

# **Whither the World: The Political Economy of the Future**

**Grzegorz W. Kolodko**



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The 12 Great Issues of the Future, GIF, address the challenging questions of long-term future of mankind and global economy.<sup>1</sup> Traditional, mainstream economics seems to be a matter of the past time and useless for explaining the true nature of ongoing social, economic, and ecological processes.<sup>2</sup> We do need a new theoretical framework which must be also useful for policy-advice. And such is the New Pragmatism, which employs a holistic approach to answer fundamental questions about the course of future generations.

Comparative economics and social science analysis are all engaged in a comprehensive coverage of the issues facing the global economy. A complex and dynamic consideration explains how things work and how they will and how they should work in the future.

Economic methodology alone does not provide the most satisfactory answers for fundamental questions. An interdisciplinary attitude is necessary, since the future of the world and civilization depends not only on what happens in the economic sphere but also *vis-à-vis* cultural, social, political, demographic, technological, and ecological processes.

The lecture discusses the threats and opportunities of the future as well as proposes strategies for ways to move forward based on an original proposition of a new economic paradigm – the New Pragmatism. Along such line:

1. Economics as a science is composed of two parts of equal importance – descriptive (positive) and prescriptive (normative).
2. Economics is a science that is immersed in axiology. In its descriptive layer, economics is capable of evaluating and distinguishing between “good” and “bad” economies

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<sup>1</sup> See Grzegorz W. Kolodko, “Truth, Errors and Lies: Politics and Economics in a Volatile World”, Columbia University Press, New York 2011”, and Grzegorz W. Kolodko, “Whither the World: The Political Economy of the Future”, Palgrave-Macmillan, Houndmills, Basingstoke, Hampshire, 2014.

<sup>2</sup> See more on such opinion in excellent book by James K. Galbraith, “The End of Normal: The Great Crisis and the Future of Growth”, Simon and Schuster, New York, 2014.

(economic systems). In its prescriptive layer, economics can indicate solutions leading to “good” economies (“active development programmes”). Economics may and should co-shape the economic future of the world, national economy and region.

3. An important feature of a “good” economy is its capacity for a triply sustainable growth and development (economic, social and environmental). Triply sustainable growth development is inextricably entwined with the concept of economy (and economics) of moderation.
4. Though the theoretical concept of New Pragmatism essentially deals with macroeconomic problems – those related to the national and global economy – it emphasizes the significance of a microeconomic rationality with regard to enterprises and households as a necessary prerequisite for a general balance.
5. Economics is a contextual science in its fundamental dimension because economy is an entity that is deeply varied and variable, and the guiding values of the political economy are not globally uniform. This variety of economies (economic systems) must translate into variety of economics. Universal laws have a very limited importance in economics.
6. Real economic processes are determined, to a growing degree, by extra-economic factors, which are usually overlooked in the orthodox economics. This is why economics – both in its descriptive and normative layer – must be a multi-disciplinary, holistic science.
7. New Pragmatism stands for rejecting ideology (any economic orthodoxy) and replacing it with whatever works (post-ideology). That is why cognitive and methodological eclecticism is natural for it. As for its research method, comparative approach is of special importance.
8. Globalization is an inevitable process, which is progressing and has an ever more powerful impact on economy. Therefore, the economics must always take account of the global context of economic events and processes.

### **The New Pragmatism – a way towards a better future?**

When arguing over the ways leading to a better future, there's no need to settle the dilemma of which of the imbalances threatens humanity more: the environmental or the social one. The economic imbalance, though it's serious, is not the biggest threat. However, we can't live in peace and develop economically without managing the situation on all three fronts, and still, the list of challenges doesn't end here.

How do we reconcile a practical approach to economy with an uncompromising attitude? Can you be both an economic pragmatist and a man of principles? Is it worthwhile? It is both possible and worthwhile. If we want the world of the future to be a world of peace and of a reasonably harmonious development, and we do want that very much, we need to introduce new values to economic reproduction processes, but, at the same time, we shouldn't, even for a moment, forget pragmatism, which is the fundamental, indispensable feature of rational resource allocation. We need a pragmatism that favors multiculturalism and comes from a system of values that promotes participatory globalization, inclusive institutions, social cohesion and sustainable development.

There is no inconsistency here, because the supreme values guiding the economic activity process in a society and its economic goals are quite identical. In both perspectives, what matters most is a three-fold sustainable social and economic development in the long term. "Three-fold" stands for:

- (1) economically balanced development, that is one relating to the market of goods and capital, investment and finance as well as that of labor;
- (2) socially sustainable development, that is one relating to a fair, socially accepted income distribution and appropriate participation of basic population groups in public services;
- (3) environmentally sustainable development, that is one relating to keeping proper relations between human economic activity and nature.

Therefore, there's no need to sacrifice fundamental principles at the altar of short-term economic or tactical matters. Meanwhile, we need practical strategic activity to be governed by those principles. This imperative determines the path of evolution of the political economy of the future. Good economics is more than a description of the world; it's also an instrument to change it for the better.

Of great importance is the possibility to achieve two goals at a time, which stems from the fact that one of them, socially sustainable income distribution, is, at the same time, a means to achieving another, namely economic growth. Neoliberal economic thought and economic policy based thereon has failed to comprehend this interrelation and that's why, by causing a major crisis, it annihilates itself. This is also beyond the grasp of the economic thought behind various varieties of state capitalism and that is why there is no bright future ahead of it. It's time for New Pragmatism.

While not underestimating the rivalry between the neoliberal capitalism and state capitalism, it is not this dichotomy that will have major importance for the future. The shape of the latter will be determined by the result of the confrontation between these two varieties of contemporary capitalism and a social market economy in the form of New Pragmatism. In this battlefield, neoliberalism, trying to regain its strength and position, and the state capitalism, which is hostile to the former, will be pitted against the concept of genuine social and economic progress. Its benefits should be available, as widely as possible, to the masses rather than only to narrow circles following their own particular interests and to their well-paid lobbyists in the world of politics, media and "science". No system where a vast area of economic inconvenience is called a "margin" of social exclusion, and, at the same time, a narrow margin called the "elite" swims in excessive wealth, has a great future.

This is also corroborated by conclusions that are easy to draw when comparing the so called "big government" economies with those where the government is "small". Well, in several decades (1960-95), in countries with a small, around 30 per cent government involvement in national income redistribution (and, consequently, with higher inequality of distribution) the rate of investment or the percentage share of investment in the GDP was 20.7 per cent on average. At the same time, in countries with a high scale of budget redistribution, with around 50 per cent government involvement in the GDP (and, consequently, relatively lower inequalities in the income distribution), the investment rate was 20.5 per cent<sup>3</sup> on average. No difference at all. You can have the same capacity for capital formation, which determines

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<sup>3</sup> I'm saying "consequently", suggesting the obvious relationship between a relatively greater scale of budget redistribution and a relatively lower scale of inequalities of income distribution. This is the case of the state with inclusive institutions and a relatively high level of social cohesion. However, it's possible to have a state with a "big" government, the benefits of which are not available to by masses but instead are reaped by the so called elites, often corrupt ones. It's a common situation in state capitalism economies.

economic growth in the future, with a no less balanced income distribution, which co-determines satisfaction with the present state of economy. And that's an important guideline for the New Pragmatism economic policy. That's what things should be like in the future.

It's natural that societies and nations aspire to at least catching up with a richer neighbor, if not with Japan right away. Mexicans dream of the United States, Slovaks wish things were as good at home as they are in Austria, Estonians compare themselves with Finland, while the Vietnamese are planning to outdo Thailand. Once I was even asked at the PNG University in Port Moresby, when things in Papua New Guinea will be the way they are in Australia (never, in a foreseeable future), and recently a Cairo-based journalist wanted to know what I think about Egyptian politicians that announce their country will catch up with Turkey in seven years. Well, it's a sheer megalomania, as it would require doubling the Egyptian GDP per capita in this seven-fat-years period (unrealistic assumption), on the assumption (also an unrealistic one), that Turkey would experience a complete stagnation due to seven-lean-years.

The wish to match those who are better is one of the major driving forces in eliminating development gaps, but if we plan tasks that are impossible to complete in a given time frame, people may get discouraged. It's worth being an ambitious realist or a pragmatist. Poland may one day reach a GDP per capita of Germany, just like the Irish managed to do with that of the UK, or South Korea almost of Japan, but this cannot happen over one generation, and considering the not-so-good policy of the recent couple of years, even two or three might not be enough. There's no telling. While Spain managed to get close to the GDP level enjoyed by the French (USD 36,000 per capita at PPP in the years 2012-14), the Portuguese (24,000) didn't catch up with Spain (31 000). The resulting implication for the economic development policy is: aim for what you're strong enough to achieve. If you can, increase your strength, but you shouldn't aim beyond your potential, because then your goals will not be matched by the possibilities to achieve them.

It's not about limiting human needs, but about endeavoring, by all possible means, to maintain a harmony (which is necessary to ensure social satisfaction) between needs, both the old ones growing in strength and new ones emerging, and realistic, economically reasonable possibilities to satisfy them. Also in this case, just like with the future growth rate, it would

be good to leave more room for development to societies from emancipating economies<sup>4</sup>, with a relatively lower increase in needs in rich countries. To a certain degree, this is already happening, as, again, it's similar to gluttony; at some point you've had enough even of what you like and you can't have any more of it...

### Means and ends of development

If, in a broad perspective, it all boils down to maximizing, in a long term, the level of social satisfaction with economic activity, we need to look at New Pragmatism from the angle of the objectives of social and economic development, its essence and method.

Fulfilling needs in a way that satisfies people is a development goal that is in line with the guiding values of New Pragmatism. A GDP growth is a means to an end rather than an end itself. It's high time for the highly-developed countries to move away from maximizing the income, mostly from driving the gross domestic product as high as they believe they can. If half a century of ever-increasing incomes did not increase the life satisfaction of rich Americans, why make so much effort and incur extra costs, also in the form of extended work time, while devastating the natural environment even more?<sup>5</sup>

Incidentally, something interesting is going on in this respect as even during the US presidential campaign in 2012 there was relatively less talk of quantity, and more of quality, less talk of the output growth, and more of other aspects of rational resource allocation, such as financial and trade balance, provision of public services, employment, although still not enough about culture and environment. This was due, to a great extent, to the specific nature of the time of crisis, but, partly, also to the evolution of mentality. It's good, because we are standing on the brink of a fundamental redefinition of social and economic development goals. In the future, the goal will not be to just maximize income, but to distribute the fruits of such growth in a way that increases the people true satisfaction; non-material values will be another goal.

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<sup>4</sup> "Emancipating economies" is a category which I substitute for the widely, and often cluelessly, used "emerging economies", a term that, in essence, refers to objects rather than subjects of a process. The "emerging" angle is mostly about new markets emerging for investment by rich countries, while the "emancipating" angle focuses on societies that are striving to secure a better position in a global game of the future. See more in: Grzegorz W. Kolodko, "Whither the World ...", *op. cit.*

<sup>5</sup> Derek Bok, "The Politics of Happiness: What Government Can Learn from the New Research on Well Being", Princeton, NJ: Princeton University Press, 2010.

It is estimated that if income proportions in the US were like those in Scandinavian countries (which I consider to be a totally impossible future, taking into account American values), the sense of mutual trust among people (additionally strained during the crisis and the 2012 electoral campaign) could increase by as much as 75 per cent, and the number of people suffering from mental disturbance and obesity could drop by two-thirds. The number of teenage mothers would drop by half, and the number of convicts by three-fourths. Overall, people would live not only longer but also more happily as their working hours could be reduced even by one sixth, or a total of two months a year<sup>6</sup>. If these estimates are exaggerated as to specific indices, and surely they are, they still speak volumes.

The United States are not the navel of the world and they will never again have the same capacity to impose their values on others that they had right after the end of the cold war. Still, changes taking place there are having an impact not only on Americans, but also on other places in the world where lots of people still idolize the USA. After all, a great majority of opinion-forming books in economics and other social sciences are published in English, right there, in the United States.

In this context, maybe it's a good thing that the volume expansion in the form of a traditionally defined economic growth weakens once the GDP threshold of 20 thousand dollars per head is exceeded. Even if it turns out that in the conditions of the present scientific and technological revolution, the dynamics slows down at a higher level, let's say at 30 thousand dollars at today's prices, we will have to be glad as this will mean a higher chance of survival for the natural environment and more time for continued technological progress that will reduce the excessive consumption of non-renewable resources. So maybe we should rejoice as with the slower volume growth, economists and politicians will give more attention to other aspects that co-determine the quality of life and the resulting life satisfaction?

I suggested a different economic progress metric, that I called Integrated Success Index, ISI for short<sup>7</sup>. It depends only partly on GDP, since the value of this composite index is co-determined by other factors. In detail, the aggregated value of ISI is composed of:

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<sup>6</sup> Richard Wilkinson and Kate Pickett, *op. cit.*

<sup>7</sup> Grzegorz W. Kolodko, "Truth, Errors, and Lies..." *op. cit.*, p. 270 and next.



- (1) gross domestic product – 40 per cent;
- (2) subjective well-being related to the overall life satisfaction, including the standard of social services, and projections of its future prospects – 20 per cent;
- (3) an assessment the state of the natural environment – 20 per cent;
- (4) an estimate of free time and cultural values that fill it up – 20 per cent.

This suggestion, quite an arbitrary one, is not about details, but about the line of inquiry. Whether we emerge unscathed from the present mess is contingent upon the imperative to redefine economic development goals. Therefore, while not insisting on ISI, which is just a general concept rather than an operational metric, at this point we can advocate the widest, possibly universal use of the inequality-adjusted human development index, IHDI, already being applied by the UNDP for international comparative analyses. The time has come to demand that politicians take this matter seriously.

Let's imagine that the desirable and absolutely possible future is approaching fast and in the US House of Representatives, in the British Parliament, in the German Bundestag and in the Spanish Cortes, in the Brazilian Senate and even in the Chinese National People's Congress, deputies are discussing the ways to increase the value of human capital and to improve the social tissue by limiting income inequalities. Let's imagine that the idea on how to increase IHDI is the main point of dispute between White House contenders in the 2020 election in the United States or when deciding, with the door kept more ajar, on the composition of the Politburo of the Communist Party of China in 2022 (it will exist and it will be in power). Let's imagine deputies to the Sejm of the Republic of Poland and the Russian Duma, who, rather than squabble over how to interpret historical circumstances or whether or not to limit sexual minorities' rights, argue over the direction of institutional solutions and over the macroeconomic policy instruments which lead to increasing IHDI; if only because they know that this is one of the things their future political fate will depend on. Is it that hard to imagine? Is it still just political and economic science fiction?

### **Economics of moderation**

To make it happen, especially to cause concepts and proposals of the economics as a normative discipline to be followed by relevant measures by political economy, it is indispensable to grasp the essence of the economics of moderation, which is what New Pragmatism is all about. The economics of moderation means adapting the volume of human,

natural, financial and material flows to the requirement to keep a dynamic balance. Turbulent transformations of the last several decades are caused both by acute imbalances in various fields, and by their outcome. What we are surrounded by is an economy of a permanent imbalance as there is always either too much of something or too little of something else. A surplus of something is available, while there is a constant shortage of something else, and yet a good economy should be that of moderation. Hence, what is also indispensable here is a thought that promotes such desirable state of affairs, namely the economics of moderation.

In the future, we need economics of moderation rather than that of excesses, imbalances and crises. All of those will happen more than once to humanity and the interconnected global economy as well as to the national economies, but it should be exception rather than a rule. What should be the rule is knowing where to stop and adapting to real economic growth opportunities; moderate income disparities rather than extremes that wear out vast numbers of people and lead to new revolutions; toning down the marketing folly which creates needs that are utterly detached from the realities of the effective demand. Last but not least, what should be the rule is not overdoing it when transforming more and more pieces of the Mother Earth into goods that are meant to be sold at a profit by their manufacturers, although possessing and using them no longer improves consumer satisfaction.

There is a shortage of some raw materials and budgetary incomes, while we have an excess of garbage and all kinds of debts contracted by households, companies, entire countries. A technology to produce clean and renewable energy is missing, while there is a surplus of technologies for producing weapons of mass destruction. There is an abundance of banks with excess liquidity, willing to grant loans to naïve consumers, while there are not enough loans for small enterprises as it takes more effort to monitor them. In many countries and regions, there is an evident surplus of people who cannot be properly nourished, while somewhere else areas that were prosperous until recently are becoming depopulated. In some economies, in the wake of speculative bubble on the real estate market, too many houses and apartments were built, which are now standing empty and getting dilapidated as there are no buyers, while there is no shortage of people over there who have nowhere to live and are camping out. In some industries, there is not enough manpower, while in others it's excessive. In some places surplus food goes to waste while somewhere else there is not enough of it to meet elementary needs. In some hospitals doctors sit idly by, as there are not enough patients who can afford the treatment, while in others people die as there is not enough staff to save lives in time.

Generally speaking, in developed countries, there is an oversupply of consumer goods on the market, and a shortage of the population's effective purchasing power. In consumerism-tainted societies there is an indisputable excess of needs, while a shortage of economic capacity to satisfy them is evident. While an overwhelming majority of us is constantly short of funds to buy what we really need, a lot of entrepreneurs are afflicted by surplus productive capacity which they cannot exploit in a cost-effective manner as there are no buyers for goods they could manufacture. One might say maliciously: there is constantly too much or too little of everything, depending on the angle from which you look at it. In other words, there is nearly always both too much and too little of nearly everything. Of economists, too.

The greatest deficit in the contemporary economy is most palpable where we need to be moderate. Moderation is generally in short supply. In the future, however, there should be as much of it as possible. And this is one of the fundamental canons of the political economy of the future. It is necessary to create mechanisms for balancing economic flows and resources. One might say, again: that's nothing new. Well, in the approach suggested here there is a lot of new content, as it does not rely on the deceptive assumption, typical of some other trends in economics, that market money mechanisms are capable of solving the problems of deficiencies and surpluses, that is of dynamically balancing the economy. If they were, we wouldn't be going through a time of turmoil, as we are, but would be enjoying an age of prosperity.

Once, at another stage of civilization and at a much lower level of overall development, in some countries attempts were made to solve this syndrome by adopting a bureaucratic supervision over economic processes. Theoretically, this was meant to eliminate wasteful overproduction crises which are characteristic of a badly regulated capitalist economy, while in practice it led to the emergence of a socialist economy with its inherent structural shortages. The Hungarian economist János Kornai saw shortage as the main constitutive feature of that system and called it the "shortage economy", while for its theoretical description he coined the term "economics of shortage"<sup>8</sup>. Almost all countries involved, except for Cuba and North Korea, managed to get out of such an inefficient system and there are no fears anybody will be tempted again to try using statism and command central planning as instruments of balancing the economy.

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<sup>8</sup> János Kornai, "Economics of Shortage", Amsterdam: North-Holland, 1980.

However, overcoming the shortage syndrome by the post-socialist transition economies by no means solved the problem of the lack of overall balance. Also countries that never experienced shortages typical of real socialism are plagued by a number of deficits. There is, sometimes, a shortage of exports, of budget revenues, sometimes there are not enough professionals in a given field, and other times it's certain precious metals that are lacking. Not to mention common sense. There is a constant lack of time although it is wasted on a massive scale by the society as a whole. At the same time, there is always too much of something. Probably nothing in this world is as permanently out of balance as the economy.

Let me say right away that this will also be the case in the future, because such is intrinsic nature of economy. Mechanisms for balancing demand and supply flows are working, better or worse, in a short term and so are, even in longer time intervals, mechanisms for balancing certain types of needs and possibilities to satisfy them; still, balance can be reached only temporarily. The natural condition of the economy is a permanent imbalance with momentary episodes where lines of supply and demand, output and sales, income and expenditure cross each other. This is true of reality; in theoretical models, on the other hand, balance comes as easy as making relevant assumptions and what should cross at illustrative diagrams will always cross exactly where it's expected to.

That's nothing to wring our hands about, because market economy, also by its intrinsic nature, has corrective mechanisms, too, though they are pretty imperfect. When the deviation from the balance is too high, forces are activated that correct the disproportions. The problem is that very often they do so too late or not strongly enough, or they miss the point of balance, by going from lack of something to excess or the other way round. Obviously, it raises overhead costs of resource allocation and reduces its efficiency. Therefore, market corrections must be sometimes triggered, some other times speeded up, and yet some other times reinforced, curbed or even blocked; they need regulating. Who else than the state should do that?

It is necessary to use state interventionism to assist market corrections of the intensity of flows (income and expenditure, supply and demand, supplies and market) and of changes in resources (property, savings, stocks). It would be good to end ideological disputes on that matter and focus on which intervention techniques to use. If they are inadequate, you can do more harm than good because interventionism is a risky business. To avoid the resulting errors, neoliberalism suggests throwing out the baby with the bathwater: not interfere with

market processes as they have a capacity to self-adjust or to automatically balance themselves. State capitalism proposes not to throw out the baby but to keep the dirty water, too, excessively interfering with resource allocation, on many occasions, which reduces the achievable efficiency.

New Pragmatism calls for a well-balanced role of the state and a supra-state economic policy coordination, which is meant to correct, or, when necessary, to strengthen market processes. It says: wash the baby, pour out the dirty water, and if it starts to wash itself one day, perfect, but we can never do without washing. Therefore, we need to optimize the scope and instruments of state interventionism, while bearing in mind not to confuse the means of economic policy with its ends. The constant care to ensure balance in all of its sectors is an issue of great importance, but it's still a means the policy uses to achieve the end, which is development. The balancing of the economy is meant to foster rather than curb it.

Well, but each action causes reaction. Teams of experts, mostly lawyers at large corporations that can afford it, rack their brains over how to be compliant with the law, that is with the constantly changing regulations, and still come out ahead. Business must be profitable, legal and ethical – these are the three sacred principles of New Pragmatism. Business should be ethical, it doesn't have to be profitable, it will be compliant with the law because we are the ones to establish it – these are the features of state capitalism. Business must be profitable and legal, and it may be unethical – these are the three canons of neoliberalism. How eagerly and, to a great extent, effectively, it can, in nearly any situation, promote the interests of specific groups, especially those of the financial circles, is illustrated by the attempted legislative amendments and by results of those adopted in response to the crisis in the US after 2008<sup>9</sup>. As a result, in many cases, attempts to improve regulations cause their quality to deteriorate, from the point of view of the general public interest.

### **Descriptive and normative economics**

It's a cliché that we need to take care not to let the state that intends to improve the market, spoil it even further. There are cases where the state ruins the chances of obtaining the desired results. After all, not only the market errs; governments and central banks can be wrong, too. And they are, often. Governmental regulations, and in the era of irreversible

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<sup>9</sup> Ron Suskind, "Confidence Men. Wall Street, Washington, and the Education of a President", New York: Harper, 2011.

globalization, to a growing extent, also inter-governmental and worldwide ones are often established to address challenges of the past. Meanwhile, it's about the future. Regulations are meant to help avoid blunders, errors, oversights, scams, frauds which can happen in the future rather than those that already occurred in the past. For these we should apologize, reprimand, dismiss, punish, put in prison. It's like the case of accidents and disasters after which technical inspection is tightened while it should have been done beforehand, limiting the causes of potential tragedies. An airplane crashed, so they check technical condition of all those that haven't, while it would have been enough to check some before the crash. A great flood broke the dike that had not been monitored for years and afterwards all the dikes are inspected, while it would have been enough to check, in advance, the crucial points to avert the disaster.

Systemic state interventionism is supposed to examine fundamental shortcomings of the market and remedy excesses in the field of overly unequal income distribution, rather than try and take over the allocative functions of the market. Interventionism must refrain from socializing private losses. In the future, the growing complexity of market processes may make it easier to misuse interventionism for one's own ulterior motives. Ironically, these days there are more and more, rather than fewer and fewer ways to pass the costs of private capital failures on taxpayers. This is one side of the coin.

There is another one, too. In all types of market economy, but certainly to a greater degree and more often so in state capitalism than in the neoliberal one, clientelism is rife, where state regulations and government policy serve the purposes of political, bureaucratic and business cliques rather than to correct market deficiencies. This has as much in common with a decent interventionism as neoliberal scams do with honest business.

This can be defied only by a society that is well organized in a state with strong institutions, one founded on progressive law and order. That's why neoliberalism wants a "small" government or a "cheap" government because what's small and cheap is poor and, consequently, weak. If a government can be relatively smaller without weakening its intervention functionality, we should by all means follow that direction. If it's not possible, it has to be "bigger" or "more expensive", because precious public services, also those that safeguard law and order, have a higher price than goods of poor quality.

Therefore, if somebody wishes ill to market economy, he should wish it an unbridled freedom as then it will be only a matter of time before its future becomes uncertain. Yet who wishes it a good future, must advocate proper regulation and a harmony between the market and state interventionism. In the long term, and on a macroeconomic scale, what can help in this respect is developing strategic indicative plans using the rolling wave method. These are plans in which, as time goes by, the time horizon progressively moves by the corresponding period so that the perspective ahead of us doesn't get shorter. In the world of the future, countries and regional integration blocs that are able to make a better use of this instrument will get the upper hand. Unlike in private capital corporations, which often prefer to keep their strategic plans secret (and every self-respecting corporation has plans), in states and regional integration agreements they are part of the knowledge of long-winded intentions doesn't harm competitiveness in any way. Actually, by causing an overall mobilization, also among competitors, it can favor development even more.

It is worth noting at this point that without a proper strategic plan, the United States will be unable to cope with improving their public finances which are in a pitiful state, and the European Union will be unable to sort out its backyard when it comes to finance, either. This is understood by the Chinese, who approach the problem from the other end, in a way. They still rely on macroeconomic five-year planning but it's no longer command-based but rather strategic and indicative. From one period to another (currently the 12th five-year plan is already being implemented, 2011-15), this is a less and less planned and more and more market-oriented economy. Indicative planning is also used in India, which has not abandoned this instrument of controlling the development of economy, while continuing to deregulate the same, for over a decade now, calmly and rationally, without neoliberal excesses.

Against this backdrop, it's easy to note that New Pragmatism is in keeping with the compensation hypothesis, which says that the more advanced globalization, the "bigger" government, or that the public expenditure to national product ratio is rising<sup>10</sup>. Naturally, the goal is to relativize the sum total of expenditure to the gross world product, or to the sum total of gross domestic products of all countries. After all, there will be among them also those where the good cause of sustainable development is better served by reducing such

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<sup>10</sup> Geoffrey Garrett, "Partisan Politics in the Global Economy", Cambridge, UK: Cambridge University Press, 1998, and "Globalization and Government Spending Around the World", "Estudio/Working Paper 2000/15", October 2000.

expenditure (adjustment according to the efficiency hypothesis), but there will also be those where it requires a greater scale of fiscal redistribution.

One of the attributes of the method presented here is that it provides a deeper identification of mechanisms and of the impact of processes that lead to future conditions rather than simply forecasting those conditions. It's about showing a dynamic path to the future, or ways to achieve the intended goals, and not just a static future. Valuable methods, used in economic reflections on the future to arrive at correct conclusions and right decisions, include variant projections, alternative scenarios, foresight thinking, as well as microeconomic experiments where they are applicable.

Such a methodological approach by no means totally eliminates the risk of mistake but limits its scale. The reason is that unpredictable events are more likely to occur than unpredictable processes, especially in the long term. Many of the latter are anchored in the past and are already happening. Future events are not there yet and some of those currently forecasted may not occur at all while quite many of the future processes have already been launched and are underway. Also those we know little about as we are unable to give them enough research attention.

New Pragmatism expresses a strategic approach to the future. It is no stranger to global visions or to warning forecasts, but, in principle, it has a pro-active approach to future. Good economics is not only about describing the world; it's also an instrument to change it for the better. Considering the long-term development trends, it's worth developing strategies to help orienting them the way we wish them to be, which will make it easier to solve more than one problem and avert more than one economic disaster.

Hence, New Pragmatism is a normative consequence of a descriptive perspective which I presented earlier as the Coincidence Theory of Development<sup>11</sup>. It emphasizes the significance of a given concurrence of development determinants, which is always specific but varies over time and space. This is the very concept succinctly conveyed in the sentence "things happen the way they do because a lot happens at the same time". This rule will be always applicable

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<sup>11</sup> See more: "Truth, Errors, and Lies...", chapter seven, "What Development Is and What It Depends On: Where Socioeconomic Development Comes from and How It Can Make Us Happy", *op. cit.*, p. 256-292.

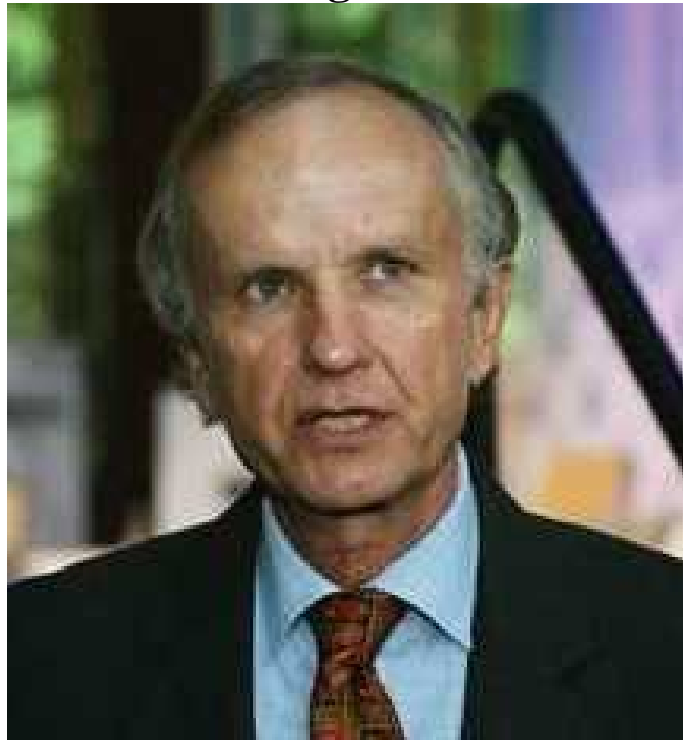


in the future. Starting by describing, analyzing and interpreting what happened in the past and what is taking place in the present, we arrive at evaluating and postulating measures that are expected, in the future, to give rise to a specific bundle of phenomena and processes, whose resultant is the desirable direction and pace of social and economic development. The determining factor will be coincidence, or correspondence and togetherness, the overlapping and interpenetration of various components, and that is the multi-layer, heterogeneous “philosopher’s stone” which might, in the future, allow us actions that would be otherwise impossible.

### **Conclusion**

In conclusion, as for the future, even more interesting than alternative scenarios or extrapolations of various trends, is the political economy of the future which addresses the critical question: how the contradictions, surfacing from various economic activities, will arise and by what institutions and policies’ coordination mechanisms, on the world-wide scale, they may be mitigated. The greatest challenge for the future is to find a way of the governance of globalization, since despite the recent crisis it remains an irreversible process. What I call “New Pragmatism”, is a policy-oriented theoretical approach looking for the set of values, institutions, and policies which ought to sustain a balanced growth of world economy in the long-run. “New Pragmatism” is eclectic, multidisciplinary, and dynamic. It also pays a great attention to the multi-culture aspects of social and economic development, since the future requires continuing opening of the societies and economies, and their peaceful co-operation won’t be possible without a tolerance based on multi-culture.

## Professor Grzegorz W. Kolodko



Professor Grzegorz W. Kolodko -- a key architect of Polish reforms -- is a renowned economist and a world expert on transition and development policy. While Deputy Premier and Minister of Finance (1994-97) he led Poland to the OECD. Holding the same positions again in 2002-03 he played an important role in Poland's integration with the European Union. In 1989, he participated the historical Polish Round Table, which led to the first post-communist government in East Central Europe. In 1989-91, he was the member of Economic Council of the Government.

A graduate and Ph.D. of Warsaw School of Economics (SGH), he is currently Director of TIGER--Transformation, Integration and Globalization Economic Research ([www.tiger.edu.pl](http://www.tiger.edu.pl)) and Professor at the Kozminski University in Warsaw (ALK). The United Nations, IMF and the World Bank have sought Professor Kolodko expertise. He has accepted invitations for visiting professorships at Yale, UCLA and the University of Rochester, New York, as well as research fellowships and lectures at academic institutions and organizations worldwide.

He is the author of over 50 books and over 400 articles and research papers that are published in 26 languages around the globe, of which a majority is available in English.

Professor Kolodko is a marathon runner and world traveler who has explored over 160 countries.