

# There Is No Single Correct Theory of Economics<sup>1</sup>

## The 9th Congress of Polish Economists: *Economics for the Future: Explore the Nature and Causes of Economic Phenomena.*

This text was prepared to celebrate the 9th Congress of Polish Economists, which took place in Warsaw at the end of November 2013. As demonstrated by the history of congresses of Polish economists, the congresses were held in highly diverse socio-economic and political conditions; therefore their central ideas were kind of the sign of the times. See: (<http://www.kongres.pte.pl/kongres/idea-kongresu.html>).

This also applies the 9th Congress of Polish Economists, which took place at the end of November 2013. The Congress was held in the period in which the economic situation of individual countries and the world was formed primarily by factors which were the consequence of the global financial crisis that began in the years 2007/2008 in the U.S. and evolved into the economic crisis and finally into the debt crisis, which still plagues many countries. The global crisis reveals the scale and scope of globally disturbed balance in socio-economic systems as well as the shortcomings and inadequacy of economic theory to the realities and requirements of sustainable development and solid foundations of prosperity, both in the sense of Adam Smith and Ludwig Erhard. Due to the unprecedented deep and rapid eco-



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nomie and social transformations on a global scale economists face problems and questions without ready-made solutions and unambiguous answers. This is accompanied by the evolution

of views which promotes the development of new trends in economic theory. Many questions and doubts arise about “the causes of things. Those who do not know the “the causes of things”, do not know the truth and have no real knowledge. Hence, the importance of their recognition, because *Scire est rerum cognoscere causas* -knowledge is to know the causes of the things. This is expressed by the slogan of the 9th Congress: “Economics for the future: Explore the nature and causes of economic phenomena.” This subject is all the more important because as a result of the global crisis the reputation of economics as a science has seriously suffered and consequently, the reputation of economists. “The Economist” simply states that *among the economic market bubbles that burst as a result of the crisis, particularly spectacularly*

<sup>1</sup> Under such title the “*Obserwator Finansowy*” published an abridged version of the text (see: <https://www.obserwatorfinansowy.pl/tematyka/makroekonomia/nie-ma-jedynie-slusznzych-teorii-ekonomii/>)

*burst the reputation of economics itself.* Economists are blamed for the crisis, and for the fact that they were not able to foresee the crisis. In addition, those few who predicted it, had not been listened to. Hence, currently, a fundamental problem of economists is to restore the lost reputation of economics. This issue is the subject of many of the more than 230 papers presented at the congress.

Professor Marek Ratajczak, Under Secretary of State at the Ministry of Science and Higher Education emphasizes in his paper that the current global debate often puts *“the sign of equality between the economic crisis and the crisis of economics as a science”*. A similar opinion was formulated by Marek Belka, the President of the National Bank of Poland who also took part in the Congress and pointed out that *“the sources of the current crisis are very diverse and quite comprehensive in nature, but among them are definitely both the gaps in economic theory and mistakes in macroeconomic and regulatory policy. This assessment is followed by obvious postulates to expand, supplement, and change the theory.”*

What unites a lot of the papers prepared for the Congress is the recognition by their authors that economics as a social science needs to change because the world is changing. (To łączy wiele spośród przygotowanych na Kongres referatów to uznanie przez ich Autorów faktu, że ekonomia jako nauka społeczna musi się zmieniać, bo zmienia się świat) The ups and downs, among others, of Keynesian theory, neoclassical economics, and also good and bad times for application of ordoliberal concept of a market economy confirm the need to take into consideration the changing socio-economic reality into the theory of economics. In this sense it can be considered that there is no one correct theory and in every trend of economics, in every school of economics, one can find the tools and solutions which only in certain circumstances translate into practice. This is no coincidence that the Keynesian theory can be considered suitable for the difficult challenges of crisis in the economy, although, this view is also called into question. In turn, the Ordoliberal theory – focused on the socio-economic order and balancing of the economic, social, and environmen-

tal targets - may be useful as a theoretical basis for the recovery of such order. Therefore a new space is being created for the diversity of trends in economic theory. Diversity is the counterweight to the doctrinalization of the neoliberal economics, so characteristic of recent decades. This is pointed out not only by researchers and practitioners, but also by students. In 2012, the students of the Faculty of Economics of the University of Manchester established the Post Crash Economics Society. Under the slogan *“The world has changed, the syllabus hasn’t – is it time to do something about it?”* the organization demands to enrich the curriculum with heterodox economics.

Currently, there are favourable conditions for the development of alternative currents of economics. Professor Jerzy Hausner stressed in his paper that *“the global economic crisis provokes a revision of a number of findings of neoclassical economic theory. Many components of economic heterodoxy gradually enter into “mainstream economics”.* Thus, the economic theories better than in the past *“assimilate”* the achievements of other social sciences. *“In contrast, Professor Grzegorz*



*From left: Professor Janusz Czapiński, Jan Krzysztof Bielecki, Professor Tomasz Szapiro, Dr. Dorota Podedworna-Tarnowska, Jerzy Pietrewicz, and Professor Grzegorz W. Kołodko*



From left: Janusz Lewandowski, Commissioner for Financial Programming and Budget of the European Commission; Professor Jerzy Osiatyński, a member of the Monetary Policy Council; Andrzej Arendarski, President of the National Chamber of Commerce

Kołodko simply noted, that “in the future heterodoxy will dominate, and the economics itself will absorb more and more interdisciplinarity. The next generation will need economy of moderation and the theory which will describe it, as opposed to the previously dominant economy of either deficiency or excess. “This trend is all the more likely because drawing inspiration from behavioural economics, the economics of complexity is gradually developing, as well as economics of imperfect knowledge and institutional economics. The economics of complexity seeks to show each economic phenomenon, taking into account as many of its aspects as possible, not only quantitative but qualitative too, as well as using the heritage of other scientific disciplines, including primarily sociology, psychology, and even anthropology and ecology. The new trends in economic theory include what is missing in mainstream economics, neoclassical economics, and in neoliberalism. Owing to this there are favourable conditions for the economy to evolve from a model known as “economic imperialism” into a wider cooperation with other social sciences, which prevents a sort of autism in economic theory. Such an approach of economic theory could better serve the practice than in the past.

The fundamental problems of economic practice were dealt with in a number of papers viewed against the background of the analyses of state

and directions of change in economic theory. The discourse is not just about economic sciences, but also about the main determinants of socio – economic development, including globalization, models of socio-economic system, public finances, innovation, labour market, changes in education, the functioning of the financial sector and other sectors of economy, and also about the destruction and various dysfunctions in this regard.

At the same time the debate at the congress considered issues relatively rarely undertaken in economic analyses such as the issues of conceptual chaos characteristic for many economic debates, including lumping together so substantially different concepts of *classical liberalism, ordoliberalism and neoliberalism*. Many papers emphasized that liberalism serves good the rationality of economic policy but in this context it is important to distinguish its basic variations. Meanwhile, in the economic literature and journalism *liberalism, neoliberalism, and ordoliberalism* are often used interchangeably, almost as synonyms, without exact formulation of their essence and essential distinction. Also professor Piotr Pysz points out to this issue. (Oldenburg - see also: [http://www.pte.pl/pliki/2/12/Orientierungen\\_139\\_Maczynska\\_Pysz.pdf](http://www.pte.pl/pliki/2/12/Orientierungen_139_Maczynska_Pysz.pdf)). This type of conceptual disorder is not conducive to objectivization of assessments of the consequences of the liberalization

of the economy, sometimes unjustly blaming precisely liberalism as liable for the irregularities occurring in the economy and this can have negative decision making consequences.

Another important issue taken in the congressional debate issue was the problem of measuring the socio-economic achievements and constraints that are characteristic of the basic measure of these achievements, i.e., the gross domestic product (GDP). The measurement of economic performance and social achievements is one of the most important issues both in economic theory and economic practice. Not enough that a fully satisfactory solution for this issue has not been found, in addition with the progress of globalization and the growing complexity of socio-economic relations, it is becoming increasingly more complicated. Errors in the measurement result in the errors in the statistics, which increases the risk of erroneous decisions. GDP is a rigid quantitative measure. This measure does not take into account, however, the soft values, so important for the quality of life and business, such as confidence, peace of mind, aesthetics, etc. Extremely good is here Einstein’s adage, growing ever more popular (as a result of the development of internetization, virtualization of economy) *that not everything that counts is countable, and not everything that is countable, counts*. It is therefore difficult to overestimate



From left: Professor Tomasz Szapiro, Rector of the Warsaw School of Economic, Professor Piotr Pysz, Fachhochschule für Wirtschaft und Technik. Vechta/Diepholz/Oldenburger, Professor Lucjan Orłowski, Sacred Heart University (USA), Professor Elżbieta Mączyńska, President of the Polish Economic Society

the role of the analyses focused on rationalizing the measurement of socio-economic achievements. The need for this type of analyses has been also recognized and exhibited by the European Union, which was expressed in the *Resolution of the European Parliament* from 2011 on “GDP and Beyond: Measuring Progress in a Changing World”. Preliminary concepts of the so-called post-GDP models of socio-economic policy have been drafted with more attention paid to quality, soft factors. Such an approach can promote sustainable growth of the social well-being.

Another subject matter of the debate closely linked to social well-being was the issue of preferences adopted in the socio-economic policy. This is a fundamental matter, requiring in-depth, comprehensive analysis of alternative targets and possible directions of socio-economic development. This is especially important since – as research shows – dysfunctions of the modern economy are largely a consequence of

improper organization of social and political system, rather than a lack of goods. The studies demonstrate the need to move beyond economism, to change the relationship between the sphere of economy, ecology and the social sphere, as well as the necessity to define the new role of the state. The opposition of the state and the market, characteristic of neoclassical economics does not find justification because each market must be regulated by the state, especially if the economic, ecological, and social targets are to be holistically considered. This speaks for the “optimum state” model rather than the “minimum state” model. The analyses on this topic are even more relevant because there occur – burdened with an increasing risk – changes in the functioning of the state, i.e., the transformation of the “tax state” into the debt state. Because of the policy of tax cuts adopted in many countries – and carried under the slogan “starve the beast” (i.e., the state) – noticeable is progressive decline in state budget revenues

from income taxes which is accompanied by an increase in public debt. As a consequence, the dependence of the state on the financial sector is increasing, and at the same time the transparency of the relationship between these two parties (the state and the financial sector) is decreasing. At the same time the declining tax revenues force the state to limit of investment and public services which in turn drives the growth of lending to households by banks. The scarcity of public services such as educational services is forcing households to private funding. This is another factor increasing the share of the financial sector in the economy is increasingly driven by the loans which in the literature is referred to as “private Keynesianism” (this is pointed out, among others, by the German economist and political scientist W. Streeck). Viewed against this background, the problem of preferences in the socio-economic development policy is exacerbating. Such a policy should in fact promote the welfare of the country and society.

The Congress of Polish Economists was focused on the theoretical and practical activities conducive to the welfare of the country and society. The debate at the Congress created an area for new reflections, questions, and proposals for solutions and recommendations on the most difficult socio-economic issues in economic theory and practice.

*The achievements of the congress consist of papers, problem questions and the debate, in which more than 600 people participated. I encourage you to read detailed materials of the congress available on the website of the Polish Economic Society, (<http://www.kongres.pte.pl/kongres/>)*



From left: Professor Bogusław Fiedor, Professor Marek Ratajczak, and Professor Tomasz Szapiro