

Punctuated Equilibrium, Economy of Impermanence, Economics and Economic Order¹

Abstract: In the face of the global disequilibrium and the unprecedented rate of social and economic change, it is necessary to seek new theoretical models and solutions for the creation of a systemic and regulatory framework for the functioning of the economy in general and companies in particular. Furthermore, such solutions should aim at achieving a symbiosis of economic, social, and environmental progress.

While the global crisis has intensified and heated up the economic debate over a new economic paradigm, still the fundamental, underlying cause of the ongoing changes is the civilizational breakthrough that is unfolding right now. The multi-faceted and profound nature of these changes paves the road for the development of complexity economics, including economics of imperfect knowledge. This, of course, implies a departure from one-sided doctrinarian approaches.

The extreme turbulence in the global economy following the crisis has proven that relying on one universal economic model is untenable. It has also made clear that there is no one perfect or absolute solution to all problems. Due to the complexity of the current developments it seems that the path to be followed is one towards more heterogeneous research and policymaking, if a sustainable economic order and an economic equilibrium system are to be installed and maintained.

The current state of disequilibrium leads to a realization that it is crucial to implement such forms of economic order which would prevent major disturbances to equilibrium in the future. At the same time, it must be remembered that equilibrium may never be final or permanent, as it always tends to veer towards disequilibrium, thus promoting development.

Social market economy, which is based on the concept of ordoliberalism, seems to fit well the description of an equilibrium economic order. However, even this socio-economic model needs to be adjusted to the requirements of the constantly evolving world.

* Warsaw School of Economics, Poland; ela4@wp.pl

¹ This text was published in the Polish version in: *Ekonomia i ekonomici w czasach przełomu*, (Mączyńska, Wilkin, 2010: 59–79), and in: *Zarządzanie konkurencyjnością podmiotów*, (Skawińska, Badzińska, 2010: 9–25).

1. Introduction

The crisis and extreme turbulences in the global economy dramatically emphasize the state of “punctuated equilibrium,” so characteristic of the contemporary world (Thurow, 1999). In this context, a heated debate is taking place over the theory of economics, equilibrium, and economic system models. The debate is focused mainly on the search for economic solutions and regulations which would reduce and effectively counteract the crisis phenomena.

Analyses of the global crisis, which began at the end of 2008 in the USA, indicate errors in economic order policy. Among others, Nouriel Roubini emphasizes that the crisis will determine future solutions, shape the future and decide a framework for economic order (*Crises will figure in our future*) (Roubini, 2010: 6)². Hence the present question about the optimal shape of the economic order and future of the hitherto dominant, neoliberal Anglo-Saxon laissez-faire model of capitalism (*What is the future of the Anglo-Saxon model of unfettered laissez-faire capitalism?*) (Roubini, 2010: 4). The relevant literature emphasizes the need for changes in the economic order aimed at reducing crisis risks³. Well-known German economist Peter Bofinger wonders whether a free-market model of economy can be saved, and why a strong state is now needed (Bofinger, 2009)⁴. The debate over models of economic order involves unprecedentedly sharp disputes about the role of various trends and schools of economics in shaping the economic order. Economists blame each other for mistakes that led to the crisis, economic chaos, and a dangerous breach of equilibrium in the world economic system.

The global crisis has clearly tarnished the reputation of economics as a science (The Economist, July 16, 2009). The very titles of papers published on this issue speak for themselves⁵. The 2008 Nobel Prize winner in economics Paul Krugman asks simply “how did economists get it so wrong” and indicates a dangerous syndrome of casino finance, a shadow banking system, and the related

² “In fact, we believe that understanding and managing crises requires a more holistic and eclectic approach than is perhaps customary. It’s necessary to check ideology at the door and look at matters more dispassionately. Crises come in many colors, and what works in one situation may not work in another,” introduction to Nouriel Roubini’s book. Cf. (Roubini, 2010: 6).

³ “How to reform a capitalism that has delivered serial crises instead of delivering the goods on a consistent and stable basis. Indeed, while market-oriented reforms have taken many emerging market economies out of endemic poverty and underdevelopment, the frequency and virulence of economic and financial crises have increased in both emerging markets and industrial economies”, (Roubini, 2010: 11).

⁴ The institutional framework is often compared to a sort of cage, which was vividly illustrated by a manager: “When the tiger leaps into the wild and wreaks havoc only a lunatic would condemn it. In fact, the one to blame is that idiot who has allowed the tiger to escape.” *Forum* weekly, 9–15.08.2010, no. 32, p. 3.

⁵ This issue was presented at greater length by (Mączyńska, 2009a).

“return to depression economics” (Krugman 2009a). In his book titled *The Return of Depression Economics and the Crisis of 2008*, (Krugman 2008). Krugman examines the financial crises that took place in the global economy in recent years and places blame primarily on the neo-liberal doctrine and representatives of the so-called Chicago school (Krugman, 2009b). This criticism is joined by other Nobel Prize winners, including Joseph Stiglitz, (Stiglitz 2006). George Akerlof, and Robert Shiller (Akerlof, Shiller 2009). However, the criticism of neoliberalism and the Chicago School invited an acute retort or even a reprimand on the part of academia and beyond. However, one of the defenders of the doctrine was Robert Lucas (Lucas 2009). Krugman’s views were given a particularly sharp response from a finance professor, John H. Cochrane (Cochrane 2009) a representative of the Chicago School. (*How did Paul Krugman get it so Wrong?*). Krugman is also accused of excessive, uncritical belief in state intervention (*Still looking for a free lunch*) (Leith 2008). In Poland, the debate was joined by Stanisław Gomulka, who shared this opinion (Gomułka 2009).

The debate over economics clearly emphasizes that “no theory today is better than another.” This was observed by Robert Skidelsky, a professor of economics and a member of the British House of Lords, who noted that “Chicago School economics has never been more vulnerable than it is today – and deservedly so.” (Skidelsky 2009).

These disputes show how important it is to answer the question about the shape of systemic solutions in a globalized world – solutions and regulations that would stabilize national economies and the global economy. (*How will globalization affect the probability of future crises? How will we resolve the global imbalances that helped create the recent crisis? How, in other words, will we reform global capitalism?*) (Roubini 2010: 11).

The paper presents selected relationships between the global crisis, punctuated equilibrium, theory of economics, and the model of economic order.

2. Punctuated Equilibrium, Crisis and Post-Industrial Economy of Impermanence

The breadth and depth of the global crisis at the end of the first decade of the 21st century gives rise to the question whether this crisis can be explained in terms of a typical, “genetic” feature of the business cycle, that is, the “highs and lows” inherent in the market economy with its sinusoidal trend course. Such a view would be justified if it was not for the fact that the current downturn coincides with a technological and civilization breakthrough; a change of the very paradigm (pattern) of development. This trend manifests itself in the industrial civilization being superseded by a vaguely defined post-industrial civilization, an IT-civilization or a knowledge-based economy.

We live simultaneously in two eras, although few people realize it. One of these eras, already in its terminal stage, is capitalism. The other one, related to the IT revolution, is the era of the Internet. In the former, the top of the social pyramid was occupied by factory owners and bankers, and the bottom – by the proletariat. In the coming era, the top echelons of power belong to a small but extremely wealthy netocracy. At the bottom of this social pyramid we find consumerism, (Bard 2006:x) or the lowest social class comprising of socially excluded, digitally-illiterate people. As a result of the growing dynamics of global change, the economy is gradually becoming akin to an “economy of impermanence.” (Toffler A., Toffler H. 2003). This holds not only for technologies and products, but also for jobs, communication, production, trade, education, and even for models of family and professional careers. The growing dynamics of technological development indicates that this trend of impermanence is going to persist. This in turn raises the likelihood of economic disruptions and crises, which is confirmed by the fact that in the last 30 years we have witnessed about a hundred bank crises (Wolff 2008).

In analyzing the current dysfunctions of the global economy and the eroded value system, too little thought seems to have been given to the challenges resulting from the civilization breakthrough and ongoing deindustrialization. Ignoring the clash of two different civilization paradigms may prove very dangerous, as it is evocatively pictured by Samuel P. Huntington: “Far more significant than economics and demography are problems of moral decline, cultural suicide and political disunity in the West.” (Huntington 2004: 536) This situation poses a threat to the sustainability of development, especially that in studying recent developments researchers do not pay sufficient attention to the fact that the ongoing crisis of the value system, ethics, and trust reflects a much broader crisis of the whole industrial civilization (Toffler 2003).

The multitude of development opportunities provided by the modern world casts a shadow of rising social trauma, increasing uncertainty, and a diminishing sense of security, accompanied by a crisis of trust (Sztompka 2005 and Sztompka 2007). Over the past few decades, the increasing detachment of the financial sector and financial flows from the real economy has greatly contributed to the crisis of trust, which in itself may be the origin of the crisis (Tapscott, Williams 2008). John Bogle, an expert in the financial world, ranked by Fortune magazine among the most influential people in the US business world, observes: “Over the past two centuries, our nation has moved from being an agricultural economy, to a manufacturing economy, to a service economy, and now to a predominantly financial economy. But our financial economy, by definition, deducts from the value created by our productive businesses.” (Bogle 2009: 46–47). Although the author of this opinion does not question the value added by the financial sector (such as creating jobs), but he also points out that the more the financial system takes, the less is earned by the investor – the basic “breadwin-

ner” of the existing , very costly “food chain” of finance and investing. This indicates the necessity to rationalize the functioning of the financial sector in accordance with macroeconomic efficiency, because in its current form, the financial system subtracts value from our society.” (Bogle 2009: 24–48). Perhaps this is one of the reasons why, despite the huge and growing productivity potential in the new economy, for many years we have seen the syndrome of dwindling economic growth in the world’s developed economies. In reference to these issues, John Bogle concludes that: “We have moved to a world where far too many of us seemingly no longer make anything; we’re merely trading pieces of paper, swapping stocks and bonds back and forth with one another, and paying our financial croupiers a veritable fortune. In the process, we have inevitably added even more costs by creating ever more complex financial derivatives in which huge and unfathomable risks have been built into the financial system.” (Bogle, 2009: 38. Speaking of the current crisis and the behavior of transnational corporations, including banks, Bogle concludes by paraphrasing Winston Churchill’s aphorism: “Never has so much been paid to so many for so little.” (Bogle 2009: 38). He also stresses that “we live in wonderful and sad times – wonderful in that the blessings of democratic capitalism have never been more broadly distributed around the globe, sad in that the excesses of that same democratic capitalism have rarely been more on display. We see the excesses most starkly in the continuing crisis . . . in our overleveraged, overly speculative banking and investment banking industries (Bogle 2009: 1–2, 38).

The turbulence of recent developments and the ambivalence of assessments passed on them inevitably translate into a re-evaluation of the theory of economics.

3. New Trends in the Theory of Economics

In response to economic developments, new trends are gradually emerging in the theory of economics, not yet fully defined, constituting a transdisciplinary field of *complexity economics*.

According to Andrzej Wojtyna, the “ferment” in economics, and the way how economics reacts to the allegations leveled against it, is manifested in the fact that “on the one hand, the concept of *homo economicus* is being thoroughly reconstructed, primarily in behavioral economics. On the other hand, the set of studies that are collectively grouped under the umbrella term complexity economics, is challenging the traditional understanding of equilibrium and of the dynamics of economic systems. . . . There are signs that the ongoing changes may in the long run revolutionize not only the scope (subject) of economics, but also the manner (method) in which it is practiced. One must be very careful when defining changes as revolutionary and not only because of the . . . impact of ideological factors or simple ignorance of the critics, but also because of the

substantial adaptability of mainstream economics. Then, revolutionary changes are not necessarily a symptom of a crisis, but may indicate the 'vitality' of economics." (Wojtyna, 2008).

The global crisis has aggravated disputes over the theory of economics and its correspondence to reality and over the practical utility of basic economic doctrines in long-term shaping of economy. Research on the subject demonstrates that the optimal principles for one economy and one economic reality may be ineffective for another, which should be taken into account in shaping the economic system and economic policy. Edmund S. Phelps, Nobel Prize winner in economics, points out that such an approach is an important advantage of *imperfect knowledge economics*⁶, a concept formulated by Roman Frydman and Michael D. Goldberg. These authors show that in an era of a knowledge-based economy, we are in fact dealing with imperfect knowledge economics, or, uncertain knowledge (Frydman, Goldberg 2007: xiii). Under such conditions, the truth is imperfect and certainty is untrue.

Economics is a science based on the study of certain regularities and patterns. However, under conditions of dynamic changes, these patterns are becoming increasingly difficult to identify. Therefore, it is necessary to change the approach of economic sciences and shift emphasis from quantitative analysis and mathematical modeling to qualitative analysis. Indeed, mathematical models are based on certain assumptions and regularities. Thus, in the face of rapid changes, the usefulness of these models is limited. As pointed out by Robert Shiller, the models that standard economics employ for testing, analyzing and forecasting the market do not take into account the existence of speculative bubbles. "That's why analysts lose orientation when the bubble size becomes dangerous, and are quite lost when the bubble bursts, triggering the crisis. The economists that practice so-called neoclassical economics cannot understand the mechanism of financial bubbles because neoclassical economics assumes that the market is a place where rational players will take knowledge-based decisions and determine rational value of goods." (Żakowski 2009).

The recent debates on the theory of economics show not only the growing importance of qualitative analysis, but also the risks resulting from the underestimating the history of economic thought. George Akerlof and Robert Shiller, analyzing the causes of the current economic crisis and economic degeneration, expose negative consequences of neglecting historical experience, including lessons from the Great Depression in the interwar period. In their book, *Animal Spirits*, considered as a lecture on a new trend in economics, so-called behav-

⁶ "Another hallmark of the imperfect knowledge view is its qualification of fixed policy rules. The necessary point is that the optimum rule is not the same from one structure of the economy to another. As with the rest of macroeconomics, the issues have to be rethought in a way that makes the ever-imperfect knowledge of market participants and policymakers an integral part of the analysis" – Edmund S. Phelps' introduction to : (Frydman, Goldberg, 2007: xiii).

ioral economics, or psycho-economics, the authors combine Keynesian theory with the achievements of other scientific disciplines such as sociology, social psychology, pedagogy, and even neurology, anthropology, and others (Akerlof, Shiller 2009).

The role of historical experience had been previously shown by Henry Hazlitt, a representative of the Austrian School of Economics: “many of the ideas which now pass for brilliant innovations and advances are in fact mere revivals of ancient errors, and a further proof of the dictum that those who are ignorant of the past are condemned to repeat it” (Hazlitt, 1993: 9).

The new trend of research also points to the necessity of extending the research perspective, while the neo-classical and neo-liberal doctrine marginalize futuristic issues. Under that doctrine, in fact, the future is left to be controlled by the free market mechanism. The negative consequences of such an approach are proved by the current crisis. In practice, this translates into a kind of “the terror of short-term earnings”, spectacularly described by Michael Lewis, an expert in securities trading on Wall Street, in his latest book *The Big Short: Inside the Doomsday Machine* (Lewis 2010).

The marginalization of the short-term approach is also reflected in the response of economic decision-makers to the current crisis. To a greater or lesser extent, the crisis is treated as an accident. It would seem therefore that all you need to do to survive the tough times of crisis is just try a little harder. Peter Bofinger likens this reaction to a patient with myocardial infarction who believes that after recovery he will be able to have exactly the same kind of lifestyle as before the heart attack. We know how it ends (Bofinger 2008).

The importance of a long-term perspective in economic theory, as a tool for shaping the economy and its future, is clearly expressed by Henry Hazlitt: “the art of economics consists in looking not merely at the immediate but at the longer effects of any act or policy; it consists in tracing the consequences of that policy not merely for one group but for all groups.” (Hazlitt 1993: 17).

At the same time, as it is stressed by Roman Frydman, “in social sciences – and economics is one of them – one can never be sure. Anyone looking for a universal certainty is by nature of things doomed to failure. . . . Even the most prominent experts will not free us from uncertainty. . . . You cannot create a sensible economics abstracting from the unpredictability of human reactions to signals, information, instruction, and incentives.” (Żakowski 2008) According to Frydman, if increased uncertainty and volatility is characteristic of modern times, we must acknowledge that error is a natural state, because then, paradoxically, the chances of minimizing errors increase.

The 2009 Nobel Prizes in economics provoke reflection on the unreliability of theory and the risk of errors resulting from this unreliability. Elinor Ostrom, USA, was awarded Nobel Prize (with Oliver Williamson) for research into economic management. She challenged the general assumption that common prop-

erty has always been inefficiently and unreasonably managed and thus she also challenged the thesis that privatization is the only effective way (Ostrom 2005: 298).

Therefore, a complex problem arises here as to what will be the role of economic theory and various “economic schools” in the process of changes. This question is even more important as economists and economic theories are blamed for the dysfunctions occurring in the economy and because economists have failed to foresee and prevent the current crisis (as well as other crises) (*What went wrong... The Economist*, July 16, 2009)⁷. Also, economists have been accused of sticking to the “old school” and ignoring changes in the economy.

The problem of conservatism of economists and economics was long ago discussed by John K. Galbraith, who claimed that “pondering over the future of economics, [Keynes] did not sufficiently take into consideration the attachment of traditional economists to classical values and notions, or how they were going to be verified and justified in the light of the ongoing changes.” (Galbraith, 1992) Their main strength lies in the fact that they primarily cater to long-standing professional and economic interests. “Holding economics in the classical or neoclassical tradition, there is, first of all, the vested intellectual commitment to established belief. This is a powerful constraint. Few economists wish to reject what was accepted in their earlier education and subsequently defended and elaborated in their own teaching, writing and scholarly discourse. To abandon what they have learned and taught is to admit to earlier error; this we all resist. As we do, it may be added, the demanding thought required in accommodating to change. The latter, economists, far from uniquely, find inconvenient, even painful” (Galbraith 1992: 298).

The lasting strength of Galbraith’s classical theory is also attributed to the power of economic interests and the usefulness of this theory in solving the problem of power in economy and politics. If in fact, in line with premises of classical economics, the economy is governed by the market, in the process the problem and allegation of abuse of power disappear, and the criticism of authority is perceived and explained as a struggle with the market. According to Galbraith, “Also holding the subject to the past and to the classical model is, as it may be called, the technical escape from reality. The central assumption of classical economics – pure competition in the market extending on from the prices of products to the pricing of the factors of production – lends itself admirably to technical and mathematical refinement” (Galbraith 1992: 299–300).

⁷ “Economists need to reach out from their specialised silos: macroeconomists must understand finance, and finance professors need to think harder about the context within which markets work. And everybody needs to work harder on understanding asset bubbles and what happens when they burst. For in the end economists are social scientists, trying to understand the real world. And the financial crisis has changed that world”. (*What went wrong... The Economist*, July 16, 2009).

Therefore, the question arises whether in the current situation of increased uncertainty in the economy, ambivalence of quantitative measurement of economic phenomena, and the increased importance of non-quantifiable and qualitative factors, the neoclassical economics may remain the dominant trend – or whether and to what extent will it be superseded by other trends, including “imperfect knowledge economics”. The question remains unresolved for now, but the turbulence and complexity of contemporary economic transformations in the world, makes one think that economics will inevitably develop in the direction of greater heterogeneity and hence inevitable changes in the paradigm of the discipline will occur. These changes have already been initiated and mainly concern methodology, including methods of measuring economic growth. The unreliability of classical measures becomes more and more evident. The basic measure of economic development, that is the gross domestic product (GDP) indicator, fails. Therefore, new measures of development, prosperity, and quality of life are being sought after, and recently one is the Gross National Happiness Index (GNH) was proposed as an indicator of gross national happiness. Grzegorz W. Kołodko encourages investigating this direction and offers his own “Integrated Index of Socio-Economic Wellbeing (ZIP).” (Kołodko 2008: 272)

Punctuated equilibrium of the socio-economic system affects also the global economic system. The fact that the world is in a state of punctuated equilibrium manifests itself e.g. in the global crisis, and also in the growing contrast between the extremes of wealth and poverty, not to mention the disturbed ecological balance. All of this dramatically decreases our living comfort. Paradoxically, this also applies to the majority of the richest countries. Not only does wealth fail to protect us against the negative consequences of punctuated equilibrium, especially in terms of ecology, but the damage done to the environment leads to ecological devaluation and dispossession (Beck 2002: 51 et seq).

The economic crisis has dramatically exposed the disequilibrium between finances and the real sphere of economy, while revealing the imbalance between the short- and long-term perspective and the unsuitability of the economy to meet future challenges. Clearly lacking were a strategic vision, imagination, and futuristic analysis (Wierzbicki). As it is underscored by Thurow, social and economic systems, like biological ones, “are entering the period of punctuated equilibrium with slowly evolving but firmly established structures. They emerge from periods of punctuated equilibrium with radically different structures that once again begin slowly evolving” (Thurow 1999)⁸.

⁸ According to Lester C. Thurow, the punctuation of equilibrium is caused by simultaneous “tectonic” shifts of five “economic plates”, i.e. the underlying forces of transformation. These forces are as follows:

- the collapse of communism, which (pursuant to the pendulum theory) gave rise to, among others, uncritical trust in the neoliberal doctrine;
- economy based on intellectual capital; a knowledge-based economy;

Therefore, the question arises in what direction will models of economic system in particular countries evolve and how the profound ongoing global crisis will affect this evolution.

4. In Search of a Sustainable Economic Order

Economic history shows that every change in the civilization pattern resulting from technological breakthroughs has been followed by a crisis and destruction of the old system in favor of a new one. Therefore, the agricultural civilization brought about feudalism, while the industrial one – capitalism, with all its subsequent modifications. A change in the economic system meant both a shift in social stratification and, characteristically, in the tools, methods, and type of message of social communication. After the feudal lords, there came capitalists, and feudal peasants were replaced by the proletariat. The transformation of feudalism into capitalism was coupled with shifting from the era of handwriting to the era of the printing press. Nowadays, the post-industrial civilization is an era of a digital language which has seen the emergence of a new, top stratum of society, i.e., so-called “digital netocracy” – with consumtariat as the lowest social stratum (Bard 2006).

Therefore, the question arises: is this new, post-industrial civilization going to bring about a new socio-economic system and if so – of what kind? The question is all the more important because of the present, growing disorder in forming the world economy despite warnings and admonitions formulated by intellectuals representing various fields of science, including economists, sociologists, and others. At the same time, the complexity of the modern world undermines the merits of contenting oneself with one model or one economic concept and points to the merits of heterogeneity. John Kenneth Galbraith stressed that “Economics is not, as often believed, concerned with perfecting a final and unchanging system. It is in a constant and often reluctant accommodation to change. Failure to recognize this is a formula for obsolescence and for accumulating error.” (Galbraith 1992: 313) This statement can also be applied to categories of “equilibrium” and economic system. These categories never imply an ultimate or permanent state. With time, the equilibrium always evolves into disequilibrium, thus promoting growth and change in the economy.

In times of increasing complexity and transformation, heterogeneity in economics may be an accelerator of development. Back in 1859, John Stuart Mill wrote: “What has made the European family of nations an improving, instead of

-
- demographics, including rapid population growth in the poorest countries, increased mobility, and ageing societies;
 - increased globalization and the related complexity and obscurity of economic solutions;
 - the world without a dominating superpower, which is reflected in the gradual loss of its global hegemony by the USA (Thurow, 1999: 17).

a stationary portion of mankind? Not any superior excellence in them, which, when it exists, exists as the effect, not as the cause; but their remarkable diversity of character and culture. Individuals, classes, nations, have been extremely unlike one another: they have struck out a great variety of paths, each leading to something valuable; and although at every period those who travelled in different paths have been intolerant of one another, and each would have thought it an excellent thing if all the rest could have been compelled to travel his road, their attempts to thwart each other's development have rarely had any permanent success, and each has in time endured to receive the good which the others have offered.”(<http://prawo.uni.wroc.pl/~kwasnicki/Cytaty>) This implies that a multitude of ways and concepts may be the source of comprehensive development.

When applying economic theories in practice, it is necessary to adapt them to reality. Therefore, different theoretic concepts may be useful under different conditions. There is a good reason behind the present recourse to Keynesianism, because Keynesianism is a concept “for the hard times of crisis”.

There is a clear trend in complexity economics towards diversity of economic concepts and their applications. This view is also shared by Grzegorz Kołodko, a Polish economist and former Prime Minister (Kołodko 2008), and by Immanuel Wallerstein, an American sociologist, historian, and economist, and the author of the world-systems theory. In his book published nearly 10 years ago, *The End of the World as We Know It*, Wallerstein tried to prove that the modern world-system “has entered into terminal crisis and it is unlikely to exist in fifty years.” (Wallerstein 2004: 27, 151) Similar conclusions and warnings were formulated by Alvin Toffler in his futuristic works *Future Shock* (Toffler 1998) and *Powershift* (Toffler 2008 and Sztompka 2005).

Under conditions of the global crisis and civilization breakthrough as well as evident symptoms of disorder in the global economic system, the question about the optimal economic system becomes particularly significant, not only in countries transforming their political and economic systems, but also in those where the market economy is decades or even centuries old. The economic system is at the same time one of the fundamental factors influencing the quality of government and governance at every level: from the local, to the national, to the supranational one. Furthermore, the economic system provides a framework for the public sector.

Unfortunately, economic history provides ample evidence (to be found in various geographical regions and periods) of how costly mistakes in designing the economic system may be and often are (Failures ..., *The Economist* 2007)⁹.

⁹ “Lucky the city with a decent government. Not all happy cities resemble one another, but each unhappy city is at least partly unhappy for a single reason: misgovernment. The quality of government, local and national, is the most important factor, apart from the economy, in the success (of a city)”, (Failures ..., *The Economist* 2007).

Nowadays many believe that the underlying causes of the malfunctioning of the economy can be attributed to the erroneous systemic policy, which almost uncritically embraced the neoliberal doctrine. Characteristically, such opinions are shared also by those who until recently advocated neoliberalism (Roubini, 2010: 9).¹⁰ One of them is Jeffrey Sachs, who argues that “we were trapped between two voluntaristic utopias. One of them sanctifies the market and the other – society. The majority of people were led to believe that the government could not help them, and even if it promised to do so, it would still waste everything. Now much time will pass by the time they realize anew that there can be neither good society nor an efficient economy without a strong state.” (Żakowski 2009b) A similar opinion is also expressed by Bofinger, who stresses how important it is to effectively balance the role of the state and the market in the economy (Bofinger 2009, Bofinger 2010).

Also J. K. Galbraith points to the sources of dysfunctionality inherent in the neoliberal system. He takes note of the discrepancy between reality and “conventional wisdom”, and the unprecedented influence of the private sector on the public one, which is hazardous for the economy, entrepreneurship and efficient governance. In addition, Galbraith warns against the power of international corporations and against the shift of power from shareholders and board members to management (Galbraith 2005).

On the other hand, Maciej Bałtowski observes how capitalism is dangerously veering towards socialism, which brings to mind the argument of Joseph Schumpeter (1942) about the transition of capitalism into socialism (Schumpeter, 1995:76). However, as opposed to J. Schumpeter, who said that capitalism was not going to survive and the ongoing transformation of capitalism into socialism was determined not by its failures but by its successes, Bałtowski points out to capitalism’s failures. He says that “over the last several dozen years free market capitalism has been evolving towards a system having certain characteristic features of a socialist economy, even though this peculiar evolution may have been hard to notice at a first glance.” (Bałtowski 2009: 2) This is manifested, *inter alia*, in the “doctrinal foundations of the economic system.” At the same time, Bałtowski warns that too much faith was placed in the dogma of global regulation of the economy. He states that certain general conclusions should be drawn from the experience of the socialist economy concerning the way the global regulators function. It is important not to substitute the market – which always leads to various adverse effects – but to focus on reducing market failures. “If the global regulator is utterly convinced of its wisdom and omnipo-

¹⁰ The level of intervention necessary to stabilize the system challenges the sustainability of traditional *laissez-faire* capitalism itself; governments may end up playing a much larger direct and indirect role in the post crisis global economy, via increased regulation and supervision. Cf. (Roubini 2010: 9).

tence, and does not curb its constructivist inclinations and excessive anthropological optimism, it will doubtlessly end up in a position similar to the central planner in the socialist economy. The only way out, it seems, is to let the global regulators act in accordance with the logic of the market, or 'marktkonform', as it is proposed by the German theory of social market economy." (Bałtowski 2009: 5).

This assumption is all the more important because it refers to the constitutional model of the Polish economy, that is, the social market economy. It is also important because systemic dilemmas affect not only Poland, but the entire European Union, and the whole world. Poland is a good illustration of how difficult it is to find the right solutions for designing an economic system. More than twenty years into Poland's economic transformation (which was initiated in 1989), the issues of the economic and political system have yet to reach a satisfactory solution, even though the constitution of Poland recognizes social market economy as the official economic system. (*The Constitution ...*item 483). The Treaty establishing a Constitution for Europe also states that the sustainable development of the European Union is to be based on the social market economy, which was further reiterated by the Lisbon Treaty amending the Treaty on European Union and the Treaty establishing the European Community¹¹.

In view of the dysfunctions of the political and economic order which have emerged due to the global crisis, the idea of social market economy is becoming even more attractive, as it is founded on ordoliberal theory, which in turn refers to the notion of "ordo," dating back to the ancient Roman Empire. The essence of the notion lies in designing an order which would suit the human nature and ensure economic sustainability (Pysz 2008). In ancient Roman philosophy, the Latin term *ordo* was understood as a state of affairs characteristic of a civilized society in which autonomous individuals are free to conduct transactions without any interference, within the framework of universal legal rules (Streit, Wolfgang 1995: 113). Ordo is traditionally interpreted as standing in opposition to anarchy and chaos, having a normative nature and aiming at a desired state. The current financial crisis has to some extent proven the relevance of social market economy. Characteristically, the crisis hit the mightiest markets of the capitalist world, and primarily the USA and Great Britain. On the other hand, countries with the so-called Nordic economic system, which are using the social market economy in practice, have been less affected.

Although there is also some controversy as to the social market economy, analysis of its features indicates that it offers a chance to lay solid foundations

¹¹ The Treaty establishing a Constitution for Europe, Official Journal of the European Union no. C 310, vol. 47, December 16, 2004. Treaty of Lisbon amending the Treaty on European Union and the Treaty Establishing the European Community, ratified in Lisbon on December 13, 2007, amendments to the Treaty on European Union and to the Treaty establishing the European Community, Official Journal of the EU, C 306, vol. 50, December 17, 2007, art. 2, pt. 3.

for the coherence and sustainability of social and economic development (Maćzyńska, Pysz 2007). The ideas underpinning the social market economy are characterized by holism, or comprehensive consideration of the individual components making up the extremely complex structure of the political and economic order. (Maćzyńska, Pysz 2003)(Maćzyńska 2008). J. Sachs offers a new method of resolving socio-economic problems, which he describes as “clinical economics,” (Sachs 2006) but as a matter of fact it reveals very clear references to the concept of the social market economy. Sachs’ clinical economics is indeed a holistic approach (modeled on holistic medicine) combining economic and social aspects. Also P. Krugman, a Noble Prize winner in economics, criticizes the one-sidedness of the neoliberal doctrine and underscores the need to apply a holistic approach in shaping the economic system, thus indirectly opting for Erhard’s social market economy. (Erhard 1957) (Krugman 2008) (Häntzschel 2008)

Ordoliberalism, on which the concept of social market economy is based, was developed in Germany in the 1930s and 1940s. The principal theoreticians of ordoliberalism were Franz Böhm, Alexander Rüstow, Wilhelm Röpke, Walter Eucken and Alfred Müller-Armack. The ordoliberal theory concerns the conditions of national economy. Today, its usefulness is determined by its ability to adjust to the requirements of global and transnational economy as well as to the dynamic and ever more complex economic and institutional structures.

However, the prerequisite for an effective implementation of the ordoliberal concept of the social market economy is its adjustment to the unprecedented ongoing dynamic changes in terms of technology, society, and economy.

5. Conclusions

The “punctuated equilibrium” and volatility so characteristic of the modern-day world, force us to seek new theoretical concepts and solutions with a potential for the symbiosis of economic, social and ecological development. The ideas underpinning the social market economy constitute a model for such a symbiotic approach. They are not new, but the recent developments seem to confirm their validity increasingly often. The social market economy model includes not only economic, but also social and ecological aspects, which makes it possible to alleviate economic inequalities and social tensions. However, this particular model also requires accommodating to the volatile economic conditions, and above all to the shifting (due to globalization) areas of power and decision-making competence.

The future will show if, and to what extent, the ideas of social market economy will be useful in practice. The question arises, though, about the scope, forms and conditions of such use. Instead of a reply, I will use the question posed by Thurow: “How is a capitalistic system to function in a brainpower era

when brainpower cannot be owned?” (Thurow 1999:16). Another question arises as to what model of a political and economic order would be best suited to the optimum use of brainpower? This leads to yet another difficult problem, namely, what would be the role of economic theory in general and of the various “economic schools” in the process of changes.

I leave these questions open for further reflection and discussion. The need for a discussion with futurological reflections becomes increasingly evident. Although Fukuyama’s “end of history” proposition and the neo-liberal doctrine on principle marginalize futurological considerations, leaving the future to be regulated by the free market mechanism, today – in the face of the many difficult problems of the world – more and more people tend to recognize the need to think about the future, take action for the sake of the future, and adopt a culture of strategic thinking. (Toffler 1998: 443).

The dynamic changes in the global economy necessitate a shift in the paradigm of economics and the strengthening of its function as a social science. This means that economic laws cannot disregard social aspects, and hence the need for a holistic, interdisciplinary, and heterogeneous approach in economics.

Although the current global crisis has intensified and sharpened the economic debate on the shift in the paradigm of economics, it is the ongoing civilization breakthrough that underlies the transformation. The multidimensional nature of the civilization breakthrough and the depth of the transformation provide an open field for the development of “complexity economics” and an imperfect knowledge economy, which implies the elimination of a doctrinal, dogmatic, and one-sided approach. This also demonstrates the unreliability of following one universal economic model or solutions claiming a monopoly on the truth. Due to the complexity of the current developments it seems that the path to be taken is one towards more heterogeneous research and policymaking for the development of a successful economic system.

References

- Akerlof, G.A., Shiller R.J. (2009), *Animal Spirits: How Human Psychology Drives the Economy, and Why It Matters for Global Capitalism*, New Jersey: Princeton University Press.
- Bałtowski, M. (2009), *Gospodarka socjalistyczna w Polsce. Geneza, rozwój, upadek*, Warsaw: WN PWN.
- Bard, A. (2006), *Netokracja i konsumtariat, czyli nowy podział społeczny w epoce internetu*, (<http://www.teberia.pl/news.php?id=5250>).
- Bard, A., Söderqvist, J. (2006), *Netokracja: Nowa elita władzy i życie po kapitalizmie*, Warsaw: Wydawnictwa Akademickie i Profesjonalne.
- Beck, U. (2002), *Spółczesność ryzyka. W drodze do innej nowoczesności*, Warsaw: Scholar, 51 et seq.

- Bofinger, P. (2008). *Czeka nas epokowa zmiana*, Forum weekly, no. 41.
- Bofinger, P. (2009). *Ist der Markt noch zu retten? Warum wir jetzt einen starken Staat brauchen*, Düsseldorf: Econ Verlag.
- Bogle, J.C. (2009). *Enough. True Measures of Money, Business, and Life*, New York: Wiley.
- Cochrane J.H. (2009), How did Paul Krugman get it so Wrong?, <http://modeledbehavior.com/2009/09/11/john-cochrane-responds-to-paul-krugman-full-text>, 11.09.2009.
- Erhard, L. (1957), *Wohlstand für Alle*, Duesseldorf: Econ Verlag.
- Failures at the Top*. The Economist (May 3, 2007).
- Forum (2010) weekly, 9–15.08. no. 32, 3.
- Frydman, R., Goldberg M.D. (2007), *Imperfect Knowledge Economics: Exchange Rates and Risk*, Princeton University Press, New Jersey.
- Galbraith, J.K. (1992), *Ekonomia w perspektywie. Krytyka historyczna* (Economics in Perspective: A Critical History), Warsaw: PWE.
- Galbraith, J.K. (2005), *Gospodarka niewinnego oszustwa. Prawda naszych czasów*, (The Economics of Innocent Fraud: Truth for Our Time), Warsaw: MT Biznes.
- Gomułka S. (2009). *Krugman, diagnozując przyczyny kryzysu, pomija znaczące zjawiska*, Obserwator Finansowy, (<http://www.obserwatorfinansowy.pl/2009/10/15/wywiad-z-prof-gomolka/?k=debata>).
- Häntzschel, J. (2008), *Nie jesteśmy centrum wszechświata*, Forum weekly, no. 30.
- Hazlitt, H. (1993), *Ekonomia w jednej lekcji* (Economics in One Lesson), Kraków: Znak-Signum.
- <http://prawo.uni.wroc.pl/~kwasnicki/CytatyEkon.htm>.
- Huntington, S.P. (2004), *Zderzenie cywilizacji* (The Clash of Civilizations), Warsaw: Muza.
- Kołodko G.W. (2008), *Wędrujący świat*, Warsaw: Prószyński i S-ka.
- Krugman, P. (2008), *The Return of Depression Economics and the Crisis of 2008*, New York: W.W. Norton & Co Inc.
- Krugman, P. (2009a), *How Did Economists Get It So Wrong?* "New York Times", September 2nd.
- Krugman, P. (2009b), *It's the Stupidity Economy*, (<http://krugman.blogs.nytimes.com>).
- Leith, W. (2008), *Still Looking for a Free Lunch*, The Guardian, December 27.
- Lewis, M. (2010). *The Big Short: Inside the Doomsday Machine*, New York: W.W. Norton & Company.
- Lucas, R. (2009), *Robert Lucas on Economics*, The Economist, August 6.
- Mączyńska, E. (2008), *Ład gospodarczy. Pochwała "ordo"* [in:] Jarmołowicz, W., Rajtaczak, M. (eds.), *Liberalizm we współczesnej gospodarce*, Poznań: Wydawnictwo Akademii Ekonomicznej.
- Mączyńska, E. (2009a), *Dylematy kształtowania społeczno-gospodarczego ładu przyszłości*, [in:] Kleer J., Mączyńska, E., Wierzbicki, A. (eds.), *Co ekonomiści myślą o przyszłości*, Warsaw: PAN.
- Mączyńska, E. (2009b), *Ekonomia u przełom cywilizacyjny. Pytania otwarte*, Studia Ekonomiczne, Warsaw: INE PAN, no. 3–4,

- Maćczyńska, E., Pysz, P. (2003) (Eds.), *Spoleczna gospodarka rynkowa. Idee i możliwości praktycznego wykorzystania w Polsce*, Warsaw: PTE.
- Maćczyńska, E., Pysz, P. (2007), *Czym jest a czym nie jest "spoleczna gospodarka rynkowa" Meandry interpretacyjne*, Interview with Horst Friedrich Wunsche, Ph.D. – managing director of Ludwig Erhard Foundation, in *Nowe Życie Gospodarcze*, issue 5.
- Maćczyńska, E., Wilkin, J. (Eds.) (2010), *Ekonomia i ekonomiści w czasach przełomu*, Warsaw: Polskie Towarzystwo Ekonomiczne.
- Ostrom, E. (2005), *Understanding Institutional Diversity*, Oxford: Princeton, 298.
- Pysz, P. (2008), *Spoleczna gospodarka rynkowa. Ordoliberalna koncepcja polityki gospodarczej*, Warsaw: WN PWN.
- Roubini N., Mihm S. (2010), *Economics – a Crash Course in the Future of Finance*, New York: The Penguin Press.
- Sachs, J. (2006), *Koniec z nędzą. Zadanie dla naszego pokolenia (The End of Poverty: Economic Possibilities for Our Time)*, Warsaw: WN PWN.
- Schumpeter, J.A. (1995), *Kapitalizm socjalizm demokracja*, Warsaw: PWN.
- Skawińska, E., Badińska E. (eds.) (2010) *Zarządzanie konkurencyjnością podmiotów*, Poznań: Wydawnictwo Politechniki Poznańskiej.
- Skidelsky R. (2009), *Keynes versus the Classics: Round 2, Robert Skidelsky's official website*, October 13th.
- Stiglitz, J.E. (2006), *Szalone lata dziewięćdziesiąte 'The Roaring Nineties'*, Warsaw: WN PWN.
- Streit, M.E., Wolfgang, K., (1995), *Das institutionelle Fundament von Freiheit und Wohlstand – Lektionen der "Freiburger Schule"*, [in:] *Freiburger Beiträge zur Ordnungsökonomik*, ed. M.E. Streit. Tübingen, 113.
- Sztompka, P. (2005), *Trauma wielkiej zmiany. Społeczne koszty transformacji*, Warsaw: Instytut Studiów Politycznych PAN.
- Sztompka, P. (2007), *Zaufanie. Fundament społeczeństwa*, Kraków: Znak.
- Tapscott, D., Williams A., (2008), *Wikinomia. O globalnej współpracy, która zmienia wszystko Wikinomics: How Mass Collaboration Changes Everything*, Warsaw: Wydawnictwa Akademickie i Profesjonalne.
- The Constitution of the Republic of Poland of April 2, 1997*, *Journal of Laws (Dz. U.)* no. 78, item 483.
- The Treaty establishing a Constitution for Europe*, *Official Journal of the European Union* no. C 310, vol. 47, December 16, 2004.
- The Treaty of Lisbon amending the Treaty on European Union and the Treaty Establishing the European Community, ratified in Lisbon on December 13, 2007*, amendments to the Treaty on European Union and to the Treaty establishing the European Community, *Official Journal of the EU*, C 306, vol. 50, December 17, 2007, art. 2, pt. 3.
- Thurow, L., (1999), *Przyszłość kapitalizmu: Jak dzisiejsze siły ekonomiczne kształtują świat jutra The Future of Capitalism: How Today's Economic Forces Shape Tomorrow's World*, Wrocław: Wydawnictwo Dolnośląskie.
- Toffler, A. (1998), *Szok przyszłość Future Shocki*, Poznań: Zysk i S-ka.
- Toffler, A. (2003), *Zmiana władzy. Wiedza, bogactwo i przemoc progu XXI stulecia (Powershift: Knowledge, Wealth and Violence at the Edge of the 21st Century)*, Poznań: Zysk i S-ka.

- Toffler, A., Toffler, H. (1996), *Budowa nowej cywilizacji. Polityka trzeciej fali* (Creating a New Civilization: The Politics of the Third Wave), Poznań: Zysk i S-ka.
- Wallerstein, I. (2004), *Koniec świata jaki znamy*, (The End of the World as We Know), Warsaw: Scholar.
- Wierzbicki, A.P., Nowa Futurologia, (http://www.pte.pl/pliki/2/11/Nowa_Futurologia.pdf).
- Wojtyna, A. (2008), *Współczesna ekonomia – kontynuacja czy poszukiwanie nowego paradygmatu?*, *Ekonomista*, no. 1.
- Wolff, M. (2008), *Wenn der Markt versagt*, *Financial Times Deutschland*, (10.01).
What Went Wrong with Economics. And how the Discipline Should Change to Avoid the Mistakes of the Past, *The Economist*, July 16, 2009.
- Żakowski J. (2008), *Ekonomia niepewności. Z Romanem Frydmanem o tym, dlaczego ekonomieści wciąż się mylą*, rozmawia Jacek Żakowski, *Niezbędnik Inteligenta*, supplement to *Polityka weekly*. Issue 14 – no. 10 (2644) (March 8), 3.
- Żakowski, J. (2009a), *Niezbędnik Inteligenta*, *Interview with Robert J. Shiller*, Supplement to *Polityka weekly*, (July 5).
- Żakowski, J. (2009b), *Ekonomista, o niesprawiedliwych społeczeństwach*, An Interview with Sachs, J., *Polityka Weekly*, (January 10) (interview published in the Polish language).