Eastern Europe faced with the crises of the system

By Catherine SAMARY*

The “European construction” (associated with the redefinition of continental relationships after the fall of the Berlin Wall) aroused popular aspirations, which were radically opposed to the current situation: aspirations for a continent that would resist antisocial policies while remaining open to the world, according to a democratic, social, ecological and solidarity-based logic… This was in particular what was hoped for in Eastern Europe, where the populations aimed for greater freedom and a higher standard of living. These hopes were shattered, creating a breeding ground for xenophobic trends… Understanding the turns of history, the specificities of globalisation and “European construction” in which Eastern European countries have been involved,the true framework of the present crisis (versus superficial indicators of “catching up”) is essential for the people to be able to re-appropriate their choices and thus their future.

The confrontation of Eastern Europe to the new world order in the 1980s

The 1970s had been a decade marked by a crisis of profit and of the world order, striking the countries of the capitalist centre. The countries of Central and Eastern Europe remained, as was exemplified by Czechoslovakia, dependent on the economic “support” of the USSR, backed by its tanks… Their debt towards Moscow, in non-convertible roubles (in the framework of the barter relations within Comecon - the Community of Mutual Economic Aid, governing the exchanges between countries with planned economies) was from now coupled with a second debt, this one denominated in hard currencies, and it had become heavy. The USSR was not involved in this debt, as it was still subject to a Cold War boycott, both financial and industrial, that had blocked any imports of cutting-edge technology since 1917. The opening of borders to Western imports, aimed at a certain acquisition of modern technologies, was thus done (with the agreement of the USSR) by the countries of Eastern Europe not subject to the Western boycott. This newly open window also corresponded, for the regimes concerned, to the search for imports of Western consumer goods to reduce mass discontent after the stalemate of the economic reforms of the 1960s. The process was also for them a question of obtaining certain Western technologies with the aim of improving the quality and the productivity of their own exports: these exports would then make it possible to repay the debts in foreign currencies. But bureaucratic conservatism did very little to make the technological imports effective and the debt steadily increased, accentuated by rising interest rates in the beginning of the 1980s.

However, the election of Reagan after the Soviet intervention in Afghanistan, launched an extreme phase in the arms race, which weighed heavily on the USSR in the first half of the 1980s. The cold war peak gave the United States the opportunity to take the offensive in several aspects of their own multidimensional crisis: on an internal level, public spending on military weapons and equipment strongly supported research and innovation, while re-charging an economy that had started the decade in a recession. At the same time, on an international level, the United States began the first phase of a broad-reaching resurgence of the Military-Industrial Complex and technological hegemony, which would be enforced by the military interventions of the following decade. The technological revolution that was underway in the United States and in the greater part of the capitalist world was an essential element in the ability of the ruling classes to restructure social relations and the world order. These shifts would widen the gap between the Unite States and the Eastern bloc, whereas this gap had been historically reduced between the Second World War and the 1970s.

The 1980s were therefore marked by debt crises in several Eastern European countries - Romania, Yugoslavia, Hungary, Poland and East Germany (the GDR) - which, incapable of profoundly reforming themselves without major anti-bureaucratic social transformations, had launched imports of Western technologies in the preceding decade, financed by private credit[i]. This debt crisis marked a new historical phase, allowing major external pressures to weigh on the societies of Eastern Europe at the very moment when the USSR of Gorbachev was turning towards an external “disengagement”. This process was aimed at obtaining the Western credit that was necessary for its modernization. The search for hard currency to pay for imports thus resulted in additional pressures and tensions within COMECON at the end of the 1980s - the USSR was, from now on, demanding repayment of debts, and if possible in hard currencies… and making the search for Western finance and technologies a priority in foreign policy. This phase marked, therefore, a “withdrawal” from any interventionism, as exemplified by the agreement negotiated with Chancellor Kohl on German unification…

Meanwhile, the five indebted countries of Eastern Europe had experienced different politico-economic trends, which all played a decisive part in the historical turning point of the “transition” towards a change of system at the start of the 1980s:

- The Yugoslav Federation, under pressure from the International monetary fund (IMF) in the 1980s, was paralysed by the rise of social and national conflicts and by three-figure hyperinflation, reflecting the loss of overall coherence of the system. The wars of ethnic cleansing which accompanied the dismantlement of the Yugoslav federation and its system, as well as the impasses of the European and U.N. peace plans, were instrumentalized by the United States to redeploy NATO after the dissolution of the Warsaw Pact. The Yugoslav crisis was a decisive stage towards the Euro-Atlantic integration of the region[ii].

- The Hungarian Communist leaders were unique in deciding to respond to the crisis of the external debt by selling the country's best enterprises to foreign capital - which initially created the opportunity to diminish the internal austerity policy, and made Hungary the principal host country for foreign direct investment (FDI) , in the first years of the following decade of "transition". The Hungarian government also did nothesitate, following on the new European relations established by Gorbachev, to help to bring down the Wall (for a price)

- Conversely, the dictator Ceausescu attempted to pay back Romanian debt on the backs of his people – an act that Romanian nomenklatura finally rejected as too explosive for itself. This group subsequently instigated a pseudo "revolution" which included the execution of the dictator at the end of the 1980s.

- Meanwhile, the absorption of the GDR by the Federal Republic of Germany agreed upon - with the accord of the USSR. The USSR received financial resources from Germany, accompanying the repatriation of its troops.

- Lastly, after the repression of Solidarnosc under the regime of the Polish general Jaruzelski, compromise agreements opened the door for the introduction of liberal shock therapy in Poland, backed by the cancellation of the Polish debt, as decided by the United States at the beginning of the 1990s. Indeed, no expense was spared to win over the new " elites "who were came to power power in the time of privatizations… and NATO.

The integration into globalized capitalism and new world order had begun. But what about the European construction ?

Core and peripheral countries in the "European construction" ...

The "European construction" (i.e. the building of a supranational political European Community which became the European Union (UE) in 1993) highlighted the asymmetric relationships between core countries and eastern and southern peripheries.

Analysis in terms of "core/peripheral countries" are necessary to understand how the norms and mode of financing are determined. These structures need to be contextualized : those within the framework of the Union differ from those between the UE's core countries and non members peripheral states (for instance, the supposed "free-trade" euro-mediterranean zone proposed by the French government). Conflicting policies and economic situations also differentiate core countries like France, Germany, Great Britain. Altogether, the EU's architecture, which is now confronted with a serious crisis, was not a preconceived "project" with a clear-cut political consistency among historical founding members since the Rome Treaty in 1957. The future EU countries succumbed to the crisis of the Bretton Wood's international monetary system at the beginning of the 1970s, which produced several attempts at building a European monetary system (EMS) among member states, with an official european currency unit (ECU). The ECU-based EMS was confronted to another crisis when the Maastricht Treaty was signed in 1992 preparing the euro as single currency. All those transformations occurred in the context of the neo-liberal US-led globalisation and arms race, which had begun in the early 1980s.

French and German choices were key to the political and institutional changes of the European community. Therefore, the social-liberal turn in France in 1982/1983 was the political precondition for a new institutional phase in the European construction, started by the White Book in 1986 : it radicalised free market competition and introduced the suppression of control on capital flows. The "economic and monetary Union" was aimed at building a "competitive Europe". The German unification was not foreseen in such a project. And the US, British and French governments didn't share the same views in this matter...[iii]

The European community's enlargements to southern and to eastern European countries included both similarities and stark differences. All of these countries increased the socio-economic and political heterogeneity of the Community. Also, all the new members came out of dictatorships and were poorer and more rural than the average of the other members. Last but not least, in both cases, the core countries' vote in favour of the enlargement had more geo-political than economical purposes. Had the stake only been the imposition of market relationships of domination, "usual" means of so-called "free exchange" and financial dependence would have been easier to implement than the complex constraints of institutional enlargement... And many actors argued in favour of claryfing and "deepening" first the unity and mechanism of decision making before broadening the heterogeneity of the Union. Some voices of the left even

opposed the eastward enlargement with the argument that it was a US project aiming at a “dissolution” of a political rival into a NATO and free market zone... The “reality” is that geo-political issues were involved in a non linear and multidimensional “process”.
When Greece, Portugal and Spain began to discuss entering the EC at the end of the 1970s, the Portuguese revolution and Allende's Chile were to be eliminated from popular hopes and memories. At that time, the bi-polar world was, in fact, threatened by thriving anti-colonialist and anti-bureaucratic movements... it was a period when US imperialism itself was losing its hegemonic strength. Therefore, the integration of the southern European peripheral countries in the European community had to be an attractive socio-economical and political (even if capitalist) alternative : equal status for members and political democracy against dictatorships were stressed – including a “regional” approach which could be sensitive to conflicting national issues within the multinational Spain, even if it was more market-oriented than democratic. Emphasis was put on the need for redistributive funds (therefore an increased European budget) to decrease inequalities between members : the obvious fact that “pure market competition” between uneven regions and countries simply increases the gaps between them – and therefore produces less cohesion – was clearly recognized. Altogether, slogans and funds were pushed forward in favour of the three new members from Southern Europe and as well as Ireland (called at that time the four “*Cohesion's countries*” - which contrasts with the contemptuous acronym built on their names twenty years later : P.I.G.S.).

But the fall of the Berlin Wall in 1989 opened a more radical historical turning point at the heart of neo-liberal globalisation and European construction. The dismantling of the “Soviet block” was of course a much wider geo-strategical and ideological stake... And it was determined (but not foreseen neither clearly controlled) through the German issue.

From German unification to eastward enlargements- and from NATO to UE's big bang

The German unification – with Gorbachev's signature – was the first step of a “domino effect” favouring the end of the single party and central planning system in the whole region. But it also radically changed the functioning of the European Union and its political, financial and military dimensions.

The final scenario has been far from Mitterrand's or Gorbachev's initial projects of “common European House”, confederal Germany and dissolution of the two cold war's Pacts. Gorbachev's aims were to reduce the arms race and to win western credits and technologies for the internal reforms of the SU through agreements with the Federal Germany. His final signature permitted the repatriation of Russian troops generously financed by Germany in spite of the fact that the kind of monetary unification of Germany on the basis of the DM, and the integration of GDR in NATO were not at all included in the package deal... The unilateral dissolution of the Varsaw Pact was finally accepted with the “promises” that NATO would not extend eastward...

But the US geopolitical aims were (besides the dismantling of the SU) to try and define new “functions” for NATO and to prevent the consolidation or establishment of any political and military rival. The German unification and its integration in NATO, then NATO's intervention on Kosovo and extension in Eastern Europe had to serve all those purposes[iv].

Together with the German unification, Poland’s neo-liberal turn and integration in NATO were strategical issues for the dynamics of the whole region : the independent trade union, Solidarnosc (Solidarity), had led an impressive democratic mass workers movement mobilized in 1980 against the former regime, but in favour of a “self-managed republic” - far from meeting neo-liberal criteria. Solidarnosc had already been dramatically repressed after 1981 by the Polish “communist” general Jaruzelski and the former single party's dictatorship. This repression increased the rightist ideological evolution of its members and leaders while sharply reducing the size of the organisation. But for the US-led turn in 1989, any hope or lasting elements of self-management within factories, or any demands in favour of social rights were to be eliminated or turned towards the illusions of “privatisations”. That was the function of neo-liberal “shock therapy” in Poland, combined with the not-very-public cancellation of a broad part of the Polish debt and with a very high level of corruption of trade union leaders.

But what did that mean for the European Community ? The US choice to integrate the unified Germany within NATO was parallelled by the French effort to convince the German government to enter the European monetary union... In 1992, the Maastricht agreements were established with such a purpose (as we will stress again later). In addition, the “Copenhagen Criteria” established by the European summit in Denmark in 1993, defined the supposed rules for accepting new members[v].
Nevertheless, during a broad part of the 1990s, the World bank, the IMF and NATO – therefore US diplomacy - were much more active in Eastern Europe than was the European commission. Washington took advantage

of the European and United nation (UN)'s failures in dealing with the Yugoslav crisis, to define the new role and extension of NATO in Eastern Europe.

The “big bang” of eastward enlargement of the Union became decisive in 1999. The context was, on one hand, increasing turmoil produced by opaque privatisations ; and, on the other one, the first NATO war (in Kosovo). Ten years after the fall of the Berlin Wall, the opening of the EU to ten East European candidate countries was again a geostrategical choice with several dimensions : a way to try to counterbalance (or at least be associate to) the direct US influence in Europe ; an attempt at lessening increasing popular disillusion and dissatisfaction about the effects of privatisations (with the collapse of all neo-liberal coalitions, then of social-liberal parties and of abstentions in the elections and increasing xenophobic nationalist parties). But it was also an ideological stake for the defenders of the neo-liberal European construction, lacking “material” evidence of well-being and real democratic choices for the populations : this new enlargement was presented as an historical and generous “reunification of the continent...”.

Ideology is built on lies and significant omissions. But it reveals which arguments were useful to be put forward to win some popularity : not the general wild market competition, destruction of social services and the “really existing capitalism”... On the contrary, “democracy and freedoms”, more peace and cohesion at the continental level, solidarity and sharing the highest “values” on human rights had to be stressed... Who could be against it?

Joining the Union to become less peripheral ?

The EU is not NAFTA (North American free trade agreement between US, Mexico and Canada). Membership in the EU gives a political statute. There should be no doubt here about the lack of real equality and of real power of popular democratic control within the European institutions : they are dominated by non-elected bodies. But the specificity and attractiveness (even if illusionary) of the “European construction” in peripheral countries can be illustrated through different issues which should be taken in account to develop a democratic European alternative : first, the acute debates (specially in Poland) around the number of voices given to each member states within the European council, revealing the will of peripheral countries to be respected and treated on equal footing [1] ;

[1] The number of voices is supposed to be according to the size of the population and not to the level of development. Germany, France, Italy and GB have 29 voices

second, the relative importance of European funds for the less developed regions and countries - even with a very narrow budget to share – because of their non market redistributive logic to reduce inequalities ; third, the “image” of a “European social model” explicitly used at a propagandist, ideological level by the European governing institutions (like the European commission -EC) to make the people vote in favour of the Union (polls and enquiries made by eurostats have also confirmed high social popular expectations about the role of the European construction) ; fourth, the popularity, especially among young people, of the alleged withering away of frontiers - a hope later confronted by Shenghen's anti-immigrants ”witch hunt”, racism and new walls of poverty...

But all that meant that one could vote for entering the Union with very opposing logic : Margaret Thatcher was a champion for the Czech Right parties which wanted free market competition against any power for “Brussels”... On the other hand, entering the Union could be associated with the feeling of an easier resistance against relationships of domination from the core countries, national xenophobia and neo-liberal competition.The hope of establishing organic links with other European people, on common basis was the dominant logic of the Hungarian left, which was involved in European social forums... It could also be summarized by two kinds of “realistic” remarks heard in Eastern Europe at that time. The first one was : “we have already been submitted to international and European capital and financial institutions – let us have at least access to some funds and rights”. The second was heard in Slovenia, the most developed part of the former Yugoslavia, and the richest of all East European new members of the Union : “better be the last in the town than the first in the village”...

A look back at the “generous” choices of

the “historical” unification of the continent…

The fall of the Berlin Wall in 1989 began a new historical phase for Eastern Europe. But it also marked a turning point at the heart of neo-liberal globalisation and European construction.

The Maastricht Treaty in 1992 tried to contain the socio-economic and political heterogeneity of the member states by narrowly monetarist criteria without equivalent policies in the richest countries of the planet

---

each ; Spain or Poland have 27 each ; Austria have the same number of voices as Bulgaria... Of course all that does not mean “democracy” and real equal power ; but it expresses some political constraints within the Union.

(Japan, the United States…): limitation of public deficits and debt associated with a veto imposed on the central banks of the eurozone against financing member states. Behind largely arbitrary criteria, what was being negotiated was Germany's abandonment of the deutschmark and its distrust of the "laxness" of the peripheral countries - in fact, since the countries of Central and Eastern Europe were still far from even being part of the EU, it was the southern periphery of the Union that Germany distrusted with regards to the creation of the euro and the future status of the European Central Bank: it was out of the question (and Germany inscribed this in its constitution) that the ECB should assist a member state in difficulty. This stipulation is at the heart of on-going conflicts with Angela Merkel about how to answer the "sovereign debt crisis" to-day. Therefore while each national budget had to lean towards being balanced, there was no question of an increased European budget to compensate for this constraint.

The difference in per capita GDP between the poorest and the richest states of the Union was, with the entry of Spain and Portugal in 1986, from 1 to 4.9. With the arrival of Romania and Bulgaria in 2007, it increased to 20.1. But whereas enlargement towards the countries of Southern Europe and Ireland was accompanied by an increase in the "structural funds" of the European budget, as we already stressed, it was the opposite which was decided in the EU's "Agenda 2000". Germany had only given up the deutschmark by obtaining severe budgetary rules; and it did not want to "pay out" for the integration of the countries of Central and Eastern Europe[vi]. However enlargement "paid in" for Germany: it delocalized many asembly shops or productive units there, exerting downward pressure on German wages and basing its (weak) growth during the 2000s on export surpluses. But the European budget was fixed at a ceiling of one per cent of European GDP (versus 20 per cent ceiling imposed for the US federal budget), whereas the "Stability and Growth Pact" imposed (as a pre-condition to join the eurozone) limited debts and public deficits, while prohibiting any financing of states by the central banks at reduced or zero rates.

But behind the "norms" and rules to be respected, the European construction covered large asymmetries in the powers that states had, and in particular a "German exception", codified as such in the draft European Constitutional Treaty: over more than ten years, the budgetary transfers of the Federal Republic of Germany towards the new länder came to more than 100 billion DM per annum (more, each year, that the entire total of private capital investing in Central and Eastern Europe during this entire period). In the course of the decade, these colossal resources were not used to improve the wellbeing of the East Germans (as was demonstrated by their political discontent and corresponding voting trends) but to dismantle the social state, to encourage privatizations and to keep wages low under the pressure of competition with the wage levels in neighbouring Eastern Europe…

Transfers of productive units ("delocalisations") were encouraged by the enlargement of the Union, andGermany took advantage of its proximity to the new member states of the East to impose drastic wage austerity: between 2000 and 2007, nominal unit labour costs fell by 0.2 per cent per annum in Germany, whereas they increased by 2 per cent in France, 2.3 per cent in Britain, between 3.2 and 3.7 per cent in Italy, Spain, Ireland and Greece – witha nominal increase , in the peripheral countries, that was augmented by higher inflation.…

And there appeared another major destabilizing element of this construction: (weak) German growth was based on export surpluses, with low inflation and weak domestic demand, as well as a sharp drop in wages helped by the transfer of German factories to Eastern Europe. But the German surpluses corresponded to growing deficits in the periphery of Southern and Eastern Europe, though not being homogeneous entities[vii]

Germany determined, along with France, the Maastricht criteria of the Union, but was one of the first not to respect them; Germany holds the purse-strings of the budget, emphasising how much it contributes… without saying what it earns via its exports…

And via "imports" within intra-multinational "trade",the final product "made in Germany" incorporates low-cost inputs and low taxes on profit earned by Eastern Europe subsidiaries...

The other side of the coin is therefore the dependence of several Central European countries on German's growth.

Altogether, by the time the financial crisis linked to the subprime mortgage sector erupted in the summer of 2007, "emerging Europe" (as the EBRD calls it) had received much higher capital inflows than Latin America and "emerging Asia", but for what kind growth ?

The different phases of the capitalist transformation

before the crisis

in the future "New member states" NMS[viii],

The dominant features of capitalist transformation can be used to classify the history of the NMS between the fall of the Berlin Wall and the crisis of 2008-2009 into two major phases. GDP growth rate, however, divides the post-Berlin Wall period into three phases:

Table a : Different phases before the downfall in 2008-2009

Average rate of growth of GDP and jobs

	1989-1994		**1994-2000**		**2000-2007**	
	GDP	**Jobs**	**GDP**	**Jobs**	**GDP**	**Jobs**
Bulgaria	-5.7	-5.8	-0.2	0.0	5.6	2.0
Estonia	-1.6	-4.3	5.8	-2.7	8.0	1.7
Hungary	-3.2	-4.2	3.6	0.5	3.8	0.3
Latvia	-11.2	-5.1	4.3	-2.3	9.0	2.4
Lithuania	-11.5	-2,0	4.5	-1.2	8.0	1.3
Poland	-1.6	-3.6	5.7	-0.2	4.0	0.6
Czech Rep.	-2.3	-2.0	2.2	-0.8	4.5	0.8
Romania	-4.6	-1.8	0.1	-2.4	6.1	-0.8
Slovakia	-2.4	na*	3.8	-0.6	6.2	1.0
Slovenia	-2.3	-4.6	4.3	-0.3	4.4	0.9

Source : Eurostats and the online database de WIIW (Viennese Institute of International Economic Studies)

From 1989 to the end of the 1990s: the system's transformation through privatizations – under the dominant form of “mass privatization”.

- sub-phase (generally called “systemic crisis”) was characterized by overall negative growth rates, more or less up to the middle of the decade ;
- then a “recovery”, with uneven positive growth rates.

The 1990s was overall a decade characterized by destruction of the old system : privatizations, the suppression of planning, and changes in the criteria of economic policy and management werelinked to radical changes in the functions of money and the banking sytem. The beginning of what has been called by international institutions, “the transition to market economies”, in the first half of the decade, was marked by declines in growth of 20-40 percent in all branches of the economy, both in the former Soviet union and Eastern Europe as a whole. And when recovery took place[ix] in an unequal manner, it was in the framework of a radical social transformation, with job losses and widening of income differentials: “inequality increased in all the economies of transition”, which “began the transition with levels of inequality that were among the lowest in the world"[x].

Life expectancy at birth in the countries of Eastern Europe

<u>compared to the figures for France</u> in the same years

	Average 1970-1975	Average 2000-2005
Bulgaria	98.1%	89.7%
Hungary	95.7%	91.0%
Poland	97.4%	93.5%
Czech Rep.	96.8%	95.4%
Romania	95.6%	89.2%
Slovakia	96.7%	93.3%

Source : United Nations (UNDP), *Human Development Report, 2004*, New York 2004 – quoted by Jacques Sapir, *La fin de l'euro-libéralisme,* Seuil, Paris 2006, p.95.

Without this data, we cannot understand why within the framework of pluralist elections - the main new positive asset against the former regimes - the popular votes went… to the former Communists from the very first years of the 1990s. This was not a question of nostalgia for the one-party state –which was radically rejected - but of the right to employment and to access for all to basic goods and services. Except that the "ex" no longer defended these rights, which were excluded from the kind of growth and "convergence" advocated by the old Europe. From now on, the proclamation of "catching up" was only based on the comparison (East/West) of rates of growth of GDP - which is in no way an indicator of "wellbeing"[xi]

The convergence of systems had privatizations as a bench-mark. But with what money-capital? The old system did not make accumulation possible and those who had formerly run the party-state preferred to be the recipients of privatizations… Thus were invented the "mass privatizations" carried out (in various forms) by the legal transformation of enterprises into private limited companies. Their "social capital" was transformed into equities, divided into shares and distributed virtually for nothing, partly to workers and citizens and the remainder to the state. Only Hungary and Estonia chose at the beginning of the "transition" to sell their best enterprises for "real money-capital" – in other words to sell them to foreign capital[xii.]

As the functionning and criteria of the former system were not based on market prices and mechanisms, the privatisations were associated with new systems of prices and incomes and therefore substantial « losses » and « bad loans ». There were no commercial banks in the planned economies and very limited deposits or savings. In the midle of the 1990s, the bulk of the banks was still state-owned, and the share of foreign banks in the 10 Central and Eastern European countries ranged from 1% to 15% except in Hungary (where 8 out the 10 biggest banks had been solld to foreign owners in 1997) and Slovakia (where their share amouted to 33%)[xiii]. But the real « bank sell-off » began around 1998, in the context of the international « General Agreement on Trade and Services » opening financial spheres to the free flow of capital.

- From 1999 to 2008: the “big-bang” of the enlargement of the EU to the East : dominance of foreign capital in the newly privatised banking system, increasing FDI and « catching up » ?

The undertaking by the EU to admit ten countries of Eastern and Central Europe was presented as a “success story” illustrated by a high rate of growth and increasing foreign direct investments (FDI) going to those countries up to 2008. The first eight countries[xiv] which were admitted in 2004, along with Cyprus and Malta, could vote in the European elections that same year. Romania and Bulgaria were admitted in 2007, and the Council of Salonika in 2003 promised that the EU would be open to candidatures from the Western Balkans (Albania and the ex-Yugoslav republics – apart from Slovenia, which is already a member).

In spite of different scenarios and rhythms of reforms, the neo-liberal rules for the “transition” from plan to market economies, as well as the heavy involvement of Western banks in the process(specially in New member states)were generally[xv] presented as solid assets : those countries seemed to be protected from the international credit crunch.

Table b : **The unbalanced growth of the Baltic States before the crisis**

in 2006	**LITHUANIA**	**ESTONIA**	**LATVIA**
Growth of GDP	7.8%	10.4%	12.1%
Growth of Crédit	35%	53%	52%
Trade balance	-9.5%	-14.6%	-21.3%

(as % of GDP)
Source : BIS (Bank for International Settlements)

The East european periphery :

what "model" of growth and financing ?

The "transition's model" was turned towards private financing because private capital is, according to the liberal dogma, always supposed to be more efficient than public investments and financing... Therefore, decreasing taxes on corporate benefits were implemented to attract private investment flows. And in order to reduce the fiscal deficit, the tax on added value (VAT), the most regressive tax paid by consumers on products, had to be increased. In fact, at the beginning of the "transition period", such a tax had to be introduced in eastern Europe, as it did not exist in former regulated economy.

In the whole EU, the corporate tax rate fell by 8.4 percentage points between 2000 and 2009, with the lowest rates established in the East. For example, this rate was 15 percent in Latvia (compared with an average of 23.5 per cent in the EU 27)[xvi]. The adverse effects quickly became clear : as the fiscal resources were globally being reduced, budget's equilibrium was to be found in the privatisation process and the reduction of social financing of public services.

But we have already mentioned another strategic source of financing under the pressure of capitalist transformation and European integration: the privatization of banks. In Central and Eastern European countries, years after 2000 saw the onset of an organic banking dependence encouraged by EU membership: in 2008, in the 10 new member states (except Slovenia), the large majority of banking assets was held by foreign banks (between 65 and 80 percent for Latvia and Poland, and for the seven others between 82 and… 100 percent)[xvii] Such transitions occurredeither through acquisition of shares in the privatisation process, or under the form of *de novo* banks, which were subsidiary companies of Western European banks. According to geographical situation of home countries, the majority of banking assets has come from Greece and Italy (in South Eastern Europe), Austria, Belgium, Germany, France or Sweden (in Central European and Baltic countries).

Table c : Share of foreign banks in total banking assets in new members of the EU (2009)

Bulgaria	Czech Rep.	Estonia	Hungary	Latvia
84%	84%	98,3%	81,3	69,3%

Lithuania	**Poland**	**Romania**	**Slovakia**	**Slovenia**
91,5%	72,3%	84,3%	91,6	29,5%

Source: EBRD Transition reports 2009 and 2010

In Slovenia the share of foreign owned banks in total assets was still less than 30% at the end of 2009 whereas the state kept the bulk of its infrastructures (energy, transport…) under public control, as highlighted by repeated reproaches of the European Commission, the World Bank, the OECD and the EBRD[xviii]… But at the end of 2009, the Slovenian state-owned banks share of the total banking assets was no longer dominant. Therefore, a specific Slovenian structure of ownership appeared, In 2009, the state still kept 16,7% of shares (as opposed to the 0 % in Estonia or Lithuania – but 22% in Poland)[xix]. But whereas in Poland the majority of banking assets is now foreign-owned, the reluctance in Slovenia towards FDI explains why about half of the total banking assets in 2009 was neither foreign nor state-owned. A paradoxical scenario has occurred there : in the last decade of the former Yugoslav system, the banks had be integrated in the "collective ownership" as captive financial service of self-managed enterprises. After 1990, they became "privatized" within the juridical transformation of the factories which had become their shareholders. The period of "systemic crisis" (also associated with the disintegration of Yugoslavia, in the first half of the 1990s), produced losses and a large bail-out of the majority of those banks by the central bank, with a formal rehabilitation status. At the end of that rehabilitation, in 1997, the largest Slovenian banks became... state owned. But under the pressure of the European commission, before entering the Union in 2002, Slovenia had to "liberalise" its banking system. Selling the "family silver" to foreigner was not a popular solution. So an opaque and lasting process of domestic privatisation occurred ... as the Slovenian economist Joze Menciger commented in 2008, "when the Europeans are nationalising" banks (because of the international banking crisis)...[xx]

The role of central banks has evolved under the constraint of European Treaties for the new members or candidates : in case of budget deficit, they could not lend money to the government (which they used to do at low or negative rate of interest as national public banks) : governmental bonds with sufficiently high rate of interests to attract foreign capital were the answer... In order to respect the "criteria" of budget equilibrium, the contraction of revenues from tax was accompanied in general by cutting welfare expenditure. Hungary, which was under social resistance to such choices, had to turn to the financial markets to finance its deficit, which increased more than the other countries' deficits (see table).

From 2000 until the first half of 2008, the economies of central and eastern Europe experienced large amounts of FDI from the West, a credit boom and rapid expansion in consumption and investment, with a large share of foreign currency lending and systematic external imbalance of the current account.

Table d : Balance of the current account as percentage of the GDP

	2006	**2007**	**2008**	**2009**	**2010 (f)**
Bulgaria	-10,5	-13,4	-11,6	-4,5	-5,8
Czeck .Rep	-2,4	-3,2	-0,7	-1,1	-0,7
Hungary	-7,2	-6,6	-7,0	0,2	-
Poland	-2,7	-4,7	-5,1	-1,6	-2,0
Romania	-10,5	-13,7	-11,6	-4,5	-7
Slovakia	-8,2	-5,7	-6,6	-3,2	-2,8
Slovenia	-2,5	-4,8	-6,2	-1,0	-0,8
Estonia	-16,9	-17,8	-9,4	4,6	2,9
Latvia	-22,5	-22,3	-13,0	9,4	4,5
Lithuania	-10,6	-14,5	-11,9	3,8	0

Sources : Etudes du CERI n° 171 décembre 2010 (WIIW)

The current account integrates both the trade balance (export minus imports of products), service and income balances. Significant features covered the imbalance : the increase of FDI in Eastern Europe during the2000s had different dimensions, among which the choice for multinational to transfer part of their production where taxes and wages were low, import the semi-finished products they needed (even if such production existed in the country) and export to the Western markets. So if they contribute to a growth in exports, they also contribute to the unbalance of trade by forced imports and they increase the current unbalance through out flow of large part of profits : that also has been behind the crisis of such model in 2009... Another part of the trade unbalance was the increase of consumption of foreign products facilitated by credits : according to the EBRD, the ratio of credit to GDP (beginning with 30% on average) doubled between 2001 and 2007 in “emerging Europe”, specially in NMS.

The Hungarian economy had showed the first signs of weaknesses with a fall of its rate of growth from 4% in 2006 to less than 1% in 2006 and 2007. Hungary’s experience revealed general social tensions behind the “transition model”.

People in transition ?

Eric Berglöf, Chief Economist of *the European Bank for Reconstruction and Development (EBRD)* writing the foreword of the *2007 Transition report* had to comment on the chapters devoted to different aspects of the ”People in transition” : on one hand he stressed ”an impressive pace” of growth. However, he also stressed “large external imbalances” and significant household borrowing “in foreign currency”. Presenting the result of the enquiry (worth being read), he could only underline a sharp “contrast” among people themselves : “between strong growth and improving living standards on the one hand”, with “most people” recognising “that their lives are better today than before the transition began” ; however, “broad dissatisfaction with the outcomes of the transition on the other hand”, because “at the same time, people have a profound sense that their household wealth has deteriorates in relative terms (...)
This had made them sceptical about how and whether the market can improve their lives and safeguard their livelihoods”. The EBRD's Chief economist honestly concluded : “It has also eroded their support for reform-minded political parties and had led them to expect more from their governments in terms of tackling social and economic problems and correcting past injustices”... It which “also undermines support for economic and political reform” ...

This was before the crisis... The social reality of the “transition” (which is of course not reflected by GDP growth rate) could be read in several chapters of polls : they were dealing with inequality poverty, unemployment and decreasing morale... People were defending social services, especiallyhealth care, and particularly the case in Hungary[2]...

[2] Read in the Newsletter n°9 (october 2008) of the network *PRESOM (Privatisatiion and the European Social Model)* the article written in Budapest by Karoly Lorant,

With no big surprise (for us) in the EBRD's report on “People in transition”, women appeared to be the most radical defenders of social equality and public services. And obviously the EBRD's Chief economist was impressed by the people's sense of “well-being”...
But his concern was to convince people that “private-sector involvement – through partnership with the public sector” could seriously “address the persistent problems that the government have in upgrading public services”... (pages VI and VII of the forenote).

The social resistance in Hungary against the privatisation of public services and especially the healthcare sector (with several referenda won against the government initiatives) while the best factories had already been privatised in the past decades, combined with neo-liberal constraint on fiscal and monetary policy, produced an increase of government deficits.

On that field other countries like the Baltic states had been more “disciplined”. As can be seen in table c (between []) the level of government debt (which is the stock of accumulated past annual deficits) was extraordinary low in NMS in comparison to the “old Europe” even in 2009, the year of a sharp increase, due to the international recession and its effects in Eastern Europe. With the exception of Hungary, it was in general under 50% of GDP, and down to 7.2% in Estonia...

But several countries faced the same issue as Hungary on another topics : private debt in foreign currency through the banking system... with increasing imbalances.

At the beginning of the 2000s, the international lowering of interest rates (linked with the US Federal Reserve's decisions, aimed at preventing the recession) had encouraged taking on debt in foreign currencies wherever the exchange rates were favourable. Nearly 90 percent of Hungarian mortgages since 2006 have been denominated in Swiss francs and the total amount of loans in Swiss francs outside of Switzerland has been estimated to be the equivalent of 500 billion euros. Forty-five percent of the entire Hungarian market in real estate loans and 40 percent of all consumer loans are denominated in Swiss francs rather than in the national currency, the forint - which became a trap when interest rates on Swiss francs increased and capital flight made the forint drop in value.

“Hungarian doctors and civil organisations try to rests healthcare privatisation”.

The amount of the loans granted (in particular by Austrian and Swedish institutions) was the equivalent of 20 per cent of GDP in the Czech Republic, Hungary and Slovakia and 90 per cent in the Baltic States. These countries had to refund or refinance the equivalent of 400 billion dollars in 2009.

In 2009, almost the whole of the 1700 billion dollars of East European borrowing was in fact held by West European banks (between them Austria, Italy, France, Belgium, Germany and Sweden alone hold some 84 percent). However, private banks gave priority to buying public debt and to consumer credit, facilitating the access of the multinationals to the retail sector… and to investments in real estate. The frenzy of debt-fuelled consumption (after years of impoverishment) thus provided a base for the leap in growth (in particular in the Baltic States) accompanied by profound disequilibrium in the balance of trade, particularly in those countries where foreign exchange rates "were stabilized" by being rigidly pegged to the euro (the Baltic States in particular).

The new East European periphery faced with the test of the crisis

- **2008-2011:** after the boom , the downfall (2008-2009) and the new institutional role of the IMF in the European crisis ; and (2010) the beginning of a dominant export-led and uneven recovery

The fall happened to be the sharpest where the growth had been the most spectacular – in Estonia and Latvia with – 5,1 and – 4,2% negative growth rate, respectively, in 2008, and a further slump in 2009. All other Eastern European states (except Poland) were confronted to the most radical recessions of the whole Union in 2009. Their negative rate of growth ranked from from -4,2 (for the Czech Republic) to -18% for Lithuania.
We will come back on that last phase (the roots of the crisis and the very fragile export-led recovery with some specificities) after a global view about the "European construction" and its core/peripheral relations : Estonia's entry into the eurozone occurred recently, after more than 40% negative growth in 3 years... but with an incredibly low stock of government fiscal debt : 7,2 as share of GDP tp be compared with the 60% for Maastricht's "rule". The "worst pupil" has been Hungary with 78,5% government debt combined with a serious private debt in foreign currency which opened a credit crunch in 2008 and a new phase in the history of the IMF/EU relationship : before the unfolding of the Greek crisis within the Eurozone's south periphery, the eastern periphery of the whole Union has demonstrated to the EU to its deep lack of cohesion...

Table f : GDP's growth in %

GDP's growth %	2007	2008	2009	2010 (f)	***Government déficit *[debt] in 2009 % of GDP***	**GDP per capita in PPP (US$) (2010) UE =30,835**
Bulgaria	6,4	6,2	-4,9	-0,1	*-3,9 [14,9]*	*12,052*
Czech Rep.	6,1	2,5	-4,1	2,3	*-5,2 [35,5]*	*24,987*
Hungary	0,8	0,8	-6,7	1,1	*-4,0 (78,4]*	*18,815*
Poland	6,8	5,0	1,7	3,5	*-7,1 [50,9]*	*18,837*
Romania	6,3	7,3	-7,1	-1,9	*-8,3 [23,9]*	*11,766*
Slovakia	10,5	5,8	-4,8	4,1	*-6,8 [35,4]*	*22,267*
Slovenia	6,9	3,7	-8,1	1,1	*-5,5 [35,5]*	*27,889*
Estonia	7,2	-5,1	-13,9	2,4	*-1,7 [7,2]*	*18,274*
Latvia	10,0	-4,2	-18,0	-0,4	*-8,9 [58;0]*	*14,330*
Lithuania	9,8	2,9	-14,7	1,3	*-8,9 [29,5]*	*16,997*

Sources : Eurostats ; and (*) Etudes du CERI, décembre 2010, WIIW.

Beginning in September 2008, outflows of capital and the contraction of exports started to affect several countries, which called on the IMF. The first to ask for help were those whose growth had been most dependent on external loans and financing (Hungary, Ukraine, and the Baltic States). But in 2009 only Poland (and Albania before going into recession at the beginning of 2010) kept a slightly positive growth rate; in the other countries the drop ranged from around 3 percent to more than 10 percent and was sharpest in the three Baltic States, accompanied by political and social crises.

Questions began to be raised about the quality of the growth, if not of the model [xxi] : “the countries of Central and Eastern Europe were (...), even before the crisis affected them, weakened by the imbalances inherent in their model of growth. So the convergence outlined (...) was probably not an intrinsically sustainable process (...). But it needed what the crisis revealed for that to appear clearly”[xxii]

In May 2009 we wrote “toward western/eastern European banking and social tsunami”[3]. The reality of the social shock is underestimated due to the following reasons : the lack of informations on social issues and conflicts ; the terrible difficulty of resistance under the pressure of increasing unemployment and poverty (which is a general issue explaining why the crisis is used to impose further privatizations and cuts in social benefits ; and the ideological strenghth of neo-liberal arguments on the “necessity” of austerity against debts... .The social back-lash has so far been under control, and marked by increasing xenophobic right-wing trends with the “left” being viewed as liars and beneficiaries of past privatization.

In November 2009 a report prepared by the EBRD's experts recognized that “Emerging Europe suffered larger output declines during 2008-2009 than any other region in the world”. The authors indicate in the introduction of the paper : “Given the high degree of integration of the region with advanced countries at the centre of the crisis, and large pre-crisis financing needs and macroeconomic vulnerabilities, this is not surprising”... But they added : “economic policy reactions said well clear of populist and confiscatory measures experiences in previous crises” - which means, in spite of huge social regression, that the “policy maker” should maintain the neo-liberal lean.

Several questions will certainly require further analysis and more time ; and future discussion will have to specify analyses of different countries. But let us at least raise two sets of question-marks about the recovery and the effect of European integration, before a provisional conclusion stressing the instrumentalisation of the “debt crisis”.

Resilience and recovery – or social austerity and weak export-led growth ?

Real GDP began to increase during the second quarter of 2009 in most countries of central Europe, while South Eastern Europe has not emerged from recession. With few exceptions, the contribution of net exports (exports minus imports) to the growth was positive. Such a recovery in the

[3] www.europe-solidaire.org/spip.php?article13710 from International View Point, May 2009.

region is very uneven (see table f) and must be “read” after the sharpest among the world recessions. And, because it is mainly export-led, it raises a major contradiction and weakness : first, net-exports as source of growth is linked in several countries with the fall of imports associated with decreasing internal demand and with “more competitive” wages – therefore poverty. Second, trade surplus is highly dependent on the Union's growth (whereas the IMF and European institutions are launching a new “austerity pact”...) and especially the growth of Germany. Central European countries like Slovakia are the most integrated into Germany's cycles of growth (which has had a positive impact for the last year). For the moment Slovakia (member of the Eurozone) had increasing capacity in exports, partially supported by the depreciation of the Euro giving advantages for export in Eastern European countries.[xxiii]

In Poland, the relatively stronger resilience to the crisis (in spite of a sharp shock in late 2008) seems to have several causes : Poland’s more diversified economy, which combines export-led growth with internal sources of growth and different channels of financing ; important public and private investments in infrastructure and roads, facilitated by European funds in anticipation of the 2012 football championship (which will be held in Poland and Ukraine).

Banking integration : a strength ?

First of all, one should stress that private domestic banks can have the very same orientation as foreign ones, and a governance based of the same kind of “short-termism” : Economic weakness in Slovenia is probably linked with such trends.

Comparisons are made between the crises in Asia and Latin America ,characterized by and large outflows of foreign capital (at the end of the 1990s), and the crisis in the Central European and Baltic countries (CEB) as well as in the South European countries (SEE). According to the EBRD's Transition report 2010 banking integration has produced, “a much milder, but more persistent outflows from the CEB and SEE compared with other emerging market regions” (p.36).

One of the reasons for this new tendency is the fact “that most banks in the region are subsidiaries of foreign banks” : their behaviour was not as “volatile” as “portfolio”-style capital flows. “The need to refinance these subsidiairies may have slowed the pace of outflows”. Political and institutional pressures came also from the European union to “maintain exposures in the region”. That is the positive aspect of the integration. But...

But, in addition, “much of the cross-border lending to emerging Europe came from European banks that were faced with similarly sluggish recoveries in their home countries. These banks may have responded by limiting their expansion in both advanced and emerging European markets”... They may ? They often have. And that is why the “recovery” is no more based on credits financing internal demands (for housing and consumption...).

The EBDR is concerned about “the low share of local currency lending”, which has been a feature of domestic bank systems in transition economies for a long time” - in fact since the beginning of privatizations. The lending boom mostly took place in foreign currency, as already stressed – generally due to lowest interest rates... which turned into a nightmare when exchange rates and interest rates moved : in the whole region, as the European central bank and the IMF know, the number of persons unable to pay their debts is increasing. Estimations are not transparent and public. But defaults are lasting several years after the credit crisis. And that is true both for the subprime crisis and for the Eastern European “model”... East/West banking integration adds both sources of default to come... Even in Poland where the growth could be maintained by other sources, 8% of defaults on credits are expected (5.5% in Spain, 9% in Greece, 19% in Latvia, 19.2% in Lithuania, for 2010)[xxiv] .

But it is also true that in Central, Eastern European and Baltic countries, banks seem not to be too concerned about such default risk because of huge profits. In fact, the banks have used the crisis to increase their profit margin via enourmous interest rates imposed on their clients (up to 60 or 70% according to OECD[xxv]). This is one reason why, during summer 2010, a special tax was imposed by the Hungarian government on banks... to cover government deficits.

The instrumentalization of public debt

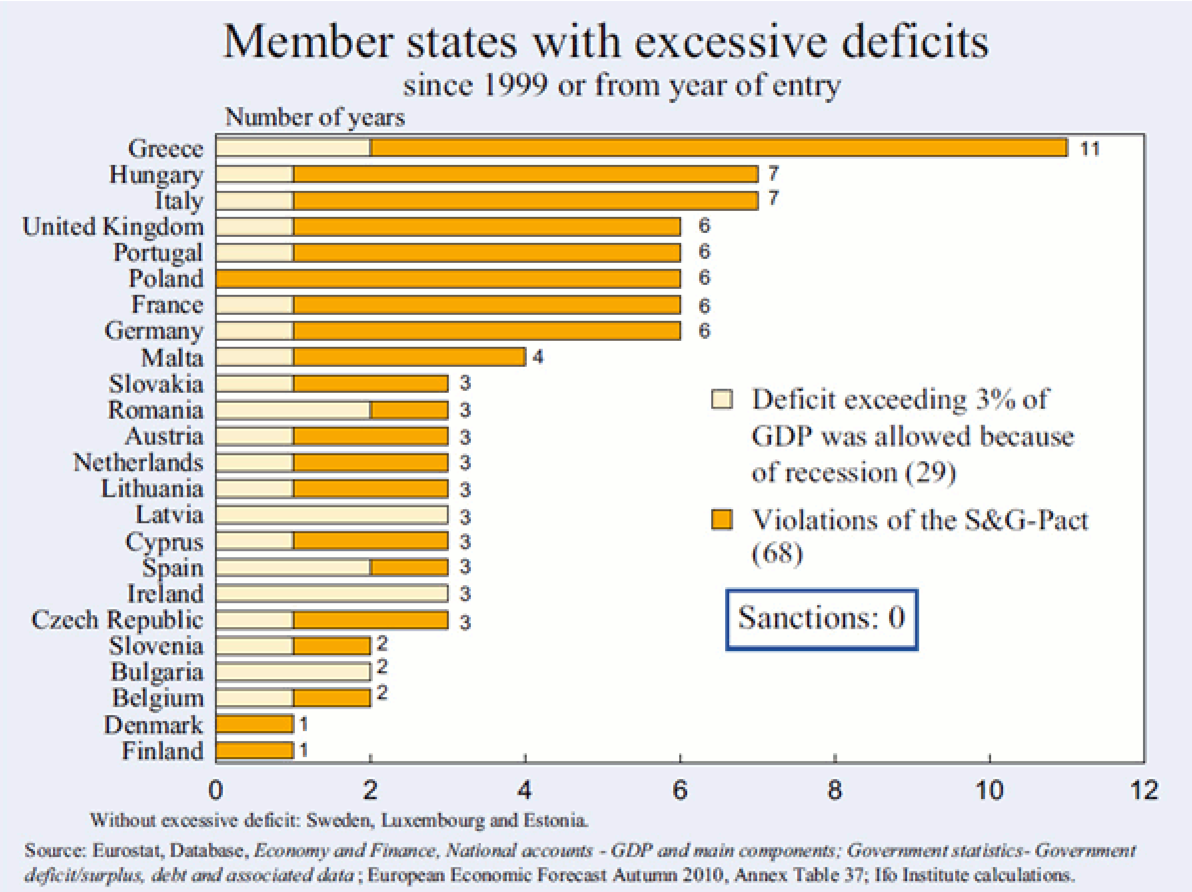
and the recourse to the IMF to impose new austerity plans:

from the peripheries to the centre?

The three crises whose effects are augmenting one another (the crisis of 2007-2009, coming from the US core of the globalized system; the one that threatens the weak links of the Euro; and the one that started to affect Eastern Europe in 2009) have a major common point: whether we are talking about the United States, Greece or the Baltic States, these crises are the repercussions of profoundly unbalanced growth, where the weakness of earned income and tax was compensated for by large-scale indebtedness, the source of financial profits. The delirious increase in this debt was facilitated, as in every capitalist crisis since the 19th century, by financial and stock-exchange operations that were taken advantage of by free capital.

The recourse to the IMF in the two “peripheries” of the European Union (the South and the East) is aimed at saving this structure. Applied in the middle of European construction, it both reveals the fragile features of the Union and accentuates them: The motivation for this recourse is putting back in place the monetarist straitjackets of the Treaties by protecting private finance, which is both the culprit and the primary beneficiary of the crisis. The aim is to impose, in the wake of the crisis, a new radicalisation of the anti-social policies that have been followed up until now: it is to suppress again welfare expenditures, pensions based on solidarity between generations, public sector wages, and the remaining forms of social protection... The extreme flexibility of work against any logic of collective rights, incomes and decent status, aims both at generating additional profits and making the unemployed, low-paid workers and those in precarious employment “guilty” of “too many” demands; therebydividing them, crushing them, and atomizing them in order to make them unable to fight back.

In the absence of progressive alternatives, the support for the far Right, from Hungary to the Netherlands, point to a sad future…



In central, Eastern European and Baltic countries, like in South-eastern Europe, the sharp recession in 2008-2009 (still not overcome in several countries) has produced fiscal deficits. But the global amount of government debt is low in comparison to the other part of the EU – or developed countries in general : in spite of this low debt level, the European commission has expressed warnings to several countries when deficits were exceedind the allowed level. And new cuts in social benefits and protections, as well as new increases of the VAT for consumers have been introduced, often under the direct rule of the IMF ; but also, like in the whole EU, to respect “rules” as new members of the Union.

The ideological discourse on public debt seeks on the one hand to camouflage, behind the urgency and “the obviousness” of the necessity of austerity, to what extent this “necessity” is of variable shape; and on the other, to obscure the real causes of the debt, associated with the transformations that have been carried out since the beginning of the 1980s. The change in the share of added value to the detriment of wages, considered as costs to be compressed, has been accompanied by a rise in household debt to sustain consumption… In particular as regards real estate… in the US as in Spain or Hungary…

The Estonian case is an extreme and specific illustration of the dominant “arguments” and social stakes associated to the European integration : a collapse of GDP's rate of growth of about 40% in three years but... a full respect of Maastricht criteria permitted Estonia to adopt t Euro in January 2011. The Russian issue has, since the beginning of the “transition” certainly played a specific role, radicalizing the rhythm and trends of privatization through organic integration in the EU with a rigid link to the Euro for the last several years.

The Euro-crisis (and Greek case) have been instrumentalized in different contexts (Slovakia is member of the Eurozone ; Poland and Hungary are not ; and Estonia decided to join !) : the fear of “becoming like Greece”, with a “risk of bankrupcy”, as a “red flag”.

European construction is "going forward", as in each former phase of its installation, because the decision-makers (but also the populations, in the absence of credible alternatives) fear that it is worse to stop than to continue. Nationalist and xenophobic reactions are among the worst possible alternatives. But the acceptance of the austerity plans imposed today by the combined action of the IMF and the European institutions, which are profoundly socially unjust, , will actually prepare the way for the rise of anti-European xenophobes ...

Because it is a particular European construction which is in crisis, in the framework of globalized capitalism. The governments that are in power serve the markets (all the European treaties have gone in this direction since the Single Act of 1986) - and the markets serve the dominant states: these states take refuge behind the anonymous “judgements” of the markets and behind the Treaties (which they signed) in order to “note” with fatalism the right policies to be followed, which are always the same: to reduce welfare spending, to dismantle public services in order to open up new fields of privatization and financial speculation. The European Treaties and the economic policies which determined them are bankrupt, and they were established, in variable forms, on the backs of the people and of any democracy worthy of such a name. It is freedom of movement and the free choice of human beings that is necessary to protect, not freedom of capital. The criminalization of poverty and the ethnicization of social questions are aimed at facilitating the repression of resistance, and stopping people from seeing the real causes of the crises and identifying those who are responsible for them.

A real social and democratic Union would satisfy the demands expressed in polls, strikes and enquiries : social priorities, dignity and cooperative logics as opposed to market competition. Means of financing must be put under public and democratic debate and control, and away from the sytematic balance sheet that propelled banking privatizations and European mechanisms and fiscal policies At the level at which decisions are made - in particular the European level –it is necessary to build, from the ground up, a solidarity-based resistance that contests the Treaties, the financing, and the finalities with the satisfaction of needs and basic rights… against the logic of scapegoats (“foreigners”) and of the law-and-order policies which accompany the destruction of social gains.

* Catherine Samary teaches economics at the University of Paris-Dauphine and at the Institute of European Studies of the University of Paris-8. She was a co-editor the recent *Le Monde Diplomatique* Atlas. She is a member of the New Anticapitalist Party (NPA) in France and of the Fourth International. She has written extensively on Eastern Europe and in particular, Yugoslavia. Among her publications in English are *Plan, market and democracy: the experience of the so-called socialist countries* (Amsterdam, International Institute for Research and Education, Notebook No. 7/8, 1988); *The Fragmentation of Yugoslavia; an overview (* Amsterdam, International Institute for Research and Education, Notebook No. 19/20 1993) and *Yugoslavia Dismembered* (translated by Peter Drucker, Monthly Review Press, New York, 1995).

NOTES (behind)

[i] In the 1970s , Western banks sought to use the dollars that came from oil revenues by offering plentiful credit to the countries of the South, but also – which is less well-known - to the Eastern European countries mentioned (Yugoslavia, Hungary, Romania, Poland and the GDR): the debt crisis that these countries experienced in the following decade was a decisive vector of the external pressures of Western creditors and of the IMF

[ii] See on my site http://csamary.free.fr , articles relating to these subjects concerning the "world disorder" or the "capitalist restauration"…

[iii] The opening of the archives 20 years after the fall of the Berlin wall, shed new lights on the hostility of Margaret Thatcher to the German unification, on Mitterrand and Gorbachev's initial projects of "common European House" and on the evolution of Helmut Kohl choices under US pressure. Read http://www.timesonline.co.uk/tol/news/politics/article6829735.ece

[iv] Read on all those issues the articles written by Peter Gowan published by *Labor focus on eastern Europe.*

[v] Those criteria were supposed to be the rules that define whether a country is eligible to become member of the Union (it is not the final decision but a pre-condition). : political institutions protecting democracy and human rights ; a "functioning market economy" and the integration in its legislation of the UE texts and rules.

[vi]German unification involved a transfer of some 100 billion DM per annum towards the new Länder over more than a decade

[vii]The strategies of growth in the countries of the South were different between Greece (financing a growth in consumption by debt), to Spain which based its growth on a scenario close to the real estate bubble of the United States and Britain. But in the East also the factors of growth were more diversified (therefore less fragile) in Poland than in the Baltic republics. And, since the countries of Central and Eastern Europe (except Slovenia and Slovakia) are outside the eurozone, the diversity of the kinds of exchange and budget policies was even greater.

[viii] We cannot deal here with the comparative scenarios of capitalist transformation and of the recent crisis in the whole Eastern Europe. Common features do exist between all of them, but also very important differences. Besides the Russian geo-political role, history, and huge resources in commodities – which need of course a specific approach -, one should also distinguish the countries coming out of the former Yugoslav and Balkan conflicts (involved in a process of negotiation to be associated to - or members of - the EU) ; and the countries coming from the former Soviet Union trying to find their place and interests between Russia, US, China and the EU. We shall focus here on the New member states (NMS) of the EU. This common feature does not suppress important historical, socio-economical, political differences that we will certainly not deal with enough... We shall indicate, at least, some of them for future analysis.

[ix]Poland was the first to return to growth and to catch up with the level of GDP of 1989… with a cancellation of its foreign debt that is seldom mentioned and a decade of repression marking a very low initial level…In 2000, only the countries of Central Europe had got back to the levels of GDP of 1989.

[x]The World Bank (WB), *Regional Overview*, 1998. See also WB *Ten years of transition*, 2002 Report.

[xi]you can have "growth", based on the GDP as indicator (and with the very same criteria "catching-up"of a country in comparison to others if its rate of growth is higher), but in the very same time increasing inequalities, unemployment and destruction of social rights and of

environment...

[xii] I develop the different forms of privatisations in particular in the article "the social stakes of east European Great transformation", Debatte, 2009 . See also Jean-Pierre Page, « Europe de l'Est : économie politique d'une décennie de transition », *Critique internationale*, n° 6, Winter 2000

[xiii] Read *Focus on European Economic integration,* special issue 2009, Marianne Kager, "A banker's Take on Twenty Years of CEE Banking Sector Developments".

[xiv] The first new member states (NMT) were Slovenia, Hungary, Poland, the Czech Republic, Slovakia, and the three Baltic countries (Estonia, Latvia and Lithuania)

[xv] Özlem Onaran's Working Paper n°108, "international financial market and fragility in the eastern Europe : "can it happen here?" "in September 2007, is in sharp contrast to that dominant "mood". The author stresses the fragilities of that growth associated with increasing current account deficits. Some concerns about that issue were also expressed by the IMF or the EBRD's Transition report in 2008. But the main "concerns" in such a report – as we will quote it later on -, were about the difficulty to "open" the people's mind to privatizations of public services.

[xvi]*Eurostats* June 22, 2009.

[xvii]Source: EBRD (European Bank for Reconstruction and Development).

[xviii]The report on Slovenia in the *Transition Report* 2009, p. 224, cites all these complaints.

[xix] EBRD's Transition report 2010

[xx]Joze Menciger, Ljubljana, article published in october 2008 in the Newletter n°9 of the European network *PRESOM (Privatisation and the European Social Model)* regrouping economists from different European countries. On that topics, read also "The politiocs of Europeanization in Europe's Southeastern Periphery : Slovenian banks and Breweries on S(c)ale, Nicole Lindstrom and Dora Piroska, *Queen's Papers on Europeanization* n° 4/2004

[xxi]See Jason Bush, "Latvia's Crisis Mirrors Eastern Europe's Woes", 03/03/2009, reproduced by *Spiegel online*

[xxii]*Conjoncture*, January 2010 n°1, « PECO, Alexandre Vincent, 'la convergence à l'épreuve de la crise' ».

[xxiii] There are no general rules concerning the impact of belonging or not to the Euro : it depends on the structure and importance of trade (with what countries, and what kind of products)...

[xxiv] *Courrier International* n° 1057, 3-9 february 2011 : "La Hongrie menacée par la crise des subprimes"[A subprime crisis threaten Hungary] translated from *Die Wel*t, Berlin

[xxv] *Same source : Courrier International, february 2011 (Die Welt)*