

Springer Studies in Alternative Economics

Grzegorz W. Kolodko

Political Economy of New Pragmatism

Implications of Irreversible Globalization

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Implications of Irreversible Globalization



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For Gabriela, my younger sister

Prologue

A millennium ago—in 1021—the bravest Vikings from the north of Europe, after a daring and grueling expedition, during which many of them—yet, their numbers are unknown—died, found a new land that is still called that way today—Newfoundland. We do not know the exact name given to it by those courageous sailors. The place they arrived at is now called *L’Anse aux Meadows*, in memory of later French colonialism. The Vikings reached an island off the north-east coast of a vast territory, a double continent that had to wait another half a millennium to be named America, which in turn is the name we owe to the Italian traveler, Amerigo Vespucci. He avoided the mistake made by Columbus, as he knew that he came to a vast new continent, the New World. Then, in September 1519, a small flotilla of five galleons under the command of Ferdinand Magellan sailed from southwestern Europe, off the coast of Spain, and set off on a journey around the world, the sphericity of which many people still did not believe in. Those valiant sailors, like the Vikings, headed west but took a southerly course to do the seemingly impossible—to circumnavigate the globe. Shortly after, the Sun was no longer setting over the empire of the Kings of Spain, Charles V, and Philip II. There were also other empires emerging and evolving, with the Sun shining over them for some time. The age of globalization has arrived, although nobody used that term to describe this process. A process, because it is exactly a course of events whose essence can only be grasped in terms of the passage of time.

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Chapter 1

Introduction



After the publication of *Truth, Errors and Lies: Politics and Economics in a Volatile World* (Kolodko 2011) and three years later *Whither the World: Political Economy of the Future* (Kolodko 2014), now it is time for the third part of my trilogy: *Political Economy of New Pragmatism: Implications of Irreversible Globalization*.

Although there are opinions that the first two volumes read as if they were written yesterday, I cannot remain silent. A lot is going on around us—close by, very near, as well as in distant places, far away. And, unfortunately, there is relatively more evil than good going on compared to the time when only one, my first book, was on my mind. Despite the enormous progress made by humanity over the last decade or so, the problems to be solved are piling up. There are more contradicting ideas and interests; various cultural, social, political, ecological, economic, and, what is particularly dangerous, military conflicts are multiplying. One should never give up hope for a better future because all these problems and conflicts can be solved with the power of human knowledge; yet, there is no certainty that they will be solved. It depends. On what? This is the question I try to answer in this book.

In *Truth, Errors, and Lies*... I wrote about a dozen Great Issues of the Future, abbreviated as GIF. I have not multiplied them in the subsequent volumes of the trilogy, because—I believe—they comprehensively capture the entirety of the surrounding reality and processes occurring in the world. In *Whither the World*, I have only switched the order of the first two issues. Axiological issues have come to the fore—the diverse values guiding people and their communities—and only after them came the issue of economic dynamics. These dozen GIFs were presented in the following sequence:

1. The evolution of values and their cultural implications for development processes.
2. The rate and limits of economic growth.
3. The institutionalization of globalization *versus* the increasing lack of coordination and chaos.
4. The regional integration and the way it meshes with globalization.
5. The position and role of non-governmental organizations.

6. The natural environment and competition over dwindling natural resources.
7. Demographic processes and human migration.
8. Poverty, misery, and social inequality.
9. The knowledge-based economy and society.
10. Scientific and technical progress.
11. The evolution of networks and its economic consequences.
12. Conflicts and security, war, and peace.

Having assumed such an order of presentation and discussion of these issues, fundamental for modern civilization, I commented that the list could have been arranged differently. I could have started with the last point about security, war, and peace and ended with the point that used to be first—conclusions concerning the evolution of values that drive our various actions, that make us take actions or give them up. Now, it would probably be necessary to sequence these Great Issues of the Future differently, without adding any additional points, though. They seem to encompass all of the great issues that we, as humanity, will need to properly deal with in the future. However, some of the challenges, mentioned in these books about the world, have clearly moved forward. Particular attention should be drawn to the issues of inequality, human migration, and climate change. There are specific interdependencies and links between these three GIFs. In particular, inequalities—in income and wealth, in access to public goods and the Internet—as well as environmental changes and climate warming, making life unbearable in a growing number of places on Earth, result in intensifying human migrations that are difficult to control. It is already so bad that it threatens democracy (where it exists), social stability, and peaceful international relations. The world got into a trap, which makes it all the more important not to waste time just standing by and watching things unfold and get complicated, but to seek ways out. Some people lose faith that these ways exist, but they are there. It is therefore necessary to find and show them and make an effort to follow the right paths.

Without insisting on the earlier sequence of the twelve Great Issues of the Future, I do not directly refer to them in this book, although I continue the thoughts outlined there. More important than the sequence, which is always more or less debatable, is comprehensiveness. The great French artist Jean-Luc Godard, one of the founders of the New Wave of filmmaking that was so fashionable over half a century ago, when asked how to make such great films as he did in *Breathless* (1960) and *Contempt* (1963), replied that it was simple—a film must have a beginning, a middle, and an end. The journalists were quick to take note of this valuable thought, but before they realized that the master was saying truisms, Godard added: but not necessarily in that order. That is the point. In art, a beautiful picture can be painted without drawing everything in a specific sequence. In film, the work must be complete by the time *The End* credits roll. There are different principles in science than in art, and it is better not to start from the end. After all, the most important is to comprehensively answer the questions raised, although sometimes the correct formulation of the questions per se enriches our knowledge.

The twelve issues—even the most important ones—are a lot. Eventually, even the set of commandments had to fit into the Decalogue. In management science, it is assumed that one of the features of a good leader is that he or she never requires more than three important things to be dealt with at once. Therefore, this dozen of GIFs is not a proposal for leaders, especially political ones—just imagine the ‘effectiveness’ of a leader calling on his supporters at a rally to take up these causes. He would not even be able to remember them himself. This is a proposal for intellectual consideration and a suggestion as to the directions of political actions on a large socio-economic scale and for a very long time.

The matter of the modern world is so complex and convoluted that it can be described in various ways, using a multitude of methods introducing successive characters to the screen of this unique global cinema. Well, we live in a time of chaos and that is why we long so much for an elementary cultural and institutional order that not only makes it easier to understand what is happening around us and why, but above all, leads to peace in our lives and a greater degree of predictability as to what the future holds. While living with great uncertainty about the shape of that future is intellectually inspiring for some, it is depressing and frustrating for far larger parts of society. People prefer to know what awaits them. They would most like to know that there is a bright future ahead of them. This may or may not be the case.

When in 2011, I presented the first volume of the trilogy at Columbia University in New York, a professor from the School of Law, when asked to comment, said that it was a very interesting publication, although he felt as if I thought that one could not understand anything unless one knew everything. I replied that I did not go that far, but I do think that in order to understand anything, one needs to understand a great deal. I would like this third part of the trilogy to help us a bit.

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Chapter 2

New Pragmatism for New Times



Insanity is doing the same thing over and over again and expecting different results.
Albert Einstein (1879–1955)

2.1 Identity of Economics

Economics is a beautiful science because it serves human well-being. It is a body of knowledge about economic activity in all its aspects, and when we are able to add new segments to the knowledge accumulated over generations—new observations of phenomena and processes and their innovative theoretical explanations—it is no longer just knowledge, but a science. Yet, it only remains a science for as long as it is at the service of truth, when it focuses on objective analyses and in-depth generalizations, and not when it becomes ugly, when it is merely an instrument in ongoing political and ideological disputes or a tool in the hands of the lobbyists of special interest groups. In the latter two cases, economic knowledge is undoubtedly useful, but it is not a science, and such activities cannot be assigned the attributes of beauty inherent to economics as a science that perceives and examines human—individual, group, social, civilizational—economic behavior and puts its interpretations into a theoretical framework. Therefore, economics can be described as a science when it creates value added in terms of knowledge about economic activity.

However, the matter gets complicated because not only are there many unresolved problems, but economics itself is also in a phase of fundamental changes. According to many authors, it is in a state of crisis, and some even claim that it is a broken science, which—like Alice in Wonderland—believes in various contradicting things at the same time. Indeed, economics is currently in an extremely difficult situation, due, on the one hand, to the essence of its subject matter, that is, the condition of the contemporary economy and its cultural and real, including technological environment, and, on the other hand, due to the functions which an advanced and enriched knowledge about economic activity is supposed to perform. From both of these points

of view, the present period is special, as it raises new questions to which new answers have to be sought. This is a fascinating challenge that traditional schools of economic thought cannot successfully tackle (Skidelsky 2020). A different reality requires a different approach, which particularly applies to economics.

With the movement of people together with the goods and services they produce and provide, economic thought wanders as well—with accompanying questions and answers. For some time now—counting in decades and generations rather than in years and political electoral cycles—we have been living in a world of new quality, which from a broad economic perspective can be described as a beyond-GDP reality. This implies the need to develop a beyond-GDP economic theory that will serve as the base for a beyond-GDP economic policy and a beyond-GDP development strategy addressing the current and future problems. In other words, it is about a holistic approach to development, a concept of comprehensive development. The beyond-GDP reality means that many economic phenomena and processes, in the broad sense, occur outside the field of human activity observed and explained by mainstream neoclassical economic thought so far, which has focused on the conditions and mechanisms of growth identified, in simple terms, on the microscale—with the maximization of return on invested capital and on the macroscale—with the maximization of national income, most often understood as Gross Domestic Product, GDP.

While astronomy studies essentially the same reality as it did two and a half centuries ago—and if anything changes in this field, in the wake of successive scientific discoveries, the ideas about that reality change, not the reality itself¹—economics, if we abstract from the otherwise fascinating history of economic thought and economic history, essentially refers to the present. More precisely, since the present is less than a blink of an eye—to the recent past and the near future. Let us, therefore, speak not about the present, but about contemporaneity, which is changing greatly and rapidly.

The economics of contemporaneity describes and interprets the economy and societies that are considerably different from those of the past. There is an idyllic picture of an almost self-sufficient economy in the times before the first Industrial Revolution, when someone very resourceful had his own “...enterprise with its own mills, distilleries and breweries, sawmills and tar kilns, brickyards and plants manufacturing their own barrels and shingles. He made his own linen, nails, and oils – linseed, hemp, and rapeseed. He exported flour and groats from his properties to Gdańsk using scows” (Gostomski 1951). For what he carried with these scows—boats steered by raftsmen, sailing with the flow of the Vistula river—he could buy the goods he needed, which he did not produce in his multibranch farm. How simple was the economy explained by Adam Smith, when in 1776 he published *An Inquiry into the Nature and Causes of the Wealth of Nations*. He could describe the sphere of production as viewed through the prism of a pin factory and barter relations based

¹ I am leaving aside the changes in the cosmos that occur as a result of explosions or collisions between celestial bodies, which we learn about after a time that is a function of the light years separating the occurrence of the fact from the time it reaches the consciousness of earthly observers.

on contracts between a baker and a shoemaker. Now, such a description must be made, inter alia, by observing global financial flows and distribution relations in the e-commerce networks. Of course, bakers and shoemakers are still needed, although the euphoric apologists of hi-tech feel that this is no longer the case: a smartphone, Spotify, and Uber are enough, clicking is enough. GDP per capita in England in Smith's day (Smith did not know this category; his was a before-GDP economy) was about 15 times lower than it is today. England's GDP per capita in 1776 was £2044 (calculated in 2013 prices), while in 2019, before the COVID-19 pandemic, it was around £31,000 (Our World in Data 2021a, b). The population of the then loosely economically connected world was about 10 times less numerous than it is today. The whole world in total produced some 150 times less than it does now. Forty years later, David Ricardo was studying international trade relations and developing the theory of comparative costs, by analyzing the exchange of English cloth for Portuguese wine (*On the Principles of Political Economy and Taxation* published in 1817), although the economy had already gained momentum as a result of the Industrial Revolution, which in time came to be called 'the first', and the population of Earth exceeded the first billion.

Today's economy is also very different from the one described and interpreted by Karl Marx in *Capital* a century and a half ago,² as over time more sophisticated ways of getting rich at the expense of others have emerged than those of the primitive and brutal nineteenth-century exploitation of the working class by the bourgeoisie. Our economy is also different from the one intellectually embraced three generations later by John Maynard Keynes, who explained the demand-side mechanisms for controlling the economy on a macroeconomic scale.³ The breakthrough he made in economic thought was no longer sufficient half a century later as a result of the intensification of the contemporary phase of globalization, that is, the liberalization and integration of national economies and capital, goods, and labor markets, previously functioning largely in isolation, into an interconnected global market. The previous misconception that the sum of microeconomic rationalities did not guarantee the macroeconomic rationality, which Keynesian interventionism tried to correct, was exacerbated by the second-generation misconception that the sum of macroeconomic rationalities does not result in the global rationality.

The memorable contributions to the science of economics by such giants as Smith, Ricardo, Marx, and Keynes, as well as many other notable scholars, cannot be overstated. However, there is no doubt that if they were faced with the reality given to us, they would formulate other—sometimes completely different—questions and come to other conclusions than they did in their times. This is proven by the later achievements of such economists as Friedrich Hayek, Oskar Lange, Michał Kalecki, Milton Friedman, James Kenneth Galbraith, Douglass C. North, or Joseph E. Stiglitz.

² The first volume of Marx's fundamental work *Das Kapital. Kritik der politischen Ökonomie* was published in German in 1867. Marx's contribution to philosophical and economic thought has been extensively discussed by Stedman (2016).

³ Keynes's fundamental work *The General Theory of Employment, Interest and Money* was published in 1936.

The evolution of the research field of economics over the past half of a century towards a post-industrial economy quickly proved insufficient. It is demonstrated by the fact that economics is not able to answer numerous and salient questions if it abstracts from such categories as expectations, irrationality, the value of leisure time, the price of fresh air, social cohesion, complexity, or geopolitics. Investigating the conflicts of economic interests and suggesting ways to resolve them still remains the backbone of economics. Where there is no conflict of interests, there is no economics. We also constantly deal with the differences between our ideas (Brunnermeier et al. 2016). Sometimes, in cases of apparent contradictions, economists can prove the validity of opposing views by moving on the solid grounds of reality rather than strolling around in Wonderland. It is a bit like in an old joke where a wise man answers the question: “How much is two times two after all?” saying: “Well, it depends if you’re selling or buying”.

Robert Aumann, Nobel Laureate in Economic Sciences, said of his two distinguished colleagues: “In 2002, a Nobel Prize was awarded to Vernon Smith and Daniel Kahneman. The prize that was awarded to Kahneman got a lot of press because it was for what is called ‘behavioral economics’, which stresses the irrationality with which people often act. But people ignored the other half of the Nobel Prize, to Smith, who got the prize because his work showed that people do act rationally. Actually, this prize was given to these two people not for proving that people act irrationally, but for developing the methods of experimental economics. Smith came to the conclusion that people do act in accordance with the dictates of neoclassical economics; in other words, they do act in accordance with rationality postulates. Kahneman came to the opposite conclusion, and they shared the Nobel Prize”. (Aumann 2009, pp. 24–25). Well, that may be the case in economics. In astronomy, either the Sun had to revolve around Earth or Earth had to revolve around the Sun; it could not be both at the same time. It is not necessarily the case in economics...

In the beyond-GDP reality, the essence of the conflict of economic interests and ideas is different than it used to be, which is a natural consequence of the advance of productive forces and the evolution of production relations. Much has been contributed to the study of the changes taking place by such trends as institutional, behavioral, experimental economics, or neuro-economics, but it is necessary to go further, deeper, and broader, and above all, to make economic thinking more prospective. If economics is unable to anticipate the coming processes, it should at least keep up with them. If modern economics cannot be the economics of tomorrow, it should at least not be the economics of yesterday.

The matters get even more complicated. Modern economics has to go beyond the area of the market in its broadest sense, delving into the nooks and crannies of human thought processes, and sometimes into the interactions taking place in the economy-society-state triad. Actually, the slogan *It’s economy, stupid*—this very popular phrase that was coined by chance during Bill Clinton’s presidential campaign of 1992—is a sort of neoMarxist claim that in fact, the socio-economic being determines the consciousness, and that the superstructure of the economy in the form of the state and its institutions depends on the material base of the society. This is true, but now we also know that it happens that consciousness shapes the socio-economic

being, and certainly has a huge impact on it, additionally with the participation of the state, and in the era of globalization, of international and global inter-state relations.

All this is no longer enough. The condition of the economy is so complex that it is necessary to push economic thought into new directions; its purpose, content, and method must be reformulated. It certainly needs to leave the current mainstream economics for good because the models it has produced have moved too far from the realities of economic life. What is included in textbooks does not cover what is happening in reality, and science cannot ignore and oversimplify it. There are common-sense limits to ‘Let us suppose that...’.

American academic circles speak of two schools of economics. The first one, known as ‘saltwater economics’ is practiced at the leading universities on the east and west coast (Columbia, Harvard, MIT, Princeton, Yale and Berkeley, Stanford, UCLA), the second, ‘freshwater economics’, at the universities located in the Great Lakes region (Carnegie Mellon, Chicago, Rochester, Michigan, Minnesota). I had the opportunity to participate directly in the debates taking place there, having lectured at the Yale School of Management, at the UCLA Department of Economics in Los Angeles, and the Department of Political Science at the University of Rochester. James Kenneth Galbraith, referring to the dominance of some of the economic theories they promote with some proper intellectual skepticism, writes of an alternative in the form of ‘backwater economics’ (Galbraith 2018), because indeed, many precious thoughts are born over other waters. Outside the US too (Csaba 2009; Grinberg and Rubinsztein, 2014; Lin 2013).

The world, inhabited by nearly eight billion people, producing a gross product (there is that GDP again...) of more than \$130 trillion (calculated according to the purchasing power parity, PPP) and creating plenty of economic and social problems, is structurally unbalanced and therefore conflict-triggering up to the limits of endurance. While there are authors who argue that the situation is not at all bad (Milanovic 2019; Ridley 2010; Rosling et al. 2018), others claim that the world and civilization are facing a meltdown. While some subsequently outline almost catastrophic visions and certainly do not see any sensible future for capitalism (Harvey 2015), others are convinced that it can be rectified by fundamental changes (Acemoglu and Robinson 2012; King 2013).

Over the next few years, we will hear more often—as we already do—about the end of the world as we know it, about the collapse of the market economy (Bremmer 2010), about post-capitalism, again about the third way and socialism. New terms will be coined such as sharing economy (Sundararajan 2017), the digital platform-based gig economy (Kessler 2018), or Chinism (Kolodko 2020). Old terms will also return with determiners such as ‘new’ or ‘neo’ preceding them, as in ‘new nationalism’ (Economist 2016) or ‘neopressivism’. Shortly after the outbreak of the financial crisis in 2008, *The Economist* sought opportunities to save the then unstable neoliberal capitalism in its evolution toward ‘true progressivism’ (Economist 2012).

Concepts known from the past, such as ‘ordoliberalism’ and ‘social market economy’, are being revived. Old theories, such as the once-popular Schumpeterian theory of creative destruction (Schumpeter 2008), are being ‘rediscovered’ and presented in a different package. The famous concepts of the knowledge-based

economy are promoted as if the half-century older concept of science as a direct productive force has been forgotten. The new-old categories will be preventively criticized, as is the case with collective capitalism, which is accused of being deprived of two of its indispensable attributes: responsibility for deciding what people need and dynamism or the welfare state, which is claimed to entail excessive fiscalism and an excessive—from the viewpoint of efficiency—redistribution of income.

As a result, the first to prevail will be—as it is already—conceptual noise and definitional clutter. In time, some sort of compact concept of a new socio-economic system, or rather new systems, may emerge out of this chaos because uniformity will no longer exist (in fact, it never existed in the past either) with all the consequences for the economic sciences. Hence, we are now living in an era when a new reality is being formed, a new system that is different from the previous ones, which has to be intellectually embraced, understood, and explained. Ways to influence its evolution have to be proposed to allow for the coformation of its desired shape. Obviously, there will be axiological disputes—they are already ongoing—concerning its shape, and its form will be a function of resolving the accumulating conflicts of interests.

Terminological rigor is very important in scientific debate, as many disputes arise because those presenting their arguments do not mean the same thing. How to resolve the dispute over whether there is state capitalism (Roland 2019) or, worse, crony capitalism (Pei 2016) in China or, as the Chinese leaders prefer, ‘socialism with Chinese characteristics’, if sticking to the definitions proposed by the authors, in one and the same reality, each of these systems is present there? Is democracy in Poland still liberal or no longer liberal? Because in Hungary, it is already illiberal (Csaba 2019). Does the market economy in Turkey and Russia operate in the political environment of a democratic or autocratic system? While some authors use different terms to describe the same reality, others refer to different realities using the same term. It therefore sometimes happens that after a thorough explanation of the definitions used, the subject of the substantive dispute or the source of a political conflict disappears. Thus, all the more, a continuous substantive dialog is needed.

Interestingly, in the US, as many young people aged 18–29 are in favor of capitalism as of socialism.⁴ This is around 45% in each of these cases.⁵ While in the US, 45% is in favor of socialism, in the countries of Central and Eastern Europe—there is hardly anyone?! This dispersion of opinions and preferences regarding the economic and social system stems primarily from the fact that the respondents, asked about the same thing, answer different questions, as they have different understandings of the terms used. In the US when they hear ‘socialism’, they think of universally accessible public health care, free universities, and progressive taxation on the richest parts of

⁴ ‘In favour of’ in this case means respondents having a ‘*very or somewhat positive impression of...*’.

⁵ The older people get, the more they prefer capitalism to socialism. While some 43% of the 30–49 age group are still in favour of socialism, some 62% are in favour of capitalism (the answers did not necessarily add up to 100%), and among people over 65 years of age these figures amounted to some 35% and some 77%, respectively. These relations are shaped differently among supporters of Democrats and Republicans; the former have significantly more supporters of ‘socialism’, the latter of ‘capitalism’ (Harting 2019).

the population, while in the countries of the post-socialist transition, their imagination is confronted with a system experienced one or two generations earlier, which after 1989 is painted by the politics of memory in black—even more so than it was in the West before 1989—as an oppressive political system and an economy of chronic shortages. Such mixing of terms is misleading in public assessments, dangerous in politics, and unacceptable in science.

So, what kind of economics are we talking about? What is it supposed to observe, analyze, describe, and interpret? Whether, and if so, what and how should it propose and change for the better? It is astonishing because even though it would seem that the economic knowledge accumulated over centuries should provide easy and consensual answers to these questions, it is often helpless when faced with accumulating challenges. This happens for at least two reasons. First, due to the enormous qualitative diversity of the reality studied, economics is increasingly becoming a contextual science, while universal laws apply to a lesser degree. Second, economic thought often fails to keep up with the rapidly changing reality. A Marxist would say that observations and generalizations are not keeping pace with evolving production relations, which are being overwhelmingly influenced by the quickly changing nature of production forces. An institutionalist would conclude that the rules of the market game remain in discord with the rapidly evolving changes in technology and the organization of production and exchange.

2.2 State of Affairs

Humanity is facing epochal challenges. Meeting them requires lifestyle changes, while the functioning of the economy, different than before, must be correlated with those changes. All this determines the need to redefine the objective of economic activity. These epochal challenges stem from seven overlapping megatrends which are symptomatic of contemporary times:

1. demographic changes, especially the aging of the population and huge variations in fertility rates;
2. environmental changes, especially the depletion of non-renewable resources and global warming;
3. the scientific and technological revolution, especially the digitization of the economy and culture, as well as automation;
4. non-inclusive globalization, especially increasing areas of exclusion and growing inequality;
5. the general crisis of neoliberal capitalism, especially the structural economic imbalances;
6. the crisis of liberal democracy, especially the accompanying polarization of societies;
7. the Second Cold War, especially the West-Russia tensions and the US-China conflict.

2.2.1 *Demographic Changes*

There are either too few or too many people; it depends on which part of the globe one is looking at. While the average fertility rate for the world is 2.42 births per woman, in extreme cases, it is as low as 0.84 in Singapore and as high as 6.35 in Niger. Both cases—leaving aside immigration in the former and emigration in the latter—lead to a demographic disaster. There are as many as 124 countries and dependent territories in the world,⁶ with fertility rates below the replacement level fertility rate of about 2.1 children per mother. The economic consequences of this situation, manifested at times in surpluses and at other times in labor shortages, are far-reaching.

Over time, this is followed by an increasing demographic imbalance, which further intensifies the pressure for human migration, getting out of control of the states and international agreements. More than 300 million people already live outside their countries of birth,⁷ and much more people express their will to leave; some irresistibly. And this is so not necessarily for economic reasons. There are places where it is possible to live in economic terms, but when it comes to culture—one does not want to be there. It is surprising, but even in North America—more so in the US than in Canada—as much as around 15% of people say they wish to leave their country. In the Middle East and Latin America, it is over 30% and in Europe a staggering 23% (Economist 2019c). It turns out that in a growing number of countries, the saying “there’s no place like home” is no longer true.

Another aspect of demographic changes is the aging of the population. Life expectancy, for obvious reasons, will never again rise as much as it did in the twentieth century, when the average life expectancy increased from around 47 years before the First World War to 70 years today. The decline in early childhood mortality was crucial to this rise. The contemporary average life expectancy ranges from 52 years in Afghanistan to 90 in Monaco. It is estimated that the life expectancy for every second child born in highly developed countries is now 100 years. This is of colossal importance to the economy. There is a breakthrough ahead in the way we will work and live.

A simple extrapolation of existing consumption patterns and lifestyles is out of the question. It is enough to realize that when the life of a woman who currently retires at the average age of 60 is extended by a few years to reach 90 years—and this will be the case in a growing number of societies—then, traditionally, she would have to spend a third of her life in retirement! This is an economic and social absurd, especially with a pay-as-you-go pension system in which payments of retirement benefits are financed by contributions paid by those in employment and with the structural scarcity of savings for old age. A society in which a third, or even just a

⁶ Comparative international statistics specify 224 states and territories (CIA 2021), while the United Nations counts 193 independent states. The Vatican, which does not belong to the UN, is also a state as defined by international law.

⁷ During just the first two months of the Russian invasion of Ukraine, as many as 5 million Ukrainians fled abroad, of which about half went to neighbouring Poland.

fourth, of its life would be spent in retirement is an imperfect society, and there can be no healthy economy under such circumstances.

Faced with the inevitable aging of the population—which, by the way, is a result of socio-economic development and a sign of civilizational progress—it will be necessary to produce different things in a different way as well as to share and consume them differently than before. Significant changes in the demand structure will entail corresponding shifts in the supply structure. People will also need to be employed differently; the ways they earn, save, and spend will change. Therefore, they will have to be educated and trained in a different manner. And finally, income and wealth will have to be differently taxed, while transfers and public spending differently structured. Thus, the role of the state will also change.

An increasing number of societies have already entered a phase of demographic transition. There are more and more elderly people in the post-working age in the world. While in 2021, one in 11 people was over 65; in 2050, one in six of us will be of that age... In turn, there are relatively fewer people in the preproductive age; children up to the age of 15 account for around 25% of the total population (15.1 for the European Union). The UN predicts that in the years before 2050, the population will begin to fall in a total of 55 countries, including China. At the same time, the demographic dependency ratio, i.e., the ratio of the population of preworking and post-working age to the population of working age, which currently stands at 53.3% globally, will significantly deteriorate.

The country that is most advanced in the demographic transition process is Japan, where the number of people aged over 65 accounts for almost 30% of the population, and the dependency ratio is as high as 69%. Their experience in adapting to such demographic changes needs to be watched with particular attention, and it is necessary to learn from the Japanese. They refer to the people aged 65–74 as ‘before-old’ or ‘not-yet-old’. Almost half of those aged 65–69 work, and of those aged 70–74, a third is employed.

The era of life in three phases: childhood-adulthood-old age, or in other words: preworking age-working age-post-working age is coming to an irretrievable end. Multiphase life has begun and continues, and the arrangement of its constituent phases is fluid, dynamic, and still far from being fully recognized (Gratton and Scott 2016). Not only do we not know many of the answers regarding these issues, but, worse still, we are not aware of all the questions that an increasing life expectancy will pose to the economy.

2.2.2 Environmental Changes

Increasing numbers of people, by producing and consuming more and more, are adding even more strain to Mother Earth—our natural environment. It is surprising that only half a century ago, an economics course at a university could begin with the claim that air and water are free goods and that economics does not deal with such matters. Well, it must take particular care of them because they are the basis of human