

New Pragmatism: In the Quest for Economics and Development Policy in the 21st Century

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New pragmatism is an original, paradigmatic and heterodox theoretical concept within the field of economic science, which attempts to address current civilizational challenges and factors that will determine the future functioning of economic systems. It strives to advance economic theory in a direction that allows a more in-depth and accurate cognition of the economic reality than is possible through the prism of orthodox theories. At the same time, it provides an outline of a theory that is strongly applicative in nature and immanently combines scientific cognition (positive perspective) and the formulation of guidelines and practical recommendations (normative perspective). This, indeed, forms the foundation on which to build the economic policy and strategy for development, as they both determine the world’s civilizational advancement.

Economics – in its present orthodox form (i.e. mainstream economics) – has exhausted its cognitive and applicative capabilities. Even though some critical voices have already been heard, nowadays, and in particular since the financial crisis of 2008–09, the view according to which traditional economics fails to properly explain contemporary economic phenomena and processes, let alone recommend effective economic policy solutions, has been gaining ground.

In the recent years, the gap between the rapidly changing economic reality and our capacity for its scientific investigation has deepened. Cognitive economics fundamentally looks to the past, while the problems it is expected to solve are very much of the present and they affect the future. As a result, economic knowledge permanently lags behind the challenges that need to be intellectually tackled. The main difference between the traditional economy to which the “old”, yet still applicable, economics – especially

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the neoclassical or Keynesian theory – applies, and the modern economy, or the economy of the future, which requires a “new” economics, stems from two key factors.

Firstly, in the “old” economy, both the rules of its functioning and the criteria for evaluating its quality were strictly economic in nature and defined by neoclassical economics. Non-economic factors – though sometimes taken into account in theoretical analyses, to a relatively greater extent in institutional and behavioral economics, and to a minor degree in mainstream economics – were not regarded as so significant. Economics was mostly focused on such issues as the efficiency and competitiveness of the economy, its equilibrium and factors associated with economic growth. At the same time, the theoretical foundations of the predominant trends of economic theory were based on three key assumptions: the rationality of decisions made by economic entities, the principle of profit maximization as the driving force of the economy, and the intrinsic effectiveness of unregulated market mechanism. At present, all these assumptions are regarded as being disputable.

Secondly, the “old” economy was shaped by national economies. Consequently, the state’s economic functions were also limited in scale to national economies. Hence, the major focus of macroeconomic studies was that of national economies and economic policies pursued within national states, as well as economic relationships between states. It was not until several decades ago that, owing to the intensification of globalization and regional integration processes, supranational and global aspects of economy started to become the focus of attention.

Currently, the situation is changing. Firstly, though financial and technological factors are still of great importance, the functioning and expansion of individual economies are determined strongly by non-economic factors: cultural, political and social. These determinants have a great impact – often comparable to the one exerted by purely economic factors that the orthodox economic theory mostly deals with – on the quality of the economy and on its future durable and sustainable development. Looking at it from a different perspective, these appear as the major causes of economic crises in their financial and social dimension. Therefore, in order to understand the driving forces of present-day changes, it is not enough to examine the economic aspects of their functioning. One needs to look at a broader picture and reach in more deeply to identify all cultural, political, social, historical and geographical determinants.

Secondly, barriers between national economies and borders between countries are becoming blurred. Even if they remain in place here and there, new technologies and institutions enable easy and speedy global capital transfers that take place regardless

of geographical borders; sharing and accessing information is becoming increasingly easy for billions of consumers and manufacturers. Economic policy conducted at the national level must, therefore, adapt to such external circumstances.

Owing to these two qualitative differences between the “old” and the “new” economy, orthodox macroeconomic theories have lost their *raison d'être* as tools of economic system description and analysis. These differences are so substantial that they make it virtually impossible to adapt old theories to the new reality. From the point of view of neoclassical theory, it is impossible to defend the assumption of narrowly defined rational behavior of economic agents (*homo oeconomicus*) and, from the point of view of the Keynesian theory, the assumption of the effectiveness of an economic policy conducted at the national level. Consequently, the paradigmatic economic theory needs changing. New economics must create a new epistemological perspective for analyzing economic phenomena and present new, enhanced methods, as well as research and analytical tools. This is exactly the aim of new pragmatism.

New pragmatism as a heterodox theoretical concept fits squarely in the sequence of views of philosophers and economists (Adam Smith, John M. Keynes, John K. Galbraith, Douglass C. North, Edmund S. Phelps, Joseph E. Stiglitz) who believe that the meaning and purpose of economics as a science is to identify the rules governing the functioning of a sound economy in specific temporal and spatial conditions, rather than to look for universal and timeless economic laws. Thus, new pragmatism is:

- 1) descriptive, explanatory and evaluative;
- 2) contextual;
- 3) complex;
- 4) multidisciplinary;
- 5) comparative.

New pragmatism regards globalization – the historical and spontaneous process of liberalizing and integrating various markets into one interconnected worldwide system – as an irreversible process. Therefore, the fundamental economic problem of modern times is an effective coordination of economic policy and developmental strategies at the global level and the re-institutionalization of the global economy.

Economics, as defined by new pragmatism, is a science deeply embedded in humanist and anthropocentric axiology, a science that is not indifferent to the great problems and ailments of the contemporary world; the prescriptive approach is as important for new pragmatism as the descriptive one. Thus, in its descriptive context, economic theory is applied to evaluate and distinguish between “good” and “bad” economies

(economic systems), and in its prescriptive context, it helps to identify solutions that will foster “good” economies and suggest active development schemes effective in different situations.

The new pragmatism can, and should, co-shape the economic future of the world based on the principle of moderation and sustainable development with its triple-bottom line dimensions: economic, social and environmental. The fundamental message of new pragmatism seems deeply humanistic and embedded in the best traditions of modern thought. The reality in all of its dimensions – natural, cultural, social, political, economic and technological – can be, to a great extent, grasped intellectually. This grasp will be greater if we dare to consider a broader and deeper examination of the reality: interdisciplinary and unorthodox, critical and progressive, brave and unconventional.

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