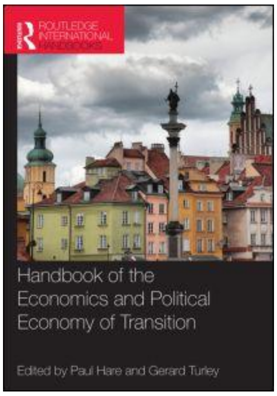

Handbook of the Economics and Political Economy of Transition

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The Great Transformation 1989–2029

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THE GREAT TRANSFORMATION 1989–2029

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Introduction

Rarely does so much change so rapidly as during the post-socialist system transformation that occurred between 1989 and the present time. For the 10 East Central European countries already belonging to the European Union (Bulgaria, the Czech Republic, Estonia, Hungary Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia), many claim that the transformation has already succeeded because the region has institutionally matured to become a fully fledged market economy. Others, however, argue that there is still a long way to go.

I share the latter view. Although the very fact of formal membership in the European Union – in accordance with the Copenhagen Criteria established as early as 1993 – means that each new member is considered a 'functioning market economy' able to compete within the Union, yet this does not imply real systemic maturity. Such maturity requires qualitative advancement of the market culture and the reliability of market institutions, i.e., the rules of the market economy game, to ensure the effective operation of mechanisms for creating and allocating capital, and for distributing output. Effective operation of those mechanisms depends on the dynamics of complex economic processes, and their balance. Hence to achieve a state of market institutions and culture that meets these conditions, further development over a much longer period is needed.

As for other regions, especially in post-Soviet Central Asia, there are still some countries that would hardly be called post-socialist if it were not for the general transformation process that has gone on since 1989 or 1991. After all, there is no doubt that in 1989 Hungary, Poland or Yugoslavia of the time were already far more marketized and liberalized than countries such as Azerbaijan, Uzbekistan or Turkmenistan were 20 years later. Then, however, because of the context, nobody even thought of calling the former 'transformation economies', just as now the latter are not referred to, also because of the context, as 'reforming socialist (communist) economies'.

The cascade

In Poland the historic Round Table debate of spring 1989 culminated in a compromise agreement. Representatives of the governing authorities and opposition groups, intellectuals and businessmen, politicians and economists gathered at the Table. That agreement became the catalyst for a process of massive systemic transformation covering a great part of the world: first, Eastern Europe, and soon after that, the territories of the former Soviet Union (FSU). It also influenced the market orientation and pace of structural and institutional transformation both in China and in the Indo-china region, notably Vietnam.

Over thirty countries, stretching from the Elbe River to the Pacific Ocean and currently inhabited by over 1.8 billion people, over a quarter of the world's population, embarked on the path to more or less liberal market and democratic transformation. After 20 years of transformation, this process, taking place against a background of globalization and another phase of the scientific and technical revolution, as well as dramatic cultural and political changes, has given rise to a completely new world. For as it turned out, 1989 was a historically significant year 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. This can be observed, *inter alia*, in such countries as Chile and Nicaragua, Ghana and South Africa, Yemen and Syria, India and Sri Lanka.

1989 also meant the end of the Cold War, the end of clashes between the two sides of that war, 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. Interestingly, twenty years later, China's influence is much greater, and in some parts of the differently divided world still growing.

The collapse of real socialism, the end of the Cold War, the post-socialist transformation and the expansion of neoliberalism, the markets 'emerging' from the post-colonial and post-socialist countries, the advance of globalization, the information revolution, mass migration and the devastation of the natural environment are the most important factors cumulatively causing the *cascade* of cultural, political, social, economic, technological and environmental transformations of the past two decades. The cascade of changes is rolling with great force through societies and economies, causing something that could be called a tectonic shift. A new quality is being created, which can be explained on the basis of the *coincidence theory of development* (Kolodko, 2011). It is against that background that the entire process of post-socialist market transformation, *per se* historic, should be perceived.

The sentence

If we had asked people, including outstanding economists, what the average standard of living and production level would be after two decades of systemic transformation (excluding China and Indochina, whose development is very specific), no one would have suggested that it would be only 20 per cent higher than in 1990. For such slow growth makes the enormous systemic transformation almost pointless from the strictly economic point of view. After all, why transform the system only to sentence the next generation (400 million people) to barely noticeable growth of 0.9 per cent per annum on average? Yet that is what was done.

Twenty years ago no one was bold enough to forecast that China would increase its GDP per capita not by one-fifth but by a factor of five. Yet over that period the huge country, still widely regarded as communist, increased its production level by more than 420 per cent. It achieved that by following its own chosen path, ignoring Western pressures and advice, unlike the countries of Eastern Europe and some republics of the former Soviet Union, which accepted such advice to varying degrees. China managed surprisingly well to ensure the cooperation of the invisible hand of the market with a highly visible head of state. The synergy between those two regulators of the social reproduction process determined China's unprecedented success, as the country quietly advanced from the phase of reforming the socialist planned economy to the gradual creation of a capitalist market economy. Although it still does not admit that, and nowadays advances the thesis of constructing 'a harmonious society', intentionally still socialist, in fact China is already well down the road of building a market economy. The latter is capitalist by nature, with all the long-term implications that has, including political ones.

We will never get 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, at the same time flooding the world with tens of millions of additional miserable migrants?

What would have happened if, first in Eastern Europe, beginning with Poland, and then in the Soviet Union, the political conditions for complex, profound systemic transformations had not appeared, and if this part of the world had then followed a path of gradual but effective market reforms, like China and Indochina did, instead of the rapid post-socialist transformation that they actually followed? We can speculate that the pace of economic growth in the 1990–2009 period might have been significantly faster than the disappointing average of 0.9 per cent yearly, as it had been in the previous 20-year period, 1970–89, and even more so in the two earlier decades, 1950–69.

Alternatively, one might imagine, as a result of the crisis at the turn of the 1980s and 1990s and the systemic inability to steer these economies along a path of fast and balanced growth, that the region might have descended into secular stagnation and, possibly, would now have an even lower production level than then. However, noting the engagement with market reforms at the end of 1980s, especially in Hungary and Poland, as well as Gorbachev's policies of *glasnost* and *perestroika*, the first option is surely more probable: with a higher average pace of growth than actually occurred.

Certainly, in the framework of a more profoundly reformed socialism, redistribution mechanisms would have also worked differently. The range of income inequality would surely be greater than at the time of the so-called real socialism, yet less than it has actually turned out to be (Kolodko, 2000). Yet, that supposition could be questioned as well since, for example, the Chinese and Vietnamese experience suggests otherwise. In these countries, advanced reforms of the socialist economic system have triggered a gradual increase in inequality, even more so than in countries that chose a path of systemic transformation. Suffice to say that the Gini coefficient, measuring the extent of income inequality, was 0.47 in China (as of 2007) and 0.37 in Vietnam (2004), while in Poland it was 0.35 (2005) and in Hungary only 0.28 (also 2005) (CIA, 2009).

Reforms versus transformation

There is a substantial difference between market reforms within a real socialist economy and a post-socialist market transformation. In the first case, the focus is on changing how the existing system functions in order to preserve its essentials. Attempts to make the socialist system more flexible and to increase its ability to adjust to changing cultural and technological conditions were made with that end in view. Their purpose was to enhance enterprises' effectiveness and gain social support, or at least acceptance, for the system's continued functioning. So with reforms, the changes – although at times profound and advanced – were by assumption designed to serve the purpose of retaining the established economic and political system, and not its rejection. That was the objective of the Soviet *perestroika* at the end of the 1980s; it was also the goal of the Polish reforms of that decade. Likewise, the economic transformations in Hungary that started in 1968, and the very different Yugoslavian model of self-governing socialism, initiated as early as the 1950s, can be viewed in the same light.

As for the second option – post-socialist transformation – its aim is to eliminate the former system and replace it – through substantial, qualitative institutional reconstruction – with a new system, *de facto*, a market capitalist economy. The fact that the term 'capitalism' is still used surprisingly rarely to refer to the system created on the territory of Eastern Europe and the FSU does not change anything. Although euphemisms such as 'market economy' are more frequently used, its capitalist nature is obvious.

The former 'communism' with all its disadvantages, including some imaginary ones, is often contrasted with the 'market economy', with its advantages, some of which are only hypothetical. Comparing such a non-existent 'communism', presented in the most gloomy terms, with an idealized 'market economy', actually also non-existent, is both methodologically erroneous and factually confusing. Valid comparisons entail confronting the existing realities – the former and the present one – rather than a slandered image of the past and a rose-tinted image of the present or imagined future.

Therefore, the so-called real socialism as it really was, especially in its economic aspect, and the so-called real, contemporary post-socialist capitalism, as it really 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 20 years or more.

Emerging markets

The commonly used term, *emerging markets*, was not created to describe the new, complex economic reality of countries undergoing systemic transformation. The term relates to the expansion of the neoliberal model of capitalism that has been going on for as long as the now more than 20-year episode of post-socialist transformation (Harvey, 2005). These so called 'emerging' markets are not evolving and maturing market economies, civic societies and political democracies but emerging new fields of economic activity, particularly speculation, for the richer part of the world – that which 'emerged' long ago as a capitalist economy, and which has institutionally and financially matured. The rich world is now sufficiently strong and affluent that it seeks to use that affluence in other regions beyond its traditional zones of domination. Considering the map of the world before 1989, with the division then existing, 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 only possible through transformation from socialist planned economy to capitalist market economy.

From this neoliberal point of view, 'emerging markets' are treated instrumentally as one more opportunity to do good business, not necessarily taking into consideration the social costs in the places where the business is done. However, from the point of view of the countries and economies interested in 'emerging', the purpose is basically different: it is the appearance of a market economy system, effective and competitive internationally, which would be able to fulfil the needs of their own societies in a satisfactory way.

Briefly, that is the fundamental difference between a neoliberal approach to the post-socialist systemic transformation and that represented by the notion of the social market economy. The first approach concentrates on emerging opportunities to do business. One should not be surprised at that, 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 development and wealth of the post-socialist societies, is mainly rhetoric, covering concern for their own interests, not only political but above all economic, particularly the interests of the financial elites of the rich countries. We must not take offence at this fact, yet failing to acknowledge it would be most naive. We need to adjust to it practically as a new challenge that creates both new dangers and risks, as well as significant new opportunities. However, to be beneficial for long-term social and economic development, an effective strategy, determining the aims of development and based on a sound economic theory, is necessary.

Over two decades ago, the real socialist system – the economy functioning without political democracy and based on state property domination, central capital allocation and bureaucratic control – was heading towards its end, as it had exhausted its development capacity. People were more and more dissatisfied in all the three social functions that they always undertake:

- producers – frustration was increasing, which resulted from wrongly organized production that did not bring the expected effects;
- consumers – in the face of increasing deficiencies and a deepening shortageflation syndrome (Kolodko and McMahon, 1987), the level of consumer satisfaction was relatively low (against the background of increasing production), and sometimes absolutely lower, because it was difficult not only to earn money but also to spend it;
- citizens – the so-called people's democracy and more or less liberalized one-party system were far from giving people the possibility to express opinions in an organized and creative way, enabling them to have an impact on public matters.

In that situation, when the system was clearly creating more problems than it was able to solve, the 'material fatigue' was so great that the system was bound to collapse under the weight of its own dysfunctionality. This is what finally happened in 1989 in Poland and much of Eastern Europe, although it could easily have happened up to a dozen years earlier or later, but it definitely had to happen. First of all, there was increasing social pressure for change, most clearly expressed in Poland, mainly, though not only, by the 'Solidarity' movement, which, with the passing of time, contradicted itself, turning to populist or neoliberal positions (Ost, 2005). It was also in Poland that the authorities, already supporting reforms, agreed to share the power at the Round Table. In Romania, the authorities behaved in a completely different way, resisting change for as long as they could. The processes in the other countries took forms between those two extremes.

Obviously, external pressures played their role here, yet, basically, it was an internal process in each country. The external forces took advantage of the internal decomposition processes rather than imposing the direction or pace of change. Even if in the USA the Democrats had held power, supporting reforms and looking for 'socialism with a human face', instead of Republicans with their confrontational outlook; and even if in the UK power had been with the Labour Party, favouring the social market economy and looking for the 'third way', instead of the Tories, perceiving the East with hostility; still the real socialism was doomed to fail. If it had not happened at the end of the 1980s, it would have happened a little later. However, it was not doomed to follow the path that then unfolded and which, to a great extent, is still evolving. Other paths of development might have been found, possibly involving lower social costs and higher living standards for the populations of the countries in transition.

Facts, Interpretations, Speculations

While the past is a matter of facts and their interpretation, the future – except for shaping it actively, which is the most important – is a question of speculations and their interpretation. The former is more difficult; the latter is more appealing, as the future knows no facts. It will provide them. However, what kind of facts they will be greatly depends on the assumptions made *ex ante*, and their consequences: theoretical and practical, intellectual and political. 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 do not predict, and without predictions, participation in creating the future is impossible.

The assessment of the previous course of post-socialist transformation is still controversial, and will remain so for many years. Yet, certain areas of theoretical generalization, hard to challenge intellectually, have already appeared (Blanchard, 1997; Csaba, 2007). At the same time, more could have been achieved in terms of economic growth, although sometimes there are fundamental controversies over the possible paths that could have been followed. There is no doubt, however, that 20 years after the transformation, its results, measured in terms of economic growth, could be much greater and its social costs (unemployment, inequalities, margin of exclusion, poverty, excessive death rates, etc.) could be substantially smaller. A similar pattern is likely to be observed in the future.

In the face of neoliberal propaganda typically offering a false path of transformation (one without an alternative) *ex ante* and its image *ex post,* attempts to estimate the economic growth that could have occurred in the years 1990–2009 are rarely made. Obviously, even an accurate result of such a complex estimation of the growth of production and consumption cannot be sufficient to assess the existing situation, as the gross domestic product (GDP) indicator normally used does not cover all the relevant aspects of the socio-economic situation. The UNDP Human Development Index (HDI), widely used in practice, is better, though also not perfect. However, that index also omits from consideration the natural environment or any evaluation of free time and its use. Eventually, these and other aspects of socio-economic development (such as cultural values, relations between political power and the economy) will be given their due attention in a synthetic way, for example by using an Integrated Well-Being Index (ZIP – *Zintegrowany Indeks Pomyślności*) (Kolodko, 2011).

Let us take the example of Poland – the largest economy of the new member countries of the European Union (EU) – whose real GDP in 2009 was about 180 per cent of its 1989 value. Excluding China and Vietnam, this was the best result in the post-socialist countries, aside from the specific case of Turkmenistan where the index was about 220 per cent (EBRD, 2008), stimulated by a boom in energy resource prices in recent years. Poland's growth of GDP by 80 per cent over two decades basically happened due to fast growth in the periods 1994–97 and mid-2002 to mid-2008. In the periods 1990–93 and 1998–2001, in contrast, overall GDP growth was close to zero. These changes in dynamics and the level of production were clearly correlated to the employment and unemployment rates (Figure 37.1).

There has been an attempt to estimate the hypothetical pace of growth over the past 20 years in Poland. The basis for the estimation is the assumption that the changes of GDP in the years 1990–93 could have complied with the original government's plans (a decline of 3.1 per cent in year 1990 and then further growth), and in the years 1998–2001 they could have been similar to the real dynamics observed in the period 1994–97, as assumed by the contemporary government's policy *ex ante* (Kolodko, 2009). That was possible. Implementing such a scenario only required avoiding obvious mistakes: firstly, devastating stabilization policy at the beginning of the first decade (Kolodko and Nuti, 1997); secondly, unnecessary cooling of the economy at

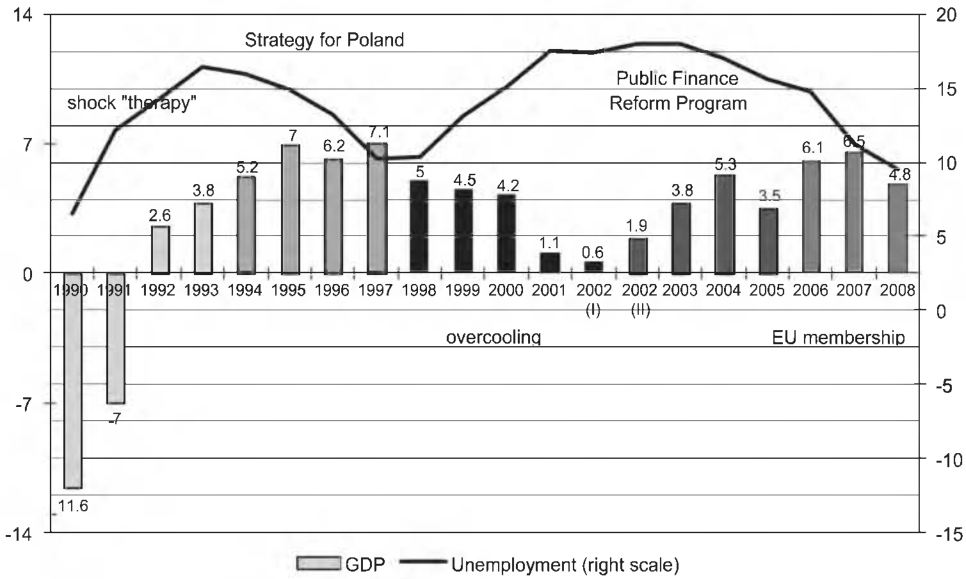

Figure 37.1 From Shock without Therapy to Therapy without Shocks: GDP growth (left scale) and unemployment rate (right scale) in Poland, 1990–2008
Source: GUS (Central Statistical Office), Warsaw (various years).

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).

If the events had followed that scenario, based on the assumption of sound policies for building market institutions and a responsible strategy for economic development, and if we had reacted more effectively to the world's economic crisis of 2008–9 and managed to keep GDP growing at about 4–5 per cent, then in 2009 the GDP level would not be 180 per cent of the value from 20 years ago but half as big again: over 280 per cent of that value (Figure 37.2).

Presented in absolute values, it would mean not around 18 thousand dollars *per capita* (calculated according to the purchasing power parity, US$PPP), as in Latvia, but over 28 thousand US$PPP, more than in Portugal. That illustrates the range of the unexploited possibilities and, at the same time, irretrievably lost income. This loss, moreover, is the result of allowing economic policy at certain times to be over-influenced by neoliberal thinking.

As for other transformed economies which, taken together, only in 2007 returned to the production level of 1989, the range of policy mistakes was even greater than in Poland, hence the failure to exploit their full growth potential was even more significant there. There were various causes, usually of a political rather than an economic character, with endless political disputes – sometimes turning in a populist direction, sometimes in a neoliberal one – making it difficult to exercise rational and practical policy to promote balanced economic growth.

Still, it must be emphasized that in Poland the achieved pace of growth at 3 per cent per annum was not inevitable, as at least 5 per cent was clearly achievable. Similarly, the transition countries as a whole were by no means doomed *ex ante* to achieve the slow growth of just 0.9 per cent annually. Fundamental mistakes in economic strategy, concerning both structural changes and the creation of new institutions necessary for the efficient functioning of a market economy, and in economic policy as conventionally understood, have high costs. The price we now

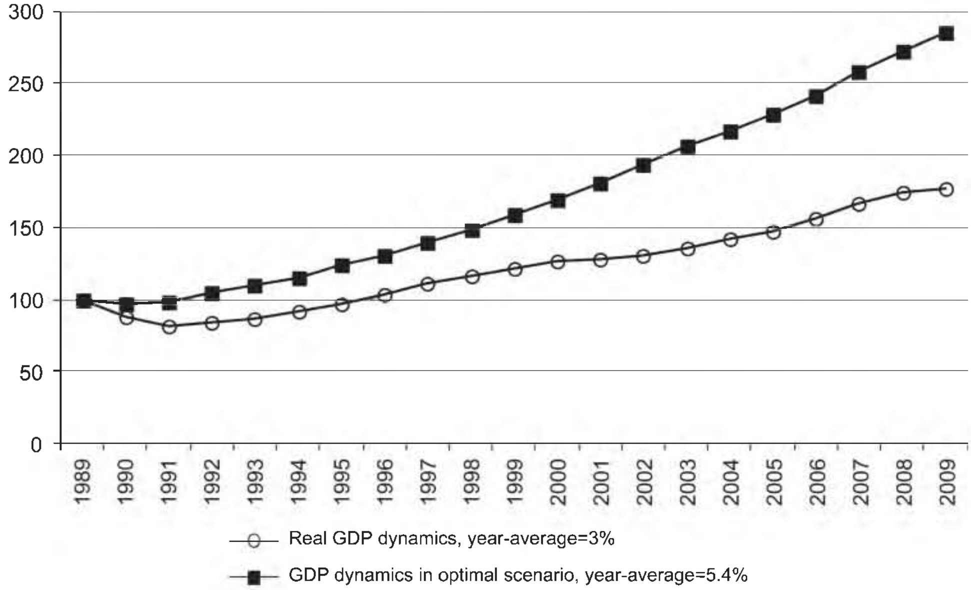

Figure 37.2 What if ... Poland's GDP growth in 1990–2009 (1989=100). Actual and counterfactual (optimal policy) GDP growth
Source: Data for real GDP growth – GUS, Warsaw (various years). 2009 – Author's forecast. Hypothetical rates of GDP growth – Author's calculation.

have to pay is shown in the poor competitiveness of companies and the relatively low standard of living, as well as in 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, especially when we see how slow the process of learning from our own mistakes is. The observed inertia partly results from the post-socialist establishment's attachment to ineffective doctrines, and partly from the pressures exerted by national and foreign lobbies to secure their particular interests.

In 2008 the 10 post-socialist member countries of the EU were inhabited by 103 million people, which is 1.53 per cent of the world's population. They created GDP of about US $1.86 trillion (US$PPP), which is 2.6 per cent of gross world product (GWP) and at the same time 12.4 per cent of the gross product of the whole European Union. This share is relatively less – yes, less, not more – than 20 years ago, because production growth over the period 1990–2009, both at world level and in the wealthy countries of the world, including the Western part of the EU, has been much higher than in the post-socialist countries.

In the next 20 years (2010–29), though, it can and should be different. Post-socialist economies, even in the 2000–2009 decade – until the outbreak of the economic crisis – have demonstrated much stronger growth than the highly developed countries, partly making up for the differences between those countries. Enormous institutional progress, combined with technological advancement and raising employees' qualifications and managerial skills, is resulting in a pace of growth of labour productivity faster than in the West. That tendency, accompanied by improvements in the quality of microeconomic management, ought to be continued in the future. Obviously, this also requires an effective macroeconomic policy, as microeconomic changes alone are not sufficient.

The years since 2007 are characterized by particularly great uncertainty, connected with successive stages of the world financial crisis and recession. Certainly, it is difficult to forecast economic growth rates for the next few years against that background, yet the whole long-term analysis of systemic change suggests that, in the long run, post-socialist economies have good reason – related to global politics, institutions, culture, populations and technology – to expect faster growth than the 'old' members of the EU.

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. However, first of all, the proper strategy of long-term, fast economic growth must work. It must be based on a new pragmatism (Kolodko, 2011), turning away from the threat of populism and from the 'neoliberal deviation' of the market economy model. What is particularly harmful for economic balance and sustained growth is the combination of these two – populism and neoliberalism – which still sometimes happens in post-socialist countries.

The future

Looking into the future, let us analyse the example of Poland once again. Nowadays, just as in 1989 and thereafter, we are *ex ante* facing the opportunity of following various paths of economic growth. They range from a very high (but not impossible to achieve) average annual rate of growth of about 5 per cent and a more modest pace of about 3 per cent, rather low given the real possibilities and, especially, ambitions. Now we compare the estimated GDP levels after another 20 years, in 2029, achieved: (a) with growth at 3 per cent per annum, as it turned out in the period 1990–2009; and (b) with growth at 5.4 per cent, as it could have been if the economic policy mistakes noted above had been avoided. It seems that the higher 5 per cent growth rate may well prove achievable over the next two decades, but it will be critically important to base long-term strategy on the proper economic theory.

If all 10 post-socialist countries in the EU succeeded in growing rapidly at 5.4 per cent per annum for the next twenty years, their total GDP in 2029 would be US $5.33 trillion (US $PPP), nearly three times more than in 2009. Assuming that the average growth rate of world GDP will be about 3.5 per cent over the same period, and for the 'old' 15 countries of the EU it will not exceed 1.5 per cent, then after another two decades the ten countries' GDP will grow from the current 12.4 per cent of European Union GDP and 2.6 per cent of world GDP, to around 30 and 3.8 per cent respectively. That would greatly strengthen the relative position of the Eastern Europe region, especially within Europe.

By 2029 a further ten post-socialist countries might well have joined the EU: 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 US $729 billion (US$PPP) (half of which, US $360 billion, is Ukraine). This is only modestly higher than Poland's GDP in the same year, US $685 billion (US$PPP) (Table 37.1).

Starting from a lower level, the GDPs of the European post-socialist economies still outside the EU may grow faster than the relatively more advanced countries. Therefore, the assumption of threefold growth by 2029 – up to around US $2 trillion (US$PPP) – seems realistic. Hence the combined GDP of all 20 post-socialist European countries (the 10 already in the Union and the 10 that should join later) would be approximately 5.3 per cent of the world's production. The world's population will then be around 8 billion, while in Eastern Europe there will be more or less the same number of people as now, i.e., 190 to 200 million. So this one-40th of the global population, 2.5 per cent of all mankind, will produce one-twentieth of GDP. Currently, the population of Central and South Eastern Europe, being 2.84 per cent of the Earth's population, produces about 3.7 per cent of world GDP.

Table 37.1 Population and GDP (in US$PPP) in Central and South Eastern Europe in 2008

Country	*Population (in million)*	*GDP (in billion US$PPP)*	*GDP per capita (in US$PPP)*
Bulgaria	7.3	95.9	13200
Czech Republic	10.2	273.7	26800
Estonia	1.3	28.6	21900
Hungary	9.9	205.7	20500
Latvia	2.2	41.6	17800
Lithuania	3.6	65.8	18400
Poland	38.5	684.5	17800
Romania	22.2	278.4	12500
Slovakia	5.5	123.1	22600
Slovenia	2.0	61.8	30800
EU-10	*103*	*1859*	*18100*
Albania	3.6	23.1	6400
Bosnia and Herzegovina	4.6	30.5	6600
Croatia	4.5	73.4	16900
Kosovo	2.1	5.0	2300
Macedonia	2.1	19.0	9200
Montenegro	0.7	7.2	10600
Serbia	10.2	83.1	8200
Belarus	9.7	116.7	12000
Moldova	4.3	10.8	2500
Ukraine	46.0	359.9	6900
SEE-10	*87.7*	*728.6*	*8300*
ECE-20	*190*	*2588*	*13600*
EU-27	*491*	*14960*	*34000*
World	*6707*	*70650*	*10500*

Source: CIA (2009).

Adopting the optimistic scenario of annual GDP growth at 5.4 per cent for the ten post-socialist countries already in the European Union, their *per capita* GDP would increase by as much as US $34,000 (from the average US $18,000 now to US $52,000 in 2029, all in US $PPP), or nearly 190 per cent per head, as the future population will be no larger than at present. Most importantly, living standards will be much improved. Surely that is what the post-socialist systemic transformation should amount to, rather than mistaking the means of action with its ends, as unfortunately sometimes happens.

Conclusions

Could it have been better? Will it be better? Obviously it *could* have been better – to varying degrees in the different countries. It would have been better if the objectives had been more carefully determined and the systemic transformation had been treated not as a self-contained aim but as an instrument to achieve the superior aim, namely rapid socio-economic development, enabling the region to make up for historical lags (Kolodko, 2002).

Will it be better? In the absolute sense, of course, yes. After two more decades of transformation, the levels of production and consumption will double and in some cases even triple. Will GDP per head in the new post-socialist member countries of the EU be around US $50,000 (US$PPP) in 20 years? This is not very probable overall, but it is possible for certain countries and sub-regions (more and more often now, one needs to think in terms of regions, not countries) able to sustain economic successes. Where this happens, it will mean even more than the GDP presently enjoyed by a resident in the 'old' 15 countries of the EU. And although the latter will also advance, increasing their production and consumption at least by one-third, the countries of Eastern Europe will differ less from Western Europe. However, even after 20 years, in many cases those differences will be substantial, still causing social tensions and political problems.

However, the situation may not actually *feel* better, because subjective opinions do not depend on objective assessments of differences between past and present, or on catching up with more affluent societies and richer parts of the world, but predominantly on self-evaluation of one's individual, group, social and national situation – as perceived in relation to one's desires, expectations and ideas. There is no doubt that these will always exceed the realistic opportunities of fulfilling them. Hence people's perceptions will be both the driving force of further changes and development, but also the reason for endless frustration.

Given the dynamics of growth and development and the progress likely in the future in those fields, the situation will still be worse than it could be. As usual, the potential will not be fully used, for the same reasons as in the previous twenty years. For the coming period, too, is bound to be full of policy errors, resulting from poorly resolved conflicts of group interests, based partly on inaccurate theoretical assumptions and, more generally, on economic theory lagging behind reality. There will be endless problems: first with formulating and focusing the general aim of development, and then decomposing it into concrete sub-goals. It has been like this, is like this now and will be like this in the future.

The conclusions from the past 20 years, as well as from the preceding years, should facilitate some reduction of the difference between potential and reality for the next two decades, 2010–29. However, even in 2029, just as in 1989 and in 2009, there will be people who, when asked: 'When, finally, will it be better?' will answer sarcastically: 'It's already happened …'

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