In Poland, the only transition country which experienced five years of consecutive rapid growth, income poverty stabilized and did not decline. Again, structural causes including regional differences in economic activities and poverty rates largely explain this situation (Golinowska 1996). And in Hungary deep pockets of income poverty have emerged despite progress in market reforms (World Bank 1996c).

Poverty eradication requires decisive action at the policy level to be undertaken within a broader strategy based on the concept of human development. The latter does not undermine the importance of economic growth and a well functioning market. But the role of the state should be reevaluated, and in many areas strengthened, against the division of responsibilities between the state, the market and civil society. The state should take a lead in establishing anti-poverty policies, consistent with macroeconomic

policies, and designed to address various dimensions of human poverty. Anti-poverty policies should embody active labour market policies including job creation (through retraining or public works), support for small business, increase of labour mobility (through housing policies), reversal of the erosion of public health and education, provision of effective protection for those left behind by market forces and strengthening of personal security. Also more attention should be paid to the distributive aspects of the transition process in regional and socio-economic perspective including gender.

Anti-poverty policies are closely linked to the reform of the welfare system and redistribution of universal system of entitlement. Though the necessity of downsizing the welfare system and more targeted benefits is commonly accepted there is a lot of uncertainty on what options will be chosen. In designing a new welfare system countries face a difficult dilemma of who should get priority in social protection against the shortage of resources -- children or elderly. Countries could consider a three-tiered systems where the state would secure the first component would be compulsory and the second employment related insurance, and the third voluntary and based on additional private insurance.

So far the process of adjustment of the welfare system to market condition has been slow and has had little social support. Against the lack of a longer term vision of the welfare system, decisions on social protection have been often taken on an adhoc basis and under pressure from the strongest groups. Welfare reform is very sensitive politically in all countries and requires minimum consensus on a new social contract which will define how much each society values solidarity and what welfare system it can afford.

The discussion of anti-poverty policies have to also consider the rapid diversification of the situations of individual countries. Many CIS countries, for example, are still missing basic market institutions, struggle to recover from economic collapse, and face problems similar to those of developing countries. At the same time countries in Eastern Europe, with few exceptions, enjoy positive growth rates of up to 6-7% and move decisively towards integration with developed market economies within the OECD and European Union. This diversity requires more careful analysis of social costs, and sets of policies which would address these problems in individual countries.

International assistance is crucial in providing support to transition countries in establishing and implementing anti-poverty policies. This should include additional technical and financial assistance and social know-how to all countries who request assistance. A failure to establish effective policies aimed at the reversal of negative trends in human development in the region carries high risks-political instability, lack of human security and undermines chances for sustainable development and proliferation of poverty beyond 'manageable' proportions.

### **Lessons from the transition process**

From the perspective of almost seven years of transition at least three lessons can be learnt. The first lesson is obvious -- that transition takes time and has high human costs.

The second lesson is that growth alone will not eradicate human poverty. And the third lesson is that a rethinking the transition strategy is needed based on a concept of human development which should be looked at as an end in itself and a condition for sustainability of the transition process.

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### **Annex: National Poverty Measures**

In most former socialist countries the monitoring of living standards became more regular in the 1980s when social conditions deteriorated. Quality of research including survey designs and reliability of data varied among countries. The best household surveys, comparable in many ways to western standards, were carried in Hungary, Poland and the former Czechoslovakia. Family budget surveys in Russia suffered from serious shortcomings -- faulty sampling where the poor were underrepresented, overstatement of average incomes and underestimation of income inequalities (McAuley 1996). Similarly, Bulgarian and Romanian research on living standards were of low quality. The design of household surveys in Russia and Bulgaria has been improved during transition.

National standards to estimate living standards of household in socialism were based on two different concepts of needs. "Subsistence minimum" referred to basic needs and was calculated slightly above physiological needs. "Social minimum" drew on a broader concept of needs "widely justified by the society at the given general economic, social and cultural level " (assuming rational economic behavior and modest levels of satisfaction, Salamin quoted in Atkinson and Micklewright, p. 193). The difference between the two minima was usually 15-20%. Some countries, as Poland, carried also research on "subjective income poverty" that is self-evaluated inadequacy of a person's income.

Despite conceptual similarities in defining "subsistence" and "social" minima, the methodology of calculating and updating of income minima differed significantly among countries. In Poland and Hungary, for example, income minima were indexed on prices while in the former Czechoslovakia on average income. In most countries, one of the income minima (subsistence or social), emerged with time as a national poverty line and/or as upper and lower poverty lines.

Income minima in socialist countries were considered rather high which was often explained by the lack of their direct link to government finance (in particular for social minimum: Barr 1992). During the 1980s the level of income minima, however, declined in most countries including through lowering standards for caloric intakes and ratios. In

the late 1980s an adult man in Russia was considered poor when he ate less than 64 kilos of meat a year; this ratio has been lowered to 54 kilos and then to 27 kilos (quoted by Standing 1995b p. 5).

Since 1989 national poverty lines have been based on subsistence minimum (revised for recent consumption patterns). Calculation of social minima has been practically abandoned in most countries. Such a threshold resulted in very high incidence of poverty. In 1992 some 90% of people in Russia were poor by the standard of the old Soviet national poverty line (McAuley 1996). In Poland around 50 per cent of people lived below the poverty line based on social minimum in 1994 (Golinowska 1995).

Except in the Czech Republic and Estonia, subsistence minima do not set eligibility criteria for social benefits. This is, however, less relevant under present conditions when social assistance, and even incomes from work, are below subsistence levels in a number of countries. In Lithuania the real value of social assistance in early 1994 was only 22 per cent of subsistence level (Lazutka and Sniukstiene 1995). Also minimum wage in Russia and in Ukraine represented only a fraction of subsistence minimum that is 25 per cent (1993) and 7 per cent (1994) respectively (ILO-CEET 1994).

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**1** This paper has greatly benefited from the comments of Richard Jolly, Sakiko Fukuda-Parr and Giovanni Andrea Cornia and from the discussion with Branco Milanovic, Gaspar Fajth, John Micklewright, Jeanine Braithwaite, Guy Standing, Stanislaw Golinowska, Jan Rutkowski, Omar Noman as well as the members of the HDRO team. The views expressed are those of the author and do not necessarily reflect the opinion of UNDP.

**2** Lenin in an article in January 1918 wrote that " he who does not work, neither shall he eat". This quotation was often used later as the official credo of socialism (Carr 1966 p.114).

**3** Official attitude was, however, sympathetic and supportive towards the "old" poor, victims of pre-war capitalism, such as illiterate or rural poor. It should also be mentioned that official attitudes towards the poor "softened" during the last decade of socialism.

**4** These incomes include the legitimate ("grey" economy) and illegal activities such as income from drug trafficking ("black economy"). Since 1989 the share of the "shadow" economy in GDP increased in all countries. The Czech Republic now has the lowest share with 8-10% of GDP (Kadara 1995). In Poland the "shadow economy" is some 25-30% of GDP (GUS 1995), and perhaps more in Russia and many other countries. There are also high variations by country between legal and illegal component of the "shadow economy".

**5** This figure do not take into account incomes in -kind and from 'shadow economy' and most likely overestimates poverty.

**6** It is usually assumed that at the very minimum average wage would be twice the (per capita) poverty line which should allow a family of two working adults with two children to stay above poverty line.

**7** "The shallowness of the income poverty in transition economies implies that even a relatively small increase in growth can lift significant numbers of people out of poverty" (World Bank 1996a p. 9).



Eradicating poverty everywhere is more than a moral imperative - it is a practical possibility. That is the most important message of the Human Development Report 1997. The world has the resources and the know-how to create a poverty-free world in less than a generation. That is the most important message of the Human Development Report 1997. The world has the resources and the know-how to create a poverty-free world in less than a generation. The Report focuses not just on poverty of incomes but on poverty from a human development perspective - poverty as a denial of choices and opportunities for living a tolerable life. Human Poverty in Transition Economies: Regional Overview for HDR 1997. Article. Ewa Ruminska-Zimny. This paper analyzes the evolution of inequality in Poland during the economic transition that began in 1989-1990. Using microdata from the Household Budget Surveys, we find that, after a brief spike in 1989, income and consumption inequality actually declined to below pretransition levels during 1990-1992 and then increased gradually, rising only moderately above pretransition levels by 1997. In sharp contrast, inequality in labor earnings increased markedly and consistently throughout the 1990-1997 period. We find that social transfer mechanisms, including pensions, played an important role i