

Neoliberalism, the Global Crisis, and the Ways Out

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Due to the interdependence of the contemporary world economy, the great American crisis of 2008-2010 rapidly has become the global crisis. However, it is not just another, only larger than before crisis. It is a fundamental crisis of the capitalist market economy based on neoliberalism. Overcoming the resulting challenges calls not just for managing deep financial and structural imbalances, which were the direct causes of the recession, but requires deep changes in the underlying values, institutions and policies. These changes must be based on the coincidence theory of development and new pragmatism.

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1. - Neoliberalism, the Global Crisis, and the Ways Out

The things happen, as they do, because many things happen at the same time.

This sentence, repeated as the guiding principle, is the foundation of what I call the coincidence theory of development ¹. It essentially means a comparative and interdisciplinary explanation of the essence and mechanisms of social and economic development as a historical process. But this theory may also be very useful on other occasions, for example, to explain the causes and mechanisms of the great economic crisis of 2008-2010. Most frequently the crisis is described in this timeframe, although its roots go back much earlier than 2008, and its consequences are going to be felt well beyond 2010.

2. - The Specific Character of the Current Crisis

We are dealing with something far more serious than just a temporary (in fact, a short term) slump of the business activity level and decline of the absolute production level. Traditionally, these have been measured using the Gross Domestic Product (GDP), and this measure should be gradually abandoned and replaced by the superior measures of sustainable social and economic development.²

It is true that globally it is the most extensive crisis in the post-war period that is during the lifetimes of three generations. However, it is an intellectually and politically unacceptable simplification to identify the current crisis with a temporary recession. If it is averaged, which as economists we enjoy doing, in principle the crisis could be deemed to be over, as already in the 4th quarter of 2009 world production was again rising. Unfortunately, the crisis continues, since it goes far beyond the narrowly understood field of production.

¹ KOLODKO G.W. (2010).

² In KOLODKO G.W. (2010), there is a proposition of a different measurement for economic activity and economic development: an Integrated Prosperity Index (IPI), where GDP is weighted at only 0.4. The remaining 0.6 of weighting is composed of leisure time valuation, natural environment condition, income distribution, subjective valuation of cultural values and life standards, and the perception of own social capital. A similar approach was presented in the report of the Stiglitz-Sen-Fitoussi Commission (*Commission on the Measurement of Economic Performance and Social Progress*, Report 2009) appointed following the suggestion of the French President, Nicolas Sarkozy. The report was presented publicly during the conference at the Sorbonne on the 14th of September 2009. Now it will take a generation to win the political, intellectual and methodological campaign for a gradual implementation of justified recommendations proposed as IPI and included in the 2009 Report.

We began the first decade of the 21st century in improving economic conditions and a decent rate of economic growth. During the first three years of this decade, the Gross World Product (GWP) increased in total by 9.6 per cent, with an average annual growth of 3.1 per cent (respectively in 2001, 2002 and 2003 by 2.4, 3.0 and 3.9 per cent). This acceleration was visible also in the subsequent periods, particularly in the three years preceding the crisis. In 2005-2007, the GWP increased by 15.5 percent, which means an average annual growth by more than 4.9 percent (in 2005, 2006 and 2007 it increased respectively by 4.9, 5.0 and 4.9 percent). When calculated per one inhabitant of the planet (and we are already almost seven billion people, twice more than in 1960 and three times more than two centuries ago) it is the highest rate in the recorded history of mankind.³ Later, there was the slowdown and the crisis breakdown of 2008-2010, when the GWP increased by barely 4.9 percent, which means an annual average of 1.6 per cent (respectively in 2008, 2009 and 2010 by 3.0, minus 1.1 and 3.1 percent).⁴ During the three crisis years, the total GWP value corresponded to one-year value of the years preceding the crisis. It should be added that such an index means production *per capita* growth of only a stagnant 0.5 percent *per annum*.

Someone looking from the side might ask: why so much ado just because in 2009 only the production level dropped by one percent? In the context of the whole decade, during which it increased in total by as much as 40 per cent, it seems to be a trace change of insignificant importance. Someone else stresses that in mid-October 2009, the Dow Jones index had again risen above 10,000, so apparently the crisis is over, as the stock exchange quotations rise again. But in fact it is not over yet. Why?

First of all, the quoted indexes refer to the dynamics of GWP presented annually as average values for the whole world. And the world, as we know, is unusually diversified. It is sufficient to mention that in the first three years of the decade, global production increased on average by 3.1 percent *per annum*, while for the group of rich countries (*i.e.*, the most developed economies populated by barely one billion people)⁵, the index was only 1.6 percent. In the case of the “de-

³ By simplifying, it is possible to assume that *per capita* means this increase rate reduced by ca. 1 percentage point, if we remember that the rate of growth of world population exceeds slightly 1 percent.

⁴ Data according to “World Economic Outlook” International Monetary Fund, published in October 2004 and October 2008. Data for 2009-10 – IMF forecast (see IMF, 2009).

⁵ According to the World Bank and International Monetary Fund nomenclature they are referred to as the *advanced economies*.

veloping countries”⁶ (in fact, in this context this phrase may be used without the quotation marks) inhabited by 5.8 billion people, the index was 4.3 per cent. In the period from 2005 to 2007 the indices of dynamics were respectively 2.8 and 7.7 percent, and during the crisis of 2008-2010, the “scissors” open even more: in the former case the dynamics of global production oscillates around minus 0.5 percent, while in the latter it is as much as 4.3 percent in plus. The global economic order has been changing. And the change has been for the better, since it reduces the enormous discrepancies resulting from the historical development process between the production levels and living standards in the highly developed countries and in those relatively backward. The crisis accelerates the process of diminishing the gap, which should be deemed favourable. It is worth considering that as long as in 2000 the GDP *per capita* in China (calculated according to purchasing power parity, PPP) constituted only 6.7 percent of the American level (respectively they amounted to 2,377 \$PPP and 35,252 \$PPP), in 2010 this relationship oscillates around 15 per cent (*i.e.*, 7,200 \$PPP and 47,400 \$PPP)⁷.

Secondly, the present day crisis is more the crisis of redistribution rather than of production. The fluctuations, including absolute slumps, of the consumption volume and investments in particular, are much deeper than those of the GDP itself. There are also great differences per region or industry sector. Disturbances affected Western Europe more than North America, and in turn Eastern Europe suffered more than Western Europe. If we refer the disturbance concerning distribution to the American economy (though not exclusively), this time the crisis is much more severe for Wall Street, rather than Main Street, which means for the financial sector, rather than for the salaried workers. Or in other words, in comparison to the past, it affected the *white collars* relatively more than the *blue collars*. The crisis is definitely more damaging for the automobile industry than food processing. At a large scale, the redistribution effects are greatly diversified, both globally, and at the level of individual economies.

⁶ In documents prepared by the WB and the IMF, the group of such economies is referred to as the developing economies, while since 2004 they have been called the *emerging markets and developing countries*. What is the difference between *developing* and *emerging*, is not clear. For example, Brazil and India are treated as *developing countries* by the Breton Woods organizations, and as *emerging markets* by global investors. Poland and Russia on the other hand, are treated as *emerging markets* both by these organizations and the financial investors.

⁷ In the same period, the Chinese GDP *per capita* (according to PPP) reaches ca. 46 per cent of the Russian level and 39 per cent of the Polish level, while a decade earlier the indices amounted to 31 and 23 per cent respectively. GDP *per capita* estimates according to the Purchasing Power Parity – World Bank data. See also: IMF Data Mapper, <http://www.imf.org/external/datamapper/index.php>.

Thirdly, tendencies present in the financial markets, also the positive ones expressed in the increase of stock exchange quotations, are by no means the sign of the economy coming back to “normal” (if we assume that such a condition exists at all). Sometimes it happens the other way round: the speculation on financial markets may be the symptom of irrationality and, by excessive separation of the financial sector from the real economy, sometimes they are in fact the symptom of a production crisis, or they may be even one of its causes.

Fourthly, alongside disturbances in production and trade, there is a fall in employment, which is automatically followed by an increase of the unemployment rate. It increases continuously also during the phase when the global economy starts to emerge from recession. It may be estimated that at the turn of 2009 and 2010 the number of unemployed in the world was 60-80 million higher than a year and a half earlier. And the number keeps growing, not only in the countries, which were affected by the recession or still are in recession, but also in economies, which avoided the phase of production slump due to various reasons. The unemployment rate has been rising in the USA and in Germany, as well as in China and India. The unemployment rate in the USA is the highest in the last twenty five years and, similarly to the European Union, it is close to the psychological threshold of 10 percent. In the case of the USA, if counted unemployment includes those people without work but not registered as unemployed and people which are employed part-time, it amounts to over 16 percent. In Poland, in comparison to the fall of 2007, after two a half years the unemployment was higher by a staggering 0.7 million, that is the rate of unemployment jumped by 5 percentage points, from 8 to 13 percent, although Poland managed to go through the crisis without recession; GDP in 2009 increased by 1.7 percent. The fluctuations of the employment rate are very chaotic and they severely affect different sectors to a greater degree than the whole economy, in particular industries producing for export, but also the construction and automotive industries. In the labour market one may therefore also observe a far reaching redistribution process, which affects not only the economic, but also the social dimension of reproduction process.

The fifth, and I believe the most important factor, is that the present crisis is a fundamental crisis, a systemic crisis. It is not just another case, no matter how spectacular or interesting, related to business cycle. It is a systemic crisis of modern capitalism, and in particular of its neoliberal mutation, which has dominated the majority of the world during the lifetime of the last generation. And if it is so, then it is by no means sufficient to talk about the end of the crisis by merely re-

versing negative tendencies in production or bouncing back from the bottom of recession and coming back to the growth path.

3. - Was the Crisis Avoidable?

It is frequently asked whether it was possible to avoid the present crisis. Such a general question cannot be answered correctly, since it is necessary to define the timeframe it refers to, that is from which *ex ante* time perspective it would have been possible to avoid the current crisis. In other words, that is a complex question: not really “when”, but “how” was it possible to avoid the crisis of 2008-2010?

The answer to this question will be different if one asked about such a possibility three years ago, if we were to analyse the period thirteen years ago, and yet again different if we looked at the future, which has already become the present, from the perspective of thirty years ago. And such a threefold approach of three, thirteen and thirty years’ periods emphasizes the essence of the current crisis by revealing its causes, mechanisms and consequences. Above all, it is extremely illuminating from the point of view of conclusions related to the future and proposals for actions to prevent similar disturbances in the future – in three, thirteen and thirty years. It is worth remembering that the present is nothing more than the future of the past.

It is obvious that three years ago the world crisis was not possible to avoid. The scale of detachment of the speculative financial sector from the productive real economy, which provides all goods and services necessary for life, as well as for further production, was so great that the required adjustment to level the size of such detachment could occur only through crisis shock. What politics could not fix *ex ante*, was achieved *ex post* by crisis. It is an extremely expensive way of making adjustments.

Three years ago, the values related to good economic practice were already devastated; even if it was not the case everywhere, it affected many segments of the economically inter-related world, and particularly its epicentre, which still is in the United States. The devastation was so advanced, that there were no political powers, which within the existing institutions would have been able to re-direct the economy to the path of non-crisis development. The imbalance in the world economy was also too large.⁸ The world as such is in fact the only truly closed

⁸ See STIGLITZ J.E. (2010).

economy (at least as long as we do not establish extraterrestrial economic links, definitely not in this millennium...). However, despite well-advanced globalisation,⁹ the planet's economy is still divided into almost two hundred national economies rather than into several large integrating structures such as the advanced European Union or the institutionally backward Commonwealth of Independent States.

The characteristic feature of all economies is the lack of external balance, which is expressed in the deficit (more often) or *surplus* (rarely) of the current account balance. If we pass over any accounting errors and omissions or extraordinary losses, in the planetary scale the surpluses and deficits balance each other and the final result is zero. However, if we sum up the values of all deficits and all surpluses of current accounts and then if we refer such an aggregate to the GWP, then in 2008 it oscillated around 6 per cent!¹⁰ And how is it possible not to fall at this scale of structural imbalances?

And thirteen years ago? Was it possible then, in 1997, to avoid the present crisis? In this case the answer is more complicated. Some attempts were made. There was contentious debate between monetarism (which is the basis of neoliberalism) and neo-Keynesianism, which seems to be enjoying rejuvenation in many circles¹¹ but as such it is not a *panacea* for contemporary complaints. In particular, there was a major battle between the advocates of far reaching uncontrolled deregulation on the one hand, and the advocates of justified intervention of the government on the other hand; between the apologists of unbridled market and supporters of the active role of government. In numerous countries it was possible to resist the neoliberal attack in total – for example, in large China, or in tiny Slovenia. In other countries it was only possible periodically, for example in India or in the largest post-socialist country of Eastern Europe during the implementation of “The Strategy for Poland” from 1994 to 1997. In several Latin American countries, which as an act of goodwill trusted the Washington Consensus or allowed its imposition upon them, unorthodox actions were taken and they dominated later on, and not only in Brazil and Argentina. In the USA, attempts were made to create a different concept of development. So was the case in the UK. However, neither the “Clintonism” inspired by the Democrats, nor the Labourite

⁹ More on globalisation see, *inter alia*, KOLODKO G.W. (2007) and STIGLITZ J.E. (2004).

¹⁰ It means in the scale of the planet the subtotal of negative and positive current accounts amounted to ca. USD 5 trillion, while GWP was ca. 78 trillion (as calculated in USD according to the current foreign exchange rates).

¹¹ See SKIDELSKY R. (2009).

“Blairism” which was forced (quite unconvincingly and inconsistently) in the UK could manage the neoliberal storm. Hence, at the turn of the century neoliberalism won the *mainstream* position in economics as well as in economic policies. The flight of the moth to the flame was not stopped...

What about thirty years ago? Was then the present multi-layer crisis possible to avoid? The answer is of course positive. In the conditions of increasing globalisation (and a decade later, also the post-socialist political regime transformations, which gained momentum at that time), it was enough – *bagatelle!* – not to follow the ruts of neoliberalism, which were quite shallow then, but instead to go forward towards the future along the path marked out by the model of the social market economy. The characteristic features of the social market economy include the imperative of social cohesion and economic institutionalisation, which allow for the development of private entrepreneurship while maintaining the State’s supervision over the balanced division of results coming from increased work productivity and improvement of capital efficiency. It also takes genuine care of the natural environment and cultural aspects of development.

However, the world went along a different track – due to aggressive greed and spreading short-sightedness, due to the relatively weak position of the Scandinavian countries on the international arena, who enjoyed a social market economy that functioned well, due to the fact that Germany (united) and Japan (during structural crisis) were busy with their own business, due to the gullibility of intellectual and political elites in the countries of the so-called emerging markets (more in the countries of postsocialist transformation than in other parts of the world). It is necessary to be able to draw conclusions for future. “To be able,” means the intellectual skill and political will. One does not have the guarantee that it is going to happen.

4. - Neoliberalism as the Source of the World Crisis

The source of the crisis lies deeply in neoliberal capitalism.¹² It could not start in countries with a social market economy, as was the case of Scandinavia, but only in the conditions of the neoliberal Anglo-American model. Such an intense shock could take place only as a result of the coincidence of numerous political, social and economic circumstances (as well as technological, since it would not

¹² On the essence of the neoliberalism read more in the excellent study by HARVEY D. (2005).

have been possible without the Internet). The overlapping of these conditions in a specific way, which accumulated the crisis-related phenomena and processes, was possible only in the case of a special combination of values, institutions and politics, typical of neoliberalism.

Such values definitely overestimate individualism. They unnecessarily support greed by elevating this vice to the level of an economy propelling virtue. They neglect the social cohesion aspects of the economy and they do not perceive a human being as the centre of the reproduction process. There is money instead. As far as values are concerned, neoliberalism leads to translation of almost everything into money worth, since according to this doctrine it is possible and worthwhile to trade in everything, which may bring profit, including expectations. And, of course, irrational expectation too.

From the institutional side, neoliberalism converted the State with its regulations into a kind of a public enemy number one. By using (quite brilliantly, one has to admit) media to manipulate public opinion and, unfortunately, by using the opinion-forming capacity of some groups of social sciences experts, particularly of the economists, it imposes the idea of a small (read: weak) State (government) and diminishes its interventions in the spontaneous market processes, while the State, alongside with the market, is the fundamental super-institution of the modern economy. A far-reaching economic success is possible only due to an intelligent synergy of the power of the invisible hand of the market and the visible head of the government. This applies particularly, though not exclusively, in the countries of the emerging markets. Institutional intervention is the necessity of contemporary capitalism, which is not accepted by neoliberalism due to its values and, above all, due to its care about the specific interests of certain groups.

As far as neoliberal policy is concerned, it confuses its purposes with its measures. The purpose of economic policy is sustainable long-term development. It should be sustainable not only economically, but also socially and ecologically. Low inflation, positive interest rates, balanced budget, fast privatisation, currency exchange rate either fixed or fluctuating, exchange quotation, taxes (low, of course) – these are only instruments and tools of politics. It is not possible to subordinate any economic strategy or policy to indices, which only illustrate phenomena and processes from those areas. To improve the financial standing of narrow groups of elites at the expense of the majority of society, neoliberalism uses in politics such expressive liberal ideas (which by the way have to be followed) as liberty and democracy, private ownership and entrepreneurship, competition and economic freedom. However, supporting such ideas as *pro publico bono* on

the one hand, and their usage for the benefit of the minority at the expense of the majority on the other hand, are two totally different faces of politics.

On top of that, current disturbances of the world economy are not symptoms of the financial and economic crisis only. The difficulties started with a serious financial crisis, which rapidly advanced to production. Production dynamics crumpled and in many countries went into the stage of collapse. Now the crisis spreads to the social sphere of life, from where it slowly starts to have an impact on the political sphere, as well. As if that were insufficient, the crisis of the fifth sphere, that is the crisis of principles and ideology, slowly starts to overlap. Therefore, the crisis rolls over five inter-related spheres:

- financial;
- real;
- social;
- political;
- ideological.

It is not, however, a general crisis of capitalism, since this political system has special adaptation capacities. It has been proven on many occasions in the past, and so will be the case in the foreseeable future. Nevertheless, the current crisis is a fundamental breakdown of the neoliberal model. By the time the crisis had become evident, this model managed to function fairly well, at times even remarkably well, by manipulating public opinion and politics in practice. It was clearly noticeable wherever neoliberal tendencies dominated – from the USA in the times of Reaganomics and in the UK during the primacy of Thatcherism, via Latin American countries which allowed the imposition of the Washington Consensus in the 1990s, to Russia during the Yeltsin's term of office or Poland during the “shock without therapy” period at the beginning of the postsocialist transformation¹³. Now it is important to prevent the neoliberal doctrine, after minor cosmetic changes and insignificant adjustments, from imposing the main trajectory of the world economy again.

Neoliberalism facilitated the creation of a peculiar “casino economy”. It means the detachment of the financial sector from the real economy and pulling increasingly larger economic and social circles into the whirlpool of speculations. The process, which had already started in 1970s and intensified particularly in the last 25 years, inflated the speculation balloon to an unprecedented scale. Derivatives

¹³ On the issue of postcommunist transformation see more in KOLODKO G.W. (2000) and ESTRIN S., KOLODKO G.W. and UVALIC M. (2007).

were created to allow speculations on a large scale. Their aggregate value engaged in transactions in the global financial market in 2007 may be estimated at over 600 trillion US dollars, that is almost ten times more than the value of the Gross World Product for the whole planet.

The current crisis was not caused by the breakdown on the sub-prime loans market in the USA as that was only a fuse of the bomb, whose potential was accumulated as a result of the pathological relationships typical of neoliberalism, which existed for many years. Any interpretation, which shifts the responsibility for the crisis to the crash on the American sub-prime loans market, is either a neoliberal attempt to escape moral, political and intellectual responsibility for bringing the crisis about, or a simplified movement on the surface of the phenomena. It was the gradual weakening of the position of the State and uncontrolled, destructive deregulation that increased the irrationalities in the world economy. It had to bear fruit – if one may talk about any fruit here – in a form of a crisis.

Therefore it was not possible to avoid the crisis three years ago. The attempts made thirteen years ago were not sufficiently powerful or consistent to change the course of events to a favourable end from the point of view of all society on the one hand, and the whole world on the other. But it was possible to avoid the crisis thirty years ago. This apparently general observation gives rise to conclusions, which are fundamental for the future, since by no means is it the last large-scale crisis, which shall affect the world. More will come in the future.

In the short term, the reaction of the immediate policies (fiscal and monetary) to the financial crisis has to be evaluated positively. An increase of the money supply in the conditions of increasingly underutilized production capacities was the right move. Lubricating economies with non-inflation money already brings positive results, from the USA, via Western Europe, to China and Brazil. However, it is only a reaction to the symptoms and consequences of the crisis.

5. - Development Triangle: Values - Institutions - Politics

It is indispensable to reach the systemic sources of the crisis. It is not possible to remove its primary causes without modifying the value system, re-orientating institutions (understood in a behavioural way, which means the rules of the economic market game) and changing the way of conducting policies.

In particular, the values have to move more from “to have” towards “to be”, and greater attention must be paid in economics to cultural conditions and social

surroundings. The targets of development have to be redefined.

It is necessary to introduce fundamental modifications to institutions, within which the world economy (more and more interdependent and emerging as a result of globalisation) functions. The current international institutional arrangement facilitates chaos, rather than global order. The future world economy, which in fact is going to be the interrelated planet's economy, requires institutions enabling political coordination on global scale, as well.

Considering the changing values and new targets emerging in this phase of the civilisation move, it is necessary to apply a different approach to the manner of conducting politics and its instrumentation. Emphasis must definitely move to the layer of supranational coordination.

Therefore, if we truly wish to avoid great crises in the future, it is necessary to move skilfully within the specific triangle of socially, ecologically and economically balanced development. The vertices of the triangle indicate the values, institutions and policies.

A strategy of development and economic policy can be efficient only if it is based on a sound economic theory. The coincidence theory of development, in an unorthodox and holistic way, answers the question about mutual dependencies in long-term development processes. The new pragmatism, on the other hand, is a normative approach, which demonstrates the possibility of creating a better future by following this theory. There are eight main, constitutive characteristics of the coincidence theory of development:

- 1) departure from dogmatism understood as an intellectual corset and a factor that unilaterally influences the search for answers to specific questions;
- 2) avoiding blind subordination to any ideology or political line; instead, searching for objective truth without surrendering to conventional wisdom and consensual truth;
- 3) abandonment of "all-istic" attempts to create a universal theory of economic growth; instead, paying attention to specific features of phenomena and processes integrally related to macroeconomic reproduction;
- 4) interdisciplinary approach enriching economic thinking with considerations from other fields of social sciences, particularly from history, futurology, geography, law, sociology, psychology, management or the web-science;
- 5) wide application of the comparative method of economic analysis;
- 6) moving in the multi-dimension space comprising essentially historic, geographic, cultural, institutional, political, social and specific problem related substances;

- 7) differentiation between targets and measures;
- 8) instrumental flexibility open to multidirectional search for remedies fitting a specific and precise situation.

Therefore pragmatism is needed. Great pragmatism. As little as possible of ideology, but as much pragmatism as possible. It may be easily defined as new pragmatism, since it has to be based on a new approach resulting from the analytical and theoretical understanding presented above.¹⁴ It is new also because it comprehensively takes into consideration the new conditions of running the economy, unprecedented in the past, which emerged as a result of globalisation.

As soon as the coincidence theory of development is adequately developed on the one hand, and specifically focused on individual challenges of development on the other hand, it will create a proper structure for pragmatic activities to be focused on solving specific problems. Therefore, the new pragmatism is postulate formulating (normative), while the coincidence theory of development is an explanatory (descriptive) approach. In fact, we are talking here about an unorthodox theory of economics or, in a wider context, a theory of social sciences focused on practice. In the macroeconomic scale, which contemporary implies the planetary scale, it is a policy or a global development strategy *sensu largo*.

Moreover, the new pragmatism is a logical consequence of the presented line of reasoning, which proves that it is also necessary to apply a new approach to state interventionism. It cannot mean interference in the production processes, but it must come down to an intelligent manipulation of the recognised conditionings of such processes. It must also be a modern institutional interventionism, not dependent only on the current economic situation. Therefore, I do not postulate the new interventionism as a separate feature, since it has to lie across the eight features mentioned above and be consistently supported by them.

That is the fundamental alternative for the neoliberal trend, which has been so much discredited in the context of the present-day crisis. To make sure that neoliberalism goes down to history, just because it belongs there, it is necessary to propose something better instead; something, which is better theoretically and practically. And that is the purpose of the coincidence theory of development and new pragmatism.

¹⁴ See more on this subject in KOLODKO G.W. (2010).

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