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New Pragmatism versus New Nationalism

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The confrontation of two views of modern capitalism – neoliberal capitalism, which has caused the world economic crisis, and the state capitalism, in its various forms – has provoked a surge of xenophobia and false patriotism that is more often called “new nationalism”. Although the failure of neoliberalism and the flaws of state capitalism – as different as the latter is in China and Venezuela, in Russia and Zimbabwe, in Saudi Arabia and Vietnam – should determine the New Pragmatism (Kolodko 2011) it is not necessary the case. Unfortunately – because it is very unfortunate if not just risky and dangerous for the future – the new nationalism is getting momentum, also in quite different forms, as shown by Brexit, Trumpism, or strengthening the populist parties and movements, especially though not exclusively in Europe. Yet in the long-run neither of these three ideologies and policies will succeed. In the future, the world economy should go along the path of New Pragmatism (Kolodko 2014a). This is the time of heterodox economic approach to the challenges faced by the contemporary world. And such shift from economic mainstream occurs, but it is far from being the new mainstream upon which the economic policy for growth and strategy for social development should rely.

How to reconcile the practical approach with an approach which is fundamentally principled? Is it possible to practice economic pragmatism and remain a man of principle? Is it worth it? It is, indeed, both possible and worthwhile. If we want to live in a world of peace and harmonious development – and we certainly do – new values must be introduced to the process of economic reproduction, however without disregarding the requirements of pragmatism, which is a fundamental and indispensable feature of rational economic governance. We need to adopt a more pragmatic approach, favoring multiculturalism and one emanating from a system of values that promote:

- inclusive globalization;
- social cohesion;
- and sustainable development.

There is no contradiction, as the core values underlying the social management process and its economic purposes are concordant to a large extent. The most important aspect of the two

approaches is a balanced, long-term socio-economic development. Its equilibrium should be three-fold:

- (1) balanced economic growth associated with goods and capital markets, as well as investment, finance and labor;
- (2) socially sustainable growth associated with a fair, socially acceptable distribution of income and an appropriate participation of the main population groups in basic public services;
- (3) environmentally sustainable growth associated with maintaining adequate relations between the economic activity and nature.

Therefore, we do not have to sacrifice basic principles on the altar of short-term economic matters or tactical issues but, instead, adapt practical strategic activities to these principles. This imperative charts the evolutionary path for the political economy of the future.

Income relations are of key importance for long-term economic growth (Therborn 2013). The latter is particularly enhanced by a balanced distribution of income. This conclusion is drawn from a comparative study of long time series and is indisputable. Economic growth is more sustainable in countries with relatively low income inequalities (Milanovic 2011). What is more, income relations in these countries proved more important for their economic growth than the liberalization of trade or the quality of political institutions (Berg and Ostry 2011; Acemoglu and Robinson 2012). This observation points at aspects to which future development policies should pay particular attention.

The possibility of achieving two goals in one go is particularly important. It is viable because one goal – namely the socially sustainable income distribution – is also a means to achieving the second, namely economic growth. This relationship was not to be apprehended by the neoliberal economic thought and the economic policy based upon it. Consequently, it has generated a serious crisis through which it is destroying itself. It was also discarded by the economic thought that drove different facets of state capitalism, and for this reason the latter cannot also expect a bright future ahead of itself. Today, the time has come for New Pragmatism (Bałtowski 2017).

I am far from underestimating the importance of the rivalry between neoliberal capitalism and state capitalism, but this dichotomy will not be crucial for the future. Its shape will depend on the fallout from the confrontation between these two views of modern capitalism with social market economy that will take on the form of the New Pragmatism. The main line

of conflict will run between neoliberalism, struggling to regain his strength and position, and state capitalism, this time with the addition of unsympathetic new nationalism flavor, which is hostile to it, and the concept of genuine economic and social progress. It should benefit the masses, and not only the narrow social circles whose actions are fueled by individual interests and supported by well-paid lobbyists who represent them in the world of politics, the media and the social “sciences”, unfortunately including the biased economics (Rodrik 2015). There is no future for any political system perpetuating the situation in which a large economically disadvantaged group labelled the “margin” of social exclusion coexists with a small group referred to as the “elite” and basking in luxury. The economic system and economic policy which acts for the profits of a few at the cost of many can’t stand the test of the time.

It is significant that even the International Monetary Fund, for many years the hub of economic orthodoxy, admits that the policy aimed at surmounting the crisis and conducted by the developed countries – both the United States and the European Union – should be focused rather on increasing tax revenue (primarily from the strata of wealthy population) than on cutting budget expenditure (primarily targeted at the poorer social groups). We must immediately add that increasing tax revenue does not always have to consist in raising taxes, because this goal can also be achieved through the elimination of tax exemptions and an improved of tax collection. This generally leads to the introduction of pro-growth changes to the structure of final demand and reduces the scale of income disparities, and thus both the causes of the crisis and its consequences are eliminated, or at least limited. Similarly, the redistribution of income aimed at the reduction of inequalities contributes in the long-run to the economic development of the emancipating economies (Kolodko 2014b).

Moreover, up to a certain level of national income, a greater increase in social satisfaction can be achieved through its less disproportionate distribution than through quantitative growth. Let this be a crucial hint for economic policies; moreover, it should also inspire the entire educational system. The better we understand it, the easier it will be to pursue that direction. At the same time, there is a risk involved, because a policy that adheres to this thesis may steer towards populism instead of being pragmatic. Unfortunately, this is the case in countries where the new nationalism is getting momentum. The difficulty is even greater if we consider that production growth is fairly easy to quantify; conversely, measures of social satisfaction can be easily manipulated.

Social satisfaction can be noticeably improved if we reduce the Gini coefficient by a

specific fraction of a point instead of forcing the traditionally calculated GDP up by several percent. Economic policies of the future will increasingly have to resort to such a course of action. It will be much easier given that, on the one hand, the absolute level of production and consumption is rising and, on the other hand, the present scale of income inequalities is even greater than the previous one.

In other words, when it comes to inequality, there is ample room for improvement. While the economic growth of poor countries will remain the most important factor for many years to come, in the majority of rich countries – with the exception of social market economies characterized by a low level of inequalities – targeted changes in income distribution will be of crucial importance.

Unjustified inequalities, especially those arising from the pathological distribution relations, should be decidedly countered, as they undermine mutual trust between people, and consequently affect social capital which plays a key role in the development process. If different professional and social groups distrust each other, if society does not place their trust in the government, and the latter reciprocates such an attitude, if doubt reigns in relations between entrepreneurs, social capital becomes eroded instead of thriving. The economy, ultimately, resembles a family: even if money were to be no issue, but there is mistrust among people, things can turn ugly.

And what about the accumulation of capital? After all, it is necessary for the normal functioning of the economy, primarily for investing in the modernization of existing production capacities and the creation of new ones. Won't a shorter ladder of income weaken the public's propensity to save, and thereby generate capital with which to invest in a better future? Not at all. If this were true, we should not take any measures aimed at reducing income disparities. However, with a few exceptions, this is not the case. No empirical or theoretical evidence exists confirming that societies with a more homogenous income structure save more and invest less. It is enough to study the course of relevant capital formation processes in Austria, France, or certain other countries, especially in Scandinavia, to see that their more egalitarian societies were just as capable of saving as countries with a more elitist type of income division relations.

It also confirmed by conclusions that can easily be drawn from comparisons between the so-called "large state" economies with "small state" economies. Over several decades (1960-95), in countries where the state's participation in the redistribution of national income

was limited to approximately 30 percent (and therefore countries with greater distribution inequalities), the investment rate, or its percentage share in GDP averaged 20.7 percent. On the other hand, countries with a larger-scale budget redistribution, with an approximately 50-percent share of the state in GDP (and therefore with relatively lower income distribution discrepancies), investment rate averaged 20.5 percent. The difference is, therefore, almost nonexistent. A country can have the same capacity to generate capital, which affects economic growth in the future, with a less unbalanced income distribution, which in turn determines the social satisfaction with the present economic situation. This is another important guideline for the economic policy of New Pragmatism. Hence, this is what we should aim for in the future.

The constant proliferation of human needs, coupled with the irresistible desire to satisfy them, is a double-edged sword. It breaks through many barriers and, through permanently stimulating the economy, constitutes an indispensable link in the process of expanded reproduction, that is economic growth. At the same time, it is a destructive force, capable of blurring human minds, spoiling preferences, encouraging reprehensible qualities and, consequently, introducing irrational elements to the economy.

The continuous expansion of consumer aspirations is a significant problem. The latest profound crisis has, at most, slightly toned them down and shifted them in time. This phenomenon is also the product of a particular system of values. A few centuries ago, the mankind broke free from the chains of simple reproduction – a period when the size and the conditions of production and consumption were reproduced from one period to another without any changes. This later evolved towards quantitative growth, which has meant that the size of production has grown from one period to another, and appetites always remain unsatisfied.

In the past, an average person needed just enough to maintain his or her standard of living on a level comparable to that of the previous year's; today – the more, the better. But does it represent progress? Regardless of the quantity produced and consumed, we inevitably demand more. Some believe that our appetite grows with eating: hence the economic greed remains rampant and, consequently, leads to economic obesity and many social pathologies deriving from it. The economy needs a healthy diet just as much as any well-functioning body does. The economy of the future also needs moderation.

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