

Kolodko, Grzegorz W.

Working Paper

The great transformation 1989 - 2029: Could It have been better? ; will It be better?

WIDER Working Paper, No. 2010/40

Provided in Cooperation with:

United Nations University (UNU), World Institute for Development Economics Research (WIDER)

Suggested Citation: Kolodko, Grzegorz W. (2010) : The great transformation 1989 - 2029: Could It have been better? ; will It be better?, WIDER Working Paper, No. 2010/40, ISBN 978-92-9230-277-1, The United Nations University World Institute for Development Economics Research (UNU-WIDER), Helsinki

This Version is available at:

<https://hdl.handle.net/10419/54145>

Standard-Nutzungsbedingungen:

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

Terms of use:

Documents in EconStor may be saved and copied for your personal and scholarly purposes.

You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.

If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.

Working Paper No. 2010/40

The Great Transformation 1989-2029

Could It Have Been Better? Will It Be Better?

Grzegorz W. Kolodko*

May 2010

Abstract

Over 1.8 billion people, from Central Europe to East Asia, have been involved in the great systemic transformation to market economy, civic society and democracy. The process has brought mixed fruits. The diversification of the current situation is a result of both the legacy from the past and the different strategies and policies executed in particular countries over subsequent periods. These policies have been based on different assumptions and followed the advice of alternative schools of economic thought. Consequently, theoretical lessons as well as policy implications can be learned from this vast experience.

Keywords: transformation, economic growth, development, institutions, economic policy, post-Communist transition, Central Eastern Europe, former Soviet Union

JEL classification: A11, E6, F02, F43, H11, I38, N1, O17

Copyright © UNU-WIDER 2010

* Transformation, Integration and Globalization Economic Research (TIGER), Kozminski University, Warsaw, email: kolodko@tiger.edu.pl

This study has been prepared for the UNU-WIDER conference Reflections on Transition: Twenty Years after the Fall of the Berlin Wall, directed by Gérard Roland.

UNU-WIDER acknowledges the financial contribution to the conference by the Finnish Ministry for Foreign Affairs and the continued support to the research programme by the governments of Denmark (Royal Ministry of Foreign Affairs), Finland (Ministry for Foreign Affairs), Sweden (Swedish International Development Cooperation Agency—Sida) and the United Kingdom (Department for International Development).

ISSN 1798-7237

ISBN 978-92-9230-277-1

Acronyms

EBRD European Bank for Reconstruction and Development.

EU European Union

GWP gross world product

The World Institute for Development Economics Research (WIDER) was established by the United Nations University (UNU) as its first research and training centre and started work in Helsinki, Finland in 1985. The Institute undertakes applied research and policy analysis on structural changes affecting the developing and transitional economies, provides a forum for the advocacy of policies leading to robust, equitable and environmentally sustainable growth, and promotes capacity strengthening and training in the field of economic and social policy making. Work is carried out by staff researchers and visiting scholars in Helsinki and through networks of collaborating scholars and institutions around the world.

www.wider.unu.edu

publications@wider.unu.edu

UNU World Institute for Development Economics Research (UNU-WIDER)
Katajanokanlaituri 6 B, 00160 Helsinki, Finland

Typescript prepared by Liisa Roponen at UNU-WIDER

The views expressed in this publication are those of the author(s). Publication does not imply endorsement by the Institute or the United Nations University, nor by the programme/project sponsors, of any of the views expressed.

It is rare that so much can change in such a short time as with the postsocialist system transformation, usually considered to have taken place within the period between 1989 and the present. Some believe that the transformation in the case of the ten East Central European countries already belonging to the European Union¹ has succeeded, because the region has institutionally matured to a full-blooded market economy. Others, however, are of the opinion that there is still a long way to go.

I tend to share the latter view. Even though the very fact of formal membership in the European Union—in accordance with the Copenhagen Criteria established as early as in 1992—means that a new member is a ‘functional market economy’ able to compete within the European integration grouping, it does not determine true system maturity. The only reasonable criterion of such maturity is the qualitative advancement of the market culture *sensu largo* and the reliability of institutions, i.e., the rule of market economy game that ensures the effective operation of mechanisms of creating and allocating capital as well as division of the output. In talking about the effective operation of those mechanisms, one needs to bear in mind both the dynamics and the balance of economic processes. Therefore, in order to achieve a state of market institutions and culture which would be satisfactory from this particular point of view, further development is necessary and this will take many years.

As for the other regions, if it were not for the general transformation process, there are countries, especially in the post-Soviet Central Asia, that would not be called postsocialist, or even as countries reforming their systems. After all, in 1989 Hungary, Poland or Yugoslavia were already at that time much more marketized and liberalized than countries such as Azerbaijan, Uzbekistan or Turkmenistan are twenty years later. However, at that time, the former countries were not called ‘transformation economies’, because of context, just as the latter now are not referred to as ‘reforming socialist (communist) economies’, also because of the context.

1 The cascade

In the spring of 1989 the historic Round Table debate in Poland was crowned with a compromise. Contemporary authorities and opposition oriented towards reform and development, as well as intellectuals and businessmen, politicians and economists were represented at the debate. This agreement became the catalyst for the great system transformation. It covered a great part of the world: first, Eastern Europe, and soon after, the territories of the former Soviet Union. That impulse also had considerable influence on the market orientation and speed of the structural and institutional transformations in China and in the Indochina regions, particularly in Vietnam.

All in all, over thirty countries, stretching from the Elbe River to the Pacific Ocean and currently inhabited with over 1.8 billion people, more than one-fourth of the world’s population, have embraced the path to a more or less liberal market and democratic transformation. Twenty years later, this transformation process—evolving against the background of globalization and a scientific and technical revolution as well as stormy

¹ Bulgaria, the Czech Republic, Estonia, Hungary Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia.

cultural and political changes—has not only brought about a different face to this part of world but has also created a completely new world.

It is true all the more because the year 1989 was a historically significant date for many other regions of the world as well—from South and Central America through Africa and the Middle East to South and Eastern Asia. It can be observed, *inter alia*, in such diverse countries as Chile and Nicaragua, Ghana and South Africa, Yemen and Syria, India and Sri Lanka.

The turnaround, which was made more radical by the year 1989 (more radical, because many elements of that turnaround had, to various extents, evolved earlier, preparing particular countries for the transformation (Bąk 2006; Koźmiński 2008)) also meant the end of the cold war. This meant the end of the clash on both sides, i.e. the ‘first world’ (advanced capitalist countries led by the USA and the former colonial metropolitan countries) and the ‘second world’ (led by the USSR and China) on the territory of the ‘third world’ countries. It is interesting to note that twenty years later, China’s influence is much greater and still growing. In some parts of the differently divided world, it is the greatest.

The most important accumulation of factors to cause the cascade of cultural, political, social, economic, technological and environmental transformations include the collapse of real socialism, end of the cold war, the postsocialist transformation and the expansion of neoliberalism, the markets ‘emerging’ from the postcolonial and postsocialist countries, the increasing wave of the contemporary phase of globalization, the information revolution, mass migration and devastation of natural environment.

It is true that we are always confronted with the merging and mutual influence of the processes of continuity and change. Yet, occasionally a simultaneous accumulation of changes can create a specific cascade. However, historic processes are not linear in character. This is what is taking place now: things happen as they do because much is happening at the same time. The cascade of changes through societies and economies is rolling with such great force that its contact with nature, culture and technology could be called a tectonic shift. A new quality is being created, which can be explained on the basis of coincidence theory of development (Kolodko 2010). And it is against this background that the process of postsocialist market transformation, *per se* historic, should be perceived.

2 The sentence

If we had asked people, including outstanding economists (proficient in the fields of the economic growth and development process and well aware of the realities of the countries referred to as postsocialist since 1989) to predict the average standard of life and production level after two decades of transformation (excluding China and Indochina, where development is very specific), no-one would have answered that it would be only 20 per cent higher. A prediction of a GDP growth index at the level of 120 per cent after two decades of system transformation would be construed as finding the great change pointless from an economic point of view. Why transform the existing system if it only sentences the next generation (400 million people) to a rickety pace of growth that averages 0.9 per cent per annum?! And yet that is what was done...

Twenty years ago, no-one would have risked the seemingly ridiculously forecast that China would increase its GDP per capita not by one fifth but five times. Yet, the huge country, still deemed by some as communist, has increased its production level by more than 420 per cent by following its chosen path. China also chose to ignore pressures and advice from the west, unlike the countries of Eastern Europe and some republics of the former Soviet Union, which have accepted them in different periods and to different extents. China has been able to ensure the perfect cooperation of an invisible hand of the market and a visible head of state. The synergy of those two regulators of the social reproduction process has determined China's unprecedented success, as the country gently progressed from the phase of reforming socialist planned economy to gradual creation of capitalist market economy. Although China still does not admit that and is nowadays advancing the theme of constructing 'a harmonious society', the country, intentionally still socialist, is in fact already on the path of building market economy. And the latter is capitalist by nature, with all the long-term implications, including political ones.

There will never be a satisfactory answer to a counterfactual, or alternative history question: what would have happened if...? What would have happened if China had followed the path of chaotic political and economic liberalization, like Russia did in the decade of Yeltsin's administration? Would it have a bigger population than it has now and a lower standard of life than in 1989, while at the same time flooding the world with additional tens of millions of miserable migrants?

What would have happened if, first in Eastern Europe, beginning with Poland, and then in the Soviet Union, political conditions for complex, profound system transformations had not appeared, and if this part of the world had followed a path of gradual but effective market reforms, like China and Indochina did, instead of the rapid postsocialist transformation as they did? We can speculate that it would have been better and the pace of growth in the 1990-2009 period would have been significantly faster than the miserable average of 0.9 per cent yearly, as it actually was in the previous twenty-year period (1970-89) and even to a greater extent, in two earlier decades (1950-69).

But it can also be assumed that as a result of the crisis at the turn of the 1980s and 1990s and the systemic ineptitude to adapt the path of fast and balanced growth, those countries would have faced secular stagnation and could possibly now have an even lower production level than then. However, if we take into consideration the engagement in market reforms at the end of 1980s, especially in Hungary and Poland, as well as Gorbachev's *glasnost* and *perestroika*, the first option seems more probable: a higher average pace of growth than what has really taken place.

Certainly, in the realities of more profoundly reformed socialism, however shaped, redistribution mechanisms would have also worked differently. The range of income inequality would surely have been greater than during the so-called real socialism, yet smaller than it has really been (Kolodko 2000; Tomkiewicz 2007). But, that supposition can be questioned as well, as the Chinese and Vietnamese experience proves otherwise. In these countries, advanced reforms of socialist economy system have triggered a gradual yet greater increase in the scale of inequality than in countries which chose gradual transformation. Suffice it to say that Gini index, illustrating the level of income differences, is 0.47 in China (2007) and 0.37 in Vietnam (2004), while in Poland it is 0.35 (2005) and in Hungary only 0.28 (2005) (CIA 2009).

3 Reforms *versus* transformation

There is a substantial difference between the market reforms of a real socialism economy and a postsocialist market transformation. In the former case, it is about changing the way the present system functions in order to retain it. Attempts to make the system more flexible and increase its ability to adjust to the changing cultural and technological conditions were made in support of this goal. The purpose was to enhance the effectiveness of the companies and to gain social support, or at least acceptance, for the functioning of the system. So, in the case of reforms, the changes—although at times profound and advanced—were to serve the purpose of retaining the economic and political system, not to reject it. That was the objective of the Soviet *perestroika* at the end of the 1980s; that was the objective of Polish reforms during the same decade (Baka 2007); that was the meaning of the transformations started in Hungary in 1968; and that was the basis of a different Yugoslavian model of self-government socialism, initiated as early as in 1950s.

As for the second option—postsocialist transformation—its aim is to eliminate the former system and replace it through substantial, qualitative institutional reconstruction by a new system, which is, *de facto*, a market capitalist economy. The fact that the term ‘capitalism’ is still surprisingly rarely used to refer to the system created in Eastern Europe and the former Soviet Union does not change anything. Although euphemisms such as ‘market economy’ are more frequently used, their capitalist nature is obvious.

Besides, it is not mere fate that former ‘communism’ with all its disadvantages, also imaginary ones, is contrasted with ‘market economy’, with its advantages, some of which are only hypothetical. Such an intentional (ideologically-motivated, practically meaningless but politically useful) contrast of non-existent gloomy ‘communism’ with the idealized ‘market economy’, actually also the non-existent, is erroneous from a methodological point of view and factually confusing. Proper comparisons necessitate confronting existing realities—the past and the present—and not a slandered image of the past and coloured image of the present or imagined future.

Therefore, the so-called real socialism as it truly was, especially in its economic aspect, and the so-called real, contemporary postsocialist capitalism, as it actually is, should be juxtaposed (Główczyk 2003). What is amazing is that neither economists nor economic historians are yet ready to make such an objective, comprehensive comparison. So we must wait for it, maybe another twenty years or more...

4 Emerging markets

The term, *emerging markets*, commonly used (and misused to refer to the postsocialist reality without necessary reflection), was not created to describe the new, complex economic reality of countries under systemic transformation. Another neoliberal concept, the term is related to the expansion of the neoliberal model of capitalism, lasting over the same time as the now twenty-year episode of postsocialist transformations (Harvey 2005). These ‘emerging’ markets are not appearing, evolving and maturing market economies, civic societies or political democracies but emerging new fields of economic activity, particularly speculation, for the richer part of the world, the one which ‘emerged’ long ago as a capitalist economy and has institutionally and

financially matured to become so strong and affluent that it can—and will—use that affluence also elsewhere, in addition to its traditional fields of domination. Considering the map of the world before 1989 with the division as it existed then, the situation called for the non-market part of the world to ‘emerge’ and open up for capital penetration. That, in turn, was and still is possible only through the transformation from a socialist planned economy to capitalist market economy.

From this neoliberal point of view, ‘emerging markets’ are instrumentally treated as one more opportunity to do good business, without necessarily taking into consideration the social costs to the places where business is done. But from the point of view of the countries and economies interested in ‘emerging’, the purpose is basically different: it has the appearance of a market economy system, effective and competitive on the world’s scale, which would be able to fulfil satisfactorily the needs of their own societies.

That, briefly, is the fundamental difference between the neoliberal approach to postsocialist systemic transformation and the one represented by social market economy. The first approach concentrates on emerging opportunities to do business. One should not be surprised with this but it is necessary to understand it and react properly. The other approach concentrates on creating and developing a new type of social bond, based on new market management principles. Hence, it is not just ‘markets’ that emerge, but a market economy based society. And that is something quite different...

Therefore, the declared western concern for democracy and progress, for the development and wealth of the postsocialist societies is mainly rhetorics, covering the concern for self-interests, not only political but foremost economic interests, particularly those of the financial elites of rich countries. We should not take offence at this fact, but failing to realize it would be naïve. We need to learn to adjust to it in practice as if to a new challenge, which (such as producing a mutually dependent world economy in the globalized era, after the advancement of liberalization and integration of markets) creates not only new dangers and risks but also more new opportunities. However, in order for it to be beneficial from the point of view of long-term social and economic development, an effective strategy that outlines the aims of development and one that is based on an accurate economic theory, is necessary.

With respect to the historical sentence mentioned above, it was inevitable when one takes into consideration the dialectics of the whole development process. But its magnitude still needs to be a subject of serious reflection and debate, as well as reliable assessment, both in political and *strict* scientific terms.

It was inevitable because, over two decades ago, the real socialism system—with the economy functioning in a vacuum lacking political democracy and based on state property domination, central capital allocation and bureaucratic control—was heading towards its demise, because it had used up its development capacity. People were more and more dissatisfied with the role they played in all three social functions (Kolodko 1984):

- Producers: frustration was increasing, resulting from wrongly organized production that failed to bring the expected effects;

- Consumers: in the face of increasing deficiencies and deepening shortageflation syndrome (Kolodko and McMahon 1987), the level of consumer satisfaction was relatively low (despite increasing production), or at times extremely low, because it was difficult not only to earn money but also to spend it;
- Citizens: the so-called people's democracy and the more or less liberalized one-party system limited possibilities of the people to express opinions in an organized and creative way and to have an impact on public matters.

In this situation, when the system was clearly creating more problems than it was able to solve, 'material fatigue' was so great that the system was bound to collapse under the weight of its own disfunctionality. It happened in 1989 and in subsequent years, although it could have happened a few, or even a dozen, years earlier or later. But it definitely had to happen: first, under the increasing social pressure, most obvious in Poland, expressed mainly although not exclusively by the Solidarity movement, which in time contradicted itself and turned to populist or neoliberal positions (Ost 2005). It was also in Poland that the authorities, oriented at reforms, first understood the dilemma and decided to share power at the Round Table. In Romania, in contrast, the reaction was completely different. In other countries, the forms of the process varied between these two extremities.

Obviously, external pressures played a role here, yet transformation was basically an internal process. External pressure, however, should not be overestimated, because instead of imposing the direction or pace of the changes, external forces took advantage of the internal decomposition processes. Even if power in the USA had been in the hands of the Democrats, with their conciliation and cooperation attitude and kindness towards reforming the system and looking for 'socialism with a human face', instead of being with the Republicans with their confrontational outlook; even if the power in Great Britain had been with Labour Party, who preferred to concentrate on social market economy and to look for the 'third way', instead of the Tories, who perceived the East with hostility, the real socialism was still doomed to fail. If it had not happened at the end of the 1980s, it would have happened a bit later. But it was not doomed to what followed over the next two decades and to what is, to a great extent, still taking place.

5 Facts, interpretations, speculations

The past may be a matter of facts and their interpretation but the future—except for shaping it actively, which is the most important—is speculation and its interpretation. The former is more difficult; the latter is more appealing, as the future knows no facts. It will provide them. However, the kind of facts to come will greatly depend on the assumptions taken *ex ante* and their consequences: theoretical and practical, intellectual and political ones. Therefore, hypothetical deliberations on the future, with certain intellectual and formal limitations, are not only interesting but may also be creative and fertile. Those, who do not speculate, cannot predict things. And without predictions, participation in creating the future is not possible.

Assessment of the previous stage of postsocialist transformation process is still controversial, and is going to be so for many generations, if not forever. Yet, certain areas of theoretical generalizations, hard to undermine rationally, are appearing

(Blanchard 1997; Csaba 2007). At the same time, there seems to be a shared consensus that more could have been achieved in terms of economic growth, although there are at times fundamental controversies as to the paths that could have led to it. There is, however, no doubt that twenty years after the transformation, its results, measured as the scale of economic growth, could have been much greater and its social costs (unemployment, inequalities, margin of exclusion, poverty, excessive death rate, etc.) could have been substantially smaller. A similar observation is going to be noted in the future.

In the face of neoliberal propaganda, aimed at presenting a false path of transformation (one without an alternative) *ex ante* and its image *ex post*, attempts at estimating the economic growth that could have occurred in the years 1990-2009 are rare. Obviously, even an accurate result of such a complex estimation with reference to production and consumption growth cannot provide a satisfactory assessment of the existing situation because the GDP (gross domestic product) category used does not cover all aspects of the socioeconomic situation. UNDP's human development index (HDI) is better, albeit not perfect. But it also ignores such issues as the question of natural environment or the evaluation of free time and its use. In time, these and other aspects of socioeconomic development (cultural values and evaluation of the relations between the exercise of power and the functioning of economy) will receive due attention in a synthetic way, for example, in the form of Integrated Well-Being Index (ZIP: *Zintegrowany Indeks Pomyślności*) (Kolodko 2010).

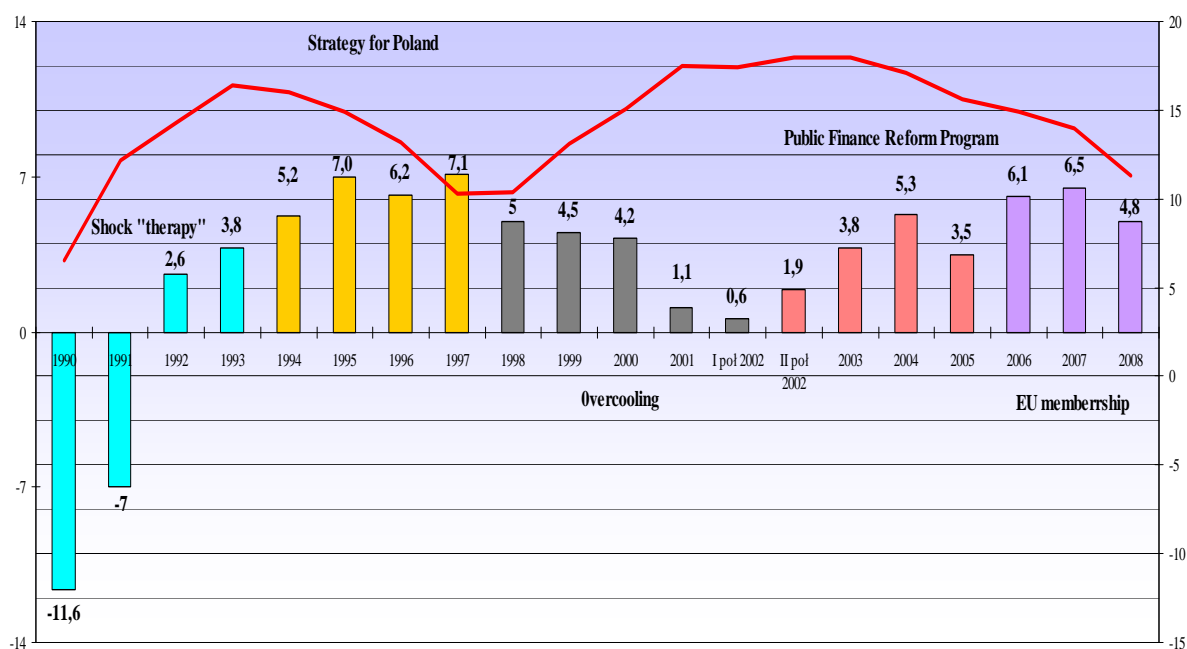
Let us take Poland as an example. It is the biggest economy among the new EU member countries and its GDP in 2009 was equivalent to approximately 180 per cent of its 1989 value. China and Vietnam excluded, this is the best result among the postsocialist countries, apart from a specific case of Turkmenistan where the index is about 220 per cent (EBRD 2008), bumped up by a boom in energy resources prices in the recent years. It must be added that Poland's 80 per cent growth in GDP has basically happened due to fast growth during 1994-97 as well as during the second half of 2002 to mid-2008. Aggregated GDP growth during 1990-93 and 1998-2001 was, in contrast, close to zero. These changes in dynamics and level of production were clearly correlated to the employment and unemployment rates (Figure 1).

There has been an attempt to estimate the hypothetical pace of growth over the past twenty years in Poland, based on the assumption that changes in the level of GDP during 1990-93 could have complied with the original government's plans (a fall of 3.1 per cent in 1990, followed by further growth) and changes in 1998-2001 could have matched the real dynamics achieved in the 1994-97 period, also predicted by the contemporary government's policy *ex ante* (Kolodko 2009). This could have been possible, because implementing such a scenario required only that the obvious mistakes be avoided: first, the devastating stabilization policy at the beginning of the past decade (Kolodko and Nuti 1997); second, unnecessary cooling of the economy at the end of the decade, when the pace of growth was brought from the maximum (considering the transformation period) level of 7 per cent in 1997 to the stagnation level of 0.2 per cent at the end of 2001 (EBRD 2008).

Had the events followed this scenario, Poland's GDP level in 2009 could have achieved not merely 180 per cent of the value two decades ago, but half as big again: over 280 per cent! This, of course, would have been conditional on the sound policy of building market institutions and a responsible strategy for economic development, and Poland's

more effective reaction to the 2008-09 global economic crisis to retain the GDP dynamics at about 4-5 per cent.

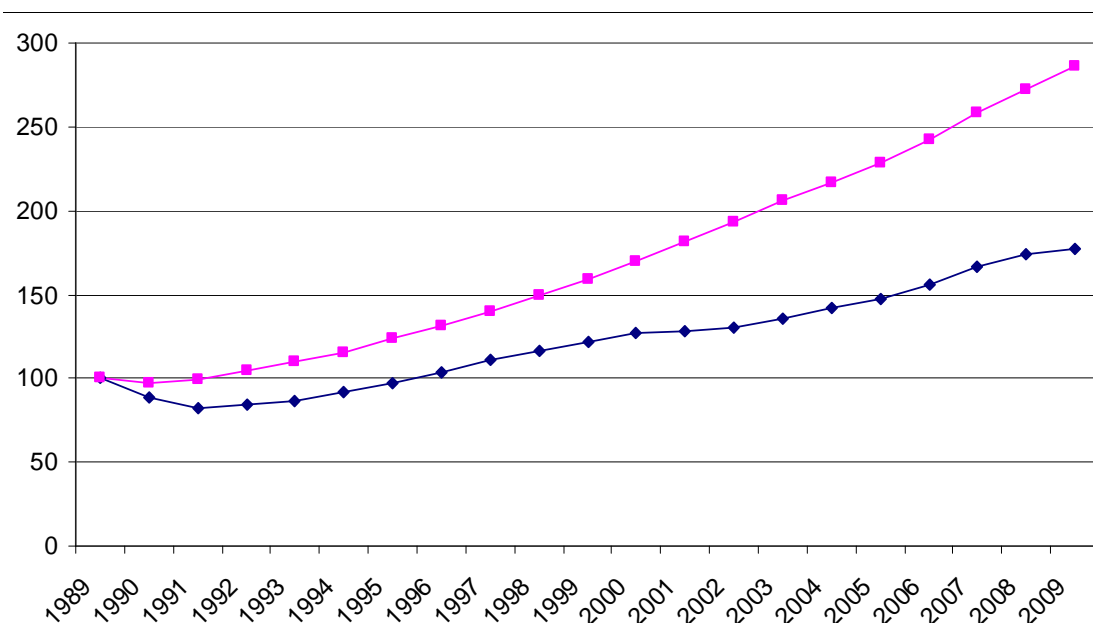
Figure 1
From shock without therapy to therapy without shocks in Poland, 1990-2008



Note: GDP growth (left scale) and unemployment rate (right scale).

Source: GUS (Central Statistical Office), Warsaw (various years).

Figure 2
What if... Poland's GDP growth in 1990-2009 (1989=100)
Actual and counterfactual (optimal policy) GDP growth



Source: Data for real GDP growth from GUS (various years). Figure for 2009 based on author's forecast. Hypothetical GDP growth rates based on author's calculation. See text for explanation.

Presented in absolute values, it would mean not around 18,000 dollars *per capita* (calculated according to the purchasing power parity, \$PPP), as in Latvia, but over 28,000 \$PPP, more than in Portugal. This illustrates the range of the unexploited possibilities and, at the same time, irretrievably lost income. Failure to reach the income that could have potentially been achieved, with all its ensuing results, is the effect of the neoliberal economic policy applied in some periods.

The range of mistakes was even greater for the other transformed economies. Taken together, these economies did not reach to the 1989 production level until 2007, and the failure to take advantage of their growth potential was even more significant. Various causes, usually political rather than economic in character, the virtually never-ending political disputes, alternating between a populist and a neoliberal stance, made it difficult to exercise rational and practical policy of balanced economic growth.

Still, it must be emphasized that Poland's average rate of growth per annum was not destined to be three per cent, as a pace of approximately 5 per cent could have been achievable.

Similarly, the transformation countries as a group were by no means doomed *ex ante* to the slow 0.9 per cent pace of growth. Fundamental mistakes in economic strategy, both with reference to structural changes and in creating the new institutions needed for the efficient functioning of market economy, and to economic policy *sensu stricto*, triggered high costs. The price now being paid is the relatively lower competitiveness of companies and the relatively lower standard of life as well as excessive foreign debt and dependence on external capital and politics.

Will we have to pay a similar price in the future, too? Let us hope not, though we cannot be sure, given the slowness of the process of learning from our own mistakes. The observed inertia partly results from the postsocialist establishment's attachment to ineffective doctrines, and partly from the pressures put forth by national and foreign lobbies to secure their particular interests.

In 2008, the ten postsocialist member countries of the EU were inhabited by 103 million people, which is 1.53 per cent of the world's population. They accounted for about 1.86 trillion \$PPP in GDP, which is 2.6 per cent of gross world product (GWP) and at the same time 12.4 per cent of gross product of the whole European Union. It must be emphasized that it is relatively less—yes, less, not more—than twenty years ago. It is indicative of the fact that the pace of production growth over the period 1990-2009, both on the global scale and in the wealthy part of the world, including the western part of the EU, has been much higher than in the postsocialist countries.

Nevertheless, in the next twenty years (2010-29), it can and should be different. Postsocialist economies, even in the current decade at least until the outbreak of the world crisis, have demonstrated much greater dynamics than the highly developed countries, thus partly compensating for the difference between these countries. Enormous institutional progress, combined with technological advancement and raising qualifications and managerial skills of the employees, is resulting in a faster pace of labour productivity growth than in the west. That tendency, accompanied by further enhancement of the quality of microeconomic management, should continue in the future. But obviously, it also requires an effective macroeconomic policy, as microeconomic changes alone are not sufficient.

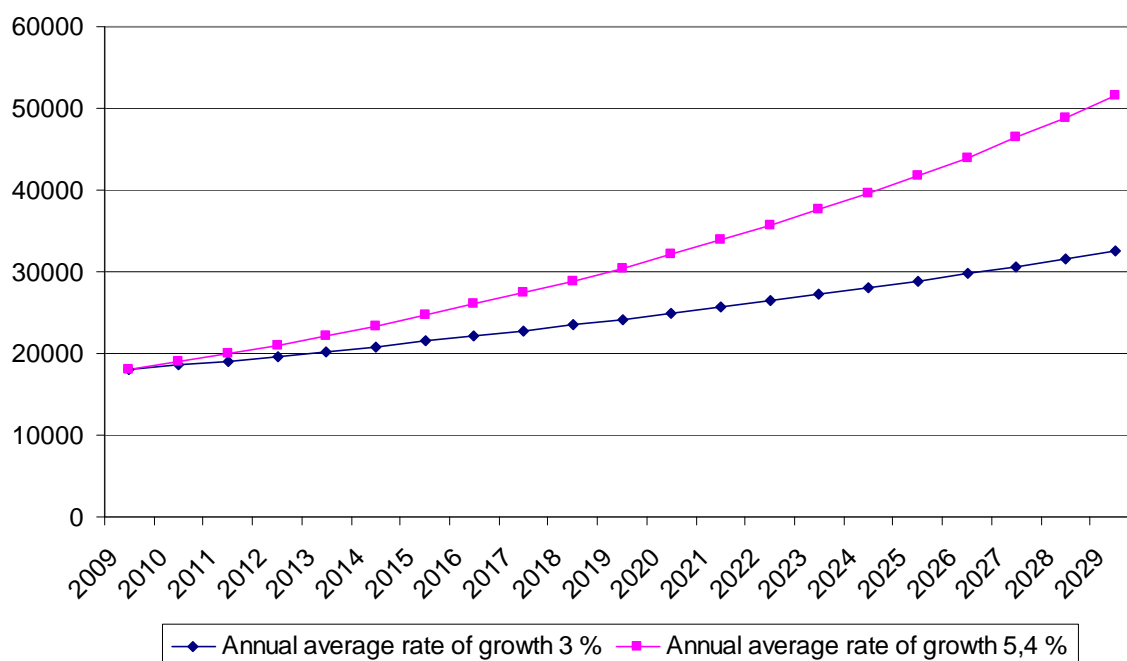
The year 2009 and the subsequent years will be characterized by great uncertainty, related to the spread of the successive stages of the world crisis (Orłowski 2008). It is difficult to make a reasonable forecast on the economic dynamics of the next few years against such a background. Yet, the entirety of the long-term analysis of systemic changes suggests that in the long run, postsocialist economies have the basis, related to global politics, institutions, culture, populations and technology, to grow much faster than the ‘old’ members of the European Union.

In the long-lasting process of eliminating historical differences in development levels, each fraction of a percentage point counts, as compound interest works with the passing of time. But first of all, the proper strategy of long-term, fast economic growth must work. It must be based on a new pragmatism (Kolodko 2010) that is removed from the threat of populism and from neoliberal deviation of market economy. Particularly dangerous for economic balance and dynamics is the combination of the two, which still sometimes happens in postsocialist countries.

6 The future

Let us analyse the example of Poland once again to look into the future. Currently, just as in 1989 and the subsequent years, we are facing ex ante the opportunity of being able to follow various economic growth paths. These range between a very high average annual level of growth about 5 per cent (but one not impossible to achieve) and about 3 per cent, which from the point of view of possibilities and, especially, ambitions, is low. Let us see, then, how big is the difference between the estimated GDP level in another twenty years, 2029. We base our analysis at a 3 per cent rate of growth (the actual rate as it was in 1990-2009), and at 5.4 per cent, the rate that could have been achieved in the same period if the economic policy mistakes, especially shock without therapy at the

Figure 3
Alternative scenarios for Poland's GDP growth in 2009-2029
(2009 GDP = \$PPP 18,000)



Source: Author's calculation. See text for explanation.

beginning of the previous decade and unnecessary cooling and over-killing at the end of it, had been avoided. It seems that the 5 per cent growth rate may be possible under certain conditions in the next two decades, but the fundamental importance here is that long-term strategy be based on proper economic theory (Figure 3).

If all the ten postsocialist countries in the European Union maintained the fast growth rate of 5.4 per cent for the next twenty years, *ceteris paribus*, their total GDP in 2029 would be 5.33 trillion \$PPP, nearly three times more than now. Assuming that for the same time the average annual growth rate of world GDP would be about 3.5 per cent (which implies only 2.5 per cent per each global resident), and that it will not exceed 1.5 per cent for the fifteen 'old' EU countries, in another two decades the GDP of the ten postsocialist countries will grow from the current 12.4 per cent in the EU and 2.6 per cent in the world, to around 30 and 3.8 per cent respectively, which would strengthen the relative position of the Eastern Europe region.

It needs to be added that by 2029, the remaining ten postsocialist countries probably will have joined the European Union. This includes all the Balkan countries (Albania, Bosnia and Herzegovina, Croatia, Kosovo, Macedonia, Montenegro and Serbia) and some post-Soviet republics (Belarus, Moldova and Ukraine). In 2008, their total GDP was 729 billion \$PPP (half of which, 360 billion, is Ukraine). The GDP of these ten countries represents, respectively: 39.2, 4.9 and 1 per cent of the total product of the ten countries already in the European Union, the whole Union, and the entire world. Aggregated for seven Balkan countries and three post-Soviet republics against a different background, the GDP, calculated according to purchasing power, is slightly higher than Poland's GDP (729 and 685 billion \$PPP, respectively) (Table 1).

Table 1
Population and GDP (in \$PPP) in Central and South Eastern Europe, 2008

Country	Population (in million)	GDP (in billion \$PPP)	GDP per capita (in \$PPP)
Bulgaria	7.3	95.9	13,200
Czech Republic	10.2	273.7	26,800
Estonia	1.3	28.6	21,900
Hungary	9.9	205.7	20,500
Latvia	2.2	41.6	17,800
Lithuania	3.6	65.8	18,400
Poland	38.5	684.5	17,800
Romania	22.2	278.4	12,500
Slovakia	5.5	123.1	22,600
Slovenia	2.0	61.8	30,800
EU-10	103	1,859	18,100
Albania	3.6	23.1	6,400
Bosnia and Herzegovina	4.6	30.5	6,600
Croatia	4.5	73.4	16,900
Kosovo	2.1	5.0	2,300
Macedonia	2.1	19.0	9,200
Montenegro	0.7	7.2	10,600
Serbia	10.2	83.1	8,200
Belarus	9.7	116.7	12,000
Moldova	4.3	10.8	2,500
Ukraine	46.0	359.9	6,900
SEE-10	87.7	728.6	8,300
ECE-20	190	2,588	13,600
EU-27	491	14,960	34,000
World	6,707	70,650	10,500

Source: CIA (2009)

Starting from a lower level, the GDP of the European postsocialist economies still outside the EU may in the future grow faster than in the relatively more advanced countries. Therefore, the assumption of its threefold growth until 2029—up to around 2 trillion \$PPP—seems realistic. Then, GDP of all the twenty postsocialist European countries (the ten already in the Union and the ten that should join it with time) would be approximately 5.3 per cent of the world's production. The world's population will then be around eight billion, while there will be more or less the same number of people in Eastern Europe as now, i.e. 190-200 million. So the one-fortieth of the global population (or 2.5 per cent of all mankind) will produce one-twentieth of GWP. Currently, the populations of Central and Southeastern Europe, accounting for 2.84 per cent of the global population, produce about 3.7 per cent of the global GWP.

The most important thing is, however, that with the optimistic scenario of annual GDP growth of 5.4 per cent for the ten postsocialist countries already in the European Union, its *per capita* value would increase by as much as 34,000 \$PPP (from the current average of 18,000 to 52,000 by 2029), which means nearly 190 per cent per head, as the number of residents will remain fairly stable at the current level. But it would be good if these people could at least enjoy higher output and consequently, a perceptibly higher standard of life, which is what the meaning of postsocialist systemic transformation should boil down to, not mistaking the means of action with its end, as it sometimes happens.

7 Conclusions

In conclusion, answering the questions: *Could it have been better? Will it be better?*, it must be said that yes, it obviously could have been better—to various extents in various countries, in various fields for particular individuals and social groups. It could have been better if the objectives had been more accurately defined and the systemic transformation had not been perceived as a self-contained aim but rather as an instrument to achieve a more superior goal—fast socioeconomic development to enable the country to make up for its historical lags (Kolodko 2002).

Will it be better? In the absolute sense, of course yes. In the next two decades of transformations, the level of production and consumption will double and in some cases even triple. In twenty years, will GDP per head in the new postsocialist member countries of the EU be around 50,000 \$PPP? This is not very probable with regard to all the 100 million people residing in this part of Europe, but it is possible that certain countries and regions (more and more often, one needs to think in terms of regions, not countries), will be able to achieve economic success. Where success will occur, it will mean more than the GDP that at present accrues to the residents in the fifteen 'old' countries of the European Union. Even though these fifteen EU member states will grow, increasing their production and consumption at least by one-third, the gap between the countries of eastern Europe and of western Europe will diminish, but in many cases those differences even in twenty years will be substantial, still causing social tensions and political problems.

The situation may not relatively become better: subjective opinion is not based on an assessment of improvements between the past and the present, nor on the smaller gap in the comparison with more affluent societies and richer parts of the world, but

predominantly on the self-evaluation of one's individual, group, social and national situation, as it is perceived in relation to one's desires, expectations and ideas. There is no doubt that they will always be higher than the opportunities for their fulfilment and realization. What is important is that they will be the driving force for further change and development on the one hand, but also the reason for endless frustration, on the other.

Taking into consideration the very dynamics of growth and development and the progress to be achieved in the future in those fields, the reality will still be worse than it need be. As usual, the available potential will not be utilized fully, for the same reason as was apparent during the previous twenty years. The period is also bound to be full of mistakes in economic policy, reflecting badly solved conflicts of group interests, and inaccurate theoretical assumptions and, more generally, theory falling behind reality and endless problems, concerning, first, the crystallization of the general aim of development, and then its disaggregation into partial aims. This is how it has been, this is how it is now, and this is how it will be.

The conclusions derived from the preceding years, should help to reduce the gap between potential possibility and actual reality for the next two decades, 2010-29. However, even in 2029, just as in 1989 and in 2009, there will be people who will answer the question, *When at last will it be better?*, with the sarcastic retort: *It's been already...*

References

- Baka, W. (2007). 'Zmagania o reformę' ('Struggle for Reforms'). Warsaw: Iskry.
- Bąk, M. (2006). 'Europa Środkowa i Wschodnia wobec wyzwania transformacyjnego' ('The Central and Eastern Europe's Transformation Challenges'). Gdańsk: Wydawnictwo Uniwersytetu Gdańskiego.
- Blanchard, O. (1997). *The Economics of Post-Communist Transition*. New York: Oxford University Press
- CIA (2009). *The World Factbook 2008*. Available at: www.cia.gov/library/publications/the-world-factbook/index.html
- Csaba, L. (2007). *The New Political Economy of Emerging Europe*. Budapest: Akadémiai Kiadó
- EBRD (2008). *Transition Report 2008. Growth in Transition*. London: European Bank for Reconstruction and Development.
- Główczyk, J. (2003). 'Szalbierczy urok transformacji' ('The Cheating Charm of Transformation'). Warsaw: Fundacja Innowacja, Wyższa Szkoła Społeczno-Ekonomiczna.
- GUS (Główny Urząd Statystyczny (various issues) Warsaw: Main Statistical Office.
- Harvey, D. (2005). *A Brief History of Neoliberalism*. Oxford: Oxford University Press.

- Kolodko, G. W. (1984). 'Cele rozwoju a makroproporcje gospodarcze' ('Development Goals and Macrorelations'). Warsaw: SGPiS. (Second edition, PWN Warszawa 1986).
- Kolodko, G. W. (2000). *From Shock to Therapy. The Political Economy of Postsocialist Transformation*. Oxford: Oxford University Press.
- Kolodko, G. W. (2002). *Globalization and Catching-up in Transition Economies*. Rochester, NY: University of Rochester Press
- Kolodko, G. W. (2009). 'A Two-thirds Rate of Success. Polish Transformation and Economic Development in 1989-2008'. WIDER Research Paper 2009/14. Helsinki: UNU-WIDER
- Kolodko, G. W. (2010). *Truth, Errors and Lies. Politics and Economics in a Volatile World*. New York: Columbia University Press (forthcoming).
- Kolodko, G. W., and W. McMahon (1987). 'Stagflation and Shortageflation: A Comparative Approach'. *Kyklos*, 40 (2): 176-98.
- Kolodko, G. W., and D. Mario Nuti (1997). 'The Polish Alternative. Old Myths, Hard Facts and New Strategies in the Successful Transformation of the Polish Economy'. WIDER Research for Action 1997/33. Helsinki: UNU-WIDER.
- Koźmiński, A. K. (2008). *How It All Happened. Essays in Political Economy of Transition*. Warsaw: Difin.
- Orłowski, W. M. (2008). Świat, który oszalał, czyli poradnik na ciekawe czasy (World Going Mad, or a Guidelines for Interesting Times). Warsaw: Agora.
- Ost, D. (2005). *Defeat of Solidarity. Anger and Politics in Postcommunist Europe*. Ithaca, NY: Cornell University Press.
- Tomkiewicz, J. (2007). 'Nierówności dochodowe w krajach posocjalistycznych-mechanizmy i uwarunkowania na tle tendencji światowych' ('Income Inequality in Postsocialist Countries–Determinants and Mechanisms against the World Tendencies'). *Problemy Zarządzani*, 3: 121-35.