FINANCE INDIA
Vol. XIX No. 2, June 2005
Pages—465-479

Globalization, Transition and Development Prospects

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Abstract

The paper discusses options and chances for sustained and equitable growth in emerging market economies, including the post-communist countries in transition. While eight of them already have joined the European Union in 2004, more than other twenty are struggling to restructure and build institutions what suppose to enable them to catch up in the long-run with more advanced economies. However, in the course of history less than 30 countries have become rich and still more than 80 percent of the world population is lagging behind. It is true not only for overwhelming majority of countries in the "Third World", but also for the new, emerging market economies of East Central Europe and the former Soviet Union. The postsocialist transformation has raised exuberant expectations for rapid economic and social progress. Unfortunately, these expectations to quite an extent can not be met.

I. Introduction

AN ANSWER FOR the economist is a question for the policy maker. Most economists are confronted daily with the practical question of how the world is organized. Why do economic, financial, social processes go on the way they do and not differently? When economists conclude they can grasp certain aspects scientifically, they offer an answer, which becomes, in turn, a question to the policy makers, keen on changing the world for the better. The latter do change the world and, indeed, have been doing so for years, centuries, millennia, although it is debatable whether today–in the year 2004–the world is any better than it was 5, 15, 50, 500 or 5,000 years ago.

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Submitted January 2004; *Accepted* September 2004

Certainly, it is different, what one can see also while traveling along the specific timeline in the contemporary world, from the most developed regions of the most advanced countries, say Bavaria in Germany, or Massachusetts in the USA, to the least developed region of the poorest countries of Africa, as Burundi, or Asia, as Cambodia. Then one can see how the economies look today and how they looked somewhere even hundred years ago. And different the world economy will be in the future. The question is: what is it going to be like?

II. Development and the "Black Legend" Phenomenon

In this ever changing world, everyone constantly seeks their place, which needs to be defined and redefined a hundred times. Some processes linked with the ongoing, ceaseless changes run smoothly, others can be very violent; certain things are predictable and malleable, others take us by surprise and can hardly be managed. Problems are thus never in short supply, which makes the lives of economists quite interesting. Whatever happens – whether the prices go up or down, the national currency appreciates or depreciates, the current account is in deficit or shows a surplus, capital is flowing in or flowing out – there are always problems to solve and questions to answer. And every successive answer gives rise to new questions. What makes economics so special a discipline is that its subject matter resembles a living organism.

Economists no sooner obtain an understanding of what depends on what, of how things tick, of what is going on and why, than it turns out that reality has moved on. Economic theories that were viable and proven a generation or two ago may fail to make valid predictions today. The situation is not unlike taking a snapshot from a speeding train. Even with a digital camera, in which the picture can be seen almost immediately, a comparison of the photograph with the view from the window shows that the latter has changed. For we have moved in time and space, and whatever seemed to be an adequate theory may no longer be in keeping with reality.

Our region of the world – encompassing Central and Eastern Europe and an enormous area extending from the heart of Europe to the Pacific Coast, populated by 1.7 billion people – is going through a highly complex process of system transformation. All the time the question arises of whether an appropriate theory exists, capable of describing what is going on and providing adequate, correct premises to guide politicians in their day-to-day decisions that affect millions of people. Even if politicians prove they can take heed of economists' answers – which, incidentally, they usually fail to do, which means a heavy price for societies to pay – this does not yet imply that science can provide correct answers to all questions and suggest appropriate solutions to all problems.

In the midst of a post-socialist (or post-communist, as some would have it) market transformation, we get only a very rough picture of the situation, and yet we do seem to know what we are leaving behind and what we are supposedly headed for. But do we really know what is left behind? History – contemporary history, too – can play nasty tricks and present a very bleak picture of the recent past. Historians call this the "black legend" phenomenon. In the Renaissance, the Middle Ages were shown in very dark hues; the next epoch, in turn, was highly critical of the Renaissance, and so on. When Poland was reconstructing its economy from ruins after the Second World War and building a socialist system, the Poles were taught at schools about the unredeemable weaknesses of the pre-war regime. Before that period received a fairly objective treatment, it too had to go through a "black legend" episode.

And now, when we are told – in Poland and in other transforming countries of the region – how awful life was in the years preceding the breakthrough of 1989-91, this is yet another case of obfuscating the facts and creating a false image of the pre-transformation reality and its economic aspect. Indeed, some people have already forgotten what life was really like in the period before the post-socialist transition. It is worthwhile to analyze carefully some mechanisms that were at work back in those years, because without their proper understanding that avoids oversimplified and trivialized interpretations, we are unable to make a correct action plan for the current phase of the market transformation.

As it happened in Poland 15 years ago, when the conclusion of the Round Table debate initiated the historic process of accelerated transition to political democracy, market economy and civil society, first in Central Europe and than in Eastern Europe and, subsequently, throughout the former Soviet Union (although the pace and scope of this transformation varied from country to country), we did have some knowledge of what we were leaving behind and were headed for. But, under the circumstances, we needed external support – not only intellectual, but also, and especially, financial. The domestic resources being insufficient, we needed foreign capital and technology to reinforce the investment efforts. But along with capital, we needed ideas and advice, which did come in, sometimes even in greater abundance than capital and technologies.

Unfortunately, at this fundamental junction of our history, it turned out that we lacked a mature and unambiguous conception of how to shape the new reality. Despite the existence of many valuable ideas and proposals worked out before, especially in countries where market reforms had been highly advanced, mainly Poland and Hungary, no consistent and comprehensive idea or theory of the transformation and no strategy of economic policy were available, although they were so badly needed. These were not to be found either in the East or, even less so, in the West, whether on the Old Continent, or across the Atlantic.

Under such circumstances, the intellectual and conceptual vacuum can sometimes be filled by haphazard ideas and unwarranted suggestions which ignore the *differentia specifica* that characterized declining socialism and disintegrating centrally planned economy. Occasionally, even some form of economic quackery, or voodoo economics, may prevail. Such a situation is reminiscent of a plague-ridden, backward village in which the local shaman is unable to cope: when a new charlatan emerges, who "knows" how to cure the disease and remove the sources of the epidemic, he proceeds with his treatment, taking advantage of the naive trust he has inspired and making room in the process for a new malady to develop in place of the old one.

Interestingly, some of the studies carried out in the United States under the Reagan administration and financed by the American taxpayers were concerned, for instance, with the economic aspects of a thermonuclear war, including the formulation of pragmatic proposals on how to rebuild economies involved in a nuclear disaster. The politicians, intellectuals and researchers concerned, who had enough imagination, time and money for "what-if" speculations, ran short of time, imagination and, of course, money for detailed, pragmatic, system-oriented research that should indicate the right course of action in the event that the system they so passionately disliked collapsed. As a result, the West was intellectually and programmatically unprepared to face the demise of socialist economy. This is very interesting. In contrast, we largely *were* prepared, this side of the Iron Curtain, to meet this challenge, in Poland more than elsewhere, as was attested to by the previously mentioned Round Table talks 15 years ago.

III. The Dynamics of Economic Transition

It is a scientifically established truth that a good recipe was lacking on how to abandon the old system and build the foundations of a new one – a process in which we are currently engaged, although, once again, its scope and scale vary across our region of the world. Everywhere, however, we were to some extent taken by surprise by the changes at the turn of the 1980s: their profound, radical and rapid character. Why did those changes occur at that precise moment? One should always ask why something happens the way it does and at the time it does. Why not a generation earlier or later?

The answer is: things happen the way they do because many events co-occur at one time and place. This is true of both our private lives and great economic events. It applies to great successes and spectacular attainments, as well as miserable setbacks and grave disasters in practically all areas of human activity. The tragedy of the *Kursk* going down was due to the coincidence of several events at a certain place and time; otherwise, the submarine would still be afloat. The *Columbia* breakup was the result of multiple events coinciding in a splinter of a second at some place; otherwise, the shuttle would have landed safely. So it is with the good things and happy events; they happen when many things are occurring at the same time and place in a certain combination of causal links and feedbacks.

The same observation applies to the developments of 1989-91 in our region of the world. These likewise required the co-occurrence of several events. The only difference is that the "now" or "then" used in this context refer to a different time-scale. Several weeks, months or sometimes even years, may be just a twinkling on a historical scale. Thus what actually happened was that two processes, previously totally independent of each other, became superposed at that phase. One of these was triggered by an endogenous mechanism – one that was built into the system. The people were increasingly fed up with state socialism and centrally planned, excessively bureaucratic economy. These were particularly burdensome in the former Soviet Union, because no reforms were undertaken in that country to loosen the systemic straitjacket, and whatever measures were introduced, were but a substitute for what should have been done (Åslund, 1996). But in other countries – for instance, former Yugoslavia, which would later disintegrate into five republics – far-reaching, partly market-oriented reforms similarly failed to bring the expected results.

Seven years ago I was invited to present a paper at a conference in Beijing about the lessons to be learned – in particular, by China – from the Polish reforms. Initially I thought what was meant was the reforms of the 1990s. But it turned out I was wrong. I was asked explicitly to end my analysis in the year 1989 and try to give Chinese economists and politicians an explanation of why those reforms had failed and why, therefore, we had embarked on an entirely new project: transforming rather than reforming the economy.

It is at this point that the distinction between market reforms and post-socialist transformation emerges. The reforms in the ex-socialist economy did not constitute a transformation. The attempted significant changes were restricted to initiatives intended to preserve the system by increasing its economic efficiency and competitiveness. Most importantly, the production and consumption figures were to be increased and the system as a whole was expected to come closer to meeting the social expectations. Such was the rationale behind the market reforms in the socialist economy (Lin, Cai and Li, 2003). The post-socialist transformation, on the other hand, consisted in the abolition of the previous system and its replacement with a new one – a "new and better reality".

The terminal phase of the socialist economy involved a process, or, rather, a whole cluster of processes, which resulted in a specific "growth fatigue". The centrally planned economy, reformed to a greater or lesser degree (depending on the region, or, to be more precise, the adopted policy) did not manage to withstand the ever stronger competition from highly developed capitalist countries. This process was reinforced by their very dynamic entry into the next industrial revolution, driven by the development and proliferation of information technologies. Our economy, by contrast, was not flexible enough. Had there existed a mechanism to eliminate wasteful elements in the economy, the system might have endured longer. But such a mechanism was absent. If socialist enterprises had been allowed to collapse, then, perhaps, the collapse of the whole system – which was one huge socialist enterprise – would not have been inevitable.

The crucial changes of the turn of the 1980s were instituted by the people – the masses, as opposed to some narrow groups of intellectuals and economic leaders, even though some of them may boast having jumped a high fence, written a seminal paper or given a groundbreaking lecture. But we are concerned here with is major historical processes, rather then with ways of jumping a fence, a line or a difficult question.

As human beings, we simultaneously perform three social roles: those of consumers, producers and citizens. As consumers, we were increasingly tired by the old system, in which the shortage economy reigned supreme, although, once again, its scale differed from country to country in the former socialist block.

Today we need to use economic models to teach students about shortages and to explain this very notion to them. Alternatively, we can point at some remaining enclaves of shortage economy in the modern world, like Cuba or North Korea. In time – and rather sooner than later – these relics of shortage economy will likewise disappear. We, therefore, need to talk to students about the pathologies that accompany economic shortages, such as rationing, gray market, black market, forced substitution, nepotism, distribution irregularities, or a corrupt retail system. We need to explain, in the first place, those phenomena which should draw the economist's attention: the asymmetry and distortion of information transmitted through a defective price system. And, of course, distorted prices must have impaired directly the relative allocative efficiency.

The people were tired as producers, too, because they saw that production was poorly organized and inefficient. Such phenomena as inventory and stock surpluses and their wasteful management frequently coexisted with permanent shortages and poor work organization. As a result, the people rebelled: sometimes they suppressed their rebellion, but on other occasions they gave it an outward expression – often in dramatic circumstances and in quite violent forms.

Finally, the people became increasingly dissatisfied as citizens, realizing that no effective, institutionalized procedure existed that would allow them to say, openly and publicly, that the reality fell short of their expectations and that they desired to change it in accordance with their own preferences. In short, democratic mechanisms did not operate, as there was no true democracy, although its actual deficiencies varied from country to country and the situation evolved in time and space.

The result was an ever increasing potential of accumulated dissatisfaction. At this point we once again run up against the question of why things happen the way they do and at the time they do. Had the people been so much better off twenty years before that no rebellion-provoking phenomena were present? Have the Chinese always been too well off for such phenomena to arise, so that the authorities could introduce reforms while preserving the foundation of old political system and survive for another twenty odd years – the time span of another generation? In other words, was the demise of socialism not likely to occur in Central and Eastern Europe already in, say, 1968 or around that date? And if socialism collapsed in the former Soviet Union more than ten years ago, how come it has survived – and attained a considerable economic success – in China to this day? These are interesting questions that need to be addressed. For the answer will not only satisfy our intellectual curiosity, but also suggest a pragmatic course of action; it will help us interpret the past and actively shape the future.

Such an answer should take into account not only the occurrences within the system, linked with the endogenous development mechanism, but also an outsider's perspective, involving exogenous factors, particularly in view of the fact that the world entered the next phase of intensive globalization at roughly the same time (Stiglitz, 2002). And although it might appear to some commentators that the profound changes in former socialist countries might have occurred much earlier or much later, the fact remains that in Poland they took place in 1989 – with some other countries of the region following suit shortly. This was due to the other process which unfolded simultaneously.

IV. Globalization and Post-Communist Transformation

At this point we must transcend the confines of our parochial views – also in Poland, where we tend to think that it was us, at the very heart of Europe, who initiated the post-socialist transformation processes, thus setting in motion the great wheel of history. To some extent we are just a cog in a much larger wheel that keeps spinning at all times and grinds things like a quern: now producing flour and now bran. Accordingly there was quite a lot going on at that same time elsewhere, too. I say "elsewhere", because there was no world economy yet in the sense we ascribe to this term today. We were separated from the other, capitalist part of the world economy not only by a different political and ideological system. There was no free trade and no free movement of investment or financial capital. No free, direct movement of goods and services; no free movement of people, either. The movement of ideas was likewise relatively limited, as was the movement of technologies, not least because of financial restrictions. The world was, generally, divided. We spoke about the Third World. But use of the term "Third World" – sometimes called "developing countries", although, regrettably, they all too often failed to develop at all, or even suffered a recession – implied the existence of a second and a first world. We were the Second World. "They"–the highly developed capitalist economies, merely about 25 out of over 200 countries of the world–were the First World.

It was against this background that our dream was conceived which envisioned a transformation from system to system, taking us from the Second to the First World. For where else could it have led? Surely, not to the Third World, or we would have refused to support it! Only now does it turn out that a transformation from system to system does not automatically entail moving from the Second to the First World, and may even bring a country closer to the Third than to the First World. This is the case in some post-Soviet republics, while symptoms of such an unfortunate course of events can also be detected in the less developed republics of ex-Yugoslavia, which are additionally encumbered by a legacy of ethnic and military conflict.

Meanwhile, other interesting developments occurred half a generation ago in the First World, the richest part of the globe. An enormous amount of free capital became available. Highly developed societies – the most affluent in the world – saved much more than they were able to invest at home. They sought, therefore, opportunities to invest their ever greater surplus savings abroad. And they saw an enormous stretch of land, from the Elbe to the Pacific, with a highly skilled human capital, enormous resources and a huge potential, which had not yet emerged as a market. This gave rise to the concept of "emerging markets", or a nascent, rising ones. Countries in our part of the world were meant to "emerge" from the non-market abyss. Indeed, they are emerging, have been emerging for a dozen or so years and some of them have already nearly emerged. This means they are opening up to ever freer and broader external contacts, allowing more goods and capital to enter their economies. But to make this possible, certain conditions must be met and, first and foremost, it must become profitable to actors from other parts of the world economy to invest their surplus capital and sell their goods in our region of the world.

Thus, in the first place, the economy must be privatized, for no one will invest their savings on a large scale in countries where state ownership dominates. Accordingly, a comprehensive privatization is necessary, which poses a unique challenge, given that it must be carried out in a relatively short time, despite the scarcity of domestic capital. All the more so, it is necessary to open up.

Second, the domestic currency must be convertible, to facilitate financial transfers and payments. Hence the pressure to attain convertibility as soon as possible, initially only in respect of current transactions, and in time also in the capital account. This, of course, has certain implications for the financial policy as a whole – both in its fiscal and monetary dimensions and their appropriate coordination, needed to ensure financial stability.

Third, the movements of financial and physical capital must be liberalized. This requires extensive structural reforms and an appropriate institutional support for the market.

Fourth, it is necessary to limit, and in time to abolish, tariffs and other protectionist barriers to free trade. This requires a willingness to expose many domestic enterprises and whole branches of the economy to a competitive pressure from the outside.

Fifth and final, a political consent is necessary to deregulate the economy to the point when all the processes required by the efficient functioning of the modern, open market economy can be put into operation. The enormous external pressure exerted by the rich part of the world on our region acts as a catalyst, galvanizing and dynamizing an endogenous process – one that results from the past developments in our part of the world.

A dozen or so years ago we were so keenly concentrated on our internal situation that many of us failed to notice with sufficient clarity what was going on outside. Most probably, neither of the above-mentioned processes would have been enough by itself to set off the avalanche as a result of which some 1.7 billion people – including China, Vietnam and Indochina – are now on the way to the market economy. Two processes joined forces: an internal one – driven by the increasing dissatisfaction with the old system, constantly losing competitiveness through a lack of adaptive capacity – and an external one, the pressure of the international capital. The old system is dying out like the dinosaurs, which failed to adjust to the irrevocably changing conditions.

The old system, namely, failed to adjust to the requirements of the evolutionary process propelled by the scientific and technological revolution, with all its consequences for the global economy. Therefore, from the moment the transformation was launched, the world economy has been consolidating into a single, ever more tightly integrated system. This is the essence of globalization. In other words, had we not joined the process by opening up and integrating with the rest of the world economy, the latter would not have become global. And now it is global, to which we too contribute, although our role in this economy is limited, given our modest share in global output and trade.

Globalization is a historic process of liberalization, followed by the integration of the hitherto largely fragmented markets of capital, goods and – on a smaller scale and somewhat belatedly – labor into a single global marketplace (Kolodko, 2002; Stiglitz, 2002). If we want to be part of this marketplace, we must accept the market-based, that is, capitalist rules of the game that govern it (Kornai, 2001). It follows that we need to become a capitalist economy, and in order to become one we need to go through the transformation from a socialist to a capitalist economy. Seen from a bird's eye view – or, better still, from the perspective of a satellite orbiting the Earth – the two processes merge into a single, ever more tightly integrated process. They reinforce each other through a manifest feedback mechanism. There would be no transformation save for globalization. Conversely, globalization would never be full, save for the post-socialist transformation.

The question thus recurs whether, at the turn of the 1980s, a prescription what to do was available. Did there exist, apart from general mantras like *liberalize, open up, privatize!*, some deepened and concrete knowledge on how to transform? Hardly any! I remember meeting one of the greatest contemporary economists, the late Professor Rudiger Dornbusch from the MIT, at a seminar held in New York City in 1990. He said that we – the inhabitants of the post-socialist part of the world – were no different from the others. Wherever in the world the American gurus went – Argentina, Turkey, Africa, the Philippines – they heard: *We are different.* Dornbusch added that although he had never been to Poland, he was certain we said the same thing. And he was right. We did say: *We are different.*

And we *were* different, because at the turn of the 1980s, we faced qualitatively different institutional problems from those which beset at that time other "emerging markets", outside the post-socialist group. It was not the case that we were similar to the Latin American economies, as some Western and especially American economists alleged. The actual similarities were in fact much less significant than superficial analogies would suggest. In order to provide an appropriate therapy, an accurate diagnosis of the actual state of affairs was needed (North, 1997 and 2002; Stiglitz, 1998). Unfortunately, this is what the American gurus lacked, which resulted in faulty recommendations concerning the economic policy. One of its extreme forms was the concept of a "shock therapy", whose imposition and acceptance in the early 1990s exacted a heavy price from the Polish economy and society (Kolodko, 2000a). It turned out to be much more of a totally pointless shock than of a much-needed therapy.

V. From Shock Failure to Gradual Therapy

The countries of Central and Eastern Europe, and in particular the former republics of the Soviet Union, approached the richest countries of the world, which make up the G-7 group, expecting not only capital, but also technical assistance, that is, advice. What to do, we asked, when the old system fails? How to switch to a new one? All of us – Poland included – called for financial assistance, too, because of the foreign debt burden. In response, the G-7 group invested two international institutions – the International Monetary Fund and the World Bank – with an amazing power, confronting them in this way with a formidable challenge.

Thus the International Monetary Fund and the World Bank admitted on a single day almost twenty new countries, including all the post-Soviet republics, which were to become new "emerging market" economies, functioning in accordance with the rules applicable to the "First World". But there was no ready-made recipe what to do. As we already know, no research had been done on the ways of handling the possible demise of socialism. But another proposal was in store, which provided the basis of a solution – the Washington Consensus. It was a theoretical concept, worked out as a remedy against the structural crisis and heavy indebtedness in Latin America.

To the decision-makers, this seemed an appropriate proposal for the post-socialist countries. They just assumed we were a little different – in a manner of speaking, somewhat "worse" than the inefficient Latin American economies – because we had an even larger public sector, stronger trade unions, greater amount of red tape, less convertible currencies, more bureaucratic procedures and, especially, more centralized price regulation. Accordingly, one had to do what was being done elsewhere (mainly in Latin America) with even greater dedication and perseverance. What, then, was the prescription offered by the Washington Consensus? In simplified terms, it urged the countries concerned to privatize as much and as quickly as possible, liberalize trade and prices at the earliest opportunity, and be tough in the financial policy, both in its monetary and budget aspects.

Is there anything improper in this advice? Far from it. There is nothing wrong about it. But, apart from its contents, one should also take note of what is missing, in the fashion of the great Sherlock Holmes, who tells his friend, Doctor Watson, in a famous story by Conan Doyle that rather than wonder why the dog barked so loudly last night, he should ask why it did not bark the night before. One indeed has to privatize, liberalize, maintain a financial discipline and follow a tough monetary and budget policy. But this is not enough. What the Washington Consensus overlooked and missed was the enormous role of institution building in the implementation of market economy (North, 1998; Kolodko, 2002; IMF, 2003).

What are institutions? They comprise market rules and organizations (as well as laws) which enforce compliance with these rules, using a carrot and stick approach. And now, as we build a market economy in our countries, we notice how enormous are the challenges we face. The privatization and liberalization processes are not everything. There are also arrangements to be made to institutionalize economic activity anew. After all, we are building a new system.

After dozen or so years of efforts, this task has reached various stages of completion in various places. Poland, along with several other countries, is fairly advanced in this process, in view of the adoption of regulations and institutional arrangements connected with its accession to the European Union. This is a result of our geopolitical situation and also of our prudence. For it would have been most unwise, at the current stage of global economic integration, not to integrate with a major economic organization like the European Union. The accession day has come. But there is a lot left for us to do, even after the formal date of accession, that is May 1st, 2004.

In time, the Polish economy will start functioning the way the market economies of the European Union do, although certain weaknesses will persist for a while. This is our chance and our choice. Unfortunately, this option is not available – at least in the foreseeable future – to many other states, including some post-socialist countries of the Balkans and the post-Soviet republics in Central Asia. This path is closed for them, at least for now, in the current phase, but bearing in mind their geopolitical position, it may remain so forever.

To sum up, the course and character of the great economic transformation in Poland and some other countries was the effect of coinciding internal and external circumstances. None of these should be underestimated, but they should not be overrated, either. And most importantly, they should not be considered outside their appropriate political and historical context. It is against this background that we are introducing a market economy which follows the rules that apply in the European Union. European integration should be perceived in this context as an element of a broader game: the global rivalry of economic organizations.

Small and medium-sized countries opening up to the global economy should take advantage of the benefits of integration, for it creates much better opportunities in the contemporary worldwide rivalry than does remaining outside it. To stay out of the mainstream means in fact to take a position on the periphery of the global village. This is not the way to get rich. Economics knows of no other honest way for nations, regions, towns, families or individuals to be enriched except through rapid socio-economic development, unless somebody is stealing, grabbing or exploiting the others. But that is not the way to address the challenge.

Countries which draw appropriate economic-policy conclusions from appropriate economic theories develop faster. Such countries do exist, although, regrettably, they are not many (World Bank 2004). Looking back over the past quarter of a century, there is only a handful of economies which have consistently grown at an average pace of 5-7 percent annually. The situation is not unlike the anecdote about two tourists in the mountain wilderness who sit underneath a tree, exhausted after a day's hike, and eat sandwiches, when all of a sudden a bear appears. One of the tourists drops his sandwich, takes a pair of running shoes from his backpack and quickly puts them on. His companion asks: "You don't think you can ran faster than the bear, do you?" To which he replies: "No, not faster than the bear, but certainly faster than you!"

This is precisely the point: to run faster than others. To attain greater economic dynamics than that of highly developed countries. In the process, one should be fully aware that the opportunities connected with the transformation and globalization can be utilized with varying degrees of aptitude.

Poland, which is often considered the relatively most successful transforming economy of the past 15 years, has also had its ups and downs. Four clearly different periods of the Polish transformation after the Round Table talks can be distinguished. The first one was called by some "shock therapy", although, as has been said before, it involved too many unnecessary shocks and too little therapy, bringing with it excessive if avoidable costs (Kolodko, 2000b). The modest results of the years 1990-93 were reflected, among other things, in the deep transitional recession. Its shorter duration than in other countries was mainly a consequence of the fact that by 1989, market reforms had already been quite advanced in Poland, improving our preparedness to implement market mechanisms in comparison with other countries of the region.

Then we shifted gears and changed the conception of economic policy in 199497, implementing the guidelines of the "Strategy for Poland" program (Kolodko and Nuti, 1997). Its most salient feature was an instrumental approach to institutional change and structural reform – including, especially, the continued privatization and liberalization processes – subordinated to the needs of rapid socio-economic development (Sen, 2000). The coordination was improved of the fiscal and monetary policies, as well as the industrial and trade policies; the state did not refrain from wise intervention, either. And in the first place, we fostered institution building, that is, learning the rules of the game and implementing appropriate laws and organizational arrangements to enforce compliance from all the economic actors, all the market entities, including the newly emerging small and medium-size private enterprises, and to compel the state and local-government bureaucracies to change their ways.

Then, unfortunately, the operation of the democratic mechanism made the pendulum swing the other way. A new government came in, with new (or partly recycled) views, and some old methods were reinstated, based on the Washington Consensus, which was incompatible with the Polish realities. As the theory did not fit the real world, the real world had to be adjusted: measures were taken, quite unnecessarily, to cool the economy. This process led to a phenomenon called in English *overkilling* and in Polish, less elegantly, *butchering* the economy. As a result, GDP growth slid in Poland from 7.5 percent, at a time I quit politics in spring 1997, to a miserable, stagnant 0.2 percent in the fourth quarter of 2001. Soon afterwards I have been asked to join the government again. In such circumstances, we needed to set about restoring faster growth (PNFR, 2003). And we have been successful in this respect. From a paltry 0.8 percent in the second quarter of 2002, we have managed to increase it to over 3.8 percent in the second quarter of 2003, bringing the Polish economy back to the faster growth track, where it should reach a GDP growth of about to 5 percent already in the second half of 2004 – the year of Poland's accession to the European Union (Kolodko, 2003).

VI. Conclusions

We stand a chance of staying on this fast growth path not only for four years, as we did during the implementation of the "Strategy for Poland", but for at least 15 or even 25 years. We need to run faster if not than bear, then at least faster than the better developed economies and narrow the gap between ours economic development levels, which has formed in the course of history. But this should by no means be taken for granted. The fact that we are involved in a market transformation or the fact that we are opening up to the enormous, competitive game that takes place in the global economy does not automatically ensure for us an economic success.

Such a success comes, first and foremost, as a result of a wise socio-economic development strategy. One conclusion follows inescapably from my practical experience at home and abroad, theoretical studies – also in the field of comparative economics – and sustained reflection: a good strategy and policy of socio-economic development can only be based on a sound economic theory. If, over the years or reflection, study, action and struggle, I have managed to make some contribution to such an economic theory, then these years have not been wasted.

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