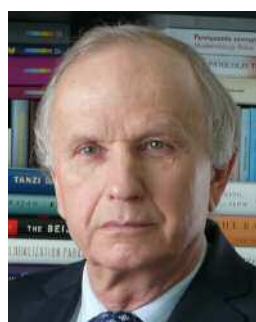


New Pragmatism: In quest of economics and development policy in the 21st century

Prof. Grzegorz W. Kolodko outlines the concept as presented at the Annual Congress in Warsaw



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New pragmatism is an original paradigmatic and heterodox theoretical concept of the economic science, which attempts to address the current civilizational challenges and the future determinants of the functioning of economic systems.

New pragmatism strives to develop the economic theory in a direction that allows a more in-depth and accurate cognition of the economic reality than the one offered by orthodox theories. At the same time, it is an outline of a theory that is strongly applicative in nature and immanently combines the scientific cognition (positive perspective) and formulating indications and recommendations for application (normative perspective). This, indeed, is the base on which to shape the economic policy and strategy for development, both of which determine the world's civilizational development.

The limits of orthodox economics

Economics in its present orthodox form (mainstream economics) exhausts its cognitive and applicative capabilities. Even though critical voices have already been heard earlier, these days, especially ever since the financial crisis of 2009-09, the view that traditional economics is not able to properly explain the contemporary economic phenomena and processes, let alone propose effective solutions for economic policy, has been gaining more and more ground.

In recent years, one can observe a deepening gap between the fast changing economic reality and the capacity for scientific investigation of it. Cognitive economics basically concerns the past, while the problems it is expected to solve emerge in the present time and affect the future, hence the current state of economic knowledge permanently lags behind the challenges that need to be intellectually tackled. The principal difference between the traditional economy addressed by the "old" but still applicable economics, especially the neoclassical or Keynesian theory, and the modern economy and economy of the future, which need a "new" economics, stems from two reasons.

Firstly, in the "old" economy both the rules of its functioning and the criteria for evaluating its quality were strictly economic in nature, as defined by neoclassical economics. Non-economic factors – though sometimes taken into account in theoretical analyses, to a relatively greater extent in institutional and behavioural economics, and to a small degree in mainstream economics – were not treated as something substantial. Economics was mostly focused on issues such as efficiency and competitiveness of the economy and its balance and economic growth factors. At the same time, the theoretical foundations of the predominant trends of economic theory were based on three key assumptions: rationality of decisions made by economic entities, principle of profit maximisation as the driving force

behind economy, and intrinsic effectiveness of the unregulated market mechanism. At present, all these assumptions have become disputable.

Secondly, the "old" economy was shaped by national economies. Consequently, the state's economic functions were also limited to the scale of national economies. Hence, what was the major object of macroeconomic studies was national economies and economic policies pursued within national states, and the economic relationships between states. It was not until several decades ago, due to the increasing globalisation and regional integration processes, that more attention started to be given to supranational and global aspects of economy.

Modern non-economic determinants

These days, the situation is changing. Firstly, though financial and technological factors are still of great significance, the functioning and the expansion of economies are strongly determined by non-economic factors: cultural, political and social ones.

Determinants of this type have a great impact – often comparable to the one exerted by purely economic determinants – the orthodox economic theory mostly deals with – on the quality of the economy and on its capacity for durable and sustainable development or, looking at it from a different perspective, they are major causes of economic crises, both their financial and social aspects.

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Therefore, in order to understand the driving forces behind the present-day changes it's not enough to examine the economic aspects of their functioning. One needs to look at a broader picture and reach deeper, for cultural, political, social, historical and geographical determinants.

Furthermore, the barriers between national economies and the borders between countries are becoming blurred. Even if they still remain in place here and there, new technologies and institutions enable an easy and fast global capital transfer independently from formally existing borders, and both spreading and accessing information is becoming increasingly easy for billions of consumers and producers. Hence, the economic policy conducted at the level of national states must adapt to external circumstances.

Old theories versus new reality

These two qualitative differences between the "old" and the "new" economy cause the orthodox macroeconomic theories to lose their *raison d'être* as tools for economic system description and analysis. These differences are so substantial that they make it virtually impossible to adapt the old theories to the new reality. From the point of view of neoclassical theory, it is impossible to defend the assumption of a narrowly defined rational behavior of economic agents (*homo oeconomicus*), and from the point of view of Keynesian theory – the assumption of effectiveness of an economic policy conducted at the national state level.

Consequently, one needs to change the paradigmatic economic theory. New economics must create a new epistemological perspective for analysing economic phenomena and present new and enriched methods, and research and analytical tools. And that's exactly the purpose 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 believed the meaning and purpose of economics as a science is to find the rules governing the functioning of a good economy in specific temporal and spatial conditions rather than to look for universal timeless economic laws. Thus, in the new pragmatism, economics is seen as a science that is:

1. Descriptive, explanatory and evaluative;
2. Contextual;
3. Complex;
4. Multidisciplinary; and
5. Comparative.

New pragmatism sees globalisation – the historical and spontaneous process of liberalising and integrating various markets into one interconnected worldwide system – as an irreversible process. Hence, what becomes the fundamental economic problem of modern times is an effective coordination of economic policy and developmental strategies at global level and reinstitutionalisation of global economy.

Good versus bad economics

Economics as defined by new pragmatism is a science that is deeply embedded in humanist and anthropocentric axiology, a science that is not indifferent to great problems and ailments of the contemporary world and in which a prescriptive approach is equally important as the descriptive one. Thus defined economics, in its descriptive aspect, can evaluate and distinguish between "good" and "bad" economies (economic systems), and in its prescriptive aspect, it can indicate solutions leading to "good" economies and suggest active development programs that are 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 triply – economically, socially and environmentally – sustainable development. The fundamental message of new pragmatism seems deeply humanistic and embedded in the best tradition of modern thought. The surrounding reality in all of its dimensions: natural, cultural, social, political, economic and technological, can be grasped intellectually to a great extent. This grasp will be the greater, the broader and deeper look we have at this reality: interdisciplinary and unorthodox, critical and progressive, brave and unconventional. ■

Further reading:

- Bałtowski (2017). *Evolution of economics and the new pragmatism of Grzegorz W. Kolodko*, "TIGER Working Paper Series"
- Kolodko, Grzegorz W. (2011). *Truth, Error and Lies: Politics and Economics in a Volatile World*, Columbia University Press: New York
- Kolodko, Grzegorz W. (2014a). *Whither the World: The Political Economy of the Future*, Palgrave Macmillan: New York
- Kolodko, Grzegorz W. (2014b). *The New Pragmatism, or Economics and Policy for the Future*, "Acta Oeconomica", Vol. 64 (2), pp. 139-160
- Kolodko, Grzegorz W. (2017). *New Pragmatism versus New Nationalism*, "TIGER Working Paper Series", No. 136 (http://www.tiger.edu.pl/KOLODKO_NewPragmatismversusNewNationalism.pdf)

“THE VIEW THAT TRADITIONAL ECONOMICS IS NOT ABLE TO PROPERLY EXPLAIN THE CONTEMPORARY ECONOMIC PHENOMENA AND PROCESSES HAS BEEN GAINING MORE AND MORE GROUND”