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Debate

Response to Michael Gentile 'Mass Privatisation, Unemployment and Mortality'

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WE WELCOME THE COMMENTS ON OUR ARTICLE (Stuckler *et al*. 2009c) by Professor Gentile (2012) as it gives us yet another opportunity to clarify our position on the relationship between mass privatisation programmes and the post-communist mortality crisis, and once again raises the issue of how to explain the millions of premature deaths that accompanied the transition from socialism to capitalism.

First, we would like to address the claim that our central argument—that rapid mass privatisation was related to short-term adult mortality—is 'counter-intuitive'. For someone familiar with the functioning of the Soviet economy and the experience of privatisation, like most of the readers of this journal, the fact that mass privatisation seems to have had an effect on working age mortality should come as no surprise at all. In fact, what would be counter-intuitive would be if it did not have an impact on mortality. Almost all readers of this journal will know about the central role that the Soviet-era firm played in the lives of most people, providing a wide range of social support including healthcare, education, childcare, and vacations, among other things. Second, they will also know that the Soviet-era firms suffered from over-employment, as the lack of hard budget constraints meant that every worker, no matter how inefficient, would have his or her wage covered. Combined with the Soviet commitment to full employment, workers essentially had no fear of unemployment. Third, readers will know how truly radical was the mass privatisation programme that was the subject of the critique in our paper. These policies, by giving away or selling, for a nominal sum, 'vouchers' that could be used to privatise state enterprises, achieved a breathtaking speed of privatisation. For example, in Russia this programme helped privatise 80% of the enterprise sector in only two years. Margaret Thatcher, seen by many as the archetypal privatiser, privatised only 31 companies and that took 11 years, in a country with perhaps the most experienced investor class in the world. Yet Russia had no domestic investor class or established business infrastructure. Mass privatisation, moreover, would create owners with no capital, no experience, no connections, and no capacity to monitor firm insiders. Given the

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importance of the enterprise sector for people's everyday lives and their social welfare, the radical nature of the proposed restructuring, and the lack of alternative social support, we feel it is entirely intuitive that mass privatisation would lead to short-term increases in mortality. However, our findings are not only consistent with theory but also with empirical data, as found in a considerable body of earlier research (Bessudnov *et al*. forthcoming; Brainerd 1998, 2001; Brainerd & Cutler 2005; Cornia & Paniccia 2000; Kennedy *et al*. 1998; Leon *et al*. 1997; Perlman & Bobak 2008, 2009; Shapiro 1995, 1997; Shkolnikov *et al*. 2001; Walberg *et al*. 1998).

Here we come to a dilemma that confronts proponents of mass privatisation. Even if mass privatisation actually resulted in any efficiency gains and the establishment of 'normal' or Western-style capitalist firms, then these firms surely would have increased labour turnover. Given the over-employment seen in Soviet firms, how could firms not eliminate jobs if they were making efficiency-based decisions? Similarly, newly efficient firms will seek to rid themselves of those loss-making social support functions as soon as possible. Unless there is an extremely well functioning social safety net, even under the best-case scenario there will be considerable labour market turnover adding psycho-social stress for both former and current employees (Walberg *et al*. 1998). In a setting where alcohol is easily and cheaply available, and where it accounts for up to 40% of working-age deaths (Leon *et al*. 2007; McKee 1999; Pomerleau *et al*. 2008), it is easy to see how increased stress will generate greater levels of hazardous drinking and thus increases in mortality from alcohol-related deaths (including external causes, cardiovascular disease or pneumonia).

The architects of shock therapy and mass privatisation were aware of this problem. As economist Jeffrey Sachs (2009, p. 280) put it

> [T]he reforms have surely created a rise in anxiety levels, even if they have not resulted in a fall in actual living standards. In a quite tough sense, economic reform in the early years is a bit like a society-wide game of musical chairs. Once market forces are introduced, a significant proportion of the population must search for new forms of economic livelihood. The result of that search, to be sure, will be highly positive in the longer term for most of the workers, but the process of change can be deeply upsetting during the transition, and some workers will also end up as economic losers from the changes.[1]

In fact, mass privatisation was an economic disaster.[2] The resulting increase in unemployment was not associated with greater efficiency but rather with firm failure, again leading to elevated levels of stress among former and current employees, as well as those indirectly dependent on the firms. Even worse consequences, in terms of alcohol consumption and stress-related mortality, flow from these more chaotic changes. Thus, even if mass privatisation had worked as intended by those advocating it, the programme would have led to increased unemployment and consequences for health. The fact that it failed simply exacerbated these consequences.

With this preface, let us now address Michael Gentile's specific criticisms. First, he claims that, since the transition occurred in different years in Central and Eastern

[1]See also Adeyi *et al*. (1997).
[2]See Hamm *et al*. (2012) for a thorough literature review.

Europe and the former Soviet Union, our analysis cannot account for differing levels of unemployment in those two regions, and thus they cannot be directly compared. However, we never claimed that mass privatisation was the only cause of unemployment, or that unemployment was the only way mass privatisation affected mortality. We are also fully aware of the difficulties in comparing rates of unemployment in the transition economies, as we noted in our Web Appendix in the section 'A note on unemployment data' (Stuckler *et al*. 2009c). To account for differences between the core and satellite members of the Soviet Union, as Professor Gentile notes, we performed the analysis within each group. Within only the former Soviet countries, our time-series cross-national data revealed a clear association of mass privatisation, as well as of the European Bank of Reconstruction and Development (EBRD) privatisation indices, with higher rates of male unemployment. Furthermore, the probable effect of mass privatisation on stress would be much greater than only the effect of actual unemployment. There is compelling evidence from surveys of individuals that health effects arise when people are anticipating job loss (Bartley *et al*. 2006; Baum *et al*. 1986; Dooley *et al*. 1996; Mathers & Schofield 1998). Based on existing literature, we would expect these effects to be exacerbated by the contemporaneous radical restructuring of rights, authority, and obligations associated with mass privatisation, leading to elevated stress for all employees. The loss of collective social goods, mainly social welfare, would also increase stress associated with economic insecurity (Stuckler *et al*. 2009a, 2009b), as well as independently pose a risk to health (Stuckler *et al*. 2010a, 2010b). With regard to healthcare, there was also a loss of access to those services provided at the site of firms (Cornia & Paniccia 1996). We emphasised the role of unemployment because in a medical journal like the *Lancet* there was little room to discuss the specificity of the Soviet-style firm. However, the results that we reported show that unemployment can account for only about 30% of the association of mass privatisation with mortality.

Second, let us address what Michael Gentile labels as a concern about the reliability of our coding of privatisation. To begin with, Gentile misinterprets our coding—which we can see in his questioning of our treatment of Estonia. The hypothesis that we tested was whether mass privatisation as defined by the widespread use of vouchers was related to mortality. We were assessing the effects on health of this specific programme designed to achieve a rapid transition. Estonia privatised very quickly indeed, but by selling shares of their companies to foreign investors. Similar to mass privatisers, it also experienced a rise in mortality (as captured in the EBRD privatisation index) but in contrast, foreign direct investment helped improve economic recovery, and mortality rates recovered more quickly than in Russia. Gentile then goes on to claim that the Central Asian republics that we code as mass privatisers had other features, like majority Muslim populations much less disposed to alcohol, and that accounts for their mortality experience. Leaving aside the question of adherence to the teachings of Islam in some of these countries, he overlooks how, in the regressions that we presented in the *Lancet* article, we used fixed-effects estimators (Jones 2000; Wooldridge 2002). This means that we essentially put a dummy variable for each country into the equation—thus holding constant all country-specific unchanging variables (like proportion of Muslims in the population, initial level of unemployment and hidden unemployment). Our use of fixed-effects estimators allows

us to hold constant these initial conditions as confounding variables, although we do agree—and have shown in our studies (Stuckler *et al.* 2009c) and other work (Walberg *et al.* 1998)—that social and cultural factors probably modified the effects of rapid privatisation on health.

Let us conclude by saying we welcome the interest in our paper, to the extent that it stimulates new research on the causes of the post-communist mortality crisis. As we noted in our paper, there is no reason to think that rapid mass privatisation was the only transition policy to have an impact on health in post-communist countries. Additionally, a glance at mortality rates in the former Soviet Union shows, Russia's 1998 default and devaluation also had a huge deleterious impact on life expectancy which was not experienced by its neighbouring countries. As scholars studying the countries of the former Soviet empire, we recognise the great deal of work that must be done before we can precisely quantify the contributions of multiple social, political, and economic causes to the tragedy of the post-communist mortality crisis.

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