

## **THE NEW PRAGMATISM, OR ECONOMICS AND POLICY FOR THE FUTURE**

**(An Essay)**

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Economics is not only a means of interpreting the past, but it must become an instrument for shaping the future, too. It should show inevitable future economic processes, with their links to culture, technology, and environment. With theoretical knowledge of this area, strategies of economically, socially, and environmentally sustainable development can be put in place. In the future, heterodoxy is bound to dominate, and economics will become increasingly interdisciplinary. Future generations need economics of moderation and a theory describing it, as opposed to the thus far prevailing economics of either deficiency or excess. We need the New Pragmatism.

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There is no end to history, after all, just as there is not any to divisions and differences in viewpoints between the proponents of progress and reaction, between the wise and the foolish, between the young and the old, because there are ongoing conflicts of interest and antagonisms between the poor and the rich, between the

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USA and China, between neoliberalism and state capitalism, between old ideology and New Pragmatism. Between evil and good.

However, even though it does not end, history does not stand still. This was beautifully expressed by Aldous Huxley (1952: 259): “The charm of history and its enigmatic lesson consist in the fact that, from age to age, nothing changes and yet everything is completely different.” Indeed, nearly everything is different, but is it better?

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

### TOWARDS A BETTER FUTURE?

How do we reconcile a practical approach to the 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 should not, even for a moment, forget pragmatism, which is the fundamental, indispensable feature of rational resource allocation. We need a pragmatism that favours multiculturalism and comes from a system of values that promotes participatory globalisation, 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 labour;
- (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, which is one relating to keeping proper relations between human economic activity and nature.

Therefore, there is 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 is also an instrument to change it for the better.

Income relations have a major significance for a long-term economic growth. The latter is particularly stimulated by a balanced income distribution. This conclusion is based on comparative studies of long time series and is irrefutable.<sup>1</sup> Economic growth is more durable in countries with a relatively low degree of income inequalities. Furthermore, income relations there had more impact on the dynamics of economic growth than trade liberalisation and the quality of political institutions did (Berg – Ostry 2011). This very observation shows on what development policy should especially focus in the future. Namely, on the fact that what plays a key role is economic institutions, in the behavioural rather than in the organisational sense, that is rules of conduct, or rules of economic game, and the distribution relations. We cannot build welfare on exploitation, while it can be built on profit produced under the conditions of inclusive political and economic institutions.

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 of achieving another, namely economic growth. Neoliberal economic thought and economic policy based thereon has failed to comprehend this interrelation and that is why, by causing a major crisis, it annihilates itself (Roubini – Mihm 2011). 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 (Halper 2010). It is time for the New Pragmatism.

While not underestimating the rivalry between *neoliberal capitalism* and *state capitalism*, it is not this dichotomy that will have a 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 the New Pragmatism. In this battlefield, neoliberalism, trying to regain its strength and position, and 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 cliques 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 exclu-

<sup>1</sup> This is discussed at length by Wilkinson – Picket (2010). See also the remarks on this issue in the recent book by the Nobel laureate Edmund Phelps (2013).

sion, and, at the same time, a narrow margin called the “elite” swims in excessive wealth, has a great future.

It is interesting that in the literature on economics, one-sided or even tendentious interpretations of development processes can still be found and are still promoted. They attempt to reduce the problem to a dichotomy between private and state property or, from another angle, between individual and collective property, or to a confrontation between the market and the state, or *laissez-faire* and interventionism. If the choice was as simple as suggested by these alternatives, we would not have so many challenges to face and we would not need that many economists.

It is astounding to what extent some people confuse concepts and categories of development economics, trying to talk themselves and others into believing that it is the Anglo-American style neoliberal capitalism that is characterised by the greatest degree of political and economic inclusiveness (a European would say cohesion). Some go as far as to suggest that compared to anything else in history, from the Roman Empire to the China of the Ming dynasty to the Soviet Union in all of its periods, or, these days, from Argentina to Turkey to Vietnam, it is virtually devoid of any elements of exploitation and, supposedly, it is the wide participation of large social masses that is the source of the high development level achieved over there (Acemoglu – Robinson 2012<sup>2</sup>).

It is symptomatic that even the International Monetary Fund, the stronghold of economic orthodoxy for many years, concedes that the policy meant to overcome the crisis in highly advanced countries, both in the USA and in the European Union (EU), should focus more on increasing tax revenues (mostly from the more affluent segments of the population) than on cutting budgetary spending (mostly addressed to the less affluent segments). Let me hasten to add that an increase in fiscal revenues does not always and everywhere have to be tantamount to a tax increase, as this goal can be achieved also by eliminating exemptions and exclusions, and by ensuring a more efficient tax collection. When such orientation is adopted, pro-growth changes in the structure of the final demand take place and the scale of income disparities decreases, which is conducive to limiting both the causes and consequences of the crisis. Likewise, in emancipating economies, an income redistribution that leads to reduced inequalities, promotes economic growth in the long run.

<sup>2</sup> See its review in *Acta Oeconomica* 2014/1.

### INCOME DISTRIBUTION AND ECONOMIC GROWTH DYNAMICS

Moreover, beyond a certain national income level, a greater increase in social satisfaction can be achieved through distributing it more evenly than through its quantitative increase. This is a major hint for economic policy. Well, actually not only for the policy, but also for the education system. The better people understand it, the easier it will be to follow that direction. At the same time, there is a risk involved, as a policy based on such a thesis may turn out to be populist rather than pragmatic. This is all the more difficult because the output growth is quite easy to measure. When it comes to human satisfaction, on the other hand, such estimates can be easily manipulated (OECD 2013).

We can perceptibly increase this satisfaction by reducing the Gini index by a certain fraction of a point, instead of pushing the traditionally measured GDP up by several per cent. The economic policy of the future will have to resort to such a course of action more and more often. This will be all the easier because, on the one hand, the absolute output and consumption level is growing, and, on the other hand, the present scale of income inequality is higher than before. In other words, when it comes to inequality, there is ample room for reduction. In poor countries, the traditionally defined economic growth, or an increase in the volume of output, is what will count most for many years to come. Conversely, in most rich countries, except for social market economies that are characterised by a low inequality level, the most important method will be a properly oriented change in income proportion.

We should take resolute measures against unjustified inequalities, especially those resulting from pathologies of distribution. They weaken mutual trust between people, which affects social capital, a very desirable component of development processes. If various professional and community groups place no trust in one another, if society does not trust the authorities, and the feeling is mutual, if entrepreneurs are mistrustful of one another, social capital will erode instead of growing. In the economy, like in a family: even if there is enough money, but trust is in short supply, things are not going well.

What about capital accumulation? After all, it is necessary for the economy to run properly, mostly to invest in modernising the existing production capacities and to create new ones. Is not a shorter ladder of income going to weaken the propensity to save, and thus to create capital, and invest in a better future? No at all. If that was to happen, we should not reduce the income differentials. However, apart from exceptional situations, this is not the case. There is no empirical or theoretical evidence to prove that in economies with a flatter income structure people save and invest less. It is enough to examine the course of relevant capital formation processes in Austria, France, the Nordic countries, and other countries with simi-

lar characteristics in this respect, to learn that more egalitarian societies were able to save no less than countries with a more elitist distribution.

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

The continuous growth of human needs, with the attendant irresistible desire to satisfy them, is a double-edged sword. It overcomes many barriers and, by permanently stimulating the economy, is an indispensable link in the extended reproduction process, or economic growth. At the same time, it’s a devastating force as it can dull the mind, spoil preferences, favour reprehensible qualities, and, as a result, contribute irrational elements to resource allocation.

The perennial growth of *consumption aspirations* is a great problem. The huge crisis at the turn of the first and second decade of the 21st century only slightly toned it down and deferred it a bit. It is also a product of a specific system of values. Ever since a couple of centuries ago, humanity has broken the chains of simple reproduction, when the same volume of production and consumption conditions were reproduced from one period to another, and moved to extended reproduction, where it produces more and more from one period to another – appetites are hard to quench. In the old times, one needed just enough to ensure similar living standards to those one had a day, a year, a generation before; now the more it is the better. Is it really better though? No matter how much we produce, how much we consume, we want more. They say that appetite comes with eating, so economic gluttony is rampant, and with it, economic obesity and many resulting so-

<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 is possible to have a state with a “big” government, the benefits of which are not available to masses, but are instead reaped by the so-called elites, often corrupt ones. It is a common situation in state capitalism economies.

cial pathologies. The economy needs a healthy diet, just like one is necessary for a well-functioning body. The economy of the future needs moderation.

Even though the degree to which needs are satisfied is growing, needs themselves are growing even faster. As a result, even though economic growth continues, the gap between needs and satisfying them is widening. Even though one has more, things are worse. This is, in essence, a psychological problem, but one with significant economic consequences. And political ones, too. I once referred to this syndrome as a paradox of a lower level of satisfaction of needs at a higher consumption level (Kolodko 1984). How to solve this problem? Well, it should be clear that we need to solve it or else there will be no end to the chase for producing more goods, while getting no satisfaction from consuming more. This is environmentally devastating and causes social disturbance, so what is the point in it?

The current logic of the society-wide reproduction process is that of autonomously growing needs to own and consume various goods, which stimulates growth in their production. At the same time, income, for which one can purchase the goods produced and services provided, is rising, too. So are the needs themselves, which, in the age of consumerism, are usually higher than their satisfaction level. Therefore, a certain tension persists, which is both the driving force behind economic growth and the cause of discontent with the existing situation. If needs grow faster than the economy that fulfils them, individual and social frustration grows, too. There is only one way to overcome this syndrome: to slow down the rate at which the needs are rising.

Theoretically, one can call for accelerating the production growth rate, but, for the reasons we already know well, it is virtually impossible, and it is not recommended from an ethical point of view, either. Furthermore, the essence of the current reproduction mechanism is such that an accelerated economic growth causes yet greater acceleration of consumption appetites and, again, the system is facing the same syndrome, but then there is more of everything, including more problems.

### NEEDS AND DEMAND

While it is economic nonsense to call for a zero growth (Jackson 2011), it is a social nonsense to call for letting the issue of all consumption needs take its course. The economic tradition assumes that needs are unlimited and basically it does not deal with this category at all. It focuses on studying factors that drive the effective demand, i.e. only on needs that can be satisfied as they are supported with real purchasing power. If you want to have the latest iPad, that is a need. If you have the means to buy it, that is demand. Consequently, if you want it but have no means to



buy it, you are of no interest to narrowly defined economics, and when you finally find the money to spend on it, only then do you become an object of economic study.

We could narrow down our approach and deal exclusively with ways to create demand so that we can sell what we can produce. However, it is better to broaden the field of reflection and find the answer to the question of which needs to stimulate and how, in order to motivate people to become educated and work more efficiently, which must result in a higher income and, consequently, in a higher demand. This alone shows us that modern economics cannot help but deal with mechanisms to drive the needs and with ways to satisfy them. This is dealt with, among others, by behavioural economics and some socially-oriented currents in economic thought.

It is indispensable to study needs, their nature and structure, priorities, and preferences, to be able to control the development of the real sector of economy. A major part of needs becomes demand, as time goes by. A lot of needs that marketing tries to identify at the microeconomic level and that experimental economics examines, should be considered a potential demand. There is no market for them yet (they take the form of “window shopping”, that is walking through shopping malls to see what is available and to dream of what you could buy if you had the means), but one can emerge one day. Naturally, it will not only depend on time, but also on the increasing real income of the buyers or on a change in their consumption preferences. Therefore, some of the needs are a potential demand that will become a real demand and one needs to know, beforehand, what real supply we will have to balance it with. If it is about a new smartphone type, we need to leave it solely up to the market. If it is about healthcare protection or motor industry development, it will not hurt if the state, as well, takes account of the implications of the imminent changes in its budgetary and investment policies.

Certainly, with time, we will want something else as we will have something else. And we will know something else. Being under constant pressure from the gap between needs/desires and satisfaction/possession, we will be motivated to look for an extra portion of income as higher spending will be required to improve our standard of living. Being unable to have more and better things today, we will strive to have more and better things tomorrow. Therefore, the economics of the future is not an economics of a state, but an economics of changes. Rather than tell us how things are and what depends on what in production, distribution, and exchange, it says how things will be and what will depend on what.

The issue is very complex from an ethical, psychological, social, economic, legal, and political perspective. We cannot, after all, forbid people to desire to have something, neither can we order them to want something. This would be an Orwellian reality. Naturally, there are exceptions, in which the situation must be un-



der control, especially where we deal with the negative external effects of consumption, as in the case of drugs, guns, or uncontrollable gambling. Needs of that sort must be stifled in the interest of the public, so we must undertake organised efforts to prevent them from spreading. Some needs may not be irresistible.

Which of them and who should decide that? Views are divided. The prohibition in the 1920s in the USA did not work out. Still, would a liberalised soft drug market fail, too? What would the loosened regulation of the pornography market bring? Its expansion, for sure. That is why, because of the values we cherish, the lawmakers, nearly everywhere, introduced restrictions, which mitigated an escalation of needs in that respect (it would surely be immense if it were not for the formal limits), but, at the same time, it set black market mechanisms in motion, and created the need to penalise such markets. However, a slightly higher tolerance to “soft” drugs in the Netherlands caused the demand for harmful “hard” narcotics to go down. The experience of Denmark suggests that the liberalisation of the pornography market contributed to a lower sexual crime rate. From the point of view of the intended cultural and educational goal, the use of only rigorous prohibitions has a limited impact and sometimes comes with adverse side effects. This is not the way.

Which is the way, then? The market will never rise to meet this challenge on its own, so we need relevant social organisations, and especially the state with its regulations and human capital investment, because the higher the resulting social awareness, the greater the ability to shape one’s own needs in an intelligent way. It is worth adding that education has a fundamental impact on the type of needs we have. As education increases, needs move towards cultural goods and services. It does not have to be the case if only income increases, without a corresponding education increase. This has specific consequences for the economy, which should adapt the structure of the supply offered to the resulting changes in the structure of the effective demand. Let me refer to the classic example: less vodka, more books. It is worth limiting the former need, while the latter is worth promoting with the use of fiscal instruments, among other things.

If we asked an educator “how”, he would say: through education and upbringing. A priest would have no doubts that it is all about conscience that shapes desirable habits and behaviours. A psychologist would suggest that we cultivate proper individual traits of character. A sociologist would recommend creating attractive social interaction models that provide an alternative to consumerism.

What should an economist do? A neoliberal one knows: leave matters to their own devices and keep talking rubbish about how every shoe shine boy can become a millionaire or, in our day and age, how every business school graduate can turn into an ultra-rich man; as long as he really feels like it and has no scruples. Meanwhile, an honest economist will approach the matter in an interdisciplinary

and pragmatic manner. First, he will try to learn as much as possible about all of the above disciplines, to be able to propose a set of long-term measures within the entire development triangle formed by values, institutions, and policy. And, surely, not for a moment will he forget that what people want depends not only on what they already have, but also on what they know.

After all, we cannot bridge the gap between subjective needs and the objective possibilities to satisfy them, with the former growing faster than the latter, unless we redefine human desires, both individual and social, accordingly. It cannot be bridged without relevant regulations that block the expansion of “wrong” needs and favour the “good” ones, if only by stimulating the interest in sports activities or book reading. We will not be able to bridge it without resorting to a specific policy where what matters most is not to allow an excessive social diversification in terms of income and property.

As long as all neighbours drove to work in a Fiat, the neighbour from around the corner would not need a Mercedes. When he can see that a couple of them have also upgraded to such a vehicle, he starts to feel the same need. The demonstration effect is at work here. In an individual case, it can motivate people to improve their skills and to work even more efficiently and for a higher salary. In a macro-scale, it leads to a situation where, even though the national income almost doubles every decade or so, people complain that things are as bad as they have always been, or they are even worse, although before they used to commute to work on a crowded bus or subway.

Once again; this is by no means calling for any demotivating egalitarianism, but for acknowledging the significance of a socially sustainable income distribution. It consists in a diversification that fundamentally reflects the contribution of individuals and groups to the national income generation, while guaranteeing their participation in the income at proportions that promote both efficiency and justice, or, if we look at it from a different angle, private entrepreneurship and social cohesion.

Travel broadens the mind. Let’s see what it can teach us. Common sense tells us we should be in favour of as many people as possible having a personal tablet. A lot of them have one in the USA, quite a few in Poland, a bit fewer in Russia, much fewer in China and almost nobody in Cuba. Whoever has been there, has seen this. If we studied social attitudes carefully, it would turn out that the highest dissatisfaction with not having a tablet (yet) can be found in Poland where there are ten times as many of them, pro rata to the population, as in Cuba, where relatively fewer people are dissatisfied with this specific issue. It is because such a need has not developed yet over there, not only because the network is underdeveloped, but most of all because there is no demonstration effect at play. Such a need will emerge over there, as well, but there is no point in blowing it out of pro-

portion if there are no realistic prospects of satisfying this need, or of the need transforming it into demand in a reasonable time interval. There would be hardly any use for it, while the disappointment would be huge. With time, when people can afford to buy tablets, as they will produce them themselves or they will sell something else abroad at a profit to have means for importing them, the need will develop by itself, without TV spots, full page newspaper advertisements, or huge billboards that stimulate sick emotions rather than healthy efforts.

Both with respect to individuals and entire nations, what we need is ambitions. Not those aiming higher than you can reach, but realistic ones. Without them, it is hard to get far and climb high. On the other hand, it is not good for ambitions to be excessive, as then the disappointment of being unable to satisfy them can be depressing. An excess of ambition can hinder rather than promote development. Leaders, at all levels, should, in particular, have ambitious visions rather than naïve illusions. These, however, must be aspirations embedded in an actual cultural and economic potential rather than just populist promises.

It is natural that societies and nations aspire to at least catching up with a richer neighbour, if not with Japan right away. Mexicans dream of the USA, 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 who announce that their country will catch up with Turkey in seven years. Well, it is 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 is worth being an ambitious realist or a pragmatist. Poland may one day reach the 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 is 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) did not catch up with Spain (31,000). The resulting implication for economic development policy is: *aim for what you're strong enough to achieve*. If you can, increase your strength, but you should not aim beyond your

potential, because then your goals will not be matched by the possibilities to achieve them.

It is not about limiting human needs, but about endeavouring, 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 is similar to gluttony: at some point, you've had enough of even what you like and you cannot have any more of it...

#### MEANS AND ENDS OF DEVELOPMENT

If, in a broad perspective, it all boils down to maximising, in a long term, the level of social satisfaction with economic activity, we need to look at the 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 the New Pragmatism. A GDP growth is a means to an end rather than an end itself. It is high time for the highly-developed countries to move away from maximising 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? (Bok 2010)

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 is good, because we are standing on the brink of a fundamental redefinition of social and economic development

<sup>4</sup> "Emancipating economies" is a category which I substitute for the widely, and often cloudlessly, 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 Kolodko (2014).

goals. In the future, the goal will not be to just maximise income, but to distribute the fruits of such growth in a way that increases people's true satisfaction; non-material values will be another goal.

It is estimated that if income proportions in the USA 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 (Wilkinson – Pickett 2010). If these estimates are exaggerated as to specific indices, and surely they are, they still speak volumes.

The USA is not the navel of the world and will never again have the same capacity to impose its values on others that it 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 idolise 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 USA.

In this context, maybe it is 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 under the conditions of the present scientific and technological revolution the dynamics slow 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 that 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 (Kolodko 2011). 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:

- (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 of 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 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 USA 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 of political economy, it is indispensable to grasp the essence of the economics of moderation, which is what the 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 sur-



plus 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 a 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 an 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 effective demand. Last, but not least, what should be the rule is not overdoing it when transforming more and more pieces of 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 the speculative bubble on the real estate market, too many houses and apartments were built, which are now standing empty and becoming 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 is 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 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 is 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, which is dynamically balancing the economy. If they were, we would not be going through a time of turmoil, as we are, but would be enjoying an age of prosperity.

Once, at another stage of civilisation 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” (Kornai 1980). 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.

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 at other times, it is 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 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 the intrinsic nature of the economy. Mechanisms for balancing demand and supply flows are working, for better or for 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 in illustrative diagrams will always cross exactly where it is expected to.

That is 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 to 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.

The 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 optimise 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 is 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 the New Pragmatism. Business should be ethical, it does not have to be profitable, and 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, how 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 the results of those adopted in response to the crisis in the USA after 2008 (Suskind 2011). 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 is 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 achieving the desired results. After all, not only the market errs; governments and central banks can be wrong, too. And they often are. Governmental regulations, and in the era of irreversible globalisation, also inter-governmental and world-wide ones are, to a growing extent, often established to address challenges of the past. Meanwhile, it is 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 apologise, reprimand, dismiss, punish, and put in prison. It is 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 the technical condition of all those that have not, 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 socialising 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 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 organised in a state with strong institutions, one founded on progressive law and order. That is why neoliberalism wants a “small” government or a “cheap” government because what is 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 is 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 does not 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 and do not harm competitiveness in any way. Actually, by causing an overall mobilisation, also among competitors, it can favour development even more.

It is worth noting at this point that without a proper strategic plan, the USA will be unable to cope with improving its public finances which are in a pitiful state, and the EU 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 is 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 is easy to note that the New Pragmatism is in keeping with the compensation hypothesis, which says that the more advanced globalisation, the “bigger” government, or that the public expenditure to national product ratio is rising (Garrett 1998, 2001). Naturally, the goal is to relativise 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 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 is 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 it 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.

The 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 the future. Good economics is not only about describing the world; it is also an instrument to change it for the better. Considering the long-term development trends, it is 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, the New Pragmatism is a normative consequence of a descriptive perspective which I presented earlier as the Coincidence Theory of Development (Kolodko 2011, ch. 7: 256–292). It emphasises 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 in the future. Starting by describing, analysing, 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 of how the contradictions, surfacing from various economic activities, will arise and by what institutions and policies’ coordination mechanisms, on the world-wide scale, they might be mitigated. The greatest challenge for the future is to find a way of the governance of globalisation, since despite the recent crisis, it remains an irreversible process.

What I call the “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 the 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 societies and economies, and their peaceful co-operation will not be possible without a tolerance based on multi-culture.

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