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**Evolution of economics and the new pragmatism of
Grzegorz W. Kolodko**

Maciej Bałtowski

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Summary

The paper refers to Kolodko's new and innovative look at economics and its contemporary aims. The paper is composed of three parts. The first, methodological part includes a discussion of the ultimate aims of economic sciences with the consideration of special features of its subject (economy): its variability, variety, and teleological character. The author rejects the traditional division between positive and normative economics. He introduces the concept of a 'good economy' (good economic system), which is then analyzed in part two in the framework of the development of economic thought from Smith and Ricardo, through Marx and Keynes, up to the modern welfare economics.

The third part is devoted to the analysis of the key elements of the concept of new pragmatism proposed by G. W. Kolodko. The author focuses on Kolodko's views on the contents and aims of contemporary economics and his understanding of the category of a 'good economy'. He concludes that the concept of 'new pragmatism', which is remote from the main-stream contemporary economics, tries to meet the present needs of the changing world while being well settled in the cognitive current of economics dating back to Smith.

Key words: the aims of economics, economic systems, positive economics, normative economics

Introductory comments

In his recent papers, Grzegorz W. Kolodko touches on problems that are paramount to economic science and inspires reflection that goes beyond what is outlined there. (Kolodko 2014a and 2014b). Kolodko aims high – as part of the new pragmatism he asks questions and attempts to give answers regarding not only the role, place and capabilities of the modern economics but also those addressing the issues of the world's contemporary and future social and economic order. While an overwhelming majority of economists stay within the limits of a traditionally defined field of economic science, Kolodko consciously departs from this field or extends it so much that

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the ‘old’ economics seems to be just a fragment of the new pragmatism.

This very aspect, i.e. going beyond the existing areas and cognitive limitations of economic science, can be clearly seen not only in the above mentioned article but also in the entire body of Kolodko’s scientific work in recent years². An analysis of economic science in its historic development clearly indicates that going beyond such limits used to be natural and very fruitful in the past. One could say, in line with the Kuhnian concept, that economics, like every science, used to develop precisely by creating new research paradigms, and going beyond cognitive methods, patterns and areas that had existed before.

What seems most interesting and important in Kolodko’s work is the innovative outlook on economics and its contemporary aims. The concept of new pragmatism, which is far from the *mainstream* economics, meets the current needs of the changing world while, in my opinion, being strongly anchored in a specific cognitive current of economic science that dates back to Smith. The purpose of this article is to try and justify what I have said above, providing a proper perspective for a critical analysis of the new pragmatism.

1. Aims of economic science and the distinctive features of its object of enquiry

Questions such as ‘why does economics exist?’, ‘what is the aim of studies conducted as part of it?’, have been asked more than once – whether implicitly or explicitly – by the most eminent representatives of this science for as long as it has existed. Ostensibly, they seem trivial as for every science, then for economics as well, the cognitive aim, to understand reality, to extend the existing body of knowledge, is sufficient and makes it fully legitimate to take up and conduct scientific research. However, in the case of economics the issue is not so simple. Ever since it came into being, there has been a substantial methodological dispute on this very matter. A greater part of economists and economic schools connected with the neoclassical economics (as well as with ‘pure’, mathematical and ‘mainstream’ economics) believe that the aim of economics boils down to looking for universal laws and regularities, to discovering mutual dependencies and interdependencies between elements of the economic system, to dealing only with facts that can be established. This approach, usually referred to as positive (descriptive) economics is perfectly reflected by the well-known definition of L. Robbins, according to which “economics is a science which studies human behaviour as a relationship between ends and scarce means which have

² I mean here mostly Kolodko 2011 and Kolodko 2014a.

alternative uses”³. In this approach, the cognitive aim is achieved by answering the question of ‘what are things like?’, possibly extended to include a causal explanation: ‘why are things the way they are?’.

Yet, there are also economic schools and economists who have a broader idea about the cognitive aims and the sense of economic science, introducing all kinds of value judgments in the analysis, which usually blur the borderline between economic science and the economic policy. Representatives of the so called normative approach study the economic reality not only in terms of ‘true or false’, the way positive economists do, but also in terms of ‘good or bad’ (or, more cautiously, ‘better or worse’). The problem of where to draw a line between the positive and normative approach and the problem of the epistemological status of each of them has been puzzling the greatest economic minds for 200 years now, without being finally settled and it seems that this is one of the many problems in the history of science that are wrongly formulated and contemplated, and a long-lasting debate on it does not seem to be cumulative⁴.

In my opinion, the very specific and immanent features of the economic reality⁵, which is the object of enquiry of economics, provide very strong arguments for abandoning the division into the traditionally defined positive and normative economics. These features put together determine the separate ontological status of economics compared to other empirical social sciences such as sociology or political science. I mean the following two distinctive features of economic systems:

- a/ diversity and variability,
- b/ teleological nature.

Re: a/

The object of enquiry of economics (macroeconomics) is actually not one enigmatic ‘economy’ as economists usually implicitly assume but, instead, a number of specific quite autonomous economic systems⁶, separated from the larger economic global whole by at least three criteria –

³ See Robins 1932, p. 15.

⁴ See Blaug 1995, Chapter 5). Some authors negate the legitimacy of the division into positive and negative economics mainly because the key category that distinguishes between the two approaches, i.e. a value judgment, is ambiguous. The so called characterising value judgments have different methodological status than the appraising value judgments.

⁵ Further in this article I limit the term ‘economy’ to the macroeconomic level and treat it as a synonym of the economic system. I do not deal with the issues of economy and management of resources at the level of respective markets, companies and households.

⁶ Undoubtedly, the ‘autonomy’ of respective economic systems is currently much lower than it used to be 100 or even 30 years ago, but it still is significant. For more about the causes and effects of the unification of present-day economic systems, see: (Bałtowski, Miszewski 2014).

customs barrier, money and business law. These systems – contemplated both historically and geographically – are very diverse. They may have a different internal structure, different operating principles and different regulatory mechanisms (from market-based to administrative). Economic entities that form part of them may have different forms of ownership and different stimulus structures. In addition, these systems are constantly changing over time. Their variability is their immanent feature.

Variability and diversity of economic systems, the object of enquiry of economics, even though they are acknowledged, seem to be underestimated in theoretical perspectives. G.W. Kolodko is one of the few economists who try to give this issue the significance it deserves. In the introduction to the book subtitled *The Political Economy of the Future*, he writes: “The matter the economics deals with [...] is in constant change. Therefore economics must keep up with those changes. Unfortunately, it lags behind” (Kolodko 2014a, p. xi). And elsewhere he adds: “I became fascinated with economics as a science because the subject matter being studied is constantly changing. It journeys. This has – this must have – far-reaching implications for the research methodology” (Kolodko 2010, p. 46).

The fact that economies are deeply diverse and variable gives rise, at the level of scientific description, to various methodological problems⁷. I am convinced that every attempt at generalising results of research into this kind of diverse beings, and finding universal laws and regularities governing all of them and each of them, as endeavoured by the descriptive economics, must lead to formulating very vague conclusions, ones of praxeological rather than economic dimension, which contribute little to the understanding of all economic realities in existence. Economics, to a very great extent, probably incomparable to any other systematised field of knowledge, is a contextual science⁸.

Re: b/

Although the collective of economic systems studied by the economic science shows deep difference across various cross-sections and parameters, and even though respective components

⁷ The attempted solution is to apply the so called descriptive approach, used widely for economic research in Japan. It is based on two major research assumptions: 1) The world of economic phenomena is unique and idiosyncratic; 2) Only a specific phenomenon existing in a given place and time may be the object of economic enquiry. Therefore, while in common usage the term ‘descriptive’ stands for ‘serving to describe’, the descriptive method in the presented approach means a special kind of description which refers to a specific and unique economic phenomenon.

⁸ Literature on the existence (or non-existence) of universal laws in economics is immense, beginning from Alfred Marshal, ending with Tomas Sedlacek. For recent writings, see for example (D. Acemoglu, J.A. Robinson 2014).

of this collective are basically unique and idiosyncratic, still, they all share one very significant feature. Namely, each economy, the product of human actions and manifestation of human behaviours, whether at the macroeconomic level (that of national economies) or at the corporate one, is a teleological being, one that exists (and functions!) with a purpose⁹. Humans create economy (or – which boils down to the same – economy emerges as an outcome of human interactions) so that production and exchange of goods can exist. At the level of meta-purposes one can say that the reason economy exists is to allow welfare to grow, and the material dimension of the quality of human existence to improve, which is achieved through economy producing broadly defined final goods.

Irrespective of the spatial and temporal diversity of economic processes and economic systems, the volume, value and quality of those final goods in relation to the outlays is a key characteristic of each of them. Therefore, the cognition and understanding of a given economy, which is the task of descriptive economics, may not be limited to only deciphering its structural principles, relations between its components, explaining its ‘laws of motion’. What is necessary is to identify this key characteristic, i.e. the correlation between outcomes and outlays, which, in the operational approach, may take various specific forms and measures – that of productivity, efficiency, effectiveness or performance.

Therefore, the next natural stage in the cognitive process of economic science may and should be to compare the correlation between outcomes and outlays for each systems being studied. It is a natural stage as, due to the teleological nature of economy, the criterion for comparisons in economics – unlike in other social sciences – is extremely clear and unambiguous. In economic sciences the comparative method may at times replace experiment as a source of cognition. Grzegorz W. Kolodko hits the nail on the head, saying that within economic science ‘whoever compares, understand much more. The more often and more you compare, the wider and deeper your field of observation is. Whoever compares wisely, knows’. (Kolodko 2010, p. 37).

This kind of comparisons that are drawn – let me reiterate – as part of the cognitive process of the descriptive economics, lead to the conclusion that economic systems are not axiologically equivalent. There are economies that are better, more performative, more efficient, more effective (i.e. those that generate relatively more of the final product, create greater welfare) and those that are worse (they produce relatively less). Hence, making such comparisons directly leads to

⁹ I am not claiming that purposefulness cannot be ascribed to objects of enquiry of other social sciences, e.g. social systems. However, in the case of economic systems studied by economics, purposefulness is especially significant and striking.

expressing an appraisal (or a value judgment) in terms of ‘better or worse’ about the economic reality being studied, which, according to the traditional definition, *de facto* means entering the realm of normative economics. So if economic science is able to distinguish between better and worse economies, then not only is the traditional distinction between positive and normative economics getting blurred but, also, a clear and evident bridge is created between cognitive aims of economics and the utilitarian ones which should come down to scientific recommendations and guidelines regarding an economic policy that leads to better economies.

Economics (macroeconomics), in the sense presented hereinabove, can be treated as a descriptive and teleological science, where a descriptive analysis of various unique economic systems naturally involves inter-systemic comparisons, which results in an appraisal and division of systems into ‘better’ and ‘worse’ ones (‘good’, ‘bad’). This, in turn, directly provides the basis for recommendations related to economic policy. This kind of approach, based on the concepts of good economy (as a desirable type of economic system) and social welfare (as the final outcome of the system’s operation) seems to me important for the understanding of the historic development of economic science as well as – especially – the place and role economics plays in our time and age. It also provides an appropriate, I believe, epistemological perspective for the reception and criticism of the new pragmatism of G.W. Kolodko.

Further in the article I will first briefly present the views of some major schools and representatives of economic science on that very topic and then, from that point of view, I will try to analyse some aspects of the new pragmatism.

2. Adam Smith and classical economics

The title of Adam Smith’s great masterpiece of 1776 (*Inquiry into the Nature and Causes of the Wealth of Nations*) was no accident. It gave a clear and lasting indication of what, according to the author, is the object and sense of economic science. For Smith, the substantial cognitive problem boiled down to looking for the answer to the question of why some countries are rich and others poor, why some economies ensure power to their states and welfare (a relative one back then¹⁰) to their population, while others lead to stagnation or directly to the collapse of states and nations. In this type of approach the economy is treated as a teleological being, and the purpose of economic

¹⁰ It seems that the relativity of welfare, i.e. treating it in relative rather than numerical terms, is a constant feature of human civilization.

science is not a ‘pure’ objective analysis of interdependencies and regularities occurring in an economic system but, instead, none other than an analysis which clearly sets an utilitarian purpose of research (causes of ‘wealth’) and answers the question of what the economic outcomes are of various interdependencies, regularities and principles existing in various economic systems.

This kind of analysis naturally leads to normative conclusions as specific value judgments stem from it in the form of both appraisals and recommendations. The former come down to saying that there are economies that are ‘better’ and provide more wealth, and those that are ‘worse’ and provide less wealth, and that economic science is able to distinguish between them. The latter involve ways to arrive at good economy and come down to saying that different operating methods and principles of economic systems lead to different correlation between outcomes and outlays so – to maximize these correlations – one needs to use specific, tested models, laws or principles that were earlier ‘discovered’ in the course of analysis of good economies.

In Smith, the answer to the question of what good economy looks like, the conclusion from the research conducted was clear. The father of economics had no doubts that – as M. Blaug puts it – ‘a free-market economy secures the best of all possible worlds’ (Blaug 1997, p. 62). The economic system with the greatest possible scope of economic freedom and unbridled competition is – according to Smith – more effective, more efficient and more performative, and generates more wealth than any other. And an individual foresight or even greed of respective participants of the economic life translates, thanks to the invisible hand of the market, into greater or lesser well-being of all people within a given economic system (‘social harmony’).

This way Smith, a bit as a side note to his main deliberations, formulated a conclusion of paramount importance¹¹ – wealth, welfare, prosperity of each citizen of a given country individually and of all citizens altogether depend on how the economy is built, on which principles it is based and how it operates. On what the ‘rules of play’ are in the economic sphere, as the contemporary institutionalists would call it. This conclusion, obvious as it seems in our day and age, 250 years ago was a break-through and since then it has been an axiom of macroeconomic thought.

The message that can be derived also today from Smith’s thought is as follows: the task of economics is to discover and understand principles and methods of managing and using limited resources, but this analysis must be conducted through the prism of a clearly defined management

¹¹ This view had already emerged earlier, most of all in Physiocrats, but only Smith gave it a status of a general regularity.

purpose-criterion, i.e. operational outcomes of a given economic system, measured, on the bottom line, with the ‘wealth of nations’ generated or – as we would say today – with social welfare. Let us add that in Smith the basis for distinguishing between good and bad economies was a purely economic indicator: the amount of the domestic product consumed, generated not only through production but also through exchange.

19th century classical economists generally accepted Smith’s view on what the tasks of economic science are. Malthus, in a letter to Ricardo, wrote that ‘the causes of the wealth and poverty of nations [are] the grand object of all enquiries in Political Economy’ (after: Landes 2005). However, when it comes to the analytical method, and, consequently, when it comes to understanding the sense of economic science, they adopted quite an opposing position to that of their master. While for Smith the basic scientific method was observation and in-depth description of economy (from there he derived the significance of the division of labour or law of accumulation, among other things, for economic development, and for the growth of ‘wealth’), David Ricardo ‘represents a distinct break from the Smithian method [...] to a methodology of highly abstract theoretical models’ (Landreth, Colander 2002, p. 159). Ricardo was the economist who – contrary to Smith’s tradition – contributed the most to making economics a deductive science, whose principal research objective became to discover universal laws of economic life rather than looking for and recommending economic solutions that lead to good economy.

N. Senior and, to a lesser degree, also J.S. Mill, were generally against introducing any value judgments to economics. What they saw as its main and virtually exclusive cognitive aim, similarly to Ricardo, was to find universal operating principles of economy. Positive economics, and this was the only one they treated as science, was to be a formal and axiomatic science that derives its propositions from premises related to basic economic human behaviours. They believed all evaluative or prescriptive deliberations belonged in normative economics, which, according to Senior, was the art of economics and did not pertain to the realm of economic sciences.

Let us also add that Malthus and Ricardo would visibly curb Smith’s enthusiasm when it comes to the possibility of economic growth leading to a better world. Malthus - by formulating the law of diminishing returns and expressing disbelief in the possibility to overcome the trap of overpopulation. And Ricardo, who, by the way, devoted a greater part of his work to a theory of growth - by putting forward a pessimist hypothesis that ‘economic growth must sooner or later peter out owing to scarcity of natural resources’ (Blaug 1997, p. 88).

To sum up this part of deliberations, one can conclude that in the first half of 19th century two distinct methodological approaches emerged when it comes to the essence and cognitive aims of economic sciences. The Smithian current of thought claimed that the task of economics was to search for operating principles and conditions of a ‘good economy’ and, consequently, to establish ways, conditions and tools that lead to it. The Ricardian current claimed that the task of economics is to discover universal laws governing the functioning of economy or, even more broadly speaking, of economic processes. This current, later developed by neoclassical economics, closer to our times, evolved into the so called ‘mainstream economics’, a deeply mathematized science, one that is ‘pure’ and ‘deductive’¹² and, by definition, far from any attempts to pass value judgments on the economic reality and to influence it.

3. Marxist economics

Karl Marx, whose economic views were generally as remote from Adam Smith’s thought as possible, when it comes to the aspect that is of interest to us, that of sense and aim of economic science, concurred with the approach of the father of economics. Marx repeated Smith’s view that the purpose of economy, and, consequently, the research field of economic science should be to increase social welfare, but, building on the intellectual output of Utopian socialists, he gave a new meaning to that term. He did not treat it in purely quantitative terms, but instead he introduced a brand new element, one that is of great importance for all further development of economic science until today. He claimed that it’s not so much and not only the amount of social product that determines the wealth of nations but also how it is divided. In his epistemology, economics was meant to be a science of how to create an abundance of goods but also how to distribute them fairly.

To simplify it slightly but fully preserving the sense of both economists’ views in this respect, one can say that while for Smith the quality or ‘goodness’ of an economic system was determined according to ‘GDP per capita’, in Marx a new, equivalent, or maybe even a more important criterion emerged – ‘Gini index’. A good economy for Marx is one that ensures the needs of all citizens are adequately satisfied, is effective when it comes to creating goods and fair when it comes to the terms of distributing them.

These beliefs held by Marx and also by Friedrich Engels, were no accident. They were in-depth

¹² Its peak achievement was Samuelson and Hicks’ so called neoclassical synthesis.

observers and analysts of economic systems existing in developed European countries in mid-19th century. They were able to notice not only that these systems bear little resemblance to the idealised image of market economy outlined by Smith, but also that the outcomes of its operation are not satisfactory to most people. Admittedly, wealth was created, but the invisible hand of the market was working poorly, with the welfare hardly – at least according to the prevailing sentiment – spreading to wide masses.

Hence, Marx questioned the fundamental elements of Smith's good economy and proposed, basically in the form of intellectual speculation, a brand new system, drastically breaking with the canons of the former – free market and individual entrepreneurship. The target model of the transformed social and economic system¹³, or communism, was to be the state of eternal bliss, a system of material abundance for all, as desired for ages by thinkers and politicians: 'In a higher phase of communist society [...] all the springs of co-operative wealth flow more abundantly -- only then can [...] society inscribe on its banners: From each according to his ability, to each according to his needs!' (Marx 1972, p. 17).

In Engels, good economy, identified with the communist system and anticipated from the perspective of the brutal 19th century capitalism, appeared like a sort of paradise on Earth. Engels wrote: 'There will be no more crises', 'Big industry, freed from the pressure of private property, will undergo such an expansion that what we now see will seem as petty in comparison as manufacture seems when put beside the big industry of our own day', 'This development of industry will make available to society a sufficient mass of products to satisfy the needs of everyone', 'The same will be true of agriculture [...] with a resulting leap forward which will assure to society all the products it needs'. [...] 'so much is produced that every member of society will be in a position to exercise and develop all his powers and faculties in complete freedom' (Engels 1967, p. 81-97). This vision of a new system where changes in economy will result in affluent life free of material concerns for all can be also found elsewhere in the work of Marx and Engels.

Marxist concepts of (economic) paradise on Earth were naïve, and after 20th century social realism experience, they can be described as ludicrous. However, the Marxist thought undoubtedly left a strong mark on later concepts of good economy. From then onwards, a state of welfare would usually mean not only an abundance of goods but also lack of excessive income

¹³ Undoubtedly, Marx's intellectual merit was to look at economy from a broader perspective of a social and economic system.

inequalities, and the issues of various social groups' participation in the wealth created, fair distribution and social solidarity have become important research areas of economic science¹⁴.

4. Keynesianism and some contemporary currents

Another giant of economic thought, John M. Keynes, took the next important step towards changing the purpose, sense and research scope of economic science, in the aspect we analyse here. His breakthrough achievement was to negate Say's law of market, which had been a fixture of economics for 100 years (and – not surprisingly – approved by D. Ricardo and the entire post-Ricardian economic current). Keynes claimed that the market mechanism does not in itself lead to an economic balance and full employment (the use of factors of production – which the neo-classicists saw as the fundamental element of a good economic system) and that an unconstrained economic freedom ends, as a rule, which was already known before, with the emergence of monopolies that stifle the economy and reduce its efficiency. Those findings did not arise as a product of mental speculations but through observations of the economic reality that was undergoing very powerful and deep changes after World War 1 and in early 30s of last century, during the Great Depression. And only then were they generalised by Keynes in the form of a theory that was only seemingly deductive while actually being based on strong axiological elements, i.e. on a specific notion of good economy.

The answer given by Keynes to Smith's question about good economy as the object and purpose of economic science was innovative and it significantly broadened the present cognitive domains. Indeed, Keynes believed that the existence of good economy is determined by the state running an adequate, effective economic policy; that wealth of a nation depends, to a major extent, on how and how well the state is running its economic operations. After World War 2 these views gained a universal approval from economists and politicians and since then, they have become the canon of how good economy is to be understood. The main focus of economic science has moved to the problem of principles, scope, tools, channels of the state intervention in

¹⁴ The present-day, very notable and significant manifestations of this thinking include books by R. Wilkinson and K. Pickett (2011) and T. Piketty (2013). Still, it should be pointed out that in the history of economics there is a major group of eminent thinkers, from J.S. Mill to F.A. von Hayek, for whom the category of good economy involves freedom rather than fairness. The great debate on that subject between J. Rawls and R. Nozick is discussed, for example in (Sandel 1998, ch. 2, 4).

economy, and to the market-state relationship.

This state of affairs has posed new challenges to economic science. Although Keynesian tools of state intervention in economy are predominantly of the economic variety (monetary and fiscal policy), each attempt at using them widely and effectively leads to a new multidisciplinary problem as the criteria and methods used by the state as the participant of economic processes to make and execute decisions are often non-economic, or at least not only economic. Keynesians, at least in the first decades of the new theory's development, repeated, as regards the principles of the state functioning in the economy, the fallacy of idealism, which neo-classicists had committed 60 years back with regards to the functioning of the market mechanism. State as an economic actor as seen by Keynes was to be rational, have foresight and be predictable, depersonalised and act in the interest of all citizens. It turned out, however, that reality evidently did not match up to this idealistic vision of state.

This gap between the ideal and actual image of state in economy was, to a certain extent, filled years later by the "new institutionalists". They did not assume, the way Keynesians did, that the state acts rationally as a rule; instead they focused on identifying the conditions and factors that cause the state to be deficient. They looked for constituent elements of good economy beyond the classically defined economic sphere. They believed that the quality of an economic system is strongly determined by historically and culturally grounded patterns of economic behaviour. They claimed that nations are wealthy when they are capable of creating a proper institutional structure for the economy, meaning capable of creating a sort of rules of play and limitations that apply to all economic actors, including the state. As D.C. North wrote (1990, p. 3), the quality (effectiveness) of an economic system depends on the right structure of incentives, whether economic, social or even political ones, and these, in turn, are determined by the operation of institutions that have emerged through society's evolution. And since institutions are complex, multidisciplinary – one could say – creations, the economic system cannot be understood and described without taking account of the powerful cultural, historical, legal (*property right theory* et al.), political (public choice theory), and psychological (behavioural economics) components. In this perspective, every economic system exists in a way separately and independently of others, has its roots and its conditions, so economic science finds it hard to formulate universal laws and recommendations.

Direct reference to good economy can be found in welfare economics, which, at its early stages, both the neo-classical and Paretian, decidedly dissociated itself from any value judgments,

focusing on the issue of the optimum (best) use of given resources. However, in its further development, especially in the perspective of A. Sen, 1998 Nobel Prize winner, very specific problems of good economy came to the foreground, involving the fair national income distribution, proper tax system and broadly defined issues of social welfare (see also footnote 17). Welfare economics, as rightly observed by M. Blaug (1992, p. 126), “is, after all, that branch of economics concerned with the ethical criteria by which we decide that one economic state of the world is more desirable than another”.

Welfare economics served as the basis for the theory of public goods, whose origins are ascribed to P. Samuelson in mid-20th century, and which was later significantly developed by M. Olson and J.E. Stiglitz, among others. In their opinion, a significant and necessary component of social welfare – this transformed Smith’s “wealth” – is the access of all citizens to a given pool of goods manufactured or provided directly by the state. In this perspective, the state, in the framework of good economy, should not only run a proper Keynesian economic policy, not only develop and guard a proper institutional system, but it should also effectively produce and fairly distribute public goods, which, in the modern-day world, determine the level of social welfare.

It is worth emphasizing that public or quasi-public goods – security, justice, education, healthcare services or efficient administration – are often not “classic” goods produced as part of manufacturing processes or service processes. Meanwhile, which seems undisputable, they greatly determine the welfare of all citizens, and the state offers them to address a situation where the category of welfare goes beyond satisfying purely material needs.

5. What is Kolodko’s new pragmatism?

Let me begin with a terminological note. Kolodko sees his new pragmatism as a “normative consequence” of the descriptive theory, which he refers to as “Coincidence Theory of Development” (Kolodko 2011, p. 319). In the light of discussions presented in section 1, the borderline between the descriptive and normative perspective runs elsewhere than usually assumed in economics and elsewhere than assumed by G.W. Kolodko. So to avoid wasting time on essentially secondary methodological discussions about separating the two elements of Kolodko’s theoretical concept, I use the term new pragmatism to refer to all of it. This is not, I believe, contradictory to the views of the author himself, who, in the title of his latest publication on the subject, (Kolodko 2014a) treats new pragmatism as both “economics” (or the economic

science with its descriptive perspective), and “policy” (normative perspective).

Against the backdrop of the above methodological and historical discussions, one may answer a fundamental question: what are the underlying theoretical foundations of the new pragmatism proposed by Kolodko? The most general answer is that Kolodko’s proposition, *toutes proportions gardées*, fits in the continuum of views of those economists, starting from Smith and Marx, through Keynes, to new institutionalists and representatives of welfare economics, who saw the meaning and purpose of economic science as searching for the form and operating principles and terms of a good economy rather than finding universal laws of management. New pragmatism may be considered as a valuable example of a descriptive and teleological approach in economics, which addresses the conditions and challenges that are typical of and specific to broadly defined economic reality of early 21st century.

There is no space here for a detailed exegesis of Kolodko’s concept, whose elements are scattered – sometimes chaotically – over three volumes of his economic trilogy, which add up to over 1200 pages. Then let me only point out two issues which are of key importance, in my opinion, and directly refer to the analysis I present above:

- a/ view on the form and aims of the modern-day economic science,
- b/ understanding of the category of good economy.

Re: a/.

Many declarations and postulates put forward by Kolodko paint the picture of economics that is very unlike its currently dominant form, both in its academic and expert (“banking economists”) variety. Economics of the future, as Kolodko emphasises, “must be heterodox” and “interdisciplinary” and, of course, “pragmatic”. It “will be to a lesser and lesser degree mathematized and formalized, and, to a relatively greater degree, it will be anchored in a cultural context””. It is to be “about changes rather than states” (Kolodko 2014a, pp. 37, 41). New pragmatism is eclectic as the reality studied by economic science is diverse, variable and contextual.

Many times in his writings, Kolodko expresses his deep and fundamental opposition to treating economics as a science in post-Ricardian spirit: pure, deductive and devoid of values. He writes about it: “It’s bewildering how economists in their discussions shun any analysis of values. Meanwhile, we cannot understand, and, even less so, change it for the better, if we disregard the role of values in economic activities of humans and societies” (Kolodko 2010, p. 51). Elsewhere he adds: “there is no economics without values”, “Economics is a social science, always and

everywhere enmeshed in values, in a whole system of values. Economics merges with axiology, a complex system of values” (Kolodko 2014a, p. 16).

He devotes a lot of space especially to the aims of economic science, directly assigning it with tasks going well beyond a positive description of the economic reality. Already on the first page of *Whither the World* (2014a) he presents a kind of manifesto of his views and beliefs on the subject. He writes: “Economics [...] should bear the burden of giving the future the best possible shape as desired by people”. And further: “Economics [...] is meant to best serve development and progress” (p. x), and “good economics is one that is in the services of both progress and the general public interest” (p. 6). These thoughts, that may be considered paramount to his understanding of economic science, are reiterated by Kolodko in an academic text published in “Acta Oeconomica”: “Good economics is more than a description of the world; it is also an instrument to change it for the better” (Kolodko 2014b, p. 141).

Re: b/.

Kolodko has no doubts that economic science should indicate both the framework of what I have referred to earlier as “good economy” and ways to reach this state. However, neither the details of this postulated “best of all possible worlds”, nor ways of reaching it are explicitly presented. In the light of Kolodko’s views on economy and economics, this seems natural – there is no single universal formula, one magic wand that will bring “wealth” to all and everywhere. The right solutions, both when it comes to the target situation and methods of operation leading to a good economy, are always contextual, they always apply here and now, which mostly stems from a profound diversity of economic systems, which I have discussed above¹⁵.

Nevertheless, as part of new pragmatism, I can see at least two major original elements that go beyond how the category of good economy used to be perceived and defined by the above mentioned schools of economic thought. These elements provide, according to Kolodko, some initial conditions, potential opportunities, which, if the right economic policy is applied, may be “transformed” into the desired state of good economy basically in every case.

Firstly, good economy according to Kolodko is one that is capable of sustainable development. He says that “pro-development” orientation is the most important feature of the good “character of an economy” (2011, p. 314). What is important, though, is that it is not about development in its traditional sense, whose basic measure is GDP or production growth but rather about a special

¹⁵ It’s a cliché, for example, to say that an economic policy for states with GDP *per capita* of 5 thousand USD should be different and achieve different goals than for countries with 50 thousand USD.

type of development called “harmonious social and economic development”, which “must be the overriding aim of economic policy” (2011, p. 323). This development must be a “threefold sustainable development”, that is sustainable in its economic, social and environmental aspect (2014a, p. 403).

Kolodko’s concept of threefold social and economic development is innovative and original. Let us note that the term “harmonious” has a double meaning for Kolodko. It refers not only to making those three above mentioned development aspects sustainable but also to ensuring the sustainability of the relationship between the present and the future, which, for thousands of years now, ever since humans started their conscious economic activities, has been a substantial problem of economic choice. In a good economy, as seen by Kolodko, the goal is “that the conditions for future economic growth are created at the same time that there is a tangible improvement in the degree of satisfaction of social needs” (2011, p. 330).

Kolodko claims (or he believes, as he fails to provide any clear evidence of it) that there is an “optimal system of institutional solutions and macroeconomic policy parameters”, referred to as the “golden sequence” (2011, p. 330), which ensures this harmonious social and economic development. The golden sequence occurs when the dynamics of eight key macroeconomic parameters is arranged in order from the first to the last one. These parameters are: investments, exports, GDP, individual consumption, labour productivity, state budgetary revenues, collective consumption and – last but not least – budgetary expenditure.

According to Kolodko, a major element of the harmonious social and economic growth is the postulated economy of moderation, which is “adapting the volume of human, natural, financial and material flows to the requirement to keep a dynamic balance”. He puts it bluntly that “a good economy should be that of moderation” (Kolodko 2014b, p. 153)¹⁶.

Secondly, the postulated form of a good economy is closely related to the phenomenon of globalization, which Kolodko rightly believes to be significant and irreversible. National economies, those quite independent economic systems which, for some 200 years, have been the object of macroeconomic research, are transforming, before our eyes, into components of a global economy with a limited autonomy. Those components still differ significantly from one another, and obviously there are still better and worse economies. However, each modern-time economic system, especially when it comes to its potential development, is strongly dependent on the

¹⁶ This is a postulate that has been lately getting through to mainstream economic thought – See (Skidelsky, Skidelsky 2012).

condition of the global economy. The quality and efficiency of the national economy stems, these days, from mutual relations between “not only market and government but also the three fundamental components of economic activity: market, government and the world” (Kolodko 2014a, p. 135). Kolodko’s thought – if I interpret it right – is, therefore, as follows: in 21st century globalization strongly determines each national economy, creating specific opportunities and threats to it. It is global circumstances and conditions – not only economic ones but also those resulting, for example, from the IT revolution – that create, to a growing degree, the “rules of play” applicable to all of the respective economic systems. Hence a specific global order is the necessary (though not sufficient) condition for the existence of a good economy at the national level, at least as regards its “pro development” orientation. And the way to get there, among other things, is “to move a major – and even greater in the future – scope of [economic policy] decisions to the supranational level” (Kolodko 2014a, p. 107).

Kolodko (2011, Chapter ten) lists and analyzes in detail the “Twelve Great Issues for the Future”, which, he believes, will, to a growing degree, drive those global circumstances and interdependencies. More or less half of them are strictly economic, while the others relate to issues that are ostensibly remote, but, in reality, they very strongly and fundamentally affect the welfare of the global economy, and, consequently, the ability of a good economy to exist at a macroeconomic level. Considering and solving, in an informed and rational manner, those twelve mega-problems of our time – from the rate and limits to the economic growth to world security issues – directly determines, according to Kolodko, the continued existence of our civilisation. A good economy may be only a component of a well organized and well regulated world.

6. Final notes

Adam Smith’s question about the source of the wealth of nations is still the essence of economic science, though the very concept of “wealth of nations” has, in the last 250 years, and especially in the last dozen or so years, dramatically changed. Kolodko definitely is among the political thinkers and economists who believe that there is no single easy remedy to the ailments of the world and global economy, that only heterogeneous, multidisciplinary and context-based thinking (and acting!) may bring positive results (Stiglitz 2006, Rodrik 2011). And that the “wealth of nations” today is measured not only by the GDP per capita, but, to an equal extent, by a lack of excessive imbalances in the standards of living, sense of security, social cohesion, general access

to basic goods etc. For a great majority of the world's citizens a fast, harmonious and threefold sustainable economic growth is the prerequisite for improving the current state.

Kolodko very strongly emphasizes the global context of good economic policy. His works are permeated by the conviction that the problems and ailments of specific economic systems may not be solved at the traditionally defined macroeconomic level. That the role of a modern economist-intellectual is to point to global economic interdependencies and threats. That the key to a good national economy is, to a great degree, the ability to take advantage of the opportunities offered by globalization – customising local realities, often the historic and cultural ones, to the requirements of the changing world.

What is most important in the concept of new pragmatism? The author himself, when referring to an element of his concept, expresses an opinion that ideally characterises all of his achievements: “This suggestion, quite an arbitrary one, is not about details, but about the line of inquiry” (Kolodko 2014b, p. 152). New pragmatism is not a finite theoretical construct nor a closed set of universal rules and recommendations for economic policy that are intended to lead to a good economy as such rules simply don't exist. It's a novel and inspiring proposal – read in Poland and all over the world¹⁷ – for addressing the question asked in the title of this text – whither the economic science in 21st century? And, in my opinion, it is, most of all, to this extent that it may and should be subject to review and comments.

¹⁷ Kolodko's economic trilogy, as intended and achieved by the author, has reached tens of thousands of readers in Poland and many thousands worldwide. *Truth, Errors and Lies* has been published so far in 10 languages and *Whither the World* - in 6.

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