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TWO DECADES OF GREAT POSTSOCIALIST TRANSFORMATION – AND WHAT NEXT?*

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The progress of post-socialist systemic transformation should be evaluated through the prism of its influence on a country's development abilities. During twenty years of comprehensive systemic shift, gross domestic product has increased only to a limited degree, on a par with the growth of the world economy. While judging the transformation progress, not only the improvement of competitiveness and growth in terms of quantity must be taken into account, but also social and cultural aspects. Had there been a better policy co-ordination of systemic change and socio-economic development, GDP could have increased by a considerable amount more. This opportunity has been missed due to the implementation of sub-optimal if not just wrong economic policies based on wrong economic theories and the lack of ability of the ruling elites to overrun the conflicts of interests.

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It is quite commonly assumed that the Great Post-socialist Transformation commenced in 1989. This is why at this time, in 2009 and 2010, its round anniversary is celebrated. Many interesting publications have been prepared on the occasion (e.g. Kolodko – Tomkiewicz 2011), yet one comprehensive theory of transformation is still missing. Twenty-one years have passed since the historic talks of Poland's Round Table – the event which unquestionably altered the course of history by galvanising the process of post-socialist changes, not just economically. Certainly, the abrupt fall of the Berlin Wall was more spectacular than the peaceful, two-month Round Table talks taking place in Warsaw. Nevertheless, one should have no doubt that there would not have been the former if it had not been for the latter. Or at least the Berlin Wall would have stood a little longer…

MARKET REFORMS UNDER SOCIALISM *VERSUS* SYSTEMIC TRANSFORMATION TO CAPITALISM

In fact the year 1989 – although already in annals – is a symbolic landmark, as one could easily find evidence of the roots of the post-socialist transformation process sometime earlier. This pertains both to the formation of certain segments of the market economy and to establishing some of the institutions of the democratic law-governed state. These two merging and mutually enhancing processes were happening already in the decade of the 1980s and to some extent even beforehand, in the former Yugoslavia, Hungary, and particularly in Poland.

One may find it interesting that while in Poland the interpretation is widely spread that the process of transformation started there, in 1989, world literature more and more frequently tends to state that it commenced somewhere else and well before 1989. And so, Poles were allegedly outdistanced in this memorable endeavour by Russians and their 1986 *perestroika,* Vietnamese and their *doi moi* dating back to the very same year, and first of all by Chinese who initiated the market-oriented changes already in 1979, when Deng Xiaoping said the famous catchphrase that "It does not matter whether the cat is black or white, as long as it catches mice".

Such interpretation is a misunderstanding stemming from equating the socialist market reforms with post-socialist systemic transformation. The market oriented reforms under socialism came down to institutional changes that were only to streamline the existing system by liberalising it to a certain extent, increasing the competitiveness of companies and, as a result of that, gaining social approval due to improved standards of living, whereas transformation means replacing of the previous system with a new institutional order. In China or Vietnam many economists and politicians still believe that the changes that have been implemented during the last generation's time are limited exactly to this and do not imply changing the system to capitalism. In case of reforms it was rather to save the 'real socialism' through an attempt of making it meaningful in economic and social dimensions, in the face of contemporary scientific and technical revolution, as well as simultaneously ongoing globalisation (Kolodko 2002). As far as transformation is concerned, it assumes abandoning the previous and establishing a new system.

However, it is a comprehensive change, as the post-socialist transformation is far bigger and more complex a mission than simply an economic undertaking. It involves cultural and political transformation, too. There are even more differences in these fields, in particular among the Eastern European, Balkan, post-Soviet and Asian models of the post-socialist transformation (Kolodko 2000).

The non-economic aspects of the Great Post-socialist Transformation – political, legal, cultural, and psychological – are also widely reflected in literature, which deals with as many controversies as can be found in case of the economic dimension of the changes. And they are profound; in fact, the greatest in the history of mankind, as never so much has been changing so quickly for so many. The process of post-socialist systemic changes concerns over one billion eight hundred million people – from the Elbe River in now united Germany to the west coast of the Pacific Ocean. It is worth to recall that it was the approximate population of the entire globe a little more than two hundred years ago, in the times of the French and American revolutions.

Even though twenty years have passed the transformation is not yet over. Although most analysts and scholars tend to declare the end of the transformation process in the ten European post-socialist states which became full members of the European Union (Bulgaria, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia, and Slovenia), manifested by the successful establishment of their market economies, when looking closer at the essence of the process – not just liberalisation and stabilisation but the formation of institutions and microeconomic changes above all – the process is still in progress.

So we left two decades of post-socialist system transformation behind us. But is it really just two decades? Perhaps more, since in many of the countries counted among market economies and emerging from the former system of centrally planned socialist economy these great changes germinated even earlier. Currently, there are more or less advanced market economies on half of the territory of Europe and Asia. But are they mature systems indeed, considering the poor level of institutional reform progress in some of the post-Soviet countries in central Asia, lower than that in certain Central European countries twenty years ago?

Just these two questions show how deep and complex the issue of post-socialist transformation is. Especially, that it does not refer only to transition from planned economy, based on the dominance of state property and bureaucratic control, to market economy where it is private property and deregulation that prevail. It also involves a transformation towards:

– political democracy,
– law-governed state,
– civil society, and
– new mentality.

Considering the above, it would be difficult to expect identical course of the transformation procedure in all the countries involved in such a bold historical process. Nevertheless, there are attempts to present it in the same categories, which often – too often – leads to extreme simplification or even crude generalisation, while the interpretation of the process should be approached having its complexity in mind. It surely is a challenge, as different authors are driven by different theoretical or methodological orientations and motivated by diverse values. Nonetheless, this should not prevent us from creating a comprehensive theory of systemic transformation – this meta-process of our lifetime.

Obviously, at the end of the 1980s and the beginning of the 1990s socialist countries shared several fundamental characteristic features. This entitles numerous scholars to put them together in one basket. However, the basket cannot hold them all because it is substantially wrong to reduce diverse socialist subsystems to the lowest common denominator.[1] For instance, the differences between Poland and Romania at the end of the 1980s were qualitative discrepancies – system-based, fundamental, not minor, which half of the population of these countries does not realise since it was before they were born or they do not remember what really was happening at that time. Similar conclusions one can draw when it comes to earlier dissimilarities between Hungary and Bulgaria or the then Yugoslavia and Albania. Different values, varied institutions, various policies, diversified levels of development (backwardness) are just a few of the most important features of different starting positions for the transformation towards a real market economy and democratic, law-governed state.

In any case, certain simplifications and assumptions can be made, whereby this large group of states – over thirty states producing in total 14 trillion dollars, i.e. approximately 20 per cent of the Gross World Product (according to the purchasing power parity) – may be reduced to the lowest common denominator. When doing so one must be aware, however, of the significant geographic, cultural, economic, and political diversities of this heterogenic group. With such approach and

[1] On the substance of the socialist system see, *inter alia,* Kornai (1992).

reservations, from the perspective of time passing quickly, it should be possible to form some observations *vis-à-vis* the process of transformation to date and its implications for the future.

ONE TRANSFORMATION OR MANY?

The spread of the impulse driving the post-socialist countries towards a market economy had started from Poland. It has encompassed, quite fast, several other countries over the entire region of Central and Eastern Europe, the former Soviet Union, and some of the Asian states. Such a contagion was inevitable. It was the mechanism of a specific 'political dominoes' which caused that even in the countries at that time still imprisoned in fetters of orthodox socialism (communism) – as for instance in Albania and Romania, closer to Central Europe, or in Vietnam and Laos, far from here – the systemic transformation became irreversible. It must be mentioned, however, that in the latter group of countries the decision on choosing a semi-market economy had been taken earlier, in the second half of the 1980s, and it was more due to pro-market Chinese reforms than to the Polish breakthrough in 1989. Yet at that time, before Poland's great push, they were merely reforms of the old system and not transformation towards a new one.

The diversified circumstances occurring then, at the starting point, were of crucial significance for the course of the transformation. The most favourable conditions, as a result of earlier market changes, could be observed in Poland and Hungary, the least encouraging in the orthodox Albania and Romania.[2] What is more, these circumstances remain considerable because despite the great progress regarding the establishment of a market economy the heritage of the past casts quite a shadow over the present. And again – the shadow varies in shape and size in different countries.

A great historical achievement is that, regardless of internal tensions and possibilities of conflict in the last phase of the cold war, such a complex process was, in principle, carried out peacefully. In principle, as unfortunately there were exceptions, the consequences of which are still recurring. Nevertheless, it should be emphasised that *ex ante,* two decades ago, few people were inclined to assume that the collapse of the Soviet Union, given the situation of the raging hyperinflation, might proceed peacefully. Yet the consequences of the then possibilities of conflict have certain implications for the future, which makes the further course of the process more complicated. One may notice it in different areas, from senti-

2 For the complex evaluation of the starting conditions towards post-socialist transformation to the full-fledged market economy see Bak (2011).

ments towards the welfare policy of the state being much stronger than in the traditional market systems on the one hand, to disgraceful incidents of terrorism, particularly in Russia and its borderland, on the other.

The post-socialist transformation towards capitalism appears to be a realistic, very dynamic and multi-aspect process, which is not based on any mature, coherent economic theory. This rapidly initiated transformation – as it was so, despite the then rather advanced market reforms in some of the countries – surprised most economists, not to mention political scientists and sociologists, both Eastern and Western. In some of the countries it was a total surprise and involved everybody with no exceptions – also those who were particularly interested in the collapse or overthrowing of the old regime.

The foundations of the economic theory of transformation were therefore established *in statu nascendi,* so to speak 'in motion'. It was essential to analyse and decide as matters were arising but also to study and speculate on the dependences and the sequence of actions, or on how to optimise the input-output relation in the ever and quickly changing reality. In consequence, a peculiar sub-discipline of economics – or even wider, of social sciences – known as 'transitology', that is a science on transition, has emerged. Of course this time the transition refers to the shift from centrally planned to free market economy, that is from socialism to capitalism.[3]

What one may find interesting, 'transitologists' come from two backgrounds. In the East it was a group of progressive reformers, equally theorists and practitioners, previously involved in market-oriented changes. While in the West they emerged from either sovietologists, the majority of whom turned out to be useless in the new reality, or from a pool of mainstream economists with a more pragmatic approach to the problem, the overwhelming majority of whom became interested in the discussed part of the globe only after 1989.[4]

Regardless of the absence of coherent and explicit theory of transformation, its course to date, taking place on the basis of extensive and ever enriching knowledge of economics but also through intuitive trial and error, is generally assessed positively. Generally, because the opinions differ overwhelmingly and any averaging is intellectually inadmissible as it would signify excessive simplification and partly escaping from the essence of the problem.

3 I witnessed a case – in Moscow – when the proceedings of a conference on post-socialist transition to capitalism were published using a cover from the past when another volume on transition from capitalism to socialist planned economy had been published. The title of the book, written in gold letters on red milieu, was quite universal: "Economics of Transitional Period"…

4 A good example of creative cooperation between scholars from the West and the East may be a volume published in the middle of the road from then to now, see Blejer – Skreb (2001).

The external assessment, particularly in the West, where the image of the real socialist system remains illusory and schematic, is altogether different from the opinions expressed internally, in the East; although here, too, some naturally exclude others. Not only are the positive changes manifested in qualitative institutional transformation but also in far-reaching structural changes. There is at the same time a certain consensus – and rightly – that it was possible to make a noticeably greater headway than in fact achieved. On the other hand, there is no such consensus any more – this time erroneously – as to whether a quicker pace of growth could be reached with lesser diversity in income distribution. From the latter point of view transformation should be generally assessed critically.

Comparative studies – and they are the most fascinating – of the issue of transformation, considering the diverse circumstances in different geopolitical conditions, show that the process has not yet ended. While on the one hand it is easy to notice how much should be done for the establishing of a developed, competitive market economy in some of the Balkan countries and post-Soviet republics, one could come to a conclusion, on the other hand, that the ten post-socialist European Union members have successfully completed the process of changes and could be described as market economies. It is not so, since even as regards the transformation leaders it is far too early to refer to them as institutionally and culturally mature market systems.

Transformation remains an open question and continuing of the changes will take quite a long time. So, what will determine its end and the completion of transition to a full-fledged market economy? Definitely, it is not a moment, just as it is not in the case of evolving into a human-being. We are able to distinguish between a 15-year-old child and a 25-year-old adult, but stating when the transition from one life phase to another took place is not an easy thing to do. You should try to answer the question with reference to yourself, and then you will see how difficult it is. What determines the point is not one event but a multi-dimensional and sometimes long process. All the more this observation applies to society, culture, state, and economy (Wejnert 2002).

As to the latter, in order for it to become truly mature, a market economy must be capable of competing in the globalised economy. It should also be capable of ensuring a balanced growth – not strictly in the economic aspect (finance, trade, investment), but also in the social (distribution of income which is acceptable by the people and does not turn against economic effectiveness and capability of capital formation) and ecological aspects (a balanced exchange between society due to the economic activity of the people and nature).

POST-SOCIALIST TRANSFORMATION AND THE SOCIAL MARKET ECONOMY

The enormous post-socialist transformation – towards a market economy, political democracy, rule of law, civil society, and new culture – is therefore in progress. We are continuously expanding the scope of our knowledge of the mechanisms, regularities and principles behind this complex process by learning from the abundance of practical actions and theoretical studies. But a lot more of such knowledge is still needed.

The paradox is that after over two decades of great political changes a fundamental question emerges, namely: to which market economy are we to aim in our part of the world? Real capitalism – the one that exists in real world, not the one from perfect competition models in textbooks or delusional utopia of neoliberalism – has many faces. What some find surprising is that the market system – the one emerging as a result of transformation, or even more the traditional one, that has been surrounding the post-socialist countries for years – is far from being perfect. The present world economic crisis is nothing else but the crisis of a special type of real capitalism that is neoliberalism.[5] Hence, if transition to the neoliberal model of capitalism would not make much sense, the shift towards social market economy would make a lot of it.

In Poland, the largest country of Central Europe, it was believed in the autumn of 1989 that the system should transform towards ‘social market economy’. Such a desire had been declared by the political leaders of that time and many people did trust them, which proved to be a source of numerous problems later, because the policy that was implemented for the next five years represented a significant departure from the attempt of creating a social market system. In particular, after the recession at the onset of the 1990s, caused by the infamous ‘shock without therapy’, the transformation was for a while heading rather towards the neoliberal market than to the social model.

It was only at the time of implementing the ‘Strategy for Poland’ when the economy was directed to the path of rapid growth and some of the principles of a social market economy were introduced, mainly by combining the policies of improving business effectiveness with a concern for the social aspects of development, especially fair distribution of the results of economic growth.[6] Between 1994 and 1997, with the 6.4 per cent annual growth rate of real GDP per person, it jumped altogether by as much as 28 per cent over the period. Poland was called the ‘tiger of Europe’ and there were more Poles returning to the homeland than

[5] On the contemporary world economic crisis see Stiglitz (2010) and Kolodko (2010).
[6] On the assumptions and implementation of the ‘Strategy of Poland’ see more in Kolodko – Nuti (1997).

emigrating from it – the opposite of what is happening now. That period is also characterised by building a social partnership through creating a negotiating system with the participation of all major social partners, in particular employees (trade unions), entrepreneurs and the government. Due to the quality institutional progress the country was welcome to join the OECD in 1996.

Unfortunately, soon after, between 1998 and 2001, neoliberalism returned, only this time in connection with the rightist populism, which promptly led to a slump and stagnation caused by pointless overcooling of the economy. Due to the general incoherence of reforming activities, so typical of that four-year period, the process of building the social market economy was stopped as well.

It was no earlier than a few years later when the pace of growth was successfully accelerated as a result of introducing the 'Republic of Poland Finance Reform Program' in 2002–2003 and afterwards. First, Marek Belka, who was then in charge of economic policy, propagated the '1-3-5' slogan, suggesting such sequence of GDP growth rates in 2002, 2003, and 2004, respectively. Then myself – being for the fourth time during the years of transformation Poland's deputy prime minister and finance minister – had called for something more ambitious, that is a path of '3-5-7' annual rates of growth. It was not just words, since this is what really happened due to a well-coordinated macroeconomic policy. While in the last quarter of 2001 GDP grew by merely 0.2 per cent, in the first quarter of 2004 it jumped by as much as 7.0 per cent. The unconventional writing off the debts of approximately 60 thousand companies was of fundamental importance here, although the change in expectations caused by the approaching European Union accession should not be underestimated either.

Nevertheless, it should be emphasised that a social market economy is built through generations and not during one parliamentary term of office or one or two governmental episodes. Pretty harmonious efforts of one, two or even three generations are needed to build a social market economy similar to the ones so successful in Scandinavian countries. Apart from that, there must be an appropriate cultural environment capable of joining basic social groups above ideological and political divisions, as well as conflicts of temporary economic interests, in a common effort to achieve a superior aim, to complete a vision showing that parallel occurrence of economic effectiveness and social coherence is possible. Not only does a social market economy result in a bigger social capital but it cannot be built without the critical mass of such a capital. This, however, cannot be achieved without an active and balanced role of the state, which becomes public enemy No. 1 under neoliberalism. Nor can it be achieved in the case of populism, which appears to be first of all a tool of income redistribution instead of its effective creation.

Unquestionably, Poland is still in need of a comprehensive, long-term strategy of a balanced development. And that is true for any other post-socialist economy as well. The market should not substitute for such a long-term strategy. And the ongoing globalisation does not make it impossible. Development should definitely be balanced not only economically, in terms of finance and trade, but also socially and ecologically. It should be characterised by a high level of savings and investments enabling the financing of not only the commercial activities of the expanding private sector but also of the state-provided infrastructure and environment protection.

In case of a small or medium open economy the growth must be based on the export-led strategy. Thus, in relation to the East-Central European transition economies, it implies further export expansion, particularly beyond the European Union. It should be so because these countries are too much EU-oriented and hence are not taking globalisation to their full advantage. Currently, almost 80 per cent of the foreign trade turnover of Poland takes place within the European Union, which generates just about 20 per cent of the global production, while the trade with the rest of the world, where approximately 80 per cent of the world's gross product is made, stands at the level of merely 20 per cent.

ECONOMIC GROWTH POLICY

The short term growth prospects for the East and Central European countries seem to be rather discouraging. Somehow, most of them have recently lost momentum. Not because of the world economic crisis but rather due to the postponement of the required structural reforms and too much of the political wrangling. It can be clearly seen from Hungary to Poland, from Albania to Latvia, and – no doubt – from Ukraine to Kyrgyzstan.

Regrettably, within the forthcoming two, three years – or perhaps more – Poland has no chance to significantly accelerate its economic growth. This stalemate is caused by general political inefficiency. The only hope for significant improvement is pinned on grass-roots initiative – private enterprises and local governments. But this is not enough. What is needed is a pro-growth macroeconomic policy stimulating in a non-inflationary way growth of the aggregated demand of all three sectors: households, business, and the government (public sector). That calls for a well-orchestrated policy-mix of the government (the fiscal policy) and the independent central bank (the monetary policy). So far, inability for a sound coordination has seemed to be the Achilles heel of financial policy in most of the transition economies, especially in Poland.

It is also necessary to make certain reallocations as regards the level and structure of revenue and expenditures of the state budget, which must become more development-oriented. The budget deficit and national debt are growing but it is hardly related to reasonable stimulation of aggregated demand. What is even more surprising, the Polish government of Civic Platform is carrying out exactly the same budget policy it previously criticised and called preposterous, and from which it dissociated itself in the past.

An important instrument of a policy that stimulates and subsequently maintains economic prosperity should be a public–private partnership, in particular with reference to infrastructural and ecological projects, as well as investment in social capital. As regards the latter, the growth should be stimulated in much greater measure by the knowledge-based economy. However, except for some enclaves where the situation is quite competitive, the idea will remain nothing but a futile demand for more public resources. This is because the private sector is still not capable of financing alone human capital and, in a broader sense, social capital without which it cannot otherwise develop. At the same time the public sector does not have enough resources to meet the growing expectations.

Hence, after over twenty years of transformation in Poland, which used to be the cradle and the leader of post-socialist systemic changes, the main challenge is basically of a political, and not of an economic nature. The present economic situation-related and structural problems are beyond the capabilities and skills of those who govern the state. That is why this country will not be able to reach the western level of production neither within ten nor even twenty years, since it requires western capital efficiency and labour productivity, too.

If Poland had marched forward with the growth rate of 5–6 per cent since 1994, when the damaging results of the shock without therapy were overcome, then right now the GDP *per capita* would be nearly twice as high, compared to the year 1994, and approximately 170 per cent higher than in 1989. Alas, it is merely 80 per cent higher than two decades ago. And if the path of economic growth we walked when implementing the 'Strategy for Poland' had been followed for the successive twenty years, then the GDP *per capita* in Poland would have been equal with the numbers in wealthy countries, since with the production growth pace of 6.4 per cent annually the income doubles every 12 years. Nevertheless, they would be merely flows of similar volume, and not standards of living which are not only the functions of current income, but also of the stocks accumulated over years and generations.

Unfortunately, in the foreseeable future, it is not possible to reintroduce the five or six per cent growth rate. As a result of the incompetent reaction of the policy to the economic crisis of 2008–2010 and allowing the destructive appreciation of the zloty before it collapsed in 2009, the Polish economy was brought to a structural stagnation. Very quickly, not even within two years, the GDP growth has dropped from 5–7 per cent to 1–3 per cent, which should be blamed on the government not capable of bringing the economy back to the rapid growth path. What is even worse, there is no government in the political horizon that could overcome the syndrome of stagnation. Polish economic growth potential is 5–7 per cent annually but there is no political class that would be capable of releasing the potential *pro publico bono*. Entrepreneurship itself is not enough. What is needed is an active government strategy and policy supporting economic growth and social development.

One should harbour no illusions about fundamental, abrupt changes for the better. No such thing will happen spontaneously. Without making the most of the opportunities offered by globalisation and the Great Post-socialist Transformation, Poland – as well as a number of other East and Central European countries, and the more the post-Soviet republics – will stay behind the developed Western states for many years. Or perhaps it will stuck behind for good, if we get entangled in such poor a policy to which we have been treated for the third time since 1989 by neoliberalism – first during the shock without therapy at the beginning of the 1990s, then at the end of the previous decade due to the pointless overcooling, and now, as a result of faulty reaction to the world economic crisis.

As for the social market economy, in the long-run there is still a place for such a system in post-socialist countries. The fact that these countries have not been successful in building it for the recent twenty years does not mean it should be given up in the future. Apparently, they need another twenty years or more, for indeed it is a task for generations.

However, the issue is no longer an internal matter of a given state. If one dreams of a reasonable social-economic and political system in the future, it may only be formed through appropriate synergy with the changes happening in the European and global system.[7] For that reason our concern for a better future for the next generations must go beyond the domestic limitations. We have a long journey ahead of us. Perhaps even longer than two decades ago.

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7 On the interdependencies ruling the world economy and on the future challenges see more in Kolodko (2011).

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