



## In Search of a Relevant Economic Theory

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## Review Article

# In Search of a Relevant Economic Theory

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Grzegorz W. Kolodko, *Whither the World: The Political Economy of the Future, Volume 1*. Basingstoke & New York, NY: Palgrave Macmillan, 2014, xi + 223pp., £75.00 h/b.

Grzegorz W. Kolodko, *Whither the World: The Political Economy of the Future, Volume 2*. Basingstoke & New York, NY: Palgrave Macmillan, 2014, v + 223pp., £75.00 h/b.

GRZEGORZ KOLODKO IS ONE OF THE MOST ACCOMPLISHED AND best known Polish economists alive. He has published and edited 35 volumes printed in 23 languages, which created a large and controversial echo. His citation index according to Google Scholar is quite impressive for any social scientist living outside the United States academe, with over 15 items being cited more than 50 times, and some over 200 times. Besides being an academic, he served four times as first deputy premier and minister of finance in his native country. He has lectured in numerous universities abroad and has been a frequent contributor to policy debates, in many fora, including *The Financial Times*. The classical combination of the academic with the policy-maker, now often seen as out-of-date, makes his contributions vivid and controversial. Importantly they are much more accessible to other social scientists and the general readership than most of the ‘pure economics’ output coming from the leading departments of the neoclassical or Keynesian mainstream of the profession. Indeed, the author is of the view that accessible, open and truthful discourse is a pre-condition for any academic, economic and other insight to become practically relevant. Thus convincing citizens, voters and investors is just as important as the proverbial coherence of the argument, the customary yardstick for excellence in economics.

Grzegorz Kolodko has several research interests, each of which has produced a series of articles, book chapters and monographs over the past 35 years or so. Starting from his studies of the role of shortages and finances under the command economy (Kolodko & McMahan 1987), it was only natural for the author to jump into the study and formation of policies of systemic transformations since 1988 (Kolodko 2000). The experience of seeing how the decisions have been shaped have certainly had an impact on both the style and worldview of the author. The second set of issues, in the past 15 years or so, has been globalisation and the ways post-communist countries join in this multi-faceted process (Kolodko 2003, 2005, 2006). Finally in the past five to seven years he has been producing reflections on global issues, political, economic, philosophical and moral in nature (Kolodko 2011a, 2012). In so doing he is in the company of truly world famed personalities, from Dennis Meadows (Meadows *et al.* 2004) to Joseph E. Stiglitz (Stiglitz 2006).

The twin volumes under review are sequels to his 2011 monograph of a similar genre *Truth, Errors and Lies: Politics and Economics in a Volatile World* (Kolodko 2011b), in which the author speculated about the roots of mistaken policies, perceptions and theories leading thereto. What makes the current volumes interesting is that Kolodko gives up the traditional backward-looking of the social sciences and the exclusive focus on history. Instead, as the title suggests, he tries to look into the future, sometimes the distant future, and elaborates on the factors which are likely to shape the scenarios of economic and social development. In so doing he is involved in the type of projections practised by global corporations. These rarely, if at all, aim at telling what the future will be, in terms of gazing into a crystal ball, but allow for comprehensive speculation about future alternative scenarios. Whenever these do occur, decision-makers are already well equipped with the type of preliminary knowledge which allows them to act as swiftly as needed, thus avoiding major blunders.

The current monograph is divided into 16 chapters, thus we can only select a few of the major insights. Asking the basic questions—why economists, relying on a complex set of instruments, are so often wrong—the author finds a paradox (p. 39). The growing complexity of reality is reflected in a fragmentary fashion, at best, by the growing simplicity of models and especially of theories on which even mathematically complex models are being built. Chapter 2 discussing *inter alia* the predictive power of science, notes ironically that prophecies tend to be self-fulfilling especially in cases when they coincide with the interests of the players of the financial markets (p. 50 *passim*).

In Chapter 4 the author relates the economic and social successes of the period from 1950 to 2015 largely to economic openness. However this is modified by the insights (pp. 105–7) that the process limits sovereignty and democracy, and further (p. 117) that it needs to be complemented by global regulation by coordinated public policies. Thus, as the subsequent chapter elaborates, truly global governance is needed in order to pre-empt the well known dangers emanating from the free flow of capital, labour, trade and competitive practices (pp. 139–41). The author cautions against seeing unilateral tax cuts as a panacea for growth, job creation and efficiency (p. 151) and calls for a global coordination of fiscal policies (p. 156).

In the same spirit, the author warns against the dangers inherent in the technocratisation of economic analysis, that is of mixing up means and ends, and allowing for the cult of unlimited greed to be a maxim for both theory and policy (pp. 167, 174). While democracy and growth are by no means the two sides of the same coin, the author proves that state capitalism *cum* illiberal democracy is a matter of the past, not a model for the coming decades (p. 187 *passim*). The new structure of governance—explored in Chapter 7—should be based on regional integration groupings, with China taken as a player on its own.

The second volume starts with Chapter 8 on the social and ecological limits to ‘maximizing’ growth. Kolodko fights on two fronts. First, he rejects the naive idea that growth should approach zero in a world where poverty is still prevalent. On the other hand, he also warns—in line with findings of the natural sciences—of ‘maximizing’ growth in a vulnerable and decaying eco-sphere. His suggestion (especially on pp. 239–41) is a global world product growing by 2% per annum, of which 1% would be the average for rich and between 2.5% and 4% for the currently poor nations. In order to achieve that, a bigger government, ensuring both environmental sustainability and moderation against business greed, is a technical must (pp. 256–58).

Chapter 9 is devoted to the very uneven demographic development, which is likely to trigger major spontaneous flows of people from south to north unless the balanced and fast growth of overpopulated poor countries is achieved (pp. 265–69). But growing inequality is far from being an international phenomenon only. As Chapter 10 expands, growing inequalities have featured also in the rich countries, especially in the past 20 years and have been exacerbated by the recent financial crisis (pp. 300–3). Redistribution alone is unlikely to solve the problem, thus growth is needed, with the government being active in the provision of its pre-conditions: health care, education, good quality institutions and the fair and transparent regulatory frame, allowing for self-help and entrepreneurship (pp. 311–14).

The author challenges the myth of technological progress being the salvation in Chapter 11. While appreciating the IT revolution as it is unfolding and changing daily lives and macro-perspectives alike (pp. 327–28), these changes also necessitate careful balancing acts on the side of the government. However, as the next chapter explains, while ‘knowledge trumps all’, especially through globalisation, it is hard to quantify what the transition from information shortage to information overflow as a steady state will mean (p. 359), for households, corporations and nations alike.

Is an Asian era with Euro-Atlantic civilisation in the background a feasible and desirable option for the future, asks Chapter 14, addressing the most contested issues. These include ways of coping with the rise of China into a superpower and the further strengthening of transnational corporations. While Asia is in need of relying on the existing multilateral architecture (p. 397), there is no such thing as a Beijing Consensus on alternative ways of catching up (p. 401).

In sketching the possible—but by no means inevitable—exit strategy from self-propelling crises, Kolodko suggests relying on the social market economy model, as opposed to both state capitalism of the Asian brand and of neoliberalism of UK or US fashion (p. 404 *passim*). In order to overcome the misleading focus on GDP he proposes a new measure of progress: the integrated success index (p. 414 *passim*). This is composed of 40% GDP, 20% subjective well being, as surveyed by opinion polls, 20% state of environment index and 20% estimate of leisure time and of cultural values.

This broad-brush account of Kolodko is an attempt to build a bridge between abstract theories and a reality dominated by financial interests and political wrangling. While many individual statements may sound controversial, the attempt to recreate ‘real world economics’ joins in an ever broader stream of scholars, who wish to transmit available knowledge in order to improve our world. Avoiding traps in futurology the current book will trigger reflection and perhaps critical as well as consenting accounts. Thus it serves the purpose of turning economics socially relevant again.

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