

propertied people, or the proletariat become into propertied people, but by handling problems of social distribution of wealth, labour reproduction and collective consumption.

Modern capitalism and industrial business, in the pursuit of profits, achieved the control of the market, distorts the system of human natural needs. Research on the modern people's need in cities has become the priority for the solution of social wealth distribution, urban and rural labor reproduction and collective consumption

Recessions Caused By Transition or Reform:

A Phenomenon in Need of Deeper Study

Wang Zhen-zhong

Since the 1980s, more than 20 European and Asian countries, including former Soviet Union, Eastern Europe countries and China, have transformed themselves from central planning economies to modern market economies. In the meanwhile, many countries in Latin America also launched a reform process. Up until now, the transition or the reform has lasted for more than 20 years. The different outcomes of the transition or the reform, especially the transition-induced recession and the reform-induced recession, deserve our great attention.

Firstly, the study on the phenomenon of “transition-induced recession” during Russia’s transition period shouldn’t be neglected.

The typical “transition-induced recession ” period for Russia started from its breakdown in 1991 to the occurrence of financial collapse on Aug. 17, 1998. The Shock Therapy caused a great economic and social recession. Taking the year 1990 as the base year, we can see that the Gross Domestic Product, the industrial output value, the output value of machinery manufacturing industry and metal processing industry, the investment in fixed assets, the agricultural output value and the real wage in 1997 were only 61.9%, 48.8%, 38.7%, 23.4%, 59.2% and 48% of those in 1997, respectively. Industrial profit rate per annum dropped from 38.3% in 1992 to 5.2% in 1997. The ratio of federal budgetary expenditure on basic research and for technological progress to GDP fell from 0.96% in 1991 to 0.10% in 1997. The unemployment rate rose from 4.7% in 1992 to 9.1% in 1997. During the course of the recession, the social income disparities worsened dramatically, with the income gap between the richest and the poorest widening from 4.4 times in 1990 to 13 times in 1997. More tragically, Russia’s natural growth rate of population declined sharply, causing the population changing from a natural increase of 0.3329 million in 1990 to a natural decrease of 0.7565 million in 1997.⁴⁹Facing the causality between Russia’s Shock Therapy and the population degradation, some economists with conscience angrily related it to the term “genocide” as used in International Law. Due to the

⁴⁹ For detailed data, see (Russia) S.Glazev. 2003. *The Tragedy of Russia’s Reform and its Outlet: Russia and the ew orld Order*, Economic Management Publishing House, pp.38-39, Table 2.

Shock Therapy, Russia fell into a long-lasting recession and its comprehensive national power dropped remarkably. During the period of 1991-1998, Russia incurred the severest and the longest recession on record among large countries in modern history. Though Russia's GDP grew at an average annual rate of 6.7% during the period of 1998-2003, its GDP in 2003 was only 67% of that in 1996.⁵⁰ Given such a growth rate, only until 2009 would Russia's GDP return to the level of 1990. If the growth rate in recent years does continue until the year 2009, it would actually take Russia 19 years to get out of the black hole caused by the neo-liberal transition strategy. Against such a background, the academician from the Russian Academy of Sciences once concluded that the spiritual and physical losses Russia had suffered in recent years were incalculable; as a matter of fact, the reform had set Russia back for 20-30 years.⁵¹ In view of this, how severe the disastrous aftereffect is on Russia, which is caused by the Shock Therapy. We should always remember the painful historical lessons from the "transition-induced recession".

Secondly, the study on the phenomenon of "reform-induced recession" during Latin America's reform period shouldn't be neglected.

Countries in Latin America and Middle East once experienced growth for a while, but fell a second time into the poverty trap in the 1980s and the 1990s⁵² (William Easterly, 2002). The study on the lessons from Latin America's two lost 10-year periods when re-trapped in poverty has practical implications for us.

Faced with many conflicts and problems and in order to achieve economic and social development, Latin American countries, represented by Chile, Argentina and Uruguay, have taken the approach of economic liberalization proposed by some western economists and started a large-scale wave of economic reform since the mid/late 1970s. The duration of Latin America's economic reform varies from the longest of more than 30 years (e.g. Chile) to the shortest of around 20 years. In

⁵⁰ The relevant data are quoted from (US) David.M.Kotz. 2005. "The Role of the State in Economic Transition (I)," *Foreign Theory Developments*, Vol. 1.

⁵¹ CASS, eds. 2003. *Developments of World Study on Socialism*, Vol. 32.

⁵² William Easterly, 2002. *The Elusive Quest for Growth*, MIT Press.

hindsight, though reform in a few countries (e.g. Chile) and in some parts achieved relatively good effect, generally speaking, the costs of the reform are great and the lessons from the reform-induced recession are profound. The lessons mainly boil down to four points.

1. The state lost its dominant role in economic development. Influenced by the neo-liberal theory, the governments of Latin American countries failed to recognize the importance of social development when reassessing the role of government, and seemed eager only to withdraw from productive activities through such means as privatization and reduce their direct intervention in the economy, which no doubt made room for the market mechanism to play an active role. But Latin American countries seem to have moved from one extreme to the other. For example, in order for fiscal balance to occur, some governments cut down their investment in culture, education and health care and thus deprived the low-income groups of the access to necessary services; and still some governments entrusted the provision of some social services to the profit-maximizing private sector and consequently lost their leading role in social development. To a certain extent, the Chicago School thinking has imposed full control over the formulation of economic development strategy.

2. Immature financial liberalization and premature opening of capital accounts increase financial risks. In the course of promoting financial liberalization, the governments failed to effectively regulate the financial sectors, which in effect led some banks to provide false information for the government's inspection and some other banks to grant a large amount of loans to a few crony (closely-connected) clients. Doubtlessly, the deregulation of financial industries is one of the main causes for the outbreak of financial crises in many Latin America countries in recent years. Financial crises broke out successively in Mexico, Brazil and Argentina in 1994, 1999 and 2001, leading to economic recession, rising unemployment, political turbulence and social disturbance. It cost Mexico a huge sum of 55.1 billion US\$ to save the banking system alone, which accounted for 14.4% of GDP.⁵³ Argentina's financial system as a

⁵³ The Relevant data are quoted from Su Zhenxing. 2004. "The Imbalance Between Reform and Development," *Forum of China's Party and Government Cadres*, Vol. 3.

whole got stuck in a paralysis state. Other Latin American countries, facing the shock of financial crisis, also began consolidation processes one after another. Symbolized by the above three financial crises, Latin American countries fell into three recessions, in 1995, 1999 and 2001-2002, respectively, with the severity being ascending.

3. Reform strategy under the Washington Consensus triggered a long period of low economic growth. For the past over 20 years since 1981, the economic situation in Latin America has reversed substantially, with a lasting recession in the 1980s and a continual downturn in the 1990s. During the period of 1980-1990, the average annual growth rate of GDP in Latin America (based on the statistics of 23 countries) is just 1.2%, with seven countries (Argentina, El Salvador, Haiti, Nicaragua, Peru, Guyana, Trinidad and Tobago) recording a negative growth rate; and the average annual growth rate of GDP per capita is as low as -0.9%, with only five small and medium-sized countries (Chile, Columbia, Dominica, Barbados and Jamaica) gaining a positive growth rate.⁵⁴ During the period of 1991-2000, the average annual growth rate of GDP in Latin America (based on the statistics of 31 countries) is 3.3%, with Haiti having a negative growth rate; and the average annual growth rate of GDP per capita is 1.5%, with five countries (Ecuador, Haiti, Paraguay, Venezuela and Jamaica) incurring a negative growth rate.⁵⁵

4. The reform driven by Market Fundamentalism caused the uneven income distribution to deteriorate. Neo-liberal theory values efficiency as the priority and ignores the importance and necessity of equity, and treats the market as a panacea. Some people made ill-gotten money from reform measures like privatization and marketization, while disadvantageous social groups never or barely benefited from the reform. As a result, the polarization and povertization gained in severity. In Argentina, for example, in 1980, the income share of the poorest 40% of households and that of the richest 20% of households were 17.4% and 45.3%, respectively; while in 1990,

⁵⁴ CEPAL, *Anuario Estadístico de América Latina y el Caribe*, 1995, pp.71-72.

⁵⁵ CEPAL, *Balance Preliminary de las Economías de América Latina y el Caribe*, 2000, pp.85-86.

the former share dropped to 14.9% and the latter one rose to 50%. As a consequence, between 1980 and 1990, the Gini coefficient climbed from 0.375 to 0.423. In Brazil, for another example, during the period of 1979-1990, the income share of the poorest 40% of households and that of the richest 20% of households changed from 11.8% and 56% to 9.7% and 59.7%, respectively, thus raising the Gini coefficient from 0.493 to 0.535.⁵⁶ In spite of the ever-increasing GDP per capita, the poor people in Latin America, whether in absolute terms (the total number) or in relative terms (as a percentage of the total population), tended to increase. Between 1980 and 1990, the total number of the people living in poverty in Latin America went up from 0.13 billion to 0.2 billion, with the urban poor nearly doubled from 62.9 million to 0.12 billion and the rural poor increasing from 73 million to 76.4 million. In 2004, poor people in Latin America reached as high as 0.224 billion and accounted for 43% of the total population, of which the total number and the percentage of the people living in absolute poverty were 90 million and 19%, respectively.⁵⁷ The rising level of povertization exerted a severe negative impact on economic growth, directly restricting the economic and social development and even endangering the stability of the whole society. This is the evil consequence of unjust growth. Whether the term “Latin Americanization” is scientific or not, we cannot but attach great importance to the lessons from such a kind of reform-induced recession experienced by Latin American countries. For the academic community, the term “Latin Americanization” carries various meanings⁵⁸, but when looking back at the lessons of Latin America’s

⁵⁶ Montek S. Ahluwalia, Nicholas G. Carter y Hollis B. Chenery, “Growth and Poverty in Developing Countries”, *Journal of Development Economics*, No. 6, 1979, pp322.

⁵⁷ CEPAL, *Panorama Social de América Latina 2002-2003*, pp.7.

⁵⁸ Han Qi, “Dialectically Viewing the Issue of Latin Americanization,” in National Development and Reform Commission. eds., *International Information for Reference*, 2004/04/05. But we can see that the viewpoints of some experts on Latin America are also inconsistent. For example, an expert, who once viewed Latin Americanization as a false proposition on Feb.28, 2005, said in a different way that from the perspective of Scientific Development Notion, Latin Americanization was mainly about the imbalance occurring in the course of Latin America’s economic and social development, when he made remarks on Balanced Society on March 3, 2005 in *Information for Reference*, pp.12-13.

falling again into the poverty trap during the 1980s and the 1990s, no one would deny that “Latin Americanization” is almost synonymous with “povertization”. In this sense, it’s necessary for China to be wary of the concern over “Latin Americanization”, regardless of the debate on the concept of “Latin Americanization”. Early in 2004, two Americans once reminded us that the gap between the urban area and the rural area might get widening in the future and if failing to take effective reform measures, China might catch the “Latin American Disease”, with the emerging urban polarization, intensified urban conflicts, unfulfilled economic commitment, and many other social and political disasters ever happening to Latin American countries.⁵⁹ Considering various dilemmas and problems at the present time, it’s beneficial for China to pay close attention to the phenomenon of reform-induced recession occurring in Latin American countries.

Contemporary Significance of the Research on *Das Kapital*

⁵⁹ Materials for Reference, 2004/10/09/.