The Turning Points of World History
Financial and Methodological Interpretations

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PREFACE

Volumes VI and VII of the REUPUS Series “The Atlantic Community. The Titanic of the XXI Century?” and “The Turning Points of World History” can be seen as twin volumes trying to find new empirical observations, new methodological approaches and new value judgements to face the enigma of the XXI Century.

Those volumes try to present some new interpretations of one of the greatest turning points of human history which is the essential feature of our times...

The editors of volume VII are expressing deep gratitude to all Authors of the volume for most valuable contributions. Volume VII is the last volume of the Reupus Series.

Antoni Kukliński               Krzysztof Pawłowski               Jan Swianiewicz

Nowy Sącz, April 16th, 2012
INTRODUCTION:
WHY TURNING POINTS?

We are now in the middle of one of the greatest turning points in human history. The present pentagonal crisis of the years 2008–2012 has deep roots and consequences. It is a holistic crisis involving not only financial and economic dimensions. It also a crisis of the global order; the crisis the global elite and the crisis of the Atlantic Community. In this context we are defining the present crisis as a pentagonal holistic crisis incorporating all important dimensions of the global reality.

This crisis is the real end of the XX century. To my mind the conventional wisdom comparing the “long” XIX century 1814–1914 and the “short” XX century 1914–1990 is wrong. The XX century is also a “long” century covering the period 1914–2012? The two decades 1990–2010 are a logical conclusion of the XX century and not an opening of the XXI century.

This pentagonal crisis can be analyzed as a cumulative network of five interrelated dynamic trajectories:
The trajectory of the financial crisis
The trajectory of the economic crisis
The trajectory of the crisis of the global order
The trajectory of the crisis of the global elite
The trajectory of the crisis of the Atlantic Community

* * *

This great historical hour is creating cognitive and pragmatic inspirations to test our knowledge and imagination facing the challenge of financial and methodological interpretations exploring the fascinating phenomenon of turning points. This is the deep motivation to prepare volume 7 of the Reupus Series. “The turning points of World history. Financial and Methodological interpretations.”

The volume is a set of twenty five contributions of an eminent team of authors representing rich cognitive capacities to outline a network of valid papers exploring some fields of the vast domain defined as “the turning points in world’s history”. Naturally the volume is only a very modest attempt to explore some items of this vast domain.

* * *

1 Compare por. A. Kukliński, Megaspaces of the XXI century. Ministry of Regional development, Warsaw 2011, the electronic version of this study is available from patrycja.artymowska@mrr.gov.pl

We hope however that the contributions published in our volume will open new paradigmatic perspectives in the study of the turning points of world history. This first perspective is emerging from the comparative analysis of the papers of L. Emmerij and R.P. Misra. The spirit and letter of these two papers explore deep differences in the interpretation of the turning points developed in the framework of Atlantic and Asian civilizations. In this context we should mention the contributions of Kishore Mahbubani presented in volume 6 of the Reupus Series\textsuperscript{3}.

The leading paper of Louis Emmerij and the set of comprehensive comments related to this paper are an modest but significant contribution to the debate calling for deep systemic changes in the global financial institutions.

* * *

The second paradigmatic perspective is emerging in the papers of P. Drewe, A. Wierzbicki, A. Kukliński and J. Auleytner. An integrated analysis of these four papers presents the concept of turning points in a broader framework linking the worlds of innovation, knowledge and education.

* * *

The third paradigmatic perspective is outlined by the comprehensive papers of E. Maćzynska, J. Woroniecki, K. Żukrowska, J. Lambooy and H. van Zon. These papers are examples of a brainstorming analysis of a great turning point in the history of capitalism which may be seen as a metamorphosis or a bankruptcy.

* * *

The fourth paradigmatic perspective is emerging from two papers, in fact two studies analyzing in a long term perspectives two phenomena which can be seen as structures and driving forces creating consecutive turning points.

The paper of A. Zorska is analyzing the role of TNC in the transformation of the global economy. The paper of H. Bayens “The great turning points of world urbanization” is a direct interpretation on the main topic of our Volume.

These two papers have some unexpected common denominators. In the first paper we see the panoramic long term view presenting the rise of transnational corporations, in the second paper the rise of metropolitan regions. Both papers are creating an interesting background for more general discussions related to the phenomenon of turning points.

* * *

The fifth paradigmatic perspective is related to turning points emerging in two fields of the experiences of the European Union in the field of rural development policy and in the field of regional policy.

* * *

The sixth paradigmatic perspective is presented in the papers of K. Pawlowski and T. Zarycki exploring the turning points in the historical experiences of Poland and the Soviet Empire.

\textsuperscript{3} A. Kukliński, K. Pawlowski (eds) op.cit. p 293–294, compare also A. Kukliński, B. Skuza (eds) *Turning points in the transformation of the global scene*. The Polish Association for the Club of Rome, Warsaw 2006
I hope that the fundamental question: Why turning points is finding some interesting answers in part one, two and three of our volume.

The essence of my arguments can be summarized in the following way:

Hinc and Nunc we are living in one in a most important turning points in World History. This is a challenge to the whole system of social sciences (economics, sociology, political sciences) to develop a new paradigm in which the concept of the turning point will emerge as a leading concept organizing our research and education.

Our volume is a very modest but significant step in this direction. The Volume is trying to outline a new archipelago of observations suggestions and value judgements which might in the future create a new paradigm of social sciences built around the fundamental concept of turning points.

Let me present the following definition of paradigm:

The paradigm is a set of questions exploring the empirical and institutional reality and a set of methodologies creating the philosophical and instrumental framework how to answer these questions.

The rich and comprehensive content of our volume may lead to the design of an international research programme using inter alia the following mental map:

The mental map is to my mind a useful instrument of the interpretation of the multidimensional innovative, and some time controversial content of our volume including part four of the volume—The field of the debate—Revisited.

**The mental map**

**The turning points archipelago**
Part I:
Turning Points—the Field of the Debate
LOUIS EMMERIJ

THE GREAT TURNING POINT 2007–2011?

There is nothing more difficult than to forecast turning points. Who had foreseen the fall of the Berlin Wall in 1989 and the consequent crumbling of the Soviet Union and its empire? And who foresaw the disastrous financial and economic crisis that started in 2007? Tuning points are therefore in the main recognized in retrospect. People have a tendency to extrapolate recent trends. If things have been going well, they will go well indefinitely into the future. If things are going from bad to worse, that will be the pattern for the future. In both cases this is of course wrong. Once a turning point is recognized, it may well be that a few years later it turns out not to have been a turning point at all. Events are picking up the past trend line after a temporary dip.

While the events of 1989 were immediately recognized as a major turning point implying a total break with the past which has been confirmed throughout the past 20 years, it is still a question mark whether the economic and financial breakdown of 2007–2009 marks a real and long term turning point. Since March 2009 the stock markets have made an impressive return, emerging markets and developing countries in general have either recovered or were not very badly hurt. The problem originated in the USA and it is there and in Europe that the problem has remained very serious until today with Greece and Portugal and the euro in turmoil.

This article intends to show that we are faced with a real and long term turning point because 1- the real economies of the industrial countries are in deep trouble that will take years to set straight, 2- the neo-liberal policies of these countries have shown their limitations and must be corrected, 3- although the USA and Europe will continue to be major powers, other countries are catching up leading to a multi-polar world, 4- the USA will no longer remain the uni-polar power which may well result in a crisis of pax-americana.

But even here we have to be careful. After all, during the Great Depression of the 1930s many thought that this meant a huge turning point and the end of capitalism as we knew it. The policies pursued before the Great Recession of 2007–2011 showed many similarities to those followed before 1929. So, where is the turning point or where did it go?

I A New Set of Economic and Financial Policies

Over the years 2009 and 2010, the shape and impact of the global crisis has become somewhat clearer. The crisis is still with us, though some recovery is underway in many parts of the world, especially in Asia. In the developed countries, massive increases of public expenditure have restarted growth and enabled most of the banks to recover and even to restart paying billions in bonuses. But unemployment is still very high and growing levels of public debt are raising
fears of currency collapse in some countries—Greece and Portugal, at the time of writing, most notably—and of “a double dip,” a further decline in GDP after the two or three quarters of gains resulting from the initial Keynesian boost to expenditure. The huge increase of the debt of the USA is causing fears of high inflation in the medium term.

Economic data on many of the poorer regions of the world is neither complete nor up-to-date; and statistics on employment, health, nutrition, and other human indicators are decidedly patchy. It is therefore difficult to obtain a truly global perspective of the economic and human setbacks. Notwithstanding incomplete data, it appears that different parts of the world have been affected in very different ways. In Asia, as mentioned, economic growth dipped for a few months but has largely recovered, in part because of robust state action funded by reserves accumulated after the 1997–1998 Asian financial crises. In Latin America, Africa, and the Middle East, a number of countries seem to have weathered the storm, especially those with oil or with mining reserves—but many others are suffering.

Some part of the positive balance sheet undoubtedly can be attributed to the coordinated recovery efforts of the G-20, the meetings of the world’s richest countries (measured by GNP), both developed or developing. They had been brought together as an ad hoc assembly by the leading powers. These were formally convened outside the UN or the Bretton Woods organizations, though inviting representatives of these institutions and relying on the IMF, in particular, for channeling most of the resources agreed at the meetings. However welcome and important these activities, they mostly responded to the interests of the major powers formally attending and failed in representation and focus to respond adequately to the needs or concerns of the 172 countries not formally represented. Though reform of the international system was mentioned in these meetings, most of the emphasis was on increasing representation of China and Africa in the boards of the IMF and the World Bank over the next few years, not on reform of their way of doing business or of the underlying paradigm that guides their operations.

— The Stiglitz Commission

The Commission of Experts of the President of the UN General Assembly on Reforms of the International Monetary and Financial System (hereafter listed by the name of its chairman, the Stiglitz Commission) was composed of economists, policy makers, and practitioners drawn from Japan, Western Europe, Africa, Latin America, and South and East Asia. It submitted its recommendations in March 2009. They were discussed at a Special Session of the UN in June and by the General Assembly in September 2009.

Not surprisingly, the Stiglitz Commission took a broad and bold view of the crisis and of the national and international actions required for recovery and, in particular, the actions needed to ensure support and recovery for the poorer developing countries.

The Stiglitz Commission recommended both immediate measures of action and deeper measures for systemic reform. Among the more immediate measures of action were the following.

— All developed countries should take strong, coordinated, and effective actions to stimulate their economies. While the decision on stimulus is national, it should be judged on its global impacts; if each country looks only at the national benefits versus costs—e.g., an increased national debt—the size of the global stimulus will be too small, spending will be distorted, and the global impact will be eviscerated. National stimulus packages should thus include spending measures to be undertaken in developing countries to offset the impact of the decline in world trade and financial markets. Industrialized countries should thus dedicate 1.0 per cent of their stimulus packages, in addition to traditional official development assistance commitments.

— Developing countries need additional funding. More permanent and stable sources of funding for developing countries are needed, notably ones that could be activated quickly and are not
subject to inappropriate conditionality. Indeed, additional funding would be required just to
offset the imbalances and inequities created by the massive stimulus and bail-out measures
introduced in advanced industrialized countries. Such funding could be provided by an issuance
of Special Drawing Rights (SDRs) approved by the IMF Board in September 1997 through
the proposed Fourth Amendment of the Articles of Agreement to double cumulative SDR
allocations to SDR 42.8 billion and through the issuance of additional SDRs through standard
procedures.

— Opening advanced country markets to least developed countries’ exports. While a successful
completion of the Doha trade round would be welcome, its impact on the crisis and its
development dimensions remain unclear. There are, however, a number of measures that have
already been agreed in multilateral trade negotiations that could be implemented rapidly
to support developing countries affected by the crisis. These include implementation of
duty-free, quota-free market access for products originating from least developed countries. In
addition, immediate implementation is needed of the agreement reached at the World Trade
Organization’s Hong Kong Ministerial session in 2005 that provided for the elimination of all
forms of developed country export subsidies, at the latest by 2013. More generally, in all trade
negotiations, the long recognized principle of special and differential treatment of developing
countries should be preserved.

— Beginning work on regulatory reform, while learning from successful policies elsewhere. The
financial crisis is widely viewed to be the result of the failure of regulatory policies in the
advanced industrial countries. It is imperative that work on regulatory reform begin now.
The collapse in confidence in the financial system is widely recognized as central in the
economic crisis; restoration of confidence will be central in the recovery. But it will be hard to
restore confidence without changing the incentives and constraints facing the financial sector.
It is imperative that the regulatory reforms be real and substantive, that they go beyond
the financial sector to address underlying problems in corporate governance and competition
policy, and in incentives for excessive leverage.

— Improving coordination of global economic policies. There is a need for substantial improvement
in the coordination of global economic policy. Global economic integration has outpaced the
development of the appropriate political institutions and arrangements for governance of the
global economic system.

— In the short term, an appropriate mechanism should be created within the UN system for
independent international analysis on questions of global economic policy, including its social
and environmental dimensions. Following the successful example of the Intergovernmental
Panel on Climate Change (IPCC), a similar panel could be created to offer expert views to the
General Assembly and ECOSOC, but also to other international organizations to enhance their
capacity for sounder decision-making in these areas. At the same time, such a panel would
contribute to foster a constructive dialogue and offer a regular venue for fruitful exchange
between policy makers, the academic world and key international organizations

But there are of course deeper systemic changes that are necessary to be implemented over
the longer run. A few examples are given below:

— A new global reserve system. Global imbalances played an important role in this crisis.
They can only be addressed if there is a better way of dealing with international economic
risks facing countries than the current system of accumulating international reserves by each
country on its own. This was done in East and South East Asia after the 1997 crisis. Indeed,
the magnitude of this crisis and the inadequacy of international responses may motivate even
further accumulations. Currently, poor countries are lending to the rich reserve countries at
low interest rates. The dangers of a single-country reserve system have long been recognized,
as the accumulation of debt undermines confidence and stability. But a two (or three) country reserve system, to which the world seems to be moving, may be equally unstable. A new global reserve system is feasible, non-inflationary, and could be easily implemented, including in ways which mitigate the difficulties caused by asymmetric adjustment between surplus and deficit countries.

— Reforms of the governance of the international financial institutions. There is need to reform the global governance, accountability, and transparency in the Bretton Woods Institutions and in other non-representative institutions that have come to play a role in the global financial system such as the Bank for International Settlements, its various committees, and the Financial Stability Forum. Deficiencies in their governance have impaired the ability of these institutions to take adequate actions to prevent and respond to the crisis. The policies and standards adopted or recommended by them have often been to the disadvantage of developing countries and emerging market economies. Major reforms in the governance of these institutions, including measures which give greater voice to developing countries and greater transparency are thus necessary.

— The Global Economic Coordination Council could become a democratic alternative to the G-20. A globally representative forum to address areas of concern in the functioning of the global economic system in a comprehensive way must be created. At a level equivalent with the General Assembly and the Security Council, this Global Economic Council should meet annually at the heads of state and government level to assess developments and provide leadership in economic, social, and ecological issues. It would promote development, secure consistency and coherence in the policy goals of the major international organizations and support consensus building among governments on efficient and effective solutions for issues of global economic governance. Such a council could also promote accountability of all international economic organizations, identify gaps that need to be filled to ensure the efficient operation of the global economic and financial system, and help set the agenda for global economic and financial reforms. It would be supported intellectually by the work of the international panel proposed above. Representation would be based on the constituency system, and designed to ensure that all continents and all major economies are represented. At the same time, its size should be guided by the fact that the council must remain small enough for effective discussion and decision making. It could thus provide a democratically representative alternative to the G-20.

— Financial market policies. Financial policies, including regulation, have as a central objective not only ensuring the safety and soundness of financial institutions and stability of the financial system, but also protection of bank depositors, consumers, and investors. They also have related other objectives, such as access to all banking services including credit, and the provision of financial products which help individuals and families manage the risks they face and gain access to credit at reasonable terms. It is also imperative to ensure that the sector is competitive and innovative. Financial institutions have been allowed to grow to be “too big to fail,” thereby imposing enormous risk on the global economy. While innovation has been lacking, too little of it aimed to meet the real needs of ordinary citizens. Too little was done to help developing countries and ordinary homeowners manage the risks that they face, with consequences that the crisis has made only too apparent. Financial regulation should be designed so as to enhance meaningful innovation that improves risk management and capital allocation. The current crisis has made it apparent that there are large gaps and deficiencies in the regulatory structures in place in many systemically significant countries.

— Mechanisms for handling sovereign debt restructuring and cross-border investment disputes. There is also an urgent need for renewed commitment to develop an equitable and generally
acceptable Sovereign Debt Restructuring Mechanism, as well as an improved framework for
handling cross-border bankruptcies. One way by which this might be done is through the
creation of an independent structure, such as an International Bankruptcy Court. The United
Nations Commission on International Trade Law provides a model that could be extended
to the harmonization of national legislation on cross-border disputes dealing with trade in
financial services. A number of countries may face difficulties in meeting their external
debt commitments as the crisis worsens. The current crisis has already seen a number of
bankruptcies of companies that operate across borders, and their number is likely to increase.
The absence of a formal mechanism for dealing with the impact of cross-border bankruptcy
and insolvency, especially when related to financial institutions, transmits the adverse economic
effects to the global economy. A uniform approach to financial and investment disputes on
bankruptcy and insolvency is especially important.

— More stable and sustainable development finance. Larger and more stable sources of finance
for development, including for the investments needed to address the long-run challenges
of responding to climate change, and new institutions for disbursement of funds has been
discussed earlier. Market-driven international capital flows are of a magnitude and volatility
that can offset any formal mechanism to provide additional finance for development. Thus,
an active management of foreign capital inflows will be required to ensure that they are
supportive of government counter-cyclical policies. The Fund should be encouraged to return
to its first principles and support countries that attempt to manage external flows in support
of domestic counter-cyclical policy. The international system requires a variety of mechanisms
of innovative finance, including regular emissions of new global reserves (SDRs), revenues
generated from the auction of global natural resources (such as ocean fishing rights and
pollution emission permits), and international taxes (such as a carbon tax, which would
simultaneously help address problems of global warming, or a financial services tax, which
would simultaneously help stabilize international financial markets.) The receipts could be
directed to help underwrite costs to developing countries of reducing greenhouse gas emissions
in the context of their national policies to promote sustainable development. Measures must
be taken to preserve national autonomy in the selection of the sources and methods of
government financing while ensuring that national differences do not create incentives to
evade responsibility of contributors to the support of government policies. An efficient method
of achieving this result would be the acceptance by all countries of an amendment of Article 26
of the United Nations Model Double Taxation Convention between developed and developing
countries to make the exchange of information automatic.

The scope and boldness of this thinking and these recommendations stands in sharp contrast
to the limited range of the recommendations emerging from the G-20 meetings.¹

— What has happened since 2009?

Since then a deep silence has fallen over the suggestions made by the Stiglitz Commission.
This discrete pushing aside of common sense proposals was to be expected, alas. Discussions
take place in the G-20—a step in the right direction—but not far enough. The stock market has
risen since March 2009, irrational exuberance is again around the corner, and the next bubble is
on the horizon. But the real economies of many countries—including developed and developing
nations—are very much in shambles. The unemployment rate in many countries, including in the
USA, remains high, financial deficits go through the roof, accumulated debt of certain countries

¹ For a discussion that puts the above points in a wider and more general context, see Richard Jolly, Louis
Emmerij, and Thomas G. Weiss, UN Ideas that Changed the World, United Nations Intellectual Project Series, Indiana
(Greece is the most spectacular example) is preoccupying to put it mildly, and so is the debt of individuals and of companies. In many countries—industrial as well as developing—the economic and financial situation becomes unsustainable.

This time the crisis started in the United States and not in East Asia or Latin America. The United States therefore has a global responsibility, here as well as in other domains. Stiglitz in the first issue of the 2009 International Labour Review suggested that if the US had taken the $700 billion stimulus money and created a new bank and allowed it to leverage 12 to 1 (very modest compared to what was done by the banks that were bailed out), it would have created $8.4 trillion of lending capacity to stimulate small business in the United States as well as elsewhere.

It is not the policy ideas that are in short supply, but the political will to take action. Also restraining on serious reform is the determination of the major powers to keep discussion and decisions on policy in the forums where they have dominant control—the IMF, the World Bank, and the G-20. A greater willingness to listen to the UN bodies and to take more seriously recommendations arising from them would do much to avoid recurrence of further economic and financial disaster and its human consequences.

II The Real Economy and the Crisis of Neo-Liberal Policies

In the beginning of the 1980s there was a harsh reversal of economic policies followed up until then with a move toward neoliberal and neoclassical policies that emphasized privatization, deregulation, liberalization and in general getting rid as much as possible of government and leaving things in the hands of the private sector. This policy reversal was soon followed in all OECD countries, became the conventional wisdom of the West, and was more or less imposed on developing countries. That was a turning point although more so in developing countries than in industrial countries. The latter maintained their protective behavior in agriculture by extending subsidies to farmers.

But turning points rarely come out of the blue. In this case, it had been prepared over time by a core of neoclassical economists who laid the groundwork that was to become the ‘new’ paradigm of the 1980s and beyond. For example, the criticism of temporary protectionism (the infant industry argument) became more precise, technical and empirical. This early work was followed by other studies that represented an important strengthening of the theoretical framework of the open-economy model. The same reasoning applies to the monetarist strand of the neoclassical resurgence.

This new paradigm was of course a recycled version of trickle-down economics with growth given greater weight than income distribution and social objectives. The underlying hypothesis—and this is of particular importance for the developing countries—was that policy reforms designed to achieve efficiency and growth would also promote better living standards, especially for the poorest. Not only did this ‘new’ orthodoxy become the economic strategy of the West, but through its adoption by the World Bank and the IMF it became the conventional wisdom of practically the entire globe, whether voluntarily or not. The important exception was the East Asian countries.

Eisuke Sakakibara of Japan has attacked the monolithic universal model that consists of pluralistic democracy on the political side and of the neoclassical market economy on the economic side. Economic policies in industrial countries—which are based to an extensive degree on neoclassical economic theory—have led to chronic or structural problems while volatile movements

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in capital and money have regularly led to panic. It may be time for introducing alternative approaches and choosing diversity rather than uniformity. Japanese, East Asian, and European models may serve as references. But the point here is that each country or region would be well advised to establish its own model of capitalism and democracy. “The world as a whole should gain from systemic diversity rather than suffer from the confusion and catastrophe caused by the forceful application of a universal model.”

This was written just before the 1997–1998 Asian crises and well before the Great Recession that started in 2007. Coming back to the latter, there have been two paradigms, as Joseph Stiglitz has said, that have been waging war with each other for the hearts and minds of people all over the world. One was the “market-fundamentalism” model based on rational individuals with rational expectations, acting in perfectly competitive markets. The view was that unfettered markets were sufficient to ensure economic efficiency. The best role for government was a limited one, and somehow the benefits of the growth that this would engender would trickle down to everybody in society.

The other model was based on a set of ideas that has many sources. For instance, Keynes held that markets do not always work well. The problem that Keynes recognized was that wages can be too flexible. Indeed, when wages fall, people’s income falls and their ability to demand goods falls as well. Lack of aggregate demand was the problem with the Great Depression, just as lack of aggregate demand is the problem today. Imposing more wage flexibility can result in exacerbating the underlying problem of lack of aggregate demand.

Still according to Stiglitz, because of this current crisis, it is clear that almost no one today can believe in the rational expectations model and the efficient markets model, although there are a number of American academics who seem impervious to what has happened; no evidence will change their beliefs. They continue to believe that markets are fully efficient, even as unemployment goes up and as symptoms of irrationality become so evident. Yet once we reject the market fundamentalists, the question then becomes to try to understand the ways in which markets fail.

The nature of the problem that we face today can be put in the following way. The people in the global economy have the same skills as before the crisis, and the machines and real resources are the same as before the crisis. The problem is that there is an organizational failure, a coordination failure, and a macroeconomic failure. We are failing to put to work these human and physical resources to produce output. What this highlights is the importance of economic policy and organization. It is not our resources that have disappeared. It is the way we organize those resources to create jobs and to create value. The challenge, in going forward, is to try to create the aggregate demand that will put those resources back to work. The question is: what kinds of policies and reforms are likely to do that? If we start asking that question, we realize that many of our policy frameworks in recent decades have been making things worse. We have created greater anxiety, which, in times like this, increases savings rates and weakens consumption. All of these so-called reforms have made the real economy less stable and less able to weather a storm.

As we approach the problems posed by the current crisis, it is imperative to keep in mind the importance of maintaining the automatic stabilizers and social protection. For a robust and sustained recovery, we must address the underlying problem of insufficiency of aggregate demand, caused by global inequality as well as inequality within countries, and the build-up of excessive reserves, which is related to the global imbalances that have been a cause

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of growing concern in recent years. Unless the problems in developing countries are addressed in a more effective way than they have been in the past, the inequality will increase and the demand for excessive reserves will grow even greater.

We have to have a better way of managing global risks—including a new global reserve system to replace the dollar reserve system, which is fraying. While all work hard to fix the problems and reform the regulatory system, we have to recognize that these actions only fix the plumbing. Of course, it is important to have good plumbing. However, if we do not address these more fundamental problems, we will not be able to restore our global economy to sustainable, robust and equitable growth. And this brings us back to the proposals of the Stiglitz Commission set out in part I above.

III The Rise of Multi-Polarity: A Crisis of Western Civilization?

The uni-polar moment that started in 1989 with the USA being the only superpower remaining, looks like it will not last very long. It will indeed have been a “moment” in the historical flow of things. China has come up incredibly fast in the last 20 years and will become the largest economy very soon. This does not mean that China will not face problems of its own caused by its own policies. This is the case in the demographic field where the one-child policy is causing a rapid aging of the population. It may also be true in the housing area and the construction sector in general where a bubble of enormous proportions is likely to be in the cards. On the other hand, China is rapidly improving its railway infrastructure and now holds something like close to three trillion dollars in reserves. And so, China, economically and militarily, is on its way to become a superpower in its own right.

Russia is crawling slowly out of the hole which it had dug for itself after the disastrous transition period, both politically and economically. It still has a long way to go because it shows many traits of an OPEC country through the one-sided dependency on oil. The European Union remains a political dwarf in spite of its economic might. It may very well be that the current debt crisis will muster the political will in other fields next to the economic one. But the signs are not very hopeful. However, both Russia and Europe—if they play their cards right—will be important players in the multi-polar world of tomorrow.

The USA obviously is bound to remain strong on the global scene, economically as well as politically. But dark clouds are on the horizon. The financial deficit and its global debt raise complex questions about the way to get out of this conundrum. With increases in taxes and a sufficiently high rate of economic growth for the time being out of the question, the most probable way is through inflation with the ensuing problems for the dollar. This is akin to the European problem at the time of writing (January 2011). The European problems today will be America’s tomorrow.

Strangely, nobody talks about Japan anymore in the context of multi-polarity. It is true that the country has gone to a difficult 15 to 20 years, but don’t count it out. It remains an economic powerhouse and important global player, although it is bound to become overshadowed by China.

So far we count five candidates to play an equilibrating role in world affairs: Four old ones—USA, EU, Russia and Japan—and the new kid on the block China. One hears a lot of talk about India, Brazil and even South Africa. These countries are still a generation away of becoming real players, although India and Brazil are climbing fast. The latter country, after having been for so long a nation with a splendid future ahead of it without realizing this promise, seems to be about to make good on the promise of its potential.
But countries that are climbing and are being absorbed in the “concert of nations” will become more conservative, cooperative, and responsible. This will become more and more visible in the framework of the G-20 that has been set up in the wake of the Great Recession. A crisis of Western civilization is not likely to come from them. If there is to be a crisis it would rather come from the immigration, assimilation, and religious corner. The USA and Brazil are the champions in the field of assimilation; Russia, Japan, and China the laggards, and the EU somewhere in between.

All in all, the fact that other nations are coming up in the flow of the world economy and polity does not mean that they will therefore endanger Western Civilization. The USA and Europe will remain major players in the multi-polar world while other nations join them. The chances are that this will result in a more balanced and safer world than the uni-polar moment has been, although this is not necessarily based on historical evidence!

Epilogue, March 2012.

The above was written at the beginning of 2011. Now, more than a year later, it has become clear that the crisis that started in 2007 continues. At one point in 2011 it looked as if a double-dip recession was under way. Now in the beginning of 2012 the US economy is doing somewhat better, the stock market has been going up somewhat in recent weeks (not that this means very much), but the country is paralyzed by an excess of democracy that makes it practically impossible to implement common sense policy measures. Europe remains a group of independent countries that cannot implement the common sense measures to get out of the Euro-debt trap. The Euro crisis of the last few months has made a lot of noise and the pundits said of course that they had always predicted a disaster. But after the intervention of the European Central Bank, the remarkable policy measures of prime minister Monti of Italy, and the deal reached about the Greek debt, a sudden silence has set in. However, it is clear that the trimming of public expenses—in Europe as well as in the US—is not the kind of policy that will get Europe on a sustained economic growth path, on the contrary. And then there is the rest of the world. The global impact of the crisis has been important. It is true that Asia was not very much affected in terms of income per capita, but there has been much differentiation within the region. The CIS countries were hit the most, then the West, followed by African and the Middle East. Global hunger has increased by 200 million people in just two years.5

In this article I have only talked about the economic and financial crisis and not about the ecological one. The greening of the economy must go along with the financial cleaning of society and the two must be integrated. So, even if drastic economic and financial policy measures, like the ones proposed here, would be introduced this would not be sufficient. And clearly, any sign that the economy might be recovering is enough for drastic reform to be postponed. Let us not forget that the recovery out of the great depression of the 1930's had a lot to do first with the enormous expenditures due to WWII and second to the Keynesian revolution after the war. Most fortunately there is no sign of a worldwide war today nor unfortunately of a new Keynes who could integrate financial, economic and ecological reform.

Only a great turning point—that will go well beyond the present day—can get the old industrial countries and the rest of the world back on track. What policy measures must be implemented in the economic and financial field during this extended period was the subject of

5 Lawrence Haddad, “Five Assumptions of Dominant Thinking in International Development”, in Development, Vol.55, number 1, March 2012, pp.34–44.
this article. The policy measures needed for the greening of the economy will have to wait for another time.

In his inspiring and thought-provoking paper, Louis Emmerij raises the question of the nature of the ongoing changes in the global alignment of economic, social and political forces against the background of some major turning points in human history. He explores the issue of whether the developments that occurred in the global economy in the years 2007–2011 may be considered the symptoms of yet another crucial turning point. At the same time, he warns against jumping to conclusions, emphasizing that it is extremely difficult to predict pivotal historic events. This is why, in Emmerij’s opinion, nobody had predicted such events as e.g. the collapse of the Soviet Union and the communist bloc or the onset of the global crisis in 2007. This view, despite being radical and extreme, is largely consistent with the reality. Even though some studies and opinions did herald the above-mentioned turning points, those were only isolated cases. Perhaps it was due to their scarcity that such insights were not given sufficient attention either in academia or in economic practice.

One of the correct forecasts was made by Nouriel Roubini, who announced the inevitability of a global crisis two years before the collapse of Lehman Brothers. However, it has turned out that rather than listen to pessimistic indications, the world uncritically embraced the more pleasant-sounding ideas offered by Fukuyama about the end of history and the final triumph of neoliberal capitalism, the latter allegedly being irreplaceable and infallible as a model guaranteeing sustainable civilizational progress. Equally uncritically were accepted the views of Robert Lucas, professor at the University of Chicago and winner of the 1995 Nobel Memorial Prize in Economics, who in 2003 claimed that “the central problem of depression-prevention has been solved, for all practical purposes.” Such statements prevailed in the period leading up to the global crisis. Reality has brutally proved them wrong.

In this context, of particular note are the analyses contained in Louis Emmerij’s paper, focusing on the complexity of the ongoing changes in the global economy. These analyses serve as a warning against superficial, hasty, or excessively generalized assessments of the profound economic, social and political transformation currently unfolding on a global scale.

The paper leads to reflection on the question formulated in its title, which the Author leaves open. Importantly, this question is discussed not only in the context of the global crisis that hit in 2007. According to Louis Emmerij, the issue is far more complicated. The unprecedented rate of change in today’s world makes the future increasingly opaque and the present not quite satisfying. Under the circumstances, the importance of strategic thought may easily be underestimated.
Therefore, it is of fundamental importance to foster conditions favorable to the full absorption of strategic thought by socio-economic and political systems.

Emmerij in a way implies that the world is in need of a new global order. This is graphically and metaphorically reflected by the Chinese saying often quoted by those who study change: “We are like a big fish that has been pulled from the water and is flopping wildly to find its way back in. In such a condition the fish never asks where the next flip or flop will bring it. It senses only that its present position is intolerable and something else must be tried.” Thus, Louis Emmerij’s paper indirectly raises the question of the future of capitalism and the directions of its evolution. In Emmerij’s view there is some chance that the chaos may finally give rise to some systems which will make more sense than those in place today. The state of deeply punctuated equilibrium the world is now in, while increasing the risk of spur-of-the-moment chaotic actions, may also provide a driving force for progress and an opportunity for the elimination of many of the world’s ills.

The very fact that Emmerij exposes the difficulties related to the prediction of turning points encourages reflection on the mechanism of change in socio-economic systems. This brings to mind the period in which the era of feudalism was being superseded by capitalism. Characteristically, in light of historical records, that transformation was not perceived as a major turning point at the time. Actually, the above-mentioned pivotal systemic change was the result of three mutually reinforcing elements: the Industrial Revolution, the transformation of the social communication system from manuscripts to the printed word (thanks to Gutenberg’s invention), and a change in social stratification. The feudal lords and peasants were replaced by the capitalists (factory owners and bankers) and the proletariat.

In this context, it becomes clear that also nowadays changes are taking place in three areas fundamental to the socio-economic order. First, the so-called third industrial revolution (information revolution) is now unfolding. Second, digital language is superseding the printed word in the social communication system, and, third, traditional capitalists are being substituted by managers, whose authority is becoming increasingly autonomous. At the bottom of the social pyramid is the so-called consumtariat, that is, people affected by exclusion and illiteracy—the latter being not of the printed, but of digital, type. Today, the bottom strata also include the so-called precariat (precarious proletariat), or a new social class emerging in many capitalist countries that encompasses people who are either unemployed or have very low-paid jobs.

The questions asked by Emmerij about the future direction of the world’s development are all the more important due to the fact that the present disorder in the global economy does not augur well. What is needed to tackle this problem is a strategic vision as well as a shift from short-termism to a long-term perspective. The former is necessary due to the fact that the fundamental factor determining socio-economic changes is broadly defined technological progress and the innovations it generates in different areas of socio-economic life. The Internet-induced technological breakthrough now offers an unprecedented potential for systemic changes. These changes are bound to happen, but their directions and intensiveness will be determined by economic, political and socio-economic factors, including the readiness of governments to act on behalf of the future in the present. In the context of the information revolution and democratization of knowledge, one may expect that the directions of systemic development will be determined by wikinomics and macrowikinomics—“a Facebook for the government” of sorts—enabling the appropriate use of social creativity, social innovation potential, and social futurism. Today it seems that this potential can be more readily implemented under systemic models oriented at social equilibrium and cooperation rather than under confrontational models based on the neoliberal doctrine.

Warsaw, April 2012
A COMMENT ON THE ARTICLE
BY LOUIS EMMERIJ
“THE GREAT TURNING POINT 2007–2011?”

Let me start with the introductory part of the brilliant article by Louis Emmerij dealing with the difficulties incurred in trying to predict turning points. It is not easy to assess—as he rightly notes—even the occurrence of such points in the past, especially passé récent… The more so those to come—and specifically when they may emerge. It is not entirely true that nobody foresaw such events like the implosion of the Soviet empire, or the outbreak of the crisis which started in 2007/2008. Zbigniew Brzeziński did forecast the decline of Communism, Nouriel Roubini and several others warned of the big crisis coming. But nobody listened, let alone believed, and no exact timing which would dramatise such warnings was—and could—be given. And no wonder: the turning points need—to “mature”—a propitious environment, political, social or economic one, or their combination. For instance, the major turning point of 1989–1991 in which Poland was involved as a force motrice could have happened in 1980–1981 already. However, at that period, called in Poland a “festival of freedom”, and interrupted by the introduction of the martial law, the internal and even more external conditions did not allow to “Solidarność” to achieve its aspirations. If not for the costly Soviet military presence in Afghanistan as of 1979, Poland would experience then a “friendly intervention” which might have postponed or annihilate for long any chance for the velvet revolution of 1989. The situation did change in the end of the 1980s though. As a result, we experienced what can be termed beyond any doubt the turning point in the political and strategic configuration on the planet: the end of the East-West division of the world, and ideologically motivated enmity between the two “camps”. The full-scale turning point could materialise.

It may be too early to say without hesitation whether the big crisis we still bear the consequences of may be qualified as the next turning point, incidentally coming less than 20 years after the former. I tend to agree nevertheless with the Author that we are faced with a real and long term one. Not because of its unquestionable gravity, its symptoms and immediate multifaceted consequences. Because of its causes, especially of behavioural nature, as I tried to argue in my article in this very volume¹. Still, even four reasons pointed out by the Author probably suffice to consider this unfinished period a turning point. Perhaps we are to face such points more frequently now? Even though it is not the end of capitalism(s) nor the birth of another system(other systems). We have already entered a multipolar world. To the satisfaction of one former superpower, several emerging powers and—nolens volens—“old big powers” enjoying

¹ WORONIECKI, Jan. “Beneath the Crisis: Decline or Metamorphosis of Capitalism ?”, p. 97–120.
the special status in the Security Council. And to the dissatisfaction of the lonely power reigning in the \textit{pax Americana} world, the world now fading away. We simply may have a multiplicity of systems and—as for capitalism—even greater variety of different systemic solutions that we have been having till now. Provided that we overcome the crisis phenomena including adverse impact on democracy plaguing capitalism as a result of the choice of the model named by Anatole Kaletsky as “Capitalism 3.0” and as the “Washington Consensus” in its export version. A new development paradigm should be sought, and “the West” does not seem to be its unique source... Will it have any influence on its shape at all?

It is hardly possible to disagree with the Author that a new set of economic and financial (I would add related social) policies is badly needed. Although pressure of the crisis does not favour—as it should—long term thinking and long term solutions to the accumulated problems, and long perspective is not appreciated enough, neither by governments nor by most international organisations. The refurbished G-20 he refers to has indeed lost by now some of its initial fervor and impact. It has no formal status and mandate despite the economic and political potential of the members, and departure from the G-8 formula which seem to speak in favour of its \textit{raison d'être}—and \textit{raison d'agir}. Nonetheless, it may be considered an indication where to go in the search for adequate global governance as needed. This is how I understand the Author’s approach and specific proposal of the Global Economic Co-ordination Council, akin to the older idea of the (United Nations) Economic Security Council with comparable prerogatives as the existing Security Council. Observing the preparatory work to the G-20 summits from my perspective of the Permanent Representative of Poland to OECD and member of its Council till 2010, I noted approvingly that several international organisations were invited to help, not only the Bretton Woods ones but also ILO and OECD, for that matter. On the initiative of the German Chancellor Angela Merkel heads of those organisations (i.e. of their secretariats) met several times to advise. Supplemented by selected national experts, it might be a precursor of the panel suggested by the Author.

Deeper systemic changes to be implemented in longer run he suggests in Part I are as necessary as they seem extremely difficult to arrive at, owing to the expected lack of consensus. A new global reserve system (besides the reinforced Bretton Woods institutions, or IFIs) as a remedy to persistent global imbalances constitutes a logical proposition. Yet the example of the euro zone shows how hard is to agree on the magnitude and mechanism of such ventures. As to any new comprehensive arrangement on the scale of the system introduced in 1944, the chances in the nearest time are slim. It would require a consensus from both USA and Europe, and the emerging powers. Only in a more distant future, say 15–20 years, when China probably becomes the economy No. 1, it may start to look for an alternative system though not necessarily the one without the dollar. Rather, the one based on some kind of jointly managed—and limited in scope—a deal that would (a) better balance interests of creditor and debtor and (b) avert the aggravation of deficits. Moreover, a deal which would hardly emerge without extraordinary circumstances like... another crisis. Philip Coggan suggests that the current Bretton Woods II regime might be replaced by the one with more capital controls and other constraints, possibly some sort of taxation of the financial transactions as advocated by France, and realignment of...

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certain currencies. In short, a managed—and not one left to the mercy of markets—exchange-system, with inbuilt but not unlimited flexibility. A system not entirely made in China and other emerging powers—but impossible without them as co-authors and full-fledged participants. Therefore, a reform of IFIs and empowering the emerging economies in their midst seems much more feasible in medium-term.

As to the new Council, mentioned above (in lieu of ECOSOC? Within or outside the UN system?), the prospects are dim in view of the difficulty to create (and finance) yet another body, and to agree on the modalities of its action and membership (permanent or rotating?) and, finally, the anticipated unwillingness of G-20. As to the financial sector, directly responsible for the problems, it needs more regulation than was hastily introduced so far. The sector was—hêlas—very innovative but at the high cost to its clientele and eventually the national budgets (i.e. again the taxpayers). Risk-taking on behalf of its clients and reserve capital levels have thus to be settled by law. Development finance originating from novel sources (like Tobin tax), as is known, encounter rather selective support. The Stiglitz Commission’s idea of issuance SDRs might be of some help but this marginal element of the world monetary reserves lacks the vital ingredient of liquidity while it is precisely the global liquidity which needs to be given a boost; there’s no way how SDRs might replace the dollar.

The Author’s recommendations are certainly more ambitious and respond to many challenges confronted not only by the developing countries. However, there’s no recipe how to break a vicious circle: at the time of the crisis the attention is directed to ad hoc remedies, and afterward (and before the next) the recognition of the necessity of long term structural reforms tends to shrink...

Thus he is unfortunately right in saying that “it is not the policy ideas that are in short supply, but the political will to take action”. And consensus on ways to solve things.

Part II contains fine description of the evolution of the economic policies and—in particular—of the neo-liberal orthodoxy combined with the conviction, and advocacy that “one-size-fits(or must fit)-all”. Indeed—as Eisuke Sakakibara quoted by the Author maintains—systemic diversity should supersede a forceful application of a universal model. Reducing the state (government) role (i.e. excessive deregulation) in favour of the invisible hand of half-blind markets proved wrong, and the promised “spillover effect” did not materialise. The Author lists organisational, co-ordination and macroeconomic failures to which I would add (a) disregard for the real economy in pursuit of high profits, ignoring related risk, in the financial sector, and (b) ethical crisis in business and, last but not least, a triple nature of the more affluent segment of the populace, as most of us have become not only producers and consumers but also investors (forgetting, more often than not, our responsibilities as citizens). A hidden cause of the crisis and “the main culprit has not been corporate greed or CEOs’ insensitivity but rather the increasing pressure on companies and financial institutions from consumers like you and me who want better deals, and from investors like us who want better returns”9. The thesis I developed in my contribution to this volume.10

Talking in the end of Part II about managing omnipresent risks, the Author did not forget social dimension of the crisis and the need for maintaining (or reintroducing) the automatic stabilizers

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6 Ibidem, p. 259.
10 WORONIECKI. “Beneath the Crisis”, op.cit.
and social protection not only for moral reasons but also because of the demand repercussions of growing inequality—global and domestic. Issues which have to be addressed by both developed and developing countries.

I fully share the Author’s view to the effect that the emerging powers will become co-operative and responsible, their goal not being to undermine the Western economy. Such a policy would be suicidal: in fact, they would suffer from any new crisis—or even profound recession—in the “old” powers. “The USA and Europe will remain major players in the multi-polar world while other nations join them. The chances are that this will result in a more balanced and safer world”—the Author wrote in early 2011. From the current perspective, he appreciates the progress and identifies the setbacks and threats. Longing clearly for a new Keynes to rectify ill effects of neo-liberal policies… And the future of the global economy depends on what economic and financial policy stance, especially long term,—if any—is adopted and followed in practice by key players. In my opinion, also on whether these two “groups” of powers—the West and the “new East”, or BRICS, choose co-operation—or a destructive rivalry. The first scenario carries a chance for taking up, before it’s too late, the question “Quo vadis, the Planet”. Just a chance. An intellectual input from forward-looking nations and organisations is another condition.

I will structure my comments in a disciplined manner, what means that I will present my approach to the problem of turning point of 2007–2011, which is different than the vision given by L. Emmerij. Before giving my counterarguments to the opinion formulated by L. Emmerij I want to explain what I liked in his paper, what will be the introduction to explain, where and why there is a disagreement between his understanding of the current situation and mine.

Making the long story short I will summarize what L. Emmerij presents in his paper. As I understood his argumentation is following: (1) One can be sure that a certain event can be considered as a turning point when it really brings changes, what means that we can evaluate it \textit{ex post} not \textit{ex ante}. (2) the current situation is complicated as post-industrial economies are in trouble and solving all problems which occur in their economies requires time. (3) the neo-liberal policy has to be corrected and revised in light of the current role of stimulating economy expenditures. (4) The US and the EU will stay as important players in the international economics but the world moves towards multipolarity what undermines the unipolar position of the US.

I find the standing point of L. Emmerij interesting and stimulating, what should not be read as agreement with his interpretation of the facts and vision presented in his paper. The stimulation of the paper can be measured by the fact that the ideas presented are provoking me to produce my opinion, not necessarily agreeing with the vision presented by L. Emmerij. Commenting the paper I would start with advantages and its strengths as I see them. First the paper concentrates on topical issues, choosing most important elements which he comments in a well organized and complete manner. Second, the comments are not solely based on what the Author thinks on specific issues but he aptly quotes literature and other economists in support of his views. Third, his comments and visions are well defined and clear as a message addressed to the reader. Fourth, the Author explains precisely what is the goal of his paper and how he will dwell with it in the paper.

Now I need to come to the part where I show the points in which I disagree with the vision of L. Emmerij. I accept that social sciences are built upon two pillars: theory and practice and we need to confront them both to evaluate properly if things are properly approached and weighted or not.\footnote{Ch. Frankfort-Nachmias, D. Nacias, Research Methods in the Social Sciences. Fifth Edition, Hodder Arnold, London 2006, p. 46.} This Emmerij’s observation is part of the argument concerning doubts if the crisis of 2007–2011 can be considered as a turning point. Nevertheless problems exposed by the
financial crisis of 2007/2008+ when compared with the crisis of the 1930’s indicate that a number of solutions introduced after the Second World War, mainly by institutionalizing the international relations (and the Bretton Woods system of 1944) have eliminated a number of dangers from the past. I agree that the postindustrial world has to change and it will take time to do so but I disagree that those changes are so deep that they undermine the position of the US or the EU in the world, degrading to a large extent their leadership. Moreover, in my opinion it is advantageous to estimate that the position of the US and the EU is strongly undermined by the crisis, while the position of BRIC is strengthened. This is so as countries which still remain their economies closed are less scared about the step they need to do in nearest future by opening and reducing protection. To be clear here I need to say that BRIC’s belong to that group of those who need to open up, while the US, EU or wider Europe, Chile, Australia—all belong to the group of most open up economies2. I agree that changes here are needed, they require time but at the same time I would argue that the conditions to change are generally favorable, especially when we take into account the fact that the two leaders are confronted with strong competitors of the emerging economies and namely the BRIC/BRICKS3. The “Old Leaders” are supplied well in instruments which support their changes. Moreover tensions exposed by the financial crisis of 2007/2008+ resulting in crisis of a number of EMU members (Greece, Ireland, Italy, Portugal and Spain) or outside EMU (UK)—create pressures to change. On the one hand the changes are introduced under the pressure of mechanisms introduced by the EU, ie. the new Strategy Europe 2020, the changed Stabilization and Growth Pact, some new legal regulations introduced within the package of 6, the European semester, new financial instruments (like MTFA—Medium Term Financial Assistance, EFSF—European Financial Stability Facility4) and presence of the IMF in the stability procedure of those states which have biggest problems with the fiscal stabilizati 2.

Second I disagree that the liberal approach to the economy was rejected in result of the crisis and needs to be replace by strong interventionists measures. In other words I am not in the group of economists who confront M. Friedman with J. M. Keynes. There is a number of commons in the approach of the two economist. Main common should be found in their interest in monetary matters, which traditionally are assigned only to Friedman but not Keynes. The Friedman’s approach is well known and thus does not require additional presentations. Less known are Keynes interests in monetary area. To make the story short it is enough to say that Keynes in his economic prescriptions has given two type of remedies. First for a short perspective, which was linked with creation of jobs and a well established social package, which together have created tensions in the national fiscal policy. The second was connected with solutions enabling withdrawal from intervention and intensive budgetary spending. Keynes was aware that once the money enters the budget on the side of expenditures it makes difficult any decision to withdraw from that spending. He has seen a strong incentive to change that by opening of the national economy, institutionalization of external relations of a state. He has seen that within activities undertaken by state within the WTO, IMF and World Bank with its regional agencies. Keynes worried about the world finances has invented (with a small group of eleven other economists) the system known under the label of the Bretton Woods System (1944). This system put into work has created the biggest and most important interdependence in the world economy5. It is necessary to

2 This can be found in the Heritage Foundation Reports (last prepared in 2012) and measured by the freedom index.

3 BRIC/BRICKS (acronym from first letters of the name of such emerging economies as Brazil, Russia, India and China or in wider approach additionally Korea and Republic of South Africa).

4 In the USA 2008 brought about a new instrument called TARP—Trouble Asset Relief Program) introduced by the regulation known as Emergency Economic Stabilization Act. It introduces additionally such financial Instruments as equity warrants and senior debt securities. All are aimed at stabilizing the financial market.

5 Theory concerning interdependence were introduced by R. O. Keohane, J. S. Nye, Power and Interdependence, Longman 2000.
say that ties of interdependences create best conditions for parties engaged as far as security is concerned. Trying to hurt an interdependent economy a country can easily be hurt itself in result of a feedback which is automatic and does not require specific actions to be undertaken. Such “Nelson’s” grasp means that countries more think about mutual interests and cooperation than possibilities of concurring one by another or hurting one by another. I refer here to the share of the US dollar as a reserve currency in world stocks of currency accumulated globally. Enough to say that the US Reserve does not consider the US dollar as a reserve currency. The US keeps major stocks of its reserves in gold, what is resulted by the former system of currency reserves pegged to the gold. Low value of the dollar helps the US to diminish the current account deficit, increasing the value of share of the US currency reserves in global reserves with growing price of the gold. This shows that the US still keeps its hegemonic position.

Now the question of liberal approach to the economy. Washington Consensus seems to be continuation of such approach. Of course, one can say that J. Williamson and His Consensus belong today to the past, they are already history. A number of economists think so and write this openly. In that number are economists with such names as D. Roderik, F. Fukuyama, or quoted by L. Emmerij J. Stiglitz. All with well established esteem and position. Being known does not automatically mean that all what the distinguished economist says is correct and has ties with the reality. Sometimes it does not. R Gilpin turns our attention to such facts in his The Political Economy of International Relations (1987).

Finally the question concerning number of poles in the current stage of international relations: unipolarity, bipolarity or multipolarity? This is the question—according to L. Emmerij. I would look at the model of international relations as non-polar rather than polar world. Bipolarity was constructed on differences, while multipolarity functioned in world where powers balanced their models of cooperation one with a group of other ones. Now we have one economic system based on market, domination of a democratic political system and national economies are opened and production factors move internationally — making the economy international. Can we define in such conditions where our influence starts and where it ends? Can we distinguish tailored spheres of influence? Can we say which country governs which part of the world? I think that such distinctions are difficult or even impossible. States are interdependent and being connected internationally cannot be separated one from another. This on the one hand makes states more secure as interdependence eliminates use of power internationally within the community. On the other hand interdependence makes countries more reliable on further integration which shows that the only way out from the current difficulties (like EMU crisis or limited competitiveness) is to widen and deepen integration going beyond the current limits of this process.

Coming to the concluding point I want to say that world has reached a turning point which will be characterized by:

• Further coordination and cooperation of states, coined into global integration, leading towards a world single currency;
• Triumph of liberal philosophy in the economics, followed by more common institutional arrangements and more international law regulations;

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• Closer cooperation of G-20 under the leadership of the US and the EU;
• Continuation of consecutiveness of the world economy integration;
• More use of multi-level management in the politics of decision taking;
• More cooperative approach to the international relations leading towards more self-limitations of states.

The European model of integration will be applied on a global scale as far as internal market is concerned but cooperation will go beyond that, embracing four liberties, common currency and solutions brought about by the mechanism of the European Budget General\textsuperscript{10}. The latter instrument until now was used on limited scale by the member states to balance their budgets and often was seen as an instrument which results in increase of national budgets deficits. Such contradictive approaches are resulted by surface interpretation of the use of certain solutions which are not followed by studies helping to understand applied models of cooperation, multilevel management and simple leverages which are applied here.

\textit{Podkowa Leśna, Warsaw, 13 March 2012.}

Twentieth century can be said to be a watershed separating what is now known as modern from the traditional. It was a century marked by a number of scientific breakthroughs, a century that was witness to two world wars, rise and fall of the USSR, freedom of Asia, Africa and South America from the stranglehold of Europe and a century that made the national boundaries porous in matters economic, information, and culture. How critical are the so-called turning points of the twentieth century in shaping the twenty first century is the subject matter of the discourse that follows.

Until the middle of the twentieth century, many European intellectuals considered Europe to have reached a stage of capitalist mode of production which, in their view was the penultimate stage of development. The theory of European miracle first propounded by Eric Jones in 1987 was based on the premise that European civilization prior to 1492 was more advanced and progressive than any other civilization of the world. How else it could develop capitalism, reach the Americas first, and dominate world trade and politics, went the argument. This thinking had its roots in Max Weber’s Theory of Protestant Ethics, Georg Hegel’s Spirit claiming the European culture being inherently superior to that of other cultures of the world, and Immanuel Wallerstein’s assertion that the world-economy originated in Europe first. The European miracle theory was criticized by many historians for its Euro-centrism, and ignorance or deliberate side-tracking of the achievements of great civilizations of India and China before 1492.

Underlying Eurocentrism was an element of racial superiority. Human civilization passed through five stages of evolution: primitive hunter-gatherer, farming, early civilizations, feudalism, and capitalism. Only Europe was considered to have passed through various stages and finally reached the stage of liberal-capitalism. It happened because Europeans were endowed with certain innate racial qualities no other people had. And hence they had a role to play in civilizing the world. The other peoples of the world were treated as white man’s burden. Thus they justified race-based slavery, genocide, colonization and other forms of political and economic exploitation of the other continents.

The colonizing period involved the settlement of the Americas and Australia with European people, and the establishment of colonial administrations elsewhere. It changed the history of the world as the number of the original inhabitants of Americas and Australasia decreased and those of European origin increased. Today, a majority of Americans, Australians and New Zealanders trace their ancestry to Europe. History of these lands begins with the arrival of Europeans there. The history and culture of the indigenous people is not only ignored but also treated with disdain. The Eurocentric values and structures built during this and earlier two centuries are now on the
verge of collapsing as the inner contradictions of their own and the new forces generated outside
have joined hands to give rise to a world order that is multi-polar and multi-cultural.

This is not, however, to suggest that there is a clear break between the two centuries. In
many aspects of life and living twentieth century has not yet ended. First, the tendency to
subjugate others has not gone even if there are no European colonies in the world. First and
Second World Wars weakened the European countries and indigenous freedom movements had
so much frightened them that they decided to quit and adopt subtle means to have control the
less developed countries. Today, the USA and EU nations run the world the way they want. It is
especially so after the demise of the Soviet Union. Loan and trade often through World Bank,
IMF and WTO are the instruments to keep the Third World a willing victim of their self-interests.
The poorest 40 percent of the world’s population accounts for 5 percent of global income; and the
richest 20 percent accounts for three-quarters of world income.

Second, the environment destruction set in motion in nineteenth century continues unabated.
Only the perpetrators of the crime have changed. In days colonial, it were private companies,
which fleeced the earth of its plant, energy and mineral resources; now it is the multinational
corporations in connivance with national governments which are pushing the earth towards global
warming and climate change.

Third, the probability of global wars has receded but human suffering due to small and
medium size conflicts continue to this day. Terrorists threaten one and all sparing none; and no
individual is sure of his safety because the twenty first century youth has the tendency to resort
to violence. Small scale conflicts and wars continue to take precious lives in many countries of the
world.

And fourth, poverty, pestilence, and diseases that took millions of lives in twentieth century
have not disappeared. 22,000 children die each day due to poverty, says the UNICEF. And they
“die quietly in some of the poorest villages on earth, far removed from the scrutiny and the
conscience of the world. Being meek and weak in life makes these dying multitudes even more
invisible in death.”

And around 27–28 percent of all children in developing countries are estimated to be
underweight or stunted. The two regions that account for the bulk of the deficit are South Asia
and sub-Saharan Africa. If current trends continue, the Millennium Development Goals target
of halving the proportion of underweight children will be missed by 30 million children, largely
because of slow progress in Southern Asia and sub-Saharan Africa. About 72 million children of
primary school age in the developing world were not in school in 2005; 57 per cent of them were
girls. And these are regarded as optimistic numbers.

Infectious diseases continue to blight the lives of the poor across the world. An estimated
40 million people are living with HIV/AIDS, with 3 million deaths in 2004. Every year there
are 350–500 million cases of malaria, with 1 million fatalities: Africa accounts for 90 percent of
malarial deaths and African children account for over 80 percent of malaria victims worldwide.

But in many other respects, changes are obvious and unprecedented. First, information
technology has broken many of the barriers in people to people interaction, trade and commerce,
and humanitarian assistance in the event of natural and other catastrophes. Second, the UN is
now more active than ever before in warding off wars and conflicts. It has currently deployed
its peace keeping forces or posted observe missions at 14 places in the world. In all it has
intervened at about 40 places since 1990. Third, the civil society is now far more active in uniting
the people and in securing the rights of the underprivileged than ever before. Fourth, democracy
is on the march all over the world. It is only a question of time when even countries like China
tread the democratic way. And fifth, the interregional disparities in development that marked the
national development scenario in twentieth century, has started giving way to a more inclusive
development. In Bihar, the most backward state of India, a new leader of Gandhian mold has emerged; he has changed the development trajectory within a span of five years in favour of the poor peoples and regions.

Would the third decade of the twenty first century herald a new era of peace and prosperity, an era of wherein values that bind humanity into a common bond, differences in geography, history, religion, ethnicity, and language notwithstanding would supersede the political and economic interests of the ruling elites or it would be a continuation of the twentieth century with only the outer facade changed deceptively? This paper tries to answer these questions from the perspectives of South Asia, a region known as the cradle of one of the ancient most civilizations of the world, and which gone through many ups and downs during the last five centuries.

More on Euro-centrism

As pointed out earlier, Euro-centrism ruled supreme during nineteenth century and continued to grip the minds of people during the first half of the twentieth century. Everything was evaluated against European values, beliefs, thoughts, styles of life, and economic and political interests. Europe was considered far more advanced than any other continent of the world culturally, socially, and economically. Even geography was modified to make Europe look great and center of the world. Eurasia, one of the six continents of the world was divided into two separate continents of Asia and Europe leaving countries like Russia (which span Asia and Europe) in quandary. The separation is based not on physical geography but on political considerations.

Geography was further distorted by selecting Mercator projection for the world map so that Europe and North America appeared disproportionately larger compared to India, Africa, Central America and Australia. To ensure that the United Kingdom remained the center from which East-West distances were measured, Greenwich, London was recognized as the prime meridian (0° longitude) in 1851; all other meridians are marked E or W of this meridian until they meet at 180° longitude passing through the Pacific Ocean. Anything east of the prime meridian formed part of Eastern Block and that to the west it was designated as Western Block. Various other prime meridians were used during the Age of Exploration but they were all abandoned in favour of the one passing through London. The current prime meridian has the advantage that it places the International Date Line in the Pacific, and needs only minor modifications to avoid any country having two dates at the same time.

Every other country of the world was seen in relation to Europe. Americas became the New World for the Europeans came to know of it only in fifteenth century. Central American islands became West Indies for Columbus mistook them as part of East Indies (India). South-east Asia became Far East for it was too far away from Europe; and West Asia was termed 'Middle East' for it covered the middle ground between Europe and East (India).

The dominance of Western Civilization extended not just to Central and Western Europe, it brought within its fold the former European colonies of North America, South America, Australia and New Zealand. The Olmec, the Toltec, Teotihuacano, Zapotec, Mixtec, Aztec, and Maya in North America and the Inca, Moche, Chibcha, and Canaries in the Andes were no longer the aborigines who migrated from Asia to Americas and Australia through the Pacific Ocean. They became raw materials of the westerners to transform an Old World into a New World.

The colonization of Africa by European nations was accompanied by relegation of the Africans as second class citizens. The aim was to give Europeans political power far in excess of their numbers in such countries like Rhodesia (now Zimbabwe) and South Africa. King Leopold II of Belgium considered the Congo Free State as his personal property and forced the native
population to work free for him. So much so that the history of the African people was written as if there was practically nothing there, not even the towns like Dakar, Banjul (Bathurst), Abidjan, Conakry before the arrival of the Europeans.

Much worst was the situation in Australia. The six separate and self-governing British colonies of New South Wales, Queensland, South Australia, Tasmania, Victoria, and Western Australia were declared as constituent states when the Commonwealth of Australia came into being under the Constitution of Australia on 1 January, 1901. The first major law passed by the Federal Parliament was The Immigration Restriction Act 1901 which placed “certain restrictions on immigration and... for the removal... of prohibited immigrants”. Supporting the Bill, Prime Minister Edmund Barton, said: “The doctrine of the equality of man was never intended to apply to the equality of the Englishman and the Chinaman” [7]. The Indigenous people of Australia were denied not only the compensation for the land taken over from them but even citizenship, and every effort was made to eradicate them.

The ideology of European supremacy extended to North and South America too. In North America, the American Revolution (April 19, 1775–September 3, 1783) was followed by the Revolutionary War involving a number of European countries and the Peace of Paris signed in1983. Emergence of the USA converted Eurocentrism into Americentrism epitomizing the zeitgeist of the Jacksonian Era [8] and Manifest Destiny [9]. In South America Eurocentrism was best exemplified in Argentina where the myth that Argentina was a country of European immigrants was not different from the white Australia policy. No wonder then that the anti-colonial movements of 19th century in countries like India and China were not only aimed at throwing the colonial rule but also at uprooting cultural Eurocentrism.

By mid-twentieth century (end of World War II), process of decolonization was hastened and the worldwide dominance of European culture waned drastically. The change has been most apparent and drastic in the USA, triggered as it was by Civil Rights movement. Country after country changed the laws to do away with Eurocentrism and today most of the countries of the world consider it a cultural aberration that must be consigned to forgettable history.

**Impact of Eurocentrism on India**

Eurocentrism left its impact even on China and India whose civilizations were older and in many ways superior to European civilization. These civilizations were branded as ‘traditional’ and inferior to the European civilization that was ‘modern’. The philosophical, medical, and scientific contributions of these civilizations were rarely highlighted and were often downgraded to prove European superiority. The influence of Asia especially of India on Greek and Roman civilizations was ignored and suppressed.

The history of India goes back to at least 5000 BC. It has been the cradle of one the greatest civilizations of the world. Once the British occupied it in 19th century India then covering what is now India, Pakistan, and Bangladesh was first converted into a captive market for British goods. The indigenous industry and commerce was destroyed or co-opted to serve British interests. To supplant the cultural heritage they introduced British system of education in English medium to change the mindset of the youth in favour of Europe and European culture. History was rewritten to prove that Indian civilizations was not as old as claimed and that everything Europe was modern and therefore in the interest of Indians.

These policies led to a series of mutations in the thinking and style of life of the people. Everything European was appreciated and all that has been left behind by Indian culture and civilization was dubbed as traditional and unscientific. The weaknesses that had crept in Indian
culture during the last 1000 years were highlighted and all that was great, universal and worth being proud of was ignored. Every attempt was made to divide the people and to weaken social cohesion and economic resilience. The old feudal order of the medieval times was re-established to sub-serve British interests. The institutions of maharajas, rajas, nawabs and zamindars (land lords) were back minus their social responsibilities. The great Universities like Nalanda were forgotten and Cambridge and London became the centers of higher education. The new universities opened in Calcutta, Bombay and Chennai, Karachi and Allahabad were patterned on British universities. British thus tried not only to rule over India but also over Indian mind.

These developments had both negative and positive reverberations. While they created an army of educated men and women wedded to western values, they also produced rebels like Rani Laxmi Bai, Shaheed Bhagat Singh and many others who wanted to throw the British out by force. In between were persons like Maharshi Shraddhananda, poet Rabindranath Tagore, and Swami Vivekananda who reminded the people of India of their hoary past, and its cultural heritage. They told the people in emotion filled voices how their cultural achievements were supplanted and exorted them to rise again to occupy the center-stage in world affairs. And then emerged persons like Mahatma Gandhi who combined the two traits: they made the people of India proud of their cultural heritage and fought the British with a typically Indian weapon of Love. The first group waged a war of Independence in 1857; they fought bravely but lost. The war of independence, however, did not come to a close; after a temporary break, new revolutionaries emerged on the scene and the last one who still arouses pride in every Indian was Subhash Chandra Bose (Neta Ji) who sided with Japan during the Second World War and led the Indian National Army (INA).

The second, group embarked upon a silent war to mould the minds of the people to usher in a cultural renaissance and also to prepare the ground for a more concerted and prolonged war of independence. The task was not an easy one. Even the man on the street had accepted the superiority of the British and their right to rule the country. It was difficult to convince people that British could be thrown out especially after the 1857 debacle. In this otherwise hopeless situation came Mahatma Gandhi on the scene. He had the courage of rebels, understanding of India's past and unique role in world affairs, and a burning desire to change the world into a better place to live. He was an Indian enveloped in a global culture of peace. He launched his project in a distant land, far beyond the Asian shores in South Africa and then returned to India in 1915 to use the weapons he sharpened there in India. The opponent was the same (British Government), the weapon was the same (Satyagraha) only the arena of war was different and larger but far more familiar.

Thanks to Gandhi, India fought its war of independence in a unique way, the nonviolent way and won its freedom on 15 August 1947. But the country stood divided into two: India and Pakistan. It was a tragic and violent end of a nonviolent war. But Gandhi did not feel disheartened. He saved the lives of many Muslims in India and many Hindus in Pakistan and set upon to make India-Pakistan boundary irrelevant in so far as people to people relations were concerned and to remove from the mind of educated Indians the love for the British ways. One was aimed at making the Indian sub-continent a land of peace; and the other, to prepare Indians for a cultural renaissance.

Gandhi passed away on January 30, 1948. His two missions remained incomplete. India and Pakistan have been fighting ever since 1947. Pakistan had to pay a heavy price for sowing the seeds of communal discord: it vivisected British India into two nations on religious basis only to face a similar vivisection on linguistic basis when in 1971 when East Pakistan declared independence and became Bangladesh. The remainder of the Pakistan of 1947 is on the verge of collapse. Terrorism has gripped the nation. India is still its enemy number one.
Turning Points of 20th Century

Humanity has passed through very many points of decisive changes in political, economic and social values and structures of the time and forced humanity to reorient and reorganize itself. Twentieth century was the penultimate century of Euro-centric world which had its roots in European renaissance (1300–1600). It was a century which Europeanized Americas and established European suzerainty over practically the whole world. What emerged out of it was a world divided into three camps: the First World including West European countries, the USA, Canada, and Australia; the Second World including the Soviet Union and East European countries; and the Third World including the appendages of the two camps in Asia, Africa and Latin America.

By the time the twentieth century was born, the Third World was almost fully colonized. Its natural and human resources were being exploited unmindful of the needs and aspirations of the indigenous population, to enrich the First World as a first class world in matters intellectual and economic. The new opportunity the First World had was the byproduct of a culture that gave prominence to material advancement often at the cost of human and spiritual growth. The lust for political and economic power grew as science and technology opened new avenues for exploitation of nature and human beings. Everything was seen through the European glasses.

This century witnessed the peak period of European ascendancy and the beginning of a multi-polar world forcing the former colonial powers to take a back seat and compelling Europe to coalesce as EU to keep its identity intact.

European Civil War

The two World Wars of the 20th century engulfed almost every populated part of the Earth. Most of the combatants of the WW I were also the combatants in the WW II, even if the side on which they fought was not the same. Since the causes of the two World Wars were the same, historians at times characterize them as a single 30-year (1914–1945) ‘European Civil War’ [10]. The basic causes of the two World Wars were not different from any other war but what was special about them was the global reach of the conflicts facilitated by rapid transport and communication systems. The steam ship and railways together with telegraph and radio helped coordinated and immediate military action over a very wide area. As such, the loss of life and property was enormous. Estimates of the number of people both armed and civilian killed in the two wars range between 60 and 100 million.

The two World Wars profoundly changed the course of world history. First, the European empires collapsed partly because they had no strength left to retain their rebellious colonies and partly because the fear of total annihilation in the event of another war haunted the people all over the world. This fear was expressed by Albert Einstein when he said in 1947: ‘I do not know with what weapons World War III will be fought, but World War IV will be fought with sticks and stones.’ [11] Second, the Third World was freed from the bondage of Europe, and modern international security, economic and diplomatic systems such as the League of Nations, United Nations, World Bank, IMF, WTO, WHO, UNESCO, ILO etc. were established to ‘collectivize’ international affairs and to ensure that the global community had a chance to bring peace before conflicts turned into hot wars. Third, many of the technological developments without which we cannot live today would have not been possible without these wars. Important among them are: jet aircrafts, nuclear energy, penicillin and electronic computers. And fourth, persons like Mahatma Gandhi who tried to take humanity to the path of peace would have not emerged on the scene but for what happened in twentieth century.
Rise and Fall of the USSR

The Russian Revolution (1917) was the second important turning point of twentieth century; it challenged the imperial hegemony of Europe over the rest of the world and tried to establish an economic and political order which was contrary to all that capitalism nurtured and furthered, stood for. The means it used to achieve its objectives were as violent as the ones used in colonizing the world and winning the World War I. While the First World War claimed 15 million lives, the Bolshevik Revolution claimed close to 9 million lives. It proved beyond doubt that unless both means and ends were pure humanity could not get out of the shackles of tyranny perpetrated by those who happened to enhance their physical and/or economic power. The imperial system of governance was replaced by the dictatorship of the so-called proletariats. Stalin (1924–53) eliminated nearly 20 million people, more than double the Russian Revolution had claimed. The Chinese Civil War (1945–49) claimed 2.5 million lives and Mao’s regime in China (1949–75) victimized 40 million people. [12]

The Soviet ideology spread to Eastern Europe all the way from Ukraine in the east to East Germany in the west and Estonia in the north to Yugoslavia in the south. And in due course of time, it spread to China, South-East Asia, Africa, and even to Central America. There was hardly a country in the world the USA included, which did not have a Communist Party ready to take over the reigns of the government the moment people were ready to throw the capitalists out (Fig. 1).

![Fig. 1: Marxist-Leninist or Maoist States in 1983](image)

The communist regimes were quite akin to the preceding imperial regimes in matters human values. Once the traditional ruling classes were eliminated, the revolutionaries established a single party government and banned all ideologies and institutions that went contrary to Marxist ideology. To ensure that alternatives did not pollute the minds of the people, the communist governments insulated their respective countries from the rest of the world with what came to be known as Iron Curtain. By the end of 1991, the Iron Curtain put in place by communist regimes could not withstand the human urge for freedom on the one hand and the new forces unleashed by information technology and globalization on the other. It cracked and broke into pieces; the USSR receded into history as did the term Second World. The process of disintegration of the
USSR was set in motion by a down turn in the economy, voices of dissent within the communist party, and the unrest in the constituent republics of the Soviet Union.

**Global Spread of Democracy**

Democratization of the world is yet another turning point of the twentieth century. Country after country in the Third World revolted against the colonial powers to free themselves. Goa was the last European enclave in India; it merged in India 1987; and Macao was the last presence of Europe in East Asia; it merged in China in 1990. In Africa the last bastion of imperialism ended when South Africa elected Nelson Mandela its first black president. Most of the newly liberated countries adopted democratic system of government. And those who opted for dictatorship of one form or the other are now in distress. Tunisia, Egypt, Libya, Iraq, Yemen, etc. are in turmoil and people in practically all Arab countries have risen against self-perpetuating corrupt rulers. Some of them may fall in the hands of religious fundamentalists but if it so happens, it would not be lasting. People want democracy; they would not be satisfied with dictatorship no matter of which brand it is.

**Towards a Multi-Polar World**

Disintegration of the Soviet Union and rebirth of India and China as powerful economies challenging the twentieth century economic giants like USA, Japan, Germany, Russia, UK and France has changed the balance of power in the world. Even in 2010, USA is considered to be super power both in military and economic terms. It can still change the balance of power and pressurize the nations going against its interest to change their policies. Its hold on the UN in general and financial and economic institutions like IMF, World Bank, WTO etc. partly derived from it being a super power and partly from the very structure of these institutions, cannot be wished away.

But the USA can no longer ignore countries like China and India. Then there are countries like Brazil which are catching up with the leading economies fast. The emerging geopolitical order of the twenty first century would certainly not be a single or bi-polar one. It is destined to be multi-polar leaving the bi-polar world of the twentieth century behind.

Today, the status of a country is measured in terms of GDP and its annual growth rate. Countries like China and India are rated high as their GDP growth rates are higher (8-10 percent per annum). Countries like the USA are marked with lower growth rates (1-4 percent per annum), but their GDP in absolute terms is still very high. The scenario is, however, changing fast to leave USA and Japan behind (table 2).

As the world’s economic balance of power shifts the traditional leaders of the global economy like the USA and EU will face increasing challenges from the emerging economies of China and India especially. By 2032, China will become the world’s largest economy, and will be one-fifth larger than the US economy by 2050. During 2010–50 nearly three-fourth of G20 economic growth will come from Brazil, China, India, Russia, and Mexico alone. But in terms of per capita income, they will still be 40 percent below the G7 countries even in 2050. This anomaly will have profound implications for global economic governance and world peace.
### Table 2

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<th>Rank</th>
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<tr>
<td>2</td>
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</tr>
<tr>
<td>3</td>
<td>Japan</td>
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### Towards a New and Promising Future

What will be the shape of the world by the end of twenty first century? It is difficult to foresee, but if the turning points of the twentieth century can be considered as indicators of what lies ahead, we might either head towards a world that is far more equitable, knowledgeable, and humane than the one we have lived or towards a catastrophe from which humanity would never be able to retrieve itself. We have far better opportunities to shape our future than ever before. But the very forces that open up a brighter future can also take us to eternal darkness; that bring us together can also divide us; and that make us humane can also make us cruel, fundamentalist, and insensitive to the rights and needs of others. Much depends on how we harness them.

We are far more advanced materially than our forefathers could ever imagine. We are technologically advanced enough to explore the outer space and nanotechnology has the potentials of further advances in all aspects of our life and living. We have the all the information and even knowledge to make this world a far better place to live than what it is at present but we the wisdom to make the best use of the information and knowledge we have at our command. Knowledge without wisdom is a dangerous proposition. It has been so in the past and would be in the future too. What happened in twentieth century all the way from mass killing of Jews to dropping of Atom Bomb on the innocent inhabitants of Hiroshima and Nagasaki is still fresh in our memory. But it was also a century which produced Mahatma Gandhi whose birthday (October 2) is celebrated as the International Day of Nonviolence and who demonstrated to the world that is capable of reaching a super-conscious stage of inner development to bring to the earth eternal peace that Rama, Krishna, Buddha, Christ, Zoroaster, Mohammad, and many other enlightened souls worked for.

Millions of people have died and become crippled and homeless during the last few centuries as Europeans subjugated the non-European world and then fought among themselves in global suzerainty; and the Russians killed each other for an El Dorado that they found and lost within half a century. Today, the whole world is free; colonialism has become a thing of the past. Countries like China and India, which once suffered immensely in the hands of Europeans have become leading economies. But all that glitters is not gold.

The common man is as unhappy as he ever was. Aspirations have grown faster than the opportunities and hence a sense of despondency and uneasiness has gripped the so-called modern
world. As educational level of the people improves, they would expect far better amenities, work opportunities and dignified life and living than they have had so far. Too much emphasis on economic growth and technological development and neglect of human development and human values would not make the world better. It is clear from the fact that the nations with higher GDP are not the ones which have higher GNH. Denmark is the happiest country in Europe and Bhutan the happiest country in South Asia.

True, economic and technological development is essential for improving the quality of life of the people especially because a large number of people are still deprived of their basic needs, but unless these developments are accompanied by policy instruments and human values that pass on the benefits to those who need them most, economic growth would lead us no where. In other words, those who have more must be wise enough to share with others.

To improve the GNH of all the people no matter where they live and to which religion, race, nationality, place they belong to are able to meet their basic needs and lead a dignified life that all human being have the right to enjoy. The neo-liberalism of the twenty first century does not have any built in mechanism to ensure that national development would essentially mean people’s development, which in turn would mean not only material advancement but also spiritual advancement. The former would facilitate but not substitute the latter.

In order that material and spiritual growth go together, economic growth must be accompanied and tempered by distributive justice, environmental quality, and humanistic education. All these are built in the Gandhian praxis and hence Gandhian philosophy must be adopted as the guiding principle underlying all developmental endeavours.

Distributive Justice

The neo-liberal economic order guarantees growth but not development, if the latter connotes distributive justice too. Even in countries like the USA approximately 43.6 (14.3%) million Americans were living in poverty in 2009, up from 39.8 million (13.2%) in 2008. At least a quarter of the people in poorer countries benefit least while top 25 percent in the higher income bracket get richer as the national economy improves. There is a wide gap between national economic growth and per capita income growth as far as the poorer sections of the society are concerned.

The income disparities show up in many forms. Important among them are: Inter-personal and Inter-group disparities; and Inter-regional and Rural-urban disparities. Interpersonal disparities emerge from differences in education, access to land and other resources, and hindrances—social, political, and institutional in the way of securing human rights. Similar is the case with inter-group disparities. In some countries people belonging to a particular religion are discriminated against. In a neo-liberal economic order, even if poverty is lessened, income disparities grow. This happens because the rich become richer even if the poor do not become poorer.

Inter-regional disparities within a nation also increase unless there is a conscious effort to ensure the development of all no matter where they live. China is the fastest growing economy of the world but differences in mean income across regions in China are larger than those in India. Most countries of the world have aboriginal people who benefit least from economic growth. Their traditional access to natural resources is curtailed to promote national development and they become poorer than what they were before national development planning began. Similar thing happens with regard to rural areas. When cities become engines of growth, villages and the people living there benefit the least. Very often some funds are allocated for their welfare but that benefits those run the schemes than the target population. These people need opportunities for self-employment, work opportunities and human development through better education and health facilities, and investment in physical infrastructure on a massive scale.
If the gap is not filled soon enough, the growing dissatisfaction of the people would lead to break down of law and order and consequent negative implications for national economic growth. It is important that the developing countries in general and G-20 countries in particular try hard to meet the target of Millennium Development Goals (MDG) set by the United Nations by 2015 or latest by 2020. Failure to do that would prove suicidal and the projections of their bright economic future would be of no avail to them.

One of the main features of the emerging economic system is transferring the production and distribution of goods and services from the government to the private sector. Even otherwise, the government institutions are so inefficient and corrupt; and the political system so unstable that not much can be expected from them.

Environmental Quality

If we forecast the environmental implications of the projected economic growth in the G-7 and G-20 countries, we find the emergent scenarios highly disturbing. According to the Fourth assessment Report (2007) of the IPCC, the surface temperature of the earth increased 0.74 ±0.18°C during the 20th century. It happened because of increase in greenhouse gases due to burning of fossil fuels and deforestation. According IPCC projections the global surface temperature will rise further 1.1 to 6.4°C during the 21st century. An increase in global temperature will change the amount and distribution of precipitation, expand sub-tropical deserts and raise sea levels.

Further, the ice caps in the arctic zone will melt and the glaciers of the Himalayas and other mountains would retreat. Among the other changes expected are: frequent and extreme weather conditions, reduction in agricultural production, and extinction of many animal and bird species. In wealthy and sparsely populated countries like the USA the cost of countering greenhouse gas emission will probably be small but in some poor and densely populated countries, the cost could be very high. Very rapid climate change would, however, be disastrous, even for wealthy countries. The Kyoto Protocol is designed to stabilize greenhouse gas concentration in the atmosphere.

Humanizing Development

The growth mania has gripped the whole world. Every nation and individual wants economic growth in order to consume more goods and services. This over-emphasis on economic growth has adversely affected not only the environment but also human values. Governance system in most of the developed and developing countries has become insensitive to time honoured values like truth, love, sacrifice and human brotherhood. Violence has increased and so has corruption. The result: we have more money and goods but we are less happy. The time has come for economic growth to be tempered by human development.

The road to happiness was laid by M K Gandhi, a young advocate landed in South Africa in 1893 to assist an Indian businessman there in legal matters. He organized the people of Indian origin to resist the discriminatory laws of the South African government using a unique method of protest quite different from what Marx, Lenin and Mao had used. Gandhi treated his opponents as brothers deserving brotherly treatment; he tried to convert them to his side by appealing to their hearts. The method protest he invented was Satyagraha (truth force).

Gandhi’s experiment with Truth began in South Africa during the first decade of the twentieth century. Nelson Mandela, the first democratically elected President of South Africa spent 27 years in jail. To what extent Gandhi influenced the African struggle for freedom is best expressed by Mandela himself:
“He dared to exhort nonviolence in a time when the violence of Hiroshima and Nagasaki had exploded on us; he exorted morality when science, technology and the capitalist order had made it redundant; he replaced self-interest with group interest without minimizing the importance of self. ...He is the archetypal anti-colonial revolutionary. His strategy of non-cooperation, his assertion that we can be dominated only if we cooperate with our dominators, and his nonviolent resistance inspired anti-colonial and antiracist movements internationally in our century....The Gandhian influence dominated freedom struggles on the African continent right up to the 1960s because of the power it generated and the unity it forged among the apparently powerless. Nonviolence was the official stance of all major African coalitions, and the South African A.N.C. remained implacably opposed to violence for most of its existence.” [13]

Gandhi’s reach was not limited to South Africa and India. He stood for all those who were exploited and whose rights of life and liberty were taken away. He wrote to Hitler rather bluntly “...that many of your acts are monstrous and unbecoming of human dignity, especially in the estimation of men like me who believe in human friendliness. Such are your humiliation of Czechoslovakia, the rape of Poland and the swallowing of Denmark. I am aware that your view of life regards such spoliations as virtuous acts. But we have been taught from childhood to regard them as acts degrading humanity.” [14] Gandhi, however, did not go with Allied Powers for “...ours is a unique position. We resist British imperialism no less than Nazism.” ... “If there is a difference, it is in degree. One-fifth of the human race has been brought under the British heel by means that will not bear scrutiny.” ...But “Our resistance to it does not mean harm to the British people. We seek to convert them, not to defeat them on the battle-field.” [15]

Once Gandhi returned to India in 1916, millions joined him as he used satyagraha (truth force) to secure the rights of the people. They were beaten, tortured, arrested and even killed but Gandhi ensured that the movement remained nonviolent. Realizing the futility of countering Gandhi’s nonviolence by bullets and bombs, the British negotiated an honourable exit from India on August 15, 1947 but did not forget the ignominy of being ousted and divided a united nation into two: India and Pakistan. The virus that partitioned India, remained lodged in Pakistan to divide it into two nations- Pakistan and Bangladesh in 1971.

Gandhi’s influence was not limited to South Africa and Indian sub-continent. It extended far and wide to Europe and America. In East Europe, it hastened the death of communist dictatorships. The struggle of the East Europeans to throw the Soviet Russians out began in Poland in August 1980 when an unemployed Polish electrician Lech Walesa organized a strike at the Lenin Shipyard in Gdansk, and formed an independent trade union called Solidarity or NSZZ Solidarnosc. Within 15 months, its membership shot up from 1 million to 9 million constituting a quarter of the population of the country. By the end of 1981, the then Polish government outlawed the Solidarity and arrested its leaders.

Walesa’s method of protest was Gandhian. He was awarded Nobel Peace Prize in 1983 for initiating a nonviolent movement to secure the basic rights of the working class. “It was a peaceful movement which actually realized all its objectives and more. So I think the path of nonviolence is certainly an important Solidarity legacy. And if you look at what happened in other countries—in the Czech Republic, and more recently in Serbia or in Ukraine—that message has been successfully imitated,” says Radek Sikorski a former deputy foreign and defense minister of post-communist Poland [16]. In the words of Walesa “We didn’t succeed when we tried to fight with arms, but we won when we adopted non-violence. I am a disciple of Mahatma Gandhi.” ... “Only non-violence can lead the world to a new world of lasting peace and enduring friendship.” [17]
In June 1989, in the first free elections ever held in a communist country, Solidarity won the maximum number of seats and with two smaller parties formed the first non-Communist government in the Soviet Bloc. No wonder then that just six months later, the Berlin Wall came crumbling down heralding the end of communist dictatorship which had replaced imperialism in the Soviet dominated world.

In the USA Martin Luther King, Jr. (January 15, 1929 – April 4, 1968), an American Clergyman is best known for being an iconic figure in the advancement of civil rights following the teachings of Mahatma Gandhi. During the 1963 March on Washington, King delivered his ‘I Have a Dream’ speech envisioning a colour blind American society [18]. A year later, King became the youngest person to receive the Nobel Peace Prize for fighting against racial discrimination through nonviolent civil disobedience. By the time he was assassinated in 1968, he had expanded his movement to ending poverty and stopping the Vietnam War.

Gandhi, Mandela and King are gone, but the nonviolent ways of solving problems humanity faces continue to be a powerful tool in the hands of those who are brave enough adopt nonviolence as a means to restore peace and harmony in the world. The ongoing people’s movement against dictatorships in the Arab World is essentially Gandhian and that is the reason, it has every chance of succeeding. Gandhi can be considered the most modern political thinker world ever had. He imbibed the best from the East and the West and evolved a political philosophy that worked miracles.

Concluding Remarks

Twentieth century does mark a turning point in human destiny for it went through some of the worst man-made tragedies of recent history. It went through two world wars, dropping of Atom bomb on Hiroshima and Nagasaki, emancipation of non-Europeans from the shackles of colonialism, rise and fall of the USSR, adoption of capitalist mode of production by the Maoist regime of China, emergence of Gandhi as symbol of Truth and Nonviolence, unprecedented growth of ICT, and landing of man on the moon. In its last two decades, it also saw the transformation of capitalism into neo-liberalism spanning the whole world.

The changes that made twenty first century unique both in negative and positive terms have continued to reverberate in the new millennium and are shaping the life and living of the twenty first century. The war mentality of the twentieth century has made the humanity violence prone. No matter which sphere of life we look at, violence reigns supreme. It is manifest in our thoughts—the way we treat other species and our own brethren; in words—the way we interact with each others, we use our print and electronic media which our children and you see, and break our promises/agreements and camouflage our thoughts; and in deeds—the way we try to benefit from the misery of others, rob other people and countries through trade and commerce, and maim and kill the weak and helpless. Violence against nature has brought humanity to the doorsteps of global warming and change; and violence against humanity in the form of poverty and deprivation is directly responsible for the death of 50,000 people daily i.e. 18 million people each year. Half of the deaths of our children are caused by malnutrition, which to a great extent results from under-nutrition.

While these ignoble developments of the twentieth century continue to torment the second decade of the twenty first century, the positive developments are not wanting. The chain of freedom struggles that were born in twentieth century has over-run the whole world. There is renewed interest in peace, human brotherhood (vasudhaiva kutumbakam). And Gandhi, who
symbolizes all these positive developments has now (2011) been accepted by the global community as the man fit to rule over its heart, mind and body.

Let us hope that the positive trends set in the new millennium would get stronger in times ahead and humanity would continue to move in the direction of higher levels of consciousness, economic growth with equity, cleaner environment, and all pervading peace and harmony.

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Other Relevant References

LONG WAVES OF INNOVATION
AS TURNING POINTS?

'Modern technology is not just a collection of more or less independent means of production. Rather it is becoming an open language for the creation of structures and functions in the economy. Slowly, at a pace measured in decades, we are shifting from technologies that produced fixed physical outputs to technologies whose main character is that they can be combined and configured endlessly for fresh purposes.'

(W. Brian Arthur, The nature of technology)

'Comme dirait Douglas Rushkoff: «Il n'y a rien au tournant. Pas de limite à atteindre, pas d'horizon événementiel a franchir ou de moment d'innovation à espérer. Le changement s'est déjà produit...»'

(Antoine Chainas, Versus)

'Gegen Krisen kann keiner was!
Unverrückbar über uns
Stehen die Gesetze der Wirtschaft, unbekannte
Wiederkehren in furchtbairen Zyken
Katastrophen der Natur'

(Bertolt Brecht, Die heilige Johanna der Schlachthöfe)

We tend to “tunnel” while looking into the future, making it business as usual, Black Swan-free, when in fact there is nothing usual about the future.

(Nassim Nicholas Taleb, The Black Swan, the impact of the highly improbable)

Marchetti’s version of the long-wave theory of economic development has been chosen as point of departure, not as definitive answer to our question. There are four major issues to be elucidated: the content of a next cycle; the explanation and promotion of innovation; the time horizon and the geography of innovation. At the end of the day—as many uncertainties prevail and persist—one can only resort to the management of these uncertainties.

1. Marchetti’s long waves: a point of departure

'When we cross over into a new region of time, ... the immediate past is usually a poor guide to the future, and we need to look for corresponding episodes in the more distant past.' (Boulding, 1985: 19). That is why the study of long waves in economic development can be of importance.
'Humanity ... seems to behave like an interconnected system learning toward an objective at an extremely stable rate.'

It is this rather abstract working hypothesis which has guided Marchetti (1980) in his attempt to reconstruct three historical innovation (invention) cycles using so-called Volterra-Lotka equations of the form:

$$\log\left(\frac{F}{1-F}\right) = at + b$$

with \(F\) representing the cumulative number of innovations (inventions), \(t\) referring to time, and \(a\) and \(b\) being parameters to be estimated. Take for example the 1921 wave.

The innovation cycle starts in 1921 (midpoint). It comprises 41 basic innovations among which penicillin, the radio, television, and the jet engine. Basic innovations are product innovations that start a new industry, based on related discoveries or inventions. Television, for example, was invented in 1907. It started a new industry in 1936. In 1937, half of the basic innovations had been introduced (this is referred to as the innovation center point). It took 23 years for the fraction of the total set of basic innovations implemented to increase from 10% to 90%. The same holds for the set of corresponding inventions.

The 1802 and 1857 cycles are reconstructed in the same way. They, too, resemble Kondratiev cycles with the time difference between innovation centers being 50 odd years.

Marchetti may be outspoken as a long-wave theorist, especially when compared to authors who even doubt whether the long waves exist at all. But he certainly does not stand alone as his basic argument is backed up by both theory and empirical evidence. Here are some examples.

Marchetti belongs to those long-wave theorists who consider innovation as crucial with regard to long waves or as their main cause like Schumpeter, Mensch, among others. More specifically, additional evidence is provided by the hypothesis of the life cycle of industry along a S-curve: market penetration and saturation is the cornerstoner of Marchetti’s reasoning. Indeed, a series of correspondences can be identified between stages of the life cycles of technologies, products and firms or industries. Marchetti’s approach is also in agreement with the (competitive) substitution model of technological change, whether applied to materials’ substitution (e.g. synthetic versus natural fibers), the diffusion of the automobile or the substitution of transport infrastructures. Finally, there appears to exist a link between innovation cycles and primary energy cycles. As shown in Illustration 1, the midpoint of the innovation wave coincides both with the coal peak (saturation point or maximum market penetration) and the introduction of natural gas a new primary energy source.

Long-wave theories seem to work for the past, that is they can at least be reconstructed empirically. But what about the future? Is it possible to ‘extrapolate’, the coming cycle, say, the next Kondratiev? What could be its content? How does the innovation process work? When will it happen, and where will it happen?
2. What? The content of a next cycle

Based on the observed historical regularities, Marchetti ventures to construct the forthcoming cycle which he assumes to have started in 1980. As to the kind of basic innovations to be expected, there are at least some (more or less) likely candidates, i.e. innovations related to:

— information management and manipulation, including genetic engineering and its impact on new, very sophisticated as well as base chemistry (judged as obvious by Marchetti)
— management of new energy sources such as nuclear energy (‘less obvious’) changing to chemicals and synthetic fuels affecting the fueling of airplanes and cars
— food and agriculture (such as landless farming).

The Economist (1999) has sketched the fifth cycle, currently on its way, marked by digital networks, software, and new media. The preceding fourth cycle was dominated by petrochemicals, electronics, and aviation. So far the journalists.

What do the experts have to say about forthcoming innovations? Musso, Ponthou, Seulliet (2005, 2007) have reconstructed the history of more than 150 successful innovations. As to the future they name five families of technological products and services: intelligent houses; nomad or mobile technological objects such as ubiquitous computing; ‘electronic clothing’; robotica; emotional informatics (including ‘affective computing’).

There are also six promising domains of innovation, identified by leading futurologists (Weissenberger-Eibl et al, 2010): solar energy (to reduce dioxide emissions); information technology (flexible screens); textiles (‘intelligent clothes’); robotica; mobility (the electric car); nanotechnology.

More down to earth, the EU publishes regularly the results of European Research (research.eu) in areas such as biology & medicine, energy, environment, IT & telecommunications, and industrial technologies. A closer look at the research results will tell whether we are already dealing here with innovations or only with inventions.

Then, however, Marchetti’s question remains: why are some (few) inventions developing into innovations while others (most) do not?

Therefore it is time to look at the how of the coming cycle, a question ‘blackboxed’ by Marchetti.

Platt once wrote ‘The solution of social problems lags behind technology because we have not organized the same sharp search for new ideas’ (Platt, 1966: 132). Social problems, especially persistent ones, ask for new ideas or social innovations. The latter are not necessarily commercially successful.

At the outset, Indian entrepreneurs have found a way to create profitable innovations with few resources that help people in a sustainable manner (Prahalad & Mashelkar, 2010). Today, the so-called Ghandi innovations also hold for highly developed branches. There are three types of Ghandi innovations: use of existing technologies to revolutionize business models; combination and refinement of existing technologies and competences; purchase or development of completely new technologies and competences. New competences have, for example, been created in the field of mobile-radio services and deep-sea drilling. IT services, health care and the treatment of herpes are examples of revolutionized business models. Emergency care is a mixed case. In the cases of mobile-radio services and IT services, health care, technologies and competences have been purchased. With the treatment of herpes and Tata Nano car production they have been newly developed. Purchase and development hold for both deep-sea drilling and emergency care.

(Note that Marchetti did not even consider improvements of the process of production or of the quality of products as innovations).

What a next cycle may bring in social innovations, is difficult to tell. If the Indian model is going to spread, there may be more social innovations (but this already related to the geography
of innovation; more about it later). Anywhere, once the need for social innovations has been widely recognized, this may already constitute a turning point. How can, for example, Europe attain a smart, sustainable and inclusive growth (see European Commission, 2010) without major social innovations?

3. How? Explaining and promoting innovation

How to explain and foster innovation? It can be approached from two angles: from theoretical that is hypothetical relationships between presumed enabling factors and innovation—or—starting from real-world innovations, trying to reconstruct empirically the innovation process (Drewe, 2010a). The latter is a bottom-up approach: from business firms to the urban and regional context in which they operate and to the national or supranational frameworks of innovation policy. Hence the issues connected to innovation can be decided empirically such as the (relative) weight of frequently quoted critical success factors:

- universities and education
- R&D expenditures, private and public
- venture capital
- ICT
- local and transterritorial networks
- national and European framework conditions

and so forth.

One may also detect that serendipity has played an important part in the innovation process (Van Andel & Bourcie, 2009).

The approach, however, does not answer two of the questions that have intrigued Marchetti and which have been left unanswered by him:

- What causes innovation waves?
- Why do basic innovations come in bunches?

To answer these questions one must refer to a more encompassing longwave theory such as the one that guides Gordon in his work as a consultant (http://www.thelongwaveanalyst.ca). Gordon divides each cycle into four seasons (translated from Schmidt, 2010):

**Kondratiev Spring**: after a phase of debt reduction, the economy reawakens. The mood is optimistic, but credit (both supply and demand) is handled with care. Credits are mainly provided for investment.

**Kondratiev Summer**: credits expand, inflation sets in, and raw materials become scarce which often leads to distributional conflicts.

**Kondratiev Autumn**: the stringency of raw materials comes to an end. The paper value of bonds, shares and real estate is rising. Consumer and public debt, however, is exploding.

**Kondratiev Winter**: the time has come for debt reduction. Stock exchanges crash and deflation sets in. Cash becomes more important than shares. Massive bankruptcies make that the economies enter a phase of deflation.

According to Gordon, its ‘winter time’ now. The existing financial system goes bankrupt. A small slot remains in which new solutions can compete with old paradigms. Even without the seasonal metaphor, Gordon’s approach allows to embed innovation in a broader economic, in particular financial context. Innovation waves and bunches of basic innovations like Bandini, ‘must wait until spring’.
4. When—The time horizon of the next wave

When will the next cycle happen? Are we any good in predicting it?

‘All together I think the idea of 55 year cycles in the behavior of our society is one of the most penetrating and useful in organizing social and economic facts. Together with the innovation-diffusion concept that we are currently using, it provides a most crisp and internally consistent description of human affairs’ (Marchetti, 1988: 7).

If, according to Marchetti, the forthcoming long wave has started in 1980, then we are going to end up in 2035. With Gordon, a new upward swing is about to start in 2020–2025.

These time horizons are challenged by those who claim that they are either shorter or longer. The Economist (1999) argues that the long waves of industrial innovation are becoming shorter, say, 30–40 years, thanks to increased R&D efforts. On the other hand, the historian Morris ‘shows that over a period of 10,000 years one civilization after another has hit a "hard ceiling" of social development before falling apart, unable to control the forces its success has unleashed’ (Economist, 2010 introducing Morris’ latest book). What he calls the five horsemen of apocalypse (climate change, famine, migration, disease and state failure) played an important part in this. Morris expects that ‘Western “rule” will end early in the next century’. ‘There is, on the other hand, ‘a real possibility that we fail to negotiate even the next 50 years without triggering environmental catastrophe, global pandemics or nuclear war’ (Economist, 2010). But somehow one gets the impression that Morris’ patterns of history are like a ‘hammer’, that is a tool treating the future as a ‘nail’.

Morris’ book is entitled ‘Why the West rules for now’ (Morris, 2010). This brings us to the where of the next wave.

5. Where or the geography of innovation

Marchetti completely ignores the geography of innovation.

Why do innovations do or do not happen in certain countries, regions or cities? Some are leading, some are average, some are catching up just losing ground. A sound bite, often used today, is ‘the world is not flat’. For a detailed analysis of development disparities at international, national and local scales see The World Bank (2009).

Innovations need to identified, first of all, at the level of individual business firms. One can then aggregate them at regional, urban or national levels. This is where the geography of innovation comes in. Economists use macro, meso and micro levels of analysis. The parameters of macroeconomic models may be mistaken for explanations of the behavior of companies (or of consumers for that matter), committing a fallacy of disaggregation. Or this behavior can be mistaken as representative of macroeconomic phenomena which is a fallacy of aggregation. One could even say that the aggregate that we call national economy is, at least to some extent, a construct whereas the ‘real’ economy is happening in cities and regions. If this is the case, where do nations or, say, the European Union come in? It depends on whether they can act as motors of innovations at firm, regional and city levels, creating effective framework conditions, including financial support. What about the impact of the National Knowledge Commission India (or India’s science and technology policy for that matter), a generous R&D budget in China, national innovation platforms made in Finland, ‘Europe 2020’ and the like?
China and India are expected to be the principal players in the next cycle in the field of health care, solar technology, bionics, nano machines, space stations and so forth (Schmidt, 2010). Increasingly, the where of the next cycle is linked to processes at world level in terms of the geography of world power. Mahbubani (2008) writes about 'the irresistible shift of global power to the East'. He also sketches three scenarios for this:

— *The March to Modernity* (which he considers as both 'happy' and probable)
— 'Retreat into Fortresses' (less happy, less likely)
— 'Western Triumphalism' (most unlikely)

What is at stake here is global leadership and the new principles of global order: democracy, rule of law, social justice, partnership and pragmatism. Note that the implementation of these principles constituted major social innovations taking precedence over technological innovations in the next cycle.

The discussion involves the position of the US and of Europe and their mutual relationship. Can they improve their position through cooperation or does a Chacun pour soi rule? The Atlantic Community rather seems to be a wild-goose chase between, on one side, a 'Sarah Palin for President' scenario and the question 'Quo Vadis Herman van Rompuy?' (Drewe, 2010b) on the other.

After the failure of the Lisbon strategy, the EU has launched 'a strategy for smart, sustainable and inclusive growth'. But the Commission has to admit that the future is uncertain by sketching three scenarios for Europe by 2020 (European Commission, 2010: 7):

— **Sustainable recovery**: Europe is able to make a full return to earlier growth path and raise its potential to go beyond
— **Sluggish recovery**: Europe will have suffered a permanent loss in wealth and start growing again from the eroded basis
— **Lost decade**: Europe will have suffered a permanent loss in wealth and potential for further growth

Only the 'sustainable recovery' scenario rhymes with a next wave of innovation. It requires what Verhofstadt (2006) has called five missions for a new Europe: a

— European social and economic strategy
— new European technology wave
— European space of freedom, security and justice
— European diplomacy
— European army

This calls for a *vision commune* in order to produce a turning point. See the Spinelli manifesto: <http://www.europeecologie.eu> However, Europe today, at least for the time being, has rather embarked on a 'National preference' scenario (Drewe, 2006; Crozet & Musso, 2003).

**Conclusion: plea for an uncertainty management**

The long waves of innovation offer interesting avenues of thought concerning content (what?), innovation process (how?), time horizon (when?), and geography of innovation (where?). But all this is not really conclusive. Major uncertainties prevail and persist. It is time to rediscover the management of uncertainty, an approach that goes back to spatial planning in the UK in the early 1970s (see for example Friend, Power & Yewlett, 1974).

The authors distinguish three types of uncertainty:

— **uncertainties about the operating environment**
— uncertainties about related choices
— uncertainties of policies

One might also add a fourth type: uncertainties about means. Once the uncertainties have been diagnosed, there are two options:
— they can be reduced
— or they must be accepted

Reductions depend on the type of uncertainty:
— more research or investigatory activities in the case of uncertainties about the operating environment; these activities should include scenario building (Drewe, 2006); as far as economic research, leave alone economic predictions, the mainstream, neoclassical economics can hardly show the way when it comes to reduce uncertainty (Keene, 2008)
— policy clarifying activities when clearer objectives or policies are needed, for example, as far as the European Union is concerned, a vision commune
— a more strategic view or coordinated approach: after exploring a problem in a wider context, this can lead to partnerships (see e.g. Mahbubian)
— more means, financial and others (in the case of Europe 2020, the
— considerable budgets research, stimulation of companies, and regional development — hitherto separated—must be coordinated, focused on innovation

But not all uncertainties can be reduced. Some must simply be accepted. However, instead of doing nothing and running the risks, one can strive for built-in flexibility of the decisionmaking process and the policy decisions themselves.

‘Change is caused by lazy, greedy, frightened people looking for easier, more profitable and safer ways of doing things. And they rarely know what they are doing’ (Economist, 2010).

This 'Morris Theorem' invites defeatism a far as turning points are concerned. Let us rather try to manage the uncertainties here and now.

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ANDRZEJ P. WIERZBICKI

FUNDAMENTAL INNOVATIONS,
TURNING POINTS AND CYCLES

Abstract

The paper starts with a simple model of wave formation for a process with accumulation, delay
time and negative feedback. The model is fairly universal, can be used to explain cycles or waves of
diverse disciplinary character and diverse length. The delays of socio-economic penetration of substantive
or even fundamental innovations are shown to be very large, thus the most fundamental innovations
might correspond to long civilization waves. On this background, the relation of civilization turning points
to political events is discussed; it is shown that the dissolution of communist system was tightly related to
informational revolution. Other political or economic turning points are also related to civilization events.
The Enigma of XXI Century relates mostly to the need of creating new paradigms for understanding the
world and preventing the crisis of democratic and market system in new conditions after informational
revolution. In other words, it is necessary to prevent a self-destruction of human civilization related to
possible avalanche-like effects of the positive feedback loop between science and technology on one side
and the system of their socio-economic, market oriented and democratic utilization on another side.

Keywords: innovations, delay times, waves and cycles, civilisation eras, civilization turning points,
enigma of XXI Century, self-destruction of human civilization

1. Introduction: delay times and fundamental innovations

I must start with the admission that I used to discuss in detail issues of innovation waves,
cycles etc. with both Cesare Marchetti (1980) and Brian W. Arthur (2009), my working associates at
IIASA (International Institute for Applied Systems Analysis in Laxenburg near Vienna). However,
as a specialist in process dynamics, particularly in control of processes with delays, I disagreed
with some of their theories. For me, a model of creating a wave or cycle might be of course
as complex as we wish (we can complicate the explanation of any phenomenon), but the theory
of processes with delays suggests an extremely simple and convincing exemplar model of wave
formation.

This model is best presented starting with an example. Imagine a market for educated
specialists, say in management science, in which tertiary education requires $T_0 = 4–5$ years of
study. Suppose at a given moment $t_0$ students leaving secondary schools learn that the demand for
such specialists increases (they probably will not learn immediately, but for this reason we take
the delay time rather 5 than 4 years); in consequence, they go in bigger cohorts to management
studies. But they do not finish their education immediately, the effects of their decision will be
felt on the market first after delay time $T_0$. Thus, in the period $(t_0; t_0+T_0)$ the unsatisfied demand accumulates, further increases; first impacts of the increase of the number of students on the market will be felt first after $t_0+T_0$. If we assume symmetry of processes (reasonable for the description of cycles), the decrease of unsatisfied demand to zero will take another $T_0$ years, thus the entire period $(t_0+T_0; t_0+2T_0)$. At the time $t_0+2T_0$ students leaving secondary school learn (again, with possible delay increasing the resulting delay time) that there are too many specialists in management on the market and the enrollment to management schools drops drastically; however, there are $T_0$ years of previous higher enrollment at universities, thus for the entire period $(t_0+2T_0; t_0+3T_0)$ the oversupply of specialists on the market grows. It starts to decrease first at $t_0+3T_0$ and, again assuming symmetry, it will decrease to zero for the entire period $(t_0+3T_0; t_0+4T_0)$. At $t_0+4T_0$ the initial situation is repeated and — since there are $T_0$ years of previous lower enrollment at universities, thus for entire next period the unsatisfied demand again accumulates and grows.

There are several conclusions from this example. First, the period of a cycle or a wave is equal 4 delay times, period $\Delta = 4T_0$. Second, the mechanism described in this example is fairly general and concerns any system with negative feedback (the reaction of students), delay time and accumulation. Third, it does not matter what is the time form of the wave, whether it is saw-like (possible for the example described above) or sinusoidal—in the latter case we can draw the same conclusion about the period of a cycle $\Delta = 4T_0$ using Nyquist (1934) criterion of wave generation in a process with delay, accumulation and negative feedback, see (Wierzbicki and Kameoka 2006). Fourth, it does not matter what is the disciplinary character of the wave—economic (like in pig cycle), socio-economic (like in Kondratiev cycle) or civilizational (concerning long civilization eras).

However, we must distinguish what is the delay time characteristic for a given process and related cycle. In this, we must distinguish between usual, substantive, and fundamental innovations—they differ precisely in their related delay times. The bigger the innovation, the larger the related delay time, needed first for understanding the importance of the innovation, then for it's improvements making related technology and products less expensive and more socially available, finally, for a broad socio-economic penetration of this innovation.

Another example illustrates that these delay times can be substantive. After (Wierzbicki 2010), I quote here the example of socio-economic penetration of a substantive innovation—television.

1) First ideas of television (based on the use of newly invented photocells) were expressed in 1878 in Poland by Julian Ochorowicz and in 1880 in the USA by George R. Carey;
2) Realistic technical inventions of TV photo-camera and TV receiver together with patents occurred between 1923–28 (Vladimir Zworykin, Kalman Tihanyi in the USA, similar developments in Great Britain);
3) First medial transmission occurred in 1936 (by British Broadcast Corporation)
4) Socio-economic market penetration (that is, actual purchase of TV receivers by households) was further delayed. Even in the USA, counting the beginning of the process when single percents of households bought receivers and the end when market penetration exceeded 95%, we should speak about two distinct periods of:
   a. Black and white TV penetration: started around 1950, did not finish because of replacement by colour TV;
   b. Colour TV penetration lasted from 1960 to about 1990, when the market saturated and only replacements by newer types, later by digital and high definition TV occurred.

This process is well illustrated by statistical data from Fig. 1, where the colour TV market penetration is indicated by the red line. The older processes were slower and less regular, e.g. telephone penetration (blue line) strongly influenced by the great crisis of 1930. After TV penetration, some processes might be regular and slightly faster (video-recorders, VCRs) or
more irregular and slower (cable TV), decisively slower (PCs) or starting similarly to colour TV (beginning Internet penetration in the USA, green line, until 2000 not exceeding 40%).

On this example we see that such substantive innovation as television had total delay time—depending how we count it—from 30 to 120 years. There might be many usual innovations, with delay times even only 2–3 years, which would correspond to typical economic cycles observed recently with the period 8–10 years. But what about fundamental innovations that might correspond to long civilization periods? One might argue that television is (almost) such fundamental innovation.

![Fig. 1. Growth of the use of electrical and electronic artefacts in USA in years 1921–2000](http://www.ntia.doc.gov/ntiahome/fttn00/chartscontents.html)

However, I would like to follow the example of Fernand Braudel (1979) who dated the beginnings of a long duration historical era of capitalism formation and geographical discoveries with the Johann Gutenberg improvement of a printing press around 1440 and the end of this era with the James Watt improvement of a steam engine around 1760. Both were not original innovations; for example, Johann Gutenberg probably was informed about Chinese printing, but Chinese did not use typesetting, thus could not produce quickly books; Gutenberg printing press made possible broad socio-economic use of printing. James Watt only improved old steam engines constructed about fifty years earlier by Newcoman, but the old engines tended to explode because of unstable rotary speed; Watt introduced a control system of rotary speed using negative feedback (he did not use the name nor fully understood the concept; feedback theory was developed much later) that made possible broad socio-economic penetration of such engines. But the penetration curves of Watt’s engine were much slower than recent penetration curves of television. What is contemporary innovation of similar importance and similarly slow penetration to (though perhaps faster than, because the world accelerates, even if sluggishly) the fundamental innovations of Gutenberg’s printing press and Watt’s steam engine?
They are actually two such innovations, both occurring around 1980: personal computers of Steve Jobs and Steve Wozniak (and many others), started around 1977, and Internet (of many authors), declassified around 1983. Both used older discoveries (analog computer by Vannevar Bush in 1931, digital computer by Konrad Zuse in 1936, Internet developed for military purposes since around 1960); however, first personal computers and declassification of Internet started their broad social use. In fact, the penetration of personal computers is sluggish even in the USA (see Fig. 1), because only educated and sufficiently rich people buy them; that creates so called *digital divide*. However, these two fundamental innovations, treated jointly and supported by mobile telephony, are responsible for informational revolution that influences today increasingly every aspect of our social life, see e.g. (Bard and Söderqvist 2006).

Thus, we can conclude that these main and fundamental innovations marked three recent civilization eras:

- The *era of* printing, geographical discoveries and *formation of capitalism* 1440–1760 (with $T_0 \approx 80$ years, due to very slow social penetration at that time);
- The *era of* engines and *industrial civilization* 1760–1980 (with $T_0 \approx 55$ years, due to somewhat faster social penetration at that time);
- The *era of* informational revolution and *knowledge civilization* 1980–2100? (with $T_0 \approx 30$ years, due to acceleration of life).

Obviously, this classification does not mean that printing ended at 1760 or that industry ended at 1980. The prediction that the knowledge civilization era will last until around 2100 results not only from a simple prediction of time periods (320–220–120? years), but also corresponds to shortening delay times (around 40 years for digital computers, less than 25 years for Internet, hence 30 years seems a reasonable estimate).

The classification of recent three civilization eras indicates that there might have been many such eras before them and that the speculations of (Toffler and Toffler 1980) about the *Three Waves* were very approximate. Even if debatable, however, the book of Tofflers had an important political impact, which we shall discuss below.

2. Civilization versus political turning points

Political history develops almost independently from civilization turning points; the question is: really independently? Great Britain used Watt’s engine to secure global domination for almost entire XIX Century. What about more recent political developments?

Since I was promoting the concepts of information society to governments in Poland — before and after democratization of Poland — and abroad\(^1\), I know well the related historical facts. President Ronald Reagan used consciously information technology to exert pressure on the communist block (with the concepts of automatically controlled space weapons etc.). The leaders of communist countries were well aware of the pressure, informed not only by intelligence services, but also by books such as *The Third Wave* (Toffler and Toffler 1980), translated into Polish around 1984. I have personal experience from trying to promote the idea of information society in a lecture attended by Polish government members in 1986 showing that Wojciech Jaruzelski, red *The Third Wave*, knew Tofflers’ opinion that the information society could develop only in democratic market societies, and asked other government members to read this book. This might have helped in a peaceful turn towards democracy in Poland in 1989. On the other hand, Mikhail

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\(^1\) For example, in the years 200–2002 I was a member of the Information Society Technology Advisory Group (ISTAG) of the European Commission.
Gorbachev admitted openly that his decision to let the communist system disintegrate was based on a similar opinion. Thus, the end of communist system was to a great degree related to informational revolution.

From a broad social perspective, such conclusion is obvious. If the industrial civilization is ending and workers are being replaced by robots, this means the end of the role of the class of workers in the new civilization (in the Third Wave), thus the end of the legitimacy of the dictatorship of the proletariat. In other words, it was clear already in those years that the worker-capitalist conflict is limited to the industrial civilization era and ceases to be important in future. However, workers did not understand this fact fully, wanted to secure their leading role independently of communist party, which led to such movements as Solidarity in Poland in 1980. This movement started politically the avalanche of events leading to the end of communist system, but the main labour union goals of this movement were doomed to fail in a long term, see, e.g., (Kuroń 2004).

The new civilization epoch will have a new conflict. In fact, this conflict sharpens and focuses during the first delay period ($t_0; t_0+T_0$)—in this case, between 1980 and 2010. The conflict concerns again the issue of ownership of main productive resource of the coming era—in this case, the ownership of knowledge. We already observe that big corporations try to privatize public knowledge as much as they can, try to convince legislators to sharpen intellectual property laws — which is exemplified, e.g., by the recent conflict about ACTA in Poland. However, individual people, even if they create knowledge or arts, are not as interested in stronger intellectual property laws as corporations are: even a singer wants first to be popular, because it would increase the future chances of profitable contracts. Scientific creators of knowledge prefer their books to be read by broadest audience.

Moreover, the conflict has actually three sides, not only corporations and individuals, but also public interest. There is a basic difference between classical resources and knowledge: as opposed to natural resources and other perishable goods, knowledge is not used up when it is used, it is not a degradable good. Thus, the main argument for privatization, so called tragedy of commons (excessive use of a common good deteriorates this good and justifies its' privatization) is not applicable to knowledge, see (Lessig 2004): intensive, joint use of public knowledge is in the best interest of society, since knowledge usually grows when used intensively. Until now, each generation has added knowledge as objective as possible to the intellectual heritage of mankind; imagine how our intellectual heritage will be polluted if instead of objective tests on the value of diverse medical drugs, only the privatized tests of drug producers are published (we know that such pollution has already started).

Thus, the great coming conflict about the ownership of knowledge results in the growing threat of intellectual pollution resulting from the privatization of human intellectual heritage. This problem is specifically caused by knowledge economy, by knowledge becoming an economic asset in proportions not known in previous civilization eras. The essence of this problem is the relation of privatized knowledge to the human intellectual heritage. If we treat the intellectual, cultural, and civilization heritage of humanity as a free resource in times of knowledge civilization, at the same time trying to privatize knowledge, this might result in degradations of this intellectual heritage similar to the degradations of the natural environment in industrial age. Questions of knowledge ownership and of the value of heritage of humanity might become the basic problems and conflicts of the coming era. Each corporation uses freely the intellectual heritage of humanity for creating economically useful, ad hoc knowledge (see, eg., Wierzbicki and Nakamori 2006, 2007); the taxes for using intellectual heritage knowledge should be high enough to support further development of the fundamental knowledge.
In fact, the conflict about the ownership of knowledge has already sharpened: intellectuals responded with the idea of Open Access, free distribution of knowledge produced by using public funds, supported by a directive of president George Bush jr. Proponents of intellectual property laws (mostly corporations and lawyers) try to downplay Open Access, to convince individuals that they would gain by sharpened laws.

It can be also said that the last big financial crisis was actually caused by too limited access to information by consumers, by an informational asymmetry of markets. There is no doubt that computer networks enabled the globalization of financial services. But in more detail, David X. Lee, an American mathematician of Chinese origin, developed and sold to Wall Street so-called cupola formula, enabling fast computations of correlation coefficients. This resulted in the composition of ostensibly “absolutely safe” portfolios of financial investments — in derivatives of derivatives, housing markets etc. The marketing of such supposedly “absolutely safe” investments inflated the bubble, while a typical investor believed in this marketing—only a few specialists knew that uncorrelated investments are safe only as long as the underlying processes are stationary, while such processes become non-stationary in a crisis. Thus, it was a corruption of the market based on greed and enabled by the new possibilities of information technology that inflated the financial investment bubble. Anything could prick the inflated bubble, and the explanations of neoliberal financial specialists that it was the result of an unwise intervention of the US government are just excuses, attempts to defend a lost cause.

Generally, we can thus say that political and economic events are only in a sense independent from civilization turns; in fact, they are often tightly connected.

3. Great Turning Points and The Enigma of XXI Century

On the background presented above, I would like to turn to the problem addressed by Antoni Kukliński (e.g., in 2010): What are the great turning points and how to understand the enigma of XXI Century? I agree with Antoni Kukliński that we could speak about several great turning points recently:

- The year 1980, as the beginning of informational revolution, coinciding with the foundation of Solidarity in Poland;
- The years 1989–90, the democratization of Poland and the dissolution of communist system;
- The years 2008–2010, the great financial and economic crisis, marking also the end of first delay time period after the beginnings of informational revolution.

The years 2008–103 had also great conceptual consequences: the great crisis has shown that the concepts inherited from XX Century and industrial civilization, such as postmodernism or neoliberalism, are insufficient to understand future developments after informational revolution.

First, the crisis marked the beginning of an end of postmodernism. Postmodernism was—and still is—a dominant intellectual fashion toward the end of industrial civilization era and during the beginnings of informational civilization; moreover, it contributed many valuable concepts, such as the concept of historical change of episteme of Michel Foucault (1972), or the concept of a social structure of long duration by Fernand Braudel (1979). However, the main paradigm of postmodernism was that knowledge has only local character, is a result of local social discourse. This belief was obviously contradicted by the global character of the crisis — also by other events in 2010, such as the explosion of the volcano in Iceland that had consequences widely exceeding


3 In fact, the crisis was so deep that its aftershocks repeated in 2011.
the area of Iceland. Besides, postmodernism was never fully accepted by technologists (including information technologists), who construct tools trying to make them applicable as universally as possible, hence they need knowledge that is as universal as possible. After the crisis, it is clear that some claims of postmodernism—including the claim that each region should be left alone to develop as it wants, because of its unique, local character—are highly exaggerated. While we obviously should respect uniqueness and local character of regions, there are some universal threats, features and measures. The beliefs of postmodernism are widely disseminated, however, and it will take at least a generation until they finally disappear.

Secondly, the crisis marked the end of neoliberalism. By neoliberalism I do not mean a variation of liberalism, a noble persuasion that individual freedom is a fundamental value, but a distorted application of this persuasion in economics leading to the belief that markets should be left absolutely free. After the fall of the communist system, neoliberalism became dominant in economics, politically stressed e.g. by so called Washington consensus. The paradigmatic belief of neoliberalism was that there is only one proper and valid way of capitalist development - based on absolutely free market. This belief was actually contradictory to the belief of postmodernism, even if both of them developed parallel and in other respects supported each other. The belief of neoliberalism was obviously contradicted by the events during and after the great crisis, today it is obvious that there are many ways of capitalist development (but possibly not as many as there are local regions in the world), see, e.g., (Stehr and Adolf 2008). The beliefs of neoliberalism — particularly in Poland — will not disappear instantly; people change their beliefs slowly, especially as their beliefs are supported by economic or political interests. However, they will slowly disappear even in economics — because the impact of informational revolution requires a fundamental re-evaluation of economic theories. Side-effects of informational revolution result in oligopolisation of high tech markets and generally in possibilities of market corruption if high tech novelties support greed and informational divide. One of the basic megatrends of informational revolution, the megatrend of dematerialization of work, changes essentially the character of labour market and results in the necessity of a new industrial policy, aimed at creation of new workplaces attuned to the conditions after informational revolution; see, e.g., Wierzbicki 2009).

From the perspective described above, the following answers can be proposed to the questions posed by Antóni Kukliński. First answer is to the question whether XX Century was short (1914–1989) or long (1914–2010). If we recognize that during XX Century occurred the beginnings of informational revolution, however we shall date it, more valid appears the answer that XX Century was long: the two decades 1989–2010 belonged to XX Century, because their dominating paradigms were based on the prolongation of beliefs characteristic for XX Century, even if these decades prepared XXI Century.

Second answer is to the question of Enigma of XXI Century. From the perspective described above, I am convinced that XXI Century will be dominated by further developments of informational and knowledge civilization, see (Kameoka and Wierzbicki 2006), also (Bard and Söderqvist 2006), together with its characteristic conflicts, e.g. concerning the issue who shall own knowledge, see, e.g., (Lessig 2005, Boyle 2008). In (Kameoka and Wierzbicki 2006) we discussed many reasons to believe that the impact of informational technologies will have prolonged consequences. Competitive to informational technologies might become biotechnologies; however, for reasons presented in (Wierzbicki 2009, 2010), full biotechnological revolution as indicated e.g. by (Garreau 2008) will be most probably delayed until 2100.

Moreover, according to the first answer, the Enigma of XXI Century relates mostly to the issue of formation of new paradigms, appropriate for XXI Century. This might correspond to the concept of a (postmodern) understanding of episteme. According to Foucault (1972), episteme means the way of creating and justifying knowledge, characteristic for a given civilization era.
The episteme of industrial civilization was subject to a destruction process, divergent epistemic developments of three cultural spheres (hard and natural sciences, humanities and social sciences, and technological sciences) during the second half of XX Century, and postmodernism was a part of this destruction. However, the formation of a new episteme of knowledge civilization era, i.e., the structure of concepts characterizing scientific activity in XXI Century, is a task before us. Old paradigms were proven to be insufficient during the first time delay period \((t_0; t_0+T_0)\) 1980–2010, we must create and synthesize new paradigms during next delay time period \((t_0+T_0; t_0+2T_0)\) 2010–2040.

4. Conclusions

The essential conclusion of the paper is that Enigma of XXI Century relates mostly to the need of creating new paradigms for understanding the world after informational revolution.

Only after the world in its new aspects is well understood, we might start to deal with threats that relate to the generally perceived (and well documented by the above analysis) acceleration of life and socio-economic events. The most fundamental threat relates to the danger of self-destruction of human civilization related to avalanche effects of the positive feedback loop between science and technology on one side and the system of their socio-economic, market utilization on another side. In order to counteract this threat, it is necessary to accelerate the process of social reflection on the possible ill effects of mass utilization of some products of science and technology (such as drones or war-robots, but there are many other examples). In recent history, many tens of years (as illustrated above) were needed between the idea of an essentially novel device and its broad utilization. However, it might be too late to wait with social reflection until a broad utilization is achieved. Such an acceleration of reflection is not possible without a better education of entire society in important technical disciplines, without obligatory teaching at least three technological courses — e.g., informatics, robotics with automatic control, and biomedical engineering—at all university specializations, including humanities and social sciences. See also (Wierzbicki 2011).

References


The last two decades 1990–2010 have created the conventional paradigm of knowledge based economy\(^1\). The paradigm was shaped in a multidimensional theoretical, methodological and empirical documentation, developed by the global academic community, by grand international organizations, by transnational corporations and by scientific policies promoted in the most innovative countries of the world.

In this paper I would like to formulate a controversial thesis related to the destruction of the old paradigm of knowledge based economy and the creation of a new paradigm of wisdom based economy. The paper will accept the following thematic sequences:

A. Nine theses related to the old paradigm of knowledge based economy
B. The great pentagonal crisis of the years 2008–2011 an epitaph for the old paradigm
C. The trajectories of the developmental of Wisdom Based Economy

A. Nine theses related to the old paradigm of knowledge based economy

1. The KBE paradigm was created in the conditions of the years 1990–210, which are the real end of the long XX century incorporating the years 1914–2010\(^2\). It would be interesting to promote studies comparing the Keynesian decades 1950–1970 and the neoliberal decades 1990–2010. We have to analyze the real glory and misery of the Keynesian and neoliberal decades.

2. An important role in the creation of the KBE paradigm was performed by the grand international organizations and especially by OECD, the World Bank\(^3\) and the European Union

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3. The information society\textsuperscript{4} has created the technological, social and cultural conditions for the development of KBE. In this context we should mention the eminent role of the creative class.

4. An important role in the creation of KBE was performed by leading countries shaping new innovative patterns of economic and scientific policies promoting KBE.

5. The world of enterprises and transnational corporations was an effective laboratory in the processes creating KBE.

6. The academic community and the R&D institutions were improvement actors in the creation of the theoretical foundation and methodologies related to KBE. This community has also promoted empirical studies analyzing the development of KBE in different conditions of time and space.

7. The world of education and especially of higher education induced the new generations of students to develop intellectual capacities and pragmatic abilities necessary for the promotion of KBE.

8. In the global scale we can find a network of innovative regions, which have created a stimulating environment for the development of KBE.

9. The processes of the creation of KBE was a global process visible on all countries. We have however to recognize that the leading role in the development of KBE was performed by the dominating civilization of the Atlantic Community\textsuperscript{5}. The most important centers of the KBE of the XX century have emerged in USA and in Europe.

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Naturally we can have different visions of the global communities of persons, institutions, enterprises, corporations, societies, regions, states and international organizations, which in different dimensions have participated in the processes of the creation and development of KBE.

Formulating the thesis of the creative destruction of the old paradigm we are not trying to dismiss the grand achievement of KBE in the years 1990–2010. These achievements are creating one of the necessary conditions of the development of a new incarnation of KBE of the XXI century. But this is not the sufficient condition to meet the Enigma of the XXI century.

B. The great pentagonal crisis of the years 2008–2011 an epitaph for the old paradigm

We are facing now the greatest crisis in world history of the last 500 years. This is a pentagonal crisis of the global finances, global economy, global order, global elites and the Atlantic Community.

This pentagonal crisis is formulating a triple epitaph for the old paradigm.

1. The first element of this epitaph is the destruction of the grand illusion, that KBE is a turning point innovation eliminating the danger of a deep crisis of the capitalistic economy in the scale of the crisis of 1929–33.

2. The magnificent construction and practice of the old paradigm was not able to envisage the dramatic or may be even tragic pentagonal crisis of the years 2008–2011. The KBE was

\textsuperscript{4} Compare The knowledge society, International Social Science Review nr 171, March 2001

\textsuperscript{5} A. Kukliński, K. Pawłowski (eds) The Atlantic Community. The Titanic of the XXI century?, WBS-NLU, Nowy Sącz 2010

blinded by the illusion of the neoliberal world as an reality of “eternal boom”. The KBE has lost the ability of long term strategic thinking.

3. The third element of this epitaph is the paralyzing inability of KBE in the processes of discovery of a new face of the XXI century. In this processes the new vision of the XXI century is not emerging, we do not see the solution of the dilemma neoliberalism versus neokeynsism. We do not have the intellectual and moral capacity to prepare a bold diagnosis of the processes, which have lead to the pentagonal crisis of the years 2008–2011. We must have the courage to design a list of institutions and may be persons which are responsible for the creation of conditions leading to the present state of the collapse of the Atlantic Community and global order.

* * *

The epitaph of the old paradigm should be an object of an controversial academic discussion, leading to innovation inspirations facing the enigma of the XXI century. In this epitaph we should propose a new interpretation of the observation of Albert Einstein, “Imagination is more important than knowledge”. The old paradigm was de facto a paradigm of knowledge without imagination.

C. The trajectories of the developmental of Wisdom Based Economy (WBE)

The glory and misery of the old paradigm should be an inspiration in the development of the new paradigm of the XXI century The Wisdom Based Economy. In this context we are accepting the definition of wisdom presented in Wikipedia “Wisdom is the ability developed through experience insight and reflexion to discern truth and experience good judgment.” In our interpretation wisdom is the integration of knowledge, imagination, experience and internalization of the canon of good and evil.

In this definition we find an element of the condition of the essence of the old paradigm.

This is the permanent role of knowledge as one of the main sources of human progress. This definition is introducing three new elements, which are outside the main stream of the old paradigm. The first is imagination as a trajectory of strategic thinking.

The second element is a new interpretation of experience as a source of wisdom of the XXI century. The experience is a valuable resource for the future. The experience could be also a barrier paralyzing our innovative thinking related to the future.

The third element is the introduction of the canons of ethics into the main stream of the reflexion about the future of global economy and the future of the humanity. The main source of the potential success of the Wisdom Based Economy is a new interpretation of the canon of good and evil as a foundation of the efficient management of the new global economy and the new global order. The future of the XXI century will be not dominated by the Atlantic Community.

9 In the evaluation of neoliberal ideology the links, linking the world of economy and the world of ethics were lost. This link was very firmly pronounced by the general contributions of Adam Smith incorporating not only. An inquiry into the Nature and causes of the Wealth of Nations (1771), but also an earlier contribution (1759). The Theory of Moral sentiments. It is necessary to see from this point of view the opera omnia Adam Smith.
The new Wisdom Based Economy will be developed in the framework of new conditions facing the deep transformations of the global scene\(^{10}\).

In these conditions it is very difficult to face the new enigma of the XXI century. But we have no choice we must face this enigma. Maybe the concept of Wisdom Based Economy is a useful idea in this context.

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I hope that this note will be recognized as a brainstorming note formulating a real dilemma Knowledge Based Economy versus Wisdom Based Economy. Is the content of this note opening a new field of theoretical and pragmatic reflexion?

Now the judgment is yours—Ladies and Gentlemen. The field of creative destruction of this note is open.

Warsaw January 2011

\(^{10}\) A. Kukliński, K. Pawłowski (eds) *The Atlantic Community* op.cit.,

JULIAN AULEYTNER

THE 21ST CENTURY UNIVERSITY
—A PRODUCER AND CONVEYOR OF KNOWLEDGE

Universities in Europe are very old institutions, some of them function since the 11th century (Bologna). Since hundreds of years educated students, higher education institutions, create new elites, popularized knowledge and contributed to professionalization of approach in many occupations. University was as well the place of advancement of intellectual agility. Which was of high importance for academic didactics.

Universities through the ages underwent significant evolution—from medieval higher education institution to modern and contemporary. Nowadays these three types of universities can be seen in historical perspective and allow us to prognosticate further development of this institution.

Medieval university remained under strong influence of the Catholic Church. Pope awarded to universities for instance: status studium generale. Until the end of the 15th century, around 80 academic centers functioned in Europe, which indicated the elite nature of university education, even if population of continent was low and there were communication problem. In the medieval university, there were two principal paradigms of scholastic gilds—corporation of students (Bologna) and masters (Paris). The academic language was Latin. Financial background of universities of that time was composed of church and royal donations and aristocratic foundations as well. Medieval university had four faculties—liberal arts, law, medicine and theology. With the lapse of time such model of universities which hardly included scientific research became outdated was markedly unveiled by the Protestant Reformation and the Counter-Reformation.

Modern-age university ranged from since the 18th century as institution independent from the Church, dependent on and financed by the state. National Language became academic language. In new model of university scientific infrastructure emerges, as well as new didactic methods: observatories, experiments, laboratories and seminars. Universities of new type initiate several new disciplines which are connected with the Industrial Revolution. Modern-era university reveals also new type of ownership, which became particularly visible in the 19th century. New private universities crop up as a new type of dynamics connected with business. In Europe modern-era university is developed by the Germans (Gottingen, Haale) and by the French, particularly after the French Revolution.

The peculiarity of modern German university according to the concept of Humboldt turned out to be connected of didactics with research results and introduction of sciences faculties. German universities attached high importance to having masters—professors, who was appointed after

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1 This text is based on addresses given by me in the autumn of 2010 to the Committee for Future Studies “Poland 2000 Plus” and the Polish Economic Society’s Club for Strategic Thought.

2 More comprehensive: Nowa encyclopedia Powszechna PWN, T6, p.559 and further, Warszawa 1997
time passed by the state and who obtained not only pay but resources for scientific research as well. German universities as well raised the bar for scientific progress, by introducing habilitation as third scientific title (after master’s degree and doctoral degree). In Europe and as well in the US, German university model exerted influence on forming of this institution, particularly as an example for scientific careers.

Modern-era model of university unveiled the need of separation of new types of higher education institution: university of applied sciences (vocational) which conveyed ‘faster’ education required by professionals in many fields and academic university which conducted scientific research and connected it with development of theory in particular disciplines and didactics, as well awarded academic titles which built academic staff. This dual model of higher educational institution is nowadays noticeable all around the world. It does not mean that the development of higher education is undisputed. Disputes over development of universities concerns resources of funding, license to award degrees or proportion of academic staff.

Contemporary university constitutes institutional form which enriches preceding model of modern-era university, as it embraces long-life learning and is subject to constant differentiation in particular countries. The methods of management are changing towards business direction, multi-leveled system in the form of courses and ended with diploma. Diploma studies can constitute a foundation for bachelor’s degree but as well superstructure for completed master’s or doctoral studies. This model is also discussed in the further part of the test.

New didactic methods come forth. National language is complemented with English language which is preeminent in scientific community. This model is also discussed in the further part of the text.

1. Academic challenges facing the Polish university

Discussion concerning models for the university of the future has been ongoing worldwide for a number of years. In Poland we return periodically to the question of changes to our model; and at present another opportunity to do so has been afforded by a draft amendment to the law on higher education. However the legislative proposal is not characterized by a search for ways to improve the competitiveness of our universities, the focus is rather on how they should be managed. How much the state should do, how much academic democracy there should be, and what should be the role of managers? These are the questions which the current discussion and proposed amendment treat as crucial. By contrast, and very significantly for the current reform, there is a dramatic deficit of discussion of the future of Polish universities over the next 20–30 years. In addition, material produced by the Ministry of Science and Higher Education differs fundamentally from the document issued under the aegis of the Polish Prime Minister Donald Tusk entitled Poland 2030 — Development Challenges. Within the government itself two different options concerning the role of education are visible. The first is focused on immediate issues; the second has a future perspective. However the second option lacks a bold concept for new directions and utilization of what has been achieved to date.

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3 When reading for example a work such as Idea uniwersytetu u schyłku tysiąclecia, (The idea of a university at the dawn of the millennium), Warsaw 1998, the contemporary reader is struck by the extraordinarily traditional perspective of the luminaries of Polish academia. 11 years ago the Internet and its global effects were not yet appreciated.

4 A document issued by the Chancellery of the Prime Minister of Poland, 2009.

5 I am referring here to material by the Instytut Problemów Współczesnej Cywilizacji (Institute of Contemporary Civilisation Problems) headed by the late M. Dietrich and the discussion organized by the quarterly Kronika Warszawy
In contributing to the discussion concerning the future of higher education, I present views on this matter which are completely different to those found in the official documents. My perspectives are rooted in many years’ experience of managing a large non-state higher education institution with a humanities profile. Polish higher education requires a systemic overhaul, rather than yet another short-term fix dealing with minor issues.

Such a reform needs to take into account not only the falling birth rate but also the crucial question of the ability of Polish universities to compete in an EU and world context.

The starting point for any systemic reform is always good diagnosis. In order to answer the questions formulated above it is necessary to know how our model of higher education along with its many functions has evolved since 1991.

The creation of a legal framework allowing the setting up of non-state higher education institutions\(^6\) led to a new phenomenon in Poland—a boom in education offered in competition to the public (state-run) universities. I will remind readers that in 1992 representatives of the public universities were complaining not only about the low wages of their academic staff, but also their complete inability to accept further candidates for courses (there were then c.400 thousand university students, nearly 5 times fewer than today). Today both of these important arguments have been forgotten. Apart from these arguments it is necessary to remember another almost unnoticed fact: there was a total lack of mutual competition between state institutions of higher education in this period.

Many influences on the life of a society are connected with chance decisions. So it was in the case of higher education in Poland. Nobody in 1991 had the slightest idea what long-term effects would come from the statutory regulation on the formation of non-state higher education institutions. Admittedly before World War II we had a few good non-state higher education institutions (e.g. the Free Polish University), but that was in completely different political conditions.

Access to knowledge allows individuals to invest in themselves and gain a stronger place on the labour market. A relationship has long existed between the level of education and the rate of unemployment. Someone who has a higher education can escape from poverty. It is easier for that person to obtain work and social standing. A university degree is a passport to a better position on the labour market and higher earnings. Discussion concerning the development and modernity of universities is a discussion about the "factory" of knowledge and the quality of its performance, which in turn determines the quality of intellectual capital.

We are in the 21st century and the question arises, whether the Polish university is suited to the challenges of the new millennium. 10 years of this century have already passed and it is worth asking what is happening with universities around the world. This is an important question, since currently discussions are taking place about the shape of the new legislation which no doubt will be passed by the Polish parliament. Recently there was a sitting of the relevant parliamentary committee (October 2010), at which 74 contributors spoke, the majority of them making detailed remarks on provisions contained in the legislation, but nobody at this meeting took up the issue of whether the university which is the subject of the legislation will reflect what is happening outside of Poland, whether the Polish university will be competitive.

The European Union needs dynamic and competitive colleges. A knowledge society and an economy based on knowledge will develop thanks to institutions of higher education to which access will become increasingly widespread.

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\(^{6}\) Non-state universities also have public rights (e.g. to issue degrees) and therefore I avoid the imprecise formulation "non-public universities".

(The Warsaw Chronicle) No. 4 (131) 2006, entitled: The role of Warsaw’s universities in the creation of human capital for the economy and culture.
The European Council meeting held in Lisbon at the beginning of this decade (2003) formulated the goal of making the EU the world's most competitive and dynamic economy capable of competing with the USA and the emerging economies of Asia. This goal was, and is, ambitious and maps out over the long term the direction of European higher education policy. At that time Poland had not yet participated in the debate over the future of the university, but shortly after entered the EU along with its by no means small educational potential. A revolution has taken place here over a number of years in terms of the number of people receiving a higher education. One indicator of this radical change is the number of “universities” operating in Poland: over 400! In this respect we are certainly a world leader.

R.K. Merton’s four principles for higher education are still valid:

- **Universalism** (openness to truth regardless of its national or class character, access to education)
- **Communalism** (intellectual property is protected, but also limited in light of the duty to propagate it)
- **Disinterestedness** – renouncing profit
- **Organized scepticism**—freedom of thought

These principles need to be reinterpreted from the perspective of the modern university.

**2. Developmental characteristics of the modern university**

Universities are where intellectual capital is created. Admittedly these are not the only places where knowledge may be acquired, but organized scientific procedures are concentrated here which define ways of thinking and acting for research and learning. Places of higher education maintain a certain distance from spontaneously changing reality, bringing order to chaotic information, systemically explaining phenomena and processes, and putting all of this into the language of didactics.

There are two types of university in the world: private, endowed by their founders (families) and those founded by the state. Both systems have their pros and cons. Without going into detail concerning the differences between them, it is worth emphasizing that both systems have achieved research and didactic successes. However European universities do not reach the level of innovation shown by their counterparts in the USA which traditionally use the private financial resources of graduates and foundations. Both in the USA and the current EU there are about 4000 universities, but this number in the USA serves a population of about half that of the EU.

Inevitably the system of private and public universities has given rise to a ranking of the best universities in the world. The top 10 for 2010 was dominated by universities from the USA.

1. Stanford
2. Massachusetts I T
3. University of Mexico, Mexico City
4. California, Berkeley
5. Peking University, Beijing
6. Michigan State
7. Yale
8. Indiana
9. Purdue
10. Duke
In the ranking of the top 200 universities in the world there were universities from 28 countries (but not Poland). What is striking about the website of Stanford (no. 1 in the above ranking) is the special attention paid by the university to its social environment—the graduates and parents. These constitute a natural source of (financial) support for this centre of education. Stanford graduates are the university’s "ambassadors", and the higher they rise in society the better they fulfil their role.

The rise in the number of universities in Poland mentioned above corresponds directly with the development of mass access to higher education. Whereas for centuries university studies were a privilege for the elites, as attested to by medieval accounts of journeys to Italy to attend university, in modern times a higher education is becoming a widespread individual need. The labour market is setting new requirements, and an individual’s competitiveness is dependent on the knowledge s/he brings into the work process. The extent to which views on the role of the university have progressed can be seen in the statistical data concerning the number of graduates present on the Polish job market. Among people in their 30’s the number of graduates is c. 20%, whereas among older generations the number of graduates is a little over 10%. This process has a sustained character; it is estimated that in some countries in the near future there will be generations where 50% will have a higher education. The development of mass access to higher education is illustrated by data from UNESCO: in 1991 the number of students in the world was recorded as 68 million, 14 years later in 2005—132m!

Apart from expanding access to higher education, the system of continuing education is also developing and in many countries this has given people a second educational chance. Continuing education allows adults to maintain a competitive position on the labour market using self-study methods.

The implementation of virtual educational space via the Internet has accelerated studying. Students do not have to waste their time on journeys, or on waiting around between lectures. They have practically 24 hour access to e-learning platforms which provide self-study material and verify progress through a comprehensive system of tests and examinations. Users can progress through their study programs more quickly and in line with their personal work rhythms. They are assisted in this by social networking sites and Skype. Virtual educational space also means the opportunity to use various sources of knowledge (e.g. Wikipedia). The wealth of sources from which knowledge can be obtained significantly expands the competency of students, if they want to use these sources.

Many EU students now have the opportunity to study in the education systems of various countries. Mobility during student years will encourage innovativeness later. Attending university in another country provides students with new experiences, and energizes behaviour by "forcing" them to think in another language and as a result of adaptation to different cultural conditions. UNESCO statistics concerning student mobility show that this is a sustained tendency: between 1980 and 1998 the number of students attending university outside their own country (“international students”) tripled worldwide. In 2005—2.5m studied abroad. It is estimated (by UNESCO) that in 2025 this number will reach 7.5m. As a matter of interest it is worth noting that the international student market generated $30bn in 2007 (source: UNESCO).

A new feature of the contemporary university is its round-the-clock, traditional and virtual, availability. The open education system and distance learning are examples pointing to the new role of the university in a knowledge-based economy. While staying at the Gran Canaria University (c. 20 thousand students) I visited the university library at night. It was open and divided into

http://www.4icu.org/top200
two types of rooms: for those studying individually and for group reading. Such a practice is in glaring contrast to library availability at Polish universities.

The use of e-book readers will soon become a new method for accelerating the process of learning. Traditional printed textbooks generally lag behind the current state of knowledge in a given field. Even a year’s delay in information contained in a textbook is irritating both to the author and his students, hence the idea of e-book readers which facilitate access to historical works and to contemporary texts which in the near future will not require book versions.

English is, or is becoming, the academic language of America, Europe, Australia, and parts of Africa and Asia. In international contact English has the character of a universal language and will remain so for the foreseeable future. In some countries (Japan, Netherlands) it has even been introduced in parallel to traditional academic classes carried out in the local language. Such a practice is unlikely to be discontinued, since there is currently no other language which could replace English on a world scale.

The modern university requires a new type of management to supersede the representative function performed by the university president. In our times the university has become a large company in which a multitude of issues intersect: financial and labour law regulations, academic and research procedures, social and sports programs, marketing strategies. The president, as democratically elected, can represent the university, but it does not follow from this that s/he will manage the institution well. University management is becoming a field that requires a versatility of skills impossible to determine on a democratic basis. Therefore it is becoming increasingly common for management tasks to be entrusted to “chancellors”—managers who are capable of professionally managing an academic business. They carry out these tasks far better than democratically elected university presidents who are often not responsible for the financial results of their institutions. Thus in Poland we often come across the paradoxical situation of presidents of schools of economics whose institutions are making a loss even though they teach students rational management.

The new academic culture at universities is changing the master-pupil relationship. The pupil has new sources of knowledge at his/her disposal and sets before the master the task of keeping pace with progress. Students thus expect from their academic teachers help, motivation, and suitable approaches to new problems. Students enter into dialogue with their masters, and expect argumentation which facilitates their intellectual development. The authority of the master is no longer based on titles and distinctions; just the opposite—the merits of the master are verified by a new generation of students who reject faith in masters, but instead expect to be convinced by scientific arguments. This culture requires both traditional, direct contact and also indirect contact—created by virtual space. This space facilitates a system of asymmetrical education, paradoxically even from dead masters. Mainly however it means the possibility of obtaining didactic materials regardless of personal contact with their author.

3. The university as an exporter of knowledge

The statistics relating to the recruitment by country of international students are little-known. 6 countries lead in this area with 68% of all international students:

- USA—23% (generating an income of $13bn!), 565,000 international students in 2004/05—4% of the total US student body,
- UK—12% (the UK’s fastest growing export),
- Germany—11%,
- France—10%,

USA—23% (generating an income of $13bn!), 565,000 international students in 2004/05—4% of the total US student body,
The 21st Century University—A Producer and Conveyor of Knowledge

- Australia—7%, this is 16% of the total student body (in a country with a population smaller than in Poland!)
- Japan—5% (e.g. Waseda University with 25% of students from outside Japan)

The countries from which international students predominantly come at present are China and South Korea. This is indicative of the educational priorities of these countries.

The world's leading universities are not only selling knowledge to international students, but are also earning money on examinations and patents. It was recently disclosed that one of the American universities earns twice as much as all Polish universities taken together!

In this regard it is also worth noting that the international student market generated $30bn gross in 2007 (source: UNESCO). This means that knowledge is not only a cost, it can also be a source of profit.

Particularly interesting in this regard is the trend for European universities to open foreign outposts allowing local access to their academic programs. Another example is that of Cornell University which has launched nursing courses in Qatar to cater for Islamic women who have difficulties leaving their homes and country. A German university is conducting engineering studies in Singapore from which local students can gain an EU degree.

In South America, universities from the USA conduct intensive distance-learning degree courses. These are relatively inexpensive and enjoy significant popularity as the qualifications gained are recognized in the English-speaking world.

4. Two case studies—China and Israel

The experience of China and Israel with regard to expanding access to higher education is interesting and allows us to compare a very large (1.4bn) with a very small country (7m) in this regard.

An Open University operates in China with c.3m registered students. Every year there are c.1m new registrations. The Open University network consists of 44 provincial and 933 municipal open universities. The number of students is not impressive in relation to the population as a whole, but significant in comparison with other countries.

The Open University of Israel (OUI) opened in 1974 endowed by the Rothschild family. It currently (2010) has 46,000 students, including 6,000 from the Ukraine and Russia (!). Students from these countries are treated as future, qualified settlers. OUI offers courses in 23 fields. In the UNDP ranking Israel is c.20 places ahead of Poland.

OUI has the largest dispatch centre for academic resources in Israel. The centre sends out about a million books per month to students, consisting of various study aids and scholarly publications, to be used in addition to material available on OUI’s Internet site.

OUI plays a special role in motivating Israeli educators. It holds competitions for the best educational material (text, lecture, PowerPoint presentation, film). There is absolutely no need to be a professor to win one of these competitions, but the very fact of winning is an academic distinction confirming the "nobility" of someone’s teaching. The winner becomes somebody unusually important, since the very method of presenting the material, the ability to win using didactics, allows the winner to subsequently gain additional benefits. The fact that he or she is now successful in the form of having won the competition with e.g. a lecture or a book means that he or she is then consulted as an expert, as a first-class specialist in didactics.

In the contemporary world students are perceived from an economic point of view as future "better" taxpayers, because their high qualifications not only raise the competitiveness of the individual on the labour market, but over the long term provide the state with financial benefits.
In the not too distant future the university will take on a hybrid form. This means preparing the university for constant change resulting from progress in knowledge and the expectations of a labour market that is competitive on a global scale.

Firstly, there will be change in the **technologies** of didactic transmission. The changes which have taken place in the space of one generation, point to the significance of the tools used in didactics. Their improvement and replacement are a permanent process for which educators above all must prepare.

Secondly, students are changing. Today’s students—in contrast to previous generations—are coming to university with an already internalized Internet culture which has specific behaviour patterns built in. The overall level of students will rise; in the past they prepared for class presentations by making notes; now they can use PowerPoint.

Thirdly, educators will change in the sense that they will work differently. The lecturer merely reading his/her lecture or presenting it without multimedia technology is becoming a thing of the past. The authority of the educator will no longer be based on academic titles and offices held but on substantive arguments. Change will also occur in the sense of an increase in individual time spent by the educator with students who want to have e-mail contact, meet in chat rooms, and consult individually. Today’s university students value tutors and mentors. Educators have to keep up with the expectations of their students.

Educators have yet another problem—they have to develop their knowledge. Didactics must be updated by research achievements and these are not always possible for educators. Outdated knowledge marginalizes educators, as well as universities employing sterile academic staff. Hence the additional benefits and enhanced prestige enjoyed by universities with Nobel Prize winners on their staff.

Fourthly, the content of education itself is also changing. In every discipline we can see progress which requires popularization. Old knowledge is being consigned to the history books, and new achievements are being popularized. Participation in this to a large extent determines the attractiveness of a university and its programs.

**6. The university of the future**

The university of the future will focus on tutor-guided self study. Higher education ensures a degree certificate—the ticket into the highly-qualified employee market. However, a degree certificate reflects the knowledge and skills of its owner and with time these become outdated. And so the need for continuing education arises. Access to this type of education in virtual space will be a feature of the academic future. Academic consortia in Australia have for some years been successfully offering continuing education to students from Asia seeking a stronger position on the labour market.

A supranational, satellite university is a matter of 10 years away. The first to organize such an institution (catering even to millions of students) will gain a strong position in terms of creating intellectual capital and achieving financial profit. Such a university will contract highly-qualified educators in specific fields, provide them with national assistants and set up virtual space for the courses. The technical network is ready as the worldwide telephone infrastructure shows.

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*No Polish university has a Nobel prize winner on its staff, although in recent years three have received their doctorates here.*
Independently of this development Open Universities will continue to function. The example of the British OU which was founded in 1969 by Royal Charter, or the corresponding university in Israel shows the demand that exists for this type of university.

Another kind of university might be formed by supranational corporations like Windows, Apple or even a car manufacturer or aerospace company.

The future of the university of the future lies in a supranational infrastructure. A university of this type will enhance the intellectual potential of outstanding individuals, garner prestige and marginalize national universities.

Finally, a few words about simulation games. Simulation games, which are starting to be created using virtual space, are the new future. At universities in Israel simulation game centres are being developed in order to support the teaching process. Simulation games contain strategic thought about the future. Simulation games allow us to imagine what situations might exist, but do not have to, what we should envisage happening and what we should not. These games release unprecedented didactic energy among students because they are much more interested in simulating the future than in consuming the past, i.e. history. It is extremely important to determine whether a historical method prevails at our universities or whether we are focused on creating the future. And the future allows itself to be seen in simulation games which enable us cautiously to predict events in the area of knowledge we are interested in. Simulation games of course lead to collaboration between universities, to the mutual exchange of simulation game databases, similarly to the way in which Wikipedias form databases of knowledge. Wikipedias are the fastest way to build encyclopedias, i.e. systems of collated knowledge, that everyone universally can use.
Part II: The Methamorphosis of Capitalism. A Turning Point in World History?
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 multifaceted 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 doctrinaire 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.

Introduction

The crisis and extreme turbulences in the global economy dramatically emphasize the state of “punctuated equilibrium,” so characteristic of the contemporary world. 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.

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1 This text was presented on 22nd Annual Conference of the Congress of Political Economists International (COPE)—The World Economy: Contemporary Challenges—Singapore, July 9–16, 2011.

2 The theory of punctuated equilibrium was developed by Lester Thurow. Cf. L.C. Thurow, Przyszłość kapitalizmu: Jak dzisiejsze siły ekonomiczne kształtują świat jutra, Wydawnictwo Dolnośląskie, Wrocław 1999.
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). 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?). The relevant literature emphasizes the need for changes in the economic order aimed at reducing crisis risks. 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. 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 very titles of papers published on this issue speak for themselves. 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 “return to depression economics.” In his book titled The Return of Depression Economics and the Crisis of 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. This criticism is joined by other Nobel Prize winners, including Joseph Stiglitz, George Akerlof, and Robert Shiller. 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. Krugman’s views were given a particularly sharp response from a finance professor, John H. Cochrane, a representative of the Chicago School. (How did Paul Krugman get it so Wrong?) Krugman is also accused of...
Toward a New Economic Paradigm

excessive, uncritical belief in state intervention (Still looking for a free lunch). 15 In Poland, the debate was joined by Stanisław Gomułka, who shared this opinion. 16

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, 17 who noted that “Chicago School economics has never been more vulnerable than it is today—and deservedly so.” 18

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?). 19

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

1. 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 consumtariat,” 20 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.” 21 This holds not only for technologies and products, but also for jobs, communication, production, trade, education, and even for models of family

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17 R. Skidelsky, Keynes versus the Classics: Round 2, Robert Skidelsky’s official website, 2009, October 13th.
18 “Chicago School economics has never been more vulnerable than it is today—and deservedly so. But the attack on it will never succeed unless policy Keynesians like Krugman are willing to work out the implications of irreducible uncertainty for economic theory”, R. Skidelsky, op. cit.
19 N. Roubini, S. Mim, op. cit., p. 11.
and professional careers.\textsuperscript{22} 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.\textsuperscript{23}

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.”\textsuperscript{24} 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.\textsuperscript{25}

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.\textsuperscript{26} 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.\textsuperscript{27} 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, deduces from the value created by our productive businesses.”\textsuperscript{28} Although the author of this opinion does not question the value added by the financial sector (such as creating jobs), he also points out that the more the financial system takes, the less is earned by the investor—the basic “breadwinner” 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.”\textsuperscript{29} 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.”\textsuperscript{30}

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.”\textsuperscript{31} He also stresses that “we live in wonderful and sad times—wonderful in that the

\begin{thebibliography}{9}
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\item M. Wolff, “Wenn der Markt versagt”, Financial Times Deutschland, (10.01.2008).
\item S.P. Huntington, Zderzenie cywilizacji, Muza, Warsaw 2004, p. 536.
\item A. Toffler, Zmiana w³adzy..., op. cit.
\item Ibidem, p. 38.
\item Ibidem, p. 38.
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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.32

The turbulence of recent developments and the ambivalence of assessments passed on them inevitably translate into a re-evaluation of 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.”33

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,34 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.35 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

34 “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 R. Frydman, M.D. Goldberg, Imperfect Knowledge Economics: Exchange Rates and Risk, Princeton University Press, New Jersey 2007, p. xiii.
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.” 36

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 behavioral 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. 37

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.” 38

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. 39

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. 40

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.” 41

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.” 42 According to Frydman, if increased

36 Jacek Żakowski’s interview with Robert J. Shiller in Niezbędniłk Inteligenta, supplement to Polityka weekly, (July 5, 2008).
37 G.A. Akerlof, R.J. Shiller, op. cit.
41 H. Hazlitt, op. cit., p. 17.
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 property has always been inefficiently and unreasonably managed and thus she also challenged the thesis that privatization is the only effective way.43

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).44 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."45 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."46

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."47

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

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44 “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 with economics..., op. cit.
46 Ibidem, p. 298.
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).”

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.

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.

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.”

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.

3. 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

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51 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;
- 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.
L.C. Thurow, op. cit., p. 17.
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.\(^52\)

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.”\(^53\)

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 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.”\(^54\)

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,\(^55\) a Polish economist and former Prime Minister, 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.”\(^56\) Similar conclusions and warnings were formulated by Alvin Toffler in his futuristic works *Future Shock*\(^57\) and *Powershift*.\(^58\)

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\(^54\) http://prawo.uni.wroc.pl/~kwasnicki/CytatyEkon.htm

\(^55\) G.W. Kołodko, op. cit.


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 supra-national 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.59

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.60 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.” 61 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.62

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.63

On the other hand, Maciej Batowski 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.64 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, Batowski 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.”65 This is manifested, inter alia, in the “doctrinal foundations of the economic system.” At the same time, Batowski 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

59 “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 at the top, The Economist (May 3, 2007).

60 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. N. Roubini, S. Mim, op. cit., p. 9.


64 J.A. Schumpeter, Kapitalizm socjalizm demokracja, PWN, Warsaw1995, p. 76.

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 omnipotence, 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.”

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 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 Community.

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 “ordro,” 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. 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. 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 for the coherence and sustainability of social and economic development. The ideas underpinning the social market economy are characterized by holism, or comprehensive consideration of the individual components making up

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the extremely complex structure of the political and economic order. J. Sachs offers a new method of resolving socio-economic problems, which he describes as “clinical economics,” 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.

Ordo-liberalism, on which the concept of social market economy is based, was developed in Germany in the 1930s and 1940s. The principal theoreticians of ordo-liberalism were Franz Böhm, Alexander Rüstow, Wilhelm Röpke, Walter Eucken and Alfred Müller-Armack. The ordo-liberal 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 ordo-liberal concept of the social market economy is its adjustment to the unprecedented ongoing dynamic changes in terms of technology, society, and economy.

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?” 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.\textsuperscript{77}

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.

\textsuperscript{77} A. Toffler, \textit{Szok przyszłości...}, op. cit., p. 443.
BENEATH THE CRISIS: DECLINE OR METAMORPHOSIS OF CAPITALISM?

"On ne peut ignorer l'urgence à sauver le système ... il faut s'occuper des racines du mal ... du grand déraillement."¹

"There is an urgent need to rethink and reform the global capitalist system, ... prevent it from destroying itself"².

The crisis underway and its sources have served—and will surely continue to serve—an object of numerous analyses. The objective of this article is not to add another one mostly repeating findings of so many distinguished experts and self-confident amateurs. Nor to try to make a prophecy if and when the next crisis may come, and of what magnitude. Rather, it represents an attempt to: (a) look for the systemic and sociological (mental) underpinnings of what was happening during the last few decades in the developed countries, the United States in particular, and what wreaked the havoc; and—against this background—(b) go a step further and examine the state and prospects of capitalism.

By now there is a tacit agreement among experts there was a number of harbingers of the crisis. Incidentally, several well-known researchers did foresee the coming crisis, yet no one cared. There was no interest to listen to the doomsayers whilst the Titanic was proudly sailing towards the catastrophe and the orchestra was playing loud for happy unsuspecting dancers... Shouldn’t we though try to benefit from the bitter lesson to ponder on systemic base of the post-crisis world economy at the important turning point we better don’t miss?

Several authors like John C.Bogle, Anatole Kaletsky, Antoni Kukliński, Robert B.Reich, Zdzisław Sadowski, Joseph E.Stiglitz, Alvin and Heidi Toffler—to whom I owe the inspiration for this article—tried in their recent or not so recent contributions (many published before the crisis erupted) to turn attention to the profound change in the people’s and institutions’ (including companies’) mentality which was largely responsible, in my humble opinion, for shaping the course of events: financial, and then social and economic crisis of proportions unprecedented since the Great Crisis. Without realising these phenomena, pertaining to the social anthropology

¹ ARTUS, Patrick, VIRARD, Marie-Paule. Globalisation, le pire est à venir. Paris, La Découverte, 2008; p.72.
in particular, and taking them up as the indispensable and key topic for a thorough discussion in the academic circles and among politicians, it would be hardly possible to alter the behaviour of people and institutions (including companies or banks, but also government as the regulator) so as to avert major economic and social calamities in the future and avoid undermining even more the severely affected system—capitalism. Without reaching to the depths of what has contributed to the crisis 2008-? (2007–?) and what threatens capitalism now, we run the danger of looking helplessly at the approaching ice-bergs...

Before getting to the core of the issue, it would seem useful to make clear what definition of capitalism is adopted for the purpose of this essay. Out of various—more narrow and wider definitions available, I decided to pick up that of Bruce Scott: “An indirect (not by political authority itself but rather through the rules and institutions it shapes), three level (markets; institutions; political authority) system of governance for economic relationships”, as it transcends boundaries of neo-classical economic analysis. His concept “broadens the focus from market operations to include both the institutions that shape the market frameworks and (especially—J.W.) the political authority that designs as well as governs the institutions in which markets are embedded ... the evolution of a capitalist system requires the visible hands of political actors exercising power through political institutions such as elections and legislatures ... government’s role being to “determine, arbitrate, and enforce the rules of the game” of capitalism and not directly participate in it”, although the government retains a mode of direct intervention, e.g. the ownership and control of public enterprises, and has two different roles to play: as an administrator and as an innovator.

The events following the eruption of the crisis did confirm his view that “capitalism is not (anymore at any rate—J.W.) a system of economic relationships that are co-ordinated through the invisible hand of the pricing mechanism in markets; it is also ... a system of governance, ... a mix of sociology, administration, politics, economics, and law ... Organized markets cannot exist without a set of institutional foundations that establish various rights and responsibilities. ... Capitalism can neither emerge nor develop without such constant human intervention”.

Let me quote now Joseph Stiglitz: “Modern economics, with its faith in free markets and globalization, had promised prosperity for all. The much touted New Economy—the amazing innovations that marked the latter half of the XX century, including deregulation and financial engineering—was supposed to enable better risk management, bringing with it the end of the business cycle... The Great Recession ... has shattered these illusions ... No crisis , especially one of this severity, passes without leaving a legacy. The legacy of 2008 will include new perspectives over the kind of economic system most likely to deliver the greatest benefit. ... I believe thatmarkets lie at the heart of every successful economy but markets do not work well on their own. ... Economies need a balance between the role of markets and the role of government. ... We won't and can't go back to the world as it was before. ... The crisis will, I hope, lead to changes in the realm of policies and in the realm of ideas.... The current crisis has uncovered fundamental flaws in the capitalist system, or at least the peculiar version of capitalism that emerged in the latter part of XX century in the U.S.”.
On October 24, 2008, Alan Greenspan admitted, too, that there was a "flaw in the model" and recognised his mistake in believing that banks would do what was necessary to protect their shareholders and institutions. Financial sector was not the only responsible though the credit derivatives deals alone amounted to some $20 trillion contracts in the markets in mid-2000s ... surrounded by social silence and virtually no supervision and regulation. They could help, initially, to control risk but eventually they (as other similar instruments) amplified it as the rush to derivatives from the early 1990s was motivated not by the desire to control risk anymore but to get higher returns, disregarding rapidly growing exposure to high risk. Olivier de Jamblinne de Meux points out that the crisis resulted from irresponsibility and greed, people wanted to, and did earn big money in a short time disregarding the risk entailed. And in the investment world greed constitutes the biggest danger.

The economy of the advanced countries has been undergoing little realised yet profound change in the direction of its "virtualisation": "we have seen a large shift from manufacturing and even the provision of services as central economic activities—to the trading of financial assets. Financial engineering, not production, has become the most profitable activity ... This virtual economy has a terrible potential for disrupting the underlying real economy" — predicted John Gray in 1998 (!) writing about increasingly distorted evolution of the national economy of a number of the advanced countries. As the degree of "derivation"—or the distance from the underlying assets—increases, notes Ha-Joon Chang, it becomes harder to price the asset correctly; Warren Buffet called derivatives "weapons of financial mass destruction" well before 2008...

In fact, early warnings were abundant from many authors besides Joseph Stiglitz, e.g. Charles Handy and Jeremi Rifkin (respectively: free markets are unable to settle everything and have numerous side-effects, they do not necessarily lead to the well-arranged world nor cater to aspirations of peoples, and capitalism constitutes a mechanism which serves few, and the rulers should control it and rectify it, bearing in mind their value system and not just maximisation of revenue; thinking about economy has been dominated by materialism, about labour—by material benefits, about security—by consumption) 11. Also—John Gray: free markets weakened or destroyed other institutions from whom social cohesion in the United States depends (perhaps elsewhere as well albeit to a lesser extent—J.W); they have contributed to the long economic boom from which majority of Americans did not benefit at all 12.

of the U.S. ... it may be difficult to have a strong global economy so long as part of the world continues to produce far more than it consumes, and another part—a part which should be saving to meet the needs of its aging population—continues to consume far more than it produces" (p. XXIII).


8 MEUX, Olivier de Jamblinne de. "Politycy nie zakażą bankom spekulacji" (Politicians cannot forbid banks to speculate). Rzeczpospolita daily, 5 May 2011.


10 CHANG, p. 239.


And **globalisation**—as Patrick Artus and Marie-Paule Virard claim—after some 50 years of a *grosso modo* positive expansion—**has become a formidable inequality-generator and** added fuel to growing uncertainty as a result of its poor—or none at all—management; worse still, globalisation has become (though can hardly be blamed for that—J.W.) (a) **imbalance-generator** whereby less developed countries (among them producers of commodities enjoying big reserves) started to credit the most advanced ones to help them to go on living beyond means, and (b) **facilitator of the expansion of sophisticated—often fraudulent—financial instruments** and creation of a dangerous overdose of liquidity. A multifaceted uncertainty in view about the resilience of the global economy and the effectiveness of fiscal and monetary responses, governance and regulation, combined with high likelihood of politically more unstable next economic cycle once the global economy emerges from the current crisis—**carries the huge risk of retrenchment from globalisation** (which had stimulated the uncertainty... and from multilateralism whereas multilateral governance becomes more necessary than ever**.

“The global capitalist system is based on the belief that financial markets, left to their own devices, tend towards equilibrium... like a pendulum...This belief is false. Instead... they have recently acted like a wrecking ball, knocking over one economy after another... maintaining stability in financial markets ought to be the objective of public policy”**. Capitalism, with its exclusive reliance on market forces, poses a different kind of danger to open society. Market fundamentalism is today a greater threat to open society than any totalitarian ideology. Such an opinion was voiced by George Soros in ... 1998! He had hoped the calamity could still be avoided if we recognized the deficiencies of our system and corrected them in time.

Joseph Stiglitz in his earlier book (2006) stressed that “today, by and large, there is... an understanding of the limitations of markets... which often fail to produce efficient outcomes... and are disturbed by income inequalities and high levels of poverty... countries realized that markets had to be created and governed... **Among the central choices facing all societies is the role of government. Economic success requires getting the balance right between the government and the market**”. “One of the central weaknesses of capitalism is that it does not acknowledge that it needs healthy institutions—public or private**. What’s necessary to ensure a proper mix of government and market—undoubtedly crucial now in trying to restore growth? Joseph Stiglitz’s reply is: “The comprehensive approach has involved strengthening markets, but equally important has been (the crisis had to demonstrate it bitterly—J.W.) strengthening government and figuring out, for each country as it reaches each stage of development, what the right mix of government and market might be... Markets, government, and individuals are three of the pillars of successful development strategy. A fourth pillar is communities”. Almost 20 years ago, Peter Drucker rightly foresaw that government and governance will be increasingly in demand, stressing (how rightly!) that, needed and legitimate as they are in democracies, they have to regain a modicum of performance capacity, *inter alia* through the adoption of the turnaround strategy. Paradoxically, at the same time government spending in the advanced countries was...
constantly growing: from 28.4 % of GDP in 1960 — to 47.7 % in 2009 according to IMD 2010 World Competitiveness Yearbook.

Only now we talk—again—about “the return of the state” and, also, the rise of a new economic hybrid which might be termed “state capitalism”21. The question is however, to what extent governments represent common (national) interest, and not (vested) interests of politicians and/or governmental officials (or business managers), and in what sense the role of the state (government) stands to be reinvented22, although—as Ha-Joon Chang claims — free market sensu stricto does not exist: there is always some, whatever the degree of efficiency, sufficiency and rationale, margin of its regulation, and—on the other hand—even free-marketeers are politically motivated23. Also, for him “the argument that government decisions affecting business firms are bound to be inferior to the decisions made by the firms themselves is unwarranted”; sometimes government policies are good for the country and not so for the company, at least for the short term; government regulations may work not because government knows better but it can limit the complexity of activities and thereby restrict freedom of markets (worse, if it creates obstacles by way of erecting bureaucratic barriers); sometimes governments successfully pick up the winners and/or create companies (though most successful are those created by joint efforts of state and private sector). Of course, both governments and firms may fail in what they are doing24.

What seems thus to be at stake it’s not “merely” search for remedies and safeguards against the recurrence of big crises: it’s the future of capitalism itself, and the shape of its next version (assuming, as we do, that it will survive), and—by the same token—a sort of the impact the outcome will have on the fate of humanity—and of the planet. For failure of successful adaptation, once again, of capitalism, and rectification of its troublesome deficiencies including erosion (de facto) of democracy may pave the way to unwanted alternatives and loss of confidence in “Western”, or Euro-Atlantic, civilisation and its acquis, as Hubert Védrine warned in 2007: “au paroxysme de leur assurance et de leur zèle missionnaire, si Les Occidentaux ... refusent de voir, ... qu’ils ont perdu le monopole de l’Histoire du monde, ils vont rencontrer des difficultés croissantes à faire valoir leurs idées, et même à défendre leurs intérêts”25. A warning that started to become reality shortly thereafter...

True, thus far capitalism has shown an astonishing capability to adapt under social pressure while exerting a revolutionary impact as well on modern society. Yet in XXI century the structure of the economy in more advanced countries looks quite differently than was the case some 200 years ago, people’s aspirations—and rights—have also profoundly evolved. Markets have changed. So have the motivations and ways of behaviour of institutions including regulators. Below, I will attempt to outline the thrust of the change and its implications I consider of tremendous importance. For, as I think, we cannot just rely on otherwise probably correct guess, and consolation, of Anatole Kaletsky in his remarkable book that “global capitalism will be replaced by

21 “Leviathan stirs again” and “Stop! The size and power of the state is growing, and discontent is on the rise”. The Economist, 23 January, 2010; p. 9–10 and 21–23, respectively.
22 LUBOWSKI, Andrzej. “Ile państwa w gospodarczy?” (How much state in the economy?) Gazeta Wyborcza, 16 August 2010. Strong doubts to this effect were expressed by the Nobel Prize economist James Buchanan.
23 CHANG, p. 1–6. There is no scientifically defined boundary for free market, and—by consequence—where government intervention is justified and neutral vis-à-vis free market (p. 8).
24 In the interview for the Polish POLITYKA weekly Anatole Kaletsky notes that both markets and governments may fail—“Postkapitalizm. Rozmowa z Anatolem Kaletskym”. POLITYKA, 3 July 2010, p. 81. See also CHANG, p. 125–136 and 176–177. Some restrictive rules may, for instance, discourage from taking excessive risk and thus protect the company “from itself”, e.g. preventing squabbling the resource it will need or using financial instruments it does not understand (p. 177 and 197–198). Maximum degree of freedom may prove be no good for companies, let alone the national economy (p. 190–191).
nothing other than global capitalism” even though—as he admits—“what collapsed on September 15, 2008 ... was an entire political philosophy and economic system, a way of thinking about living in the world”, or, for that matter, that “an inexorable logic in both capitalism and democracy appears to favor self-improvement over self-destruction”. He attributes, with some exaggeration, to the capitalist system a self-healing properties although the crisis has demonstrated rather suicidal inclinations. The process of self-destruction under the impact of the crisis had to be stopped by governments with the taxpayers’ money.

The question though remains what makes this crisis different, besides its scale and sort of action undertaken to salvage the world economy and those of so many countries? Isn’t there a vital underlying phenomenon largely overlooked when deliberating why the things went awry?

* * *

Many years ago I’ve got hold of a charming essay by Herbert G.Wells on his trip to Soviet Russia in September 1920. He described his discussions there with Marxists on what the proletariat and the proletarian mean: “none of them was able to tell exactly what people constituted the proletariat”; “the proletarian” in Marxist jargon is like the “producer” ... supposed to be a creature absolutely distinct and different from the “consumer”... and a “figure put in flat opposition to something called capital”27. Over 80 years later, A.H.Tofflers, called for going to the “subterranean fundamentals on which the future of wealth (and much more !—J.W.) depends”, as the “economy is not “as it was before” and “today’s structure of wealth, creation is quaking and rocking, suggesting even bigger changes to come”—and came out with their concept (a discovery?) of a progressing “double human nature”: we are all prosumers (“the unsung heroes of the economy to come”)28.

What we face in an ever-growing number of countries is a triple nature of the more affluent segment of the populace: they become not only Tofflers’ prosumers but—in parallel—mini-capitalists cum investors with the far-reaching and little realised consequences. And recently we faced the wave of new workers (1.5 billion joined the open market-oriented economy in the 1990s alone), all of them consumers and—more and more— also investors29. “The main culprit (of the crisis— J.W.) has not been corporate greed or CEO insensitivity but rather the increasing pressure on companies from consumers like you and me who want better deals, and from investors like us who want better returns”; and already by the 1990s most American households

26 KALETSKY, Anatole. Capitalism 4.0. The Birth of a New Economy. London/Berlin/New York/Sydney, Bloomsbury, 2010; p. 1, 16 and 20. In 1993, Peter Drucker foresaw coming of the post-capitalist society by 2010 or 2020, with “new classes”: managers in lieu of capitalists (see below) and servicemen and knowledge workers in lieu of blue collars; market will continue to play a role of the “effective integrator of economic activity (DRUCKER, p. 3–8). In my view, we are—and will be—dealing not with the capitalism without capitalists but rather with many (too many?) capitalists cum investors, even though acting through intermediaries like pension funds.

27 WELLS, Herbert G. Russia in the Shadows. London, Faber & Faber, 2008; p. 68-69 (published first time in 1920). H.G.Wells gives the following example: a works foreman is being taken in a train by an engine-driver to see how the house he is having built for him by a building society is getting on. To which of these immiscibles does he belong, employer or employed?

28 TOFFLER, Alvin & Heidi. Revolutionary wealth. New York, Doubleday, 2006; p. 23, 25, 152-154 and 194-197. They wonder how it’s possible to ignore so massive a factor in wealth creation as prosuming: roughly equal, they maintain, to the output of the money economy (p. 158). And the prosumer explosion is yet to come (p. 172-179). “The failure of most economists as yet to recognise this historic shift subverts their best efforts to understand revolutionary wealth and how it will affect us and our children (p. 193). A similar idea can be found in J.Rifkin’s book: a “social”, or “independent”, third sector, besides public and private ones—see RIFKIN, p. 301-331.

had become shareholders\textsuperscript{30}! The phenomenon was observed much earlier: John Naisbitt and Patricia Aburdene wrote about “nations of shareholders” in making over 20 years ago\textsuperscript{31}.

This inherent intense contradiction—and personal, even though not fully or not at all realised dilemma,—has already yielded a bitter fruit we all have to bite. Unchecked, it will continue to threaten our well-being and basic rights, and survival of national economies. For “simple greed” (\textit{nihil novi} not only in capitalism but why it reached such a scale lately?!—J.W.) looks like lesser evil; moderate greed may be, after all, the creative force driving humanity to improve the material world. The problem starts when “greed overcomes fairness and the creation of wealth becomes a fever that knows no limits”\textsuperscript{32}. Today, these are incompatible aspirations one has and tries to pursue which tend to lead, if continued unabated, to the eventual catastrophe or—at least—to an unwanted systemic change.

Ha-Joon Chang questions an all-explaining stereotype that self-interest combined with self-seeking individualism as the foundation of free-market economy are the only behavioural drivers of today, and that market (competition) constrains selfish behaviour of players, perhaps with the exception of politicians and career bureaucrats. Trust and loyalty still occur— he maintains—or altruism, sense of duty, faith, solidarity, public-spiritidness, patriotism; ethical behaviours exist and are not dependent on hidden rewards or sanctions, morality is not an optical illusion\textsuperscript{33}. Many authors emphasise the significance of the social side (and of the need for a “human face”) of the system\textsuperscript{34} and the role of the individual—not only of institutions. The role which has been, unfortunately, neglected, or underestimated at best. Apparently, we needed a big crisis to realise this.

Perhaps corporate wealth ought to be redefined—as Herman Maynard and Susan Mehrtens suggest—as we face universalisation of capital ownership, not a radical idea when one considers the near universality of stock ownership represented, among others, by the holdings of pension fund systems; serving the needs of stakeholders will thus continue, but their base will largely expand\textsuperscript{35}? However, when making an attempt to redefine ownership wealth and its creation one has to bear in mind what Bohdan Havrylyshyn stressed: at certain stage of capitalism (probably already attained—J.W.) we’ll face a dilemma of “ownership without control and control without ownership”\textsuperscript{36}! Jeremi Rifkin pointed out that, while contribution of workers into the production process and company’s success has been always underestimated as compared to that of the owner of capital, and management has attributed the benefits mainly to investors (and increasingly to itself—J.W.), workers are becoming investors e.g. through pension funds they finance. However, with little or no say as to the way of investing further their savings\textsuperscript{37}... Another proof that a complex nature of the growing number of employees’ mentality has thus been noticed.


\textsuperscript{31} NAISBITT, John, ABURDENE, Patricia. \textit{Megatrends 2000}. Ten New Directions for the 1990s. New York, William Morrow & Co., Inc., 1990; p. 159–166. The crisis underway invalidated their opinion (p. 311) that “wealth has not led to increased greed” (see “Anatomy of thrift. What causes people to save and invest?” \textit{The Economist}, p. 5, 8 and 10 of the survey of the world economy on the effective and “desired” propensity to save and invest and its causes).

\textsuperscript{32} ROHATYN, Felix. “How we got into this mess and how we will get out”. \textit{IHT}, 17 December, 2008.

\textsuperscript{33} CHANG, p. 41–50.

\textsuperscript{34} “Only the effective development of the social market economy can continue to guarantee economic growth” — declared the German Chancellor and heads of 5 intergovernmental organisations (“Joint press release by Chancellor Angela Merkel, OECD S-G Angel Gurria, WTO D-G Pascal Lamy, ILO D-G Juan Somavia, IMF Managing Director Dominique Strauss-Kahn and WB President Robert B.Zoellick from their meeting on 5 February 2009 in Berlin”).

\textsuperscript{35} MAYNARD, Herman Bryant, Jr., MEHRTENS, Susan E. \textit{The Fourth Wave}. Business in the XXI Century. San Francisco, 1993; p. 9 and 54–57.


\textsuperscript{37} RIFKIN, p. 287–288.
“Capitalism has been pronounced dead countless times—usually in the depths of a depression or at the peak of runaway inflation”—A.H. Toffler note, and ask: will its regenerative ability keep it going no matter what? Notwithstanding the bubbles that burst (unavoidable when investors seek high revenue made believing at low risk—J.W.) and crises of various magnitude including the most recent one which has demonstrated de-synchronisation between high-speed currency trading and the slower pace at which a country’s economy has grown. Their prophecy dated 2005 that this, in conjunction with financial regulators left in the dust, constitute a threat to individual countries and the world economy as a whole was quick to be confirmed by facts. A magic formula: “liberalisation + globalisation = democracy”\(^{39}\), and unrestrained free trade, privatisation and deregulation promoted by America failed to keep the promise even to the Americans.

“Now some scholars argue that a free market can actually undermine democracy” instead of being “two sides of the same coin, trends that reinforce each other.”\(^{40}\) Thomas Friedman recalls the term “democratic recession” (coined by Larry Diamond from Stanford University), a phenomenon more dangerous than economic recession. He rightly worries what happens if it isn’t reversed.\(^{41}\) These views were formulated, incidentally, before the outbreak of the crisis. Like that by George Soros: “Capitalism needs democracy as a counterweight because the capitalist system by itself shows no tendency toward equilibrium”\(^{42}\). I’ll revert to this notion.

Worse still, constant (contradictory) pressure on increasing returns on investment and decreasing consumer prices has degenerated, as mentioned, into an entire sector of the economy detached from traditional activities (manufacturing, services): sophisticated financial instruments and a \(de\ \textit{facto}\) permission, if not an encouragement, to go deep in debt. “Capitalism has become more responsive to what we want as individual purchasers of goods, but democracy has grown less responsive to what we want (and need—J.W.) together as citizens ... The last several decades have involved a shift of power away from us in our capacities as citizens and toward us as consumers and investors”. Thus, we are reminded not to forget yet another feature—and responsibility—of ours: that of citizens and the common good which needs to be protected by jointly determined and respected common rules of the game.\(^{43}\) The argument that “the consumer benefits” is always raised to defend free exchanges, never mentioning what he looses as a citizen (in terms of democracy) as a consequence of uncontrollable and vague governance.\(^{44}\)

It adds a collective dimension (from local through regional and or national to global) to our analysis of the already multifaceted contradiction we seem to carry in ourselves. And such dimension has a direct bearing on what used to be rightly considered as inseparable part of capitalism: democracy. Democratic capitalism, in its Anglo-Saxon liberal version, came to be seen as prevailing and most efficient a system (at least until the crisis which caused that this model now takes a beating...) although not the only one on earth. Russian, Chinese and a number of other Asian capitalist models are partly, at best, democratic, or outright authoritarian and undemocratic (“state capitalism”). Will they prove to be eventually more efficient and less risky? Will they attract more and more of the emerging economies, especially in view of the handicaps encountered by

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\(^{38}\) TOFFLER, p. 255 and 276.

\(^{39}\) Ibidem, p. 208.

\(^{40}\) COHEN, Patricia. “Does capitalism lead to democracy and how?”. \textit{IHT}, 14 June 2007. She quotes Bruce Scott that capitalism is going to relentlessly produce inequality of income, which is going to become incompatible with democracy; another thesis (“Somewhere over the rainbow”. \textit{The Economist}, 26 January, 2008; p. 25)—that a more plausible culprit for rising inequality is technological progress seems wrong and misleading.

\(^{41}\) FRIEDMAN, Thomas L. “The democratic recession”. \textit{IHT}, 8 May 2008. He notes that just in 2007 freedom declined in 38 states (mainly oil and gas exporters) and improved in 10 only.

\(^{42}\) SOROS, p. XXVII.

\(^{43}\) REICH. “Supercapitalism”, p. 4–5.

\(^{44}\) VEDRINE, p. 42.
the victorious, it seemed, model? For the situation of the world economy today does not stimulate any convergence—as expected—based on the Washington consensus, and “other capitalisms” seem to resemble each other in one aspect: they do not follow the “Western example”\textsuperscript{45}. “The Beijing Consensus” becomes the new buzzword though no one is quite sure what it means\textsuperscript{46}.

The world’s economic gravity has been moving lately from the OECD countries to the emerging economies: OECD called this phenomenon “shifting wealth” though not necessarily the “rise of the rest” will have to imply the “decline of the west”: increased prosperity in the developing countries can benefit both rich and poor countries\textsuperscript{47}. Ha-Joon Chang retorts however that the “trickle-down economics”, i.e. the thesis that when the rich get richer, the poor will eventually benefit since the pie will grow, is not confirmed in reality. When things are left to the market, income redistribution rarely works\textsuperscript{48}. Stephen King indicates that “as the east raises, the west finds itself picking up part of the bill—higher commodity prices seriously threaten fledgling recoveries, ... the success of the emerging nations is imposing an unexpected (?)—J.W.) burden on western progress, and ... (as a result) we are entering the period of austerity not just because of the debts of the past, but also because of the higher costs of the present”\textsuperscript{49}. Whoever is right, perhaps all three of them, the phenomenon of “shifting wealth” has become a trend, and “there is also a growing recognition that there is not just one form of capitalism, not just one “right” way of running the economy”\textsuperscript{50}. Are we to witness another sort of competition—that among capitalisms? If not confrontation, with the resulting tensions, between those democratic and those performing without vivid democracy\textsuperscript{51}?

Such is the assumption—i.e. of the competition—one can neither exclude nor ignore adopted by authors of an interesting booklet under the provocative title “War of capitalisms will take place” (without question mark !). State capitalism, for instance, with the state as dominating (\textit{de facto or de jure}) proprietor and power strategy generator cannot be neglected as an alternative if the now dominant version is not viewed as the most efficient and socially acceptable. Family capitalism is another albeit somewhat obsolete option if the Anglo-Saxon model (\textit{a laissez-faire} approach and the Washington consensus) is rejected. There are no rules of the game for various mutations of capitalism, and no guarantee of their “peaceful co-existence”, no recognised authority with the entrusted tasks of: (a) global governance in the multipolar (\textit{polycentrique}) world and economy, and (b) ensuring convergence and symbiosis of different systems. Capitalisms today do differ insofar as their dynamics, property rights of various groups, value hierarchy and institutions are concerned, and all have, \textit{toutes proportions gardées}, ambitions to compete and expand, despite—or owing to—globalisation\textsuperscript{52}. A challenge for Western democracy from a different model, or models, of capitalism rising especially in the East cannot be underestimated\textsuperscript{53}. Hence the assumption of

\begin{itemize}
\item \textsuperscript{45} GRAY. “Po liberalizmie”, p. 422–426
\item \textsuperscript{46} KALETSKY. “Capitalism 4.0”, p. 33.
\item \textsuperscript{47} “Perspectives on Global Development”, p. 15, 20 and 23. James Wolfensohn splits the developing world into 4 categories of countries according to their income and rate of growth relative to the industrialised ones: Affluent, Converging, Struggling and Poor (p. 16).
\item \textsuperscript{48} CHANG, p. 137-147.
\item \textsuperscript{49} KING, Stephen. “The perils and pain in our age of ever-rising prices”. \textit{FT}, 19 April 2011.
\item \textsuperscript{50} STIGLITZ. “Making Globalization Work”, p. XV. See BARDHAN, Pranab. “One size does not fit all”. \textit{IHT}, 9 January 2007 on the growing (even before the crisis) attraction of the “basic East-Asian model” for the developing countries.
\item \textsuperscript{51} ARTUS, VIRARD. “Globalisation”, p. 15. The crisis coming from the heart of the capitalist system— U.S.A.—is a warning that un/semi-democratic capitalisms may expand if we don’t change course—the authors claim.
\item \textsuperscript{52} \textit{La guerre des capitalismes aura lieu}, (par) Le cercle des économistes sous la direction de Jean-Hervé Lorenzi. (Paris), Perrin, 2009; p. 10–13, 31–39 and 71–72.
\item \textsuperscript{53} KALETSKY. “Capitalism 4.0”, p.11–15.
\end{itemize}
their competition, especially taking into account geopolitical, not only “geoeconomic” considerations or imperatives, seems well-taken.

According to Robert Reich and many others (e.g. Anatole Kaletsky), since the 1970s we observe a shift to what he calls supercapitalism (some speak of “turbo-capitalism”, e.g. Edward Luttwak\(^{54}\)). Its birth is ascribed to new technologies incorporated into products and services, new possibilities of ICT as well as transportation (with key role of container traffic in trans-oceanic deliveries), emergence of the global supply chains, aggregation of consumer power (flourishing mass retailers like Wal-Mart) and that of investors (often the same persons involved !) inter alia through pension and mutual funds and other financial entities which enhance consumers’ clout and push companies to generate higher returns. Obviously enough, corporations are in the business of making money, not providing charity. Yet their first duty should be to serve their shareholders (regardless whether the latter reciprocate — see below—J.W.). In his earlier book, Robert Reich reminds that the problem was observed already in the beginning of 1930s: the top executives in U.S. were not accountable to their own shareholders and they operated corporation “in their own interests, and ... diverted a portion of the asset fund to their own uses”\(^{55}\). How then to align private incentives (maximisation of profits) with social costs and benefits? How to make corporations responsible to all stakeholders rather — also employees and communities (through an authentic CSR) in which they operate\(^{56}\). Corporations are neither moral nor immoral, nor conspiring against the public: they simply play the economic game too aggressively; it is the challenge for citizens to restrain them and to stop from setting the rules.

As Gillian Tett noted, novel instruments, or cutting-edge products which set the system on a path to near-ruin, like derivatives, securitization linked to mortgages, shell companies to trade with such insecure securities were the way of “turbo-charging the market”; credit default swaps, or CDS, were hoped to permit to remove loans and related credit risk from the bank books on a massive scale and to lower capital reserves (and get around the Basel prudence rules); inventors thought they found a method of liberating the banking system from age-old constraints — and the goldmine of profits\(^{57}\). Still in 2006 the creed was that financial innovation made the system more resilient to losses owing to dispersion of credit risks by banks to a broader and more diverse set of investors\(^{58}\) ! Innovation was occurring so fast that it was posing a host of new risk-management challenges; some concerns were expressed, mildly and without any follow-up—like that of Timothy Geithner in 2006\(^{59}\).

This is precisely where we apparently failed in favour of the invisible (in-existent or manipulated?) hand of the market, under pressure of the economic deregulation mood of the 1980s— reemphasises Robert Reich. Fierce competition and aspirations of achieving highest


\(^{57}\) TETT. “Fool’s Gold”, p. 55–57, 60, 65, 67 and 74–82. In 1996 Fed issued the first warning on the conditions of removing loans from the books but was unsure since the newfangled credit derivatives didn’t fit neatly under any existing regulations (p. 70). In the meantime, pace of “innovation” heats up, new products like derivatives of derivatives, emerge and are sold to investors chasing higher returns without understanding what they are buying (p. 110–119 and 153). Vast quantities of risk started to disappear from the banks’ internal risk reports (p. 163) !

\(^{58}\) Ibidem, p. 179.

\(^{59}\) Ibidem, p. 189–190. T.Geithner declared then: “The proliferation of new forms of derivatives and structured financial products has changed the nature of leverage in the financial system. The addition of leverage has made this source of potential risk harder to assess (ibidem, p. 185). As far as in 1998 Human Minsky, US economist who warned that the process of leverage always culminates in instability; hence a “Minsky moment”.}
possible rate of return (at any case not below the average for the sector) blinded companies as to the growing risks while regulatory agencies either disappeared or proved ineffective. As of the 1980s, the state (government) has been withdrawn from the economy. “Thus did supercapitalism replace democratic capitalism”—to the detriment of the overwhelming majority of population suffering from the growing inequalities and, lately, from the crisis. For the “great deals” can come from nowhere else but lower payrolls and lower job security (or job-insecurity, euphemistically called “labour market flexibility” to avoid pejorative overtone—J.W.); bankruptcies of small manufacturers, services and independent retailers; disregard for environment and social conditions of workers and sometimes for quality and health standards of products (e.g. junk food). Such deals are moreover accompanied by exorbitant salaries of CEOs. All in all, as most of us are of two minds, as consumers and investors we often benefit, maybe we think we make the whole world run, however the citizen in us becomes relatively powerless. Supercapitalism is triumphant—it seemed until the crisis came.

But maybe that supercapitalism has arrived instead at the crossroads: to self-regulation (or state regulation)—or self-destruction? Will it survive its victory, or cede its position to, defeated by, other capitalisms (as mentioned), or else—still worse an option? Will it regain its self-assessment and self-control capability, apparently lost after it won a quasi-monopolistic position after the decline of communism? Hopefully, it did not loose its adaptive capability having seen all its competitors gone. Shall we (in the advanced countries, for many emerging economies do think long term) succeed to liberate ourselves from the “short-termist” approach omnipresent not only in the financial sector, and remedy considerably eroded relationship between banks and enterprises? Will financial globalisation contribute to the convergence of various existing capitalisms, or make their confrontation even harsher? In their struggle not only for markets and revenue, but also for souls? How to bring to a halt the drive for short-term returns animating managers, especially if we face a separation of ownership and control in which they, owning usually little of the company and having their pay dependent not on long term returns but on stock market prices (a wrong incentive), may run the corporation largely for their own benefit?

Do we want to preserve “capitalism without owners” (long time shareholders in particular), with institutional investors caring for “optimisation” (maximisation) of short term profits from their portfolio?

Maybe the current crisis carrying, as all crises apparently do, opportunities to use or loose, will give rise to new model of capitalism, one with a more human face and eventually less uncertainty? It depends whether we tackle the profound source of trouble: the expanding role of money sneaking in politics, the phenomenon (aggressive lobbying) which stems from intensifying competition among firms for consumers and investors. “Such competition has spilled over into politics, as corporations have sought to gain competitive advantage (among others—J.W.) through public policy. The perverse result has been to reduce the capacity of democracy (while leaving its façade—J.W.) to respond to citizens’ concerns”; otherwise supercapitalism spreading

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60 REICH. “Supercapitalism”, p. 6–7, 12–14, 99 and 209.
62 ALBERT, Michel. Kapitalizm kontra kapitalizm (Capitalisme contre capitalisme). Kraków, Signum, 2000; p. 11.
63 THUROW, Lester C. Przysz³oœæ kapitalizmu. Jak dzisiejs³e s³y ekonomiczne kszta³tuj¹ œwiat jutra (The future of capitalism. How today’s economic forces shape the world of tomorrow). Wrocław, Wydawnictwo Dolnoœl¹skie, 1999; p. 12.
64 “La guerre”, p. 10, 80–81, 99–103 and 114.
66 ALBERT, p. 87–89.
around the world may continue to engulf democracy undermining its own future\textsuperscript{67} and paving the way to undemocratic capitalisms or to the uncharted waters of so-called “third ways”... Another pre-condition of arriving at a new better and safer model, or version, of capitalism is addressing what is the preoccupation in this article: the triple, or three-directional nature of human mentality nowadays of the constantly growing segment of the world population, to make it constructive and conducive to economic and social progress, unlike it had been happening till now.

John Bogle, a respected executive and a “capitalist” himself, sounds very similar warnings. Democratic capitalism, whose blessings have never been more broadly distributed around the globe, has displayed many excesses in the course of the continuing crisis, the rampant greed has threatened to overwhelm our financial system and corporate world.\textit{The greed that runs deeper than money} — which is, incidentally, what I am trying to prove by this article. The message is not only (and not chiefly) about the danger of our worship and pursuit of wealth and the growing corruption of our professional ethics but ultimately the subversion of our character and values. By the latter part of XX century, yet another failure fell upon us: the erosion of the very structure of capitalism. \textit{Not only had trusting and and being trusted come to play a diminishing role, but the owners of our businesses were relegated to a secondary role in the functioning of the system.} Two major forces were behind those counterproductive development: first, the pathological mutation from \textit{owners’} capitalism to \textit{managers’} capitalism (with direct ownership of stock by individual investors shrunk from 92 to 26 per cent in favour of institutional investors who now enjoy 74 per cent which represents a revolution in the ownership structure in the U.S.: we have thus a new agency society where financial intermediaries hold an effective control of American business). These new agents haven’t behaved as agents should, and too often put their own financial interest ahead of the interests of their principals whom they are duty-bound to represent. Second, these agents forgot traditional principles of trusteeship and prudent management to the point of an almost complete disregard of their duty and responsibility to the corporations’ owners\textsuperscript{68}, who, through their behaviour, often inadvertently have been facilitating such a stand.

Managers not only gained such a power that they are able to manipulate the forces that determine their pay, but also enormous influence over the political sphere. Workers are underpaid and risk losing jobs, taxpayers may be forced to bail out the failed companies, while the managers get off almost scot-free. Markets weed out inefficient practices, but not necessarily instantly and only when no one has sufficient power to manipulate them—which has not been the case \textsuperscript{69}.

“\textit{La nation}—complains Jacques Attali in a similar tone—\textit{n’est qu’un jouet dans la globalisation des marchés, que l’entreprise est passé au service exclusif du capital, lui-même manipulé par la finance; et que les dirigeants des entreprises ont désormais des intérêts totalement alignés sur ceux des détenteurs du capital...le marché ne conduit pas à un équilibre optimal, mais à des situations de monopole; que la maximisation des gains privés ne débouche pas sur la satisfaction de l’intérêt général; que les intermédiaires financiers accroissent l’instabilité du système social en spéculant pour leur propre compte, et non au profit des épargnants qu’ils sont supposés conseiller...}”\textsuperscript{70}.

XX century capitalism cornerstones—asserts Umair Haque, author of a passionate vision of a "constructive capitalism,"—shift costs to, and borrow benefits from, people, communities, society, the natural world, or future generations, while under-counting costs and over-counting benefits.

\textsuperscript{67} STIGLITZ. \textit{“Freefall"}, p. 131 and 163–167.
\textsuperscript{69} CHANG, p. 148–156.
\textsuperscript{70} ATTALI, Jacques. \textit{Survivre aux crises.} Paris, Fayard, 2009; p. 132–133.
The system is thus out of balance and eroded by a longer and slower, broader crisis of authentic economic debt, which implies too much economic destruction for too little creation. Steady flow of breakthroughs of different nature was not accompanied—true—by a change of the cornerstones of capitalism which evolved at a snail’s pace, and so did its institutions. **The world has changed, but capitalism hasn’t—or capitalist companies**. I would however say that Umar Haque’s assessment is still ... too optimistic: many companies (and of course banks and other financial institutions) did change—for the worse! Not only in Poland some of them, like e.g. telecom operators, adopt policies (making their employees to implement them) aimed at cheating their customers, for instance charging them for unsolicited services—unheard of before.

To what extent John Bogle’s, Jacques Attali’s, Umar Haque’s and Joseph Stiglitz’s (and of many others) grievances are well-taken may be illustrated by Herman Maynard and Susan Mehrten’s unfulfilled—although somewhat idealistic—expectations formulated almost 20 years ago: “Now business is being pressured to become a more responsible and multipurpose institution ... to be regarded as the producer of moral effects, the creator of much more than a financial bottom line... The Fourth Wave (i.e. XXI century—J.W.) corporation will recognize its role as one of stewardship for the whole in addition to providing goods and services to a particular customer base... The corporation of the future will be democratic, participatory, and focused on the customer...**The business of business is not only business**”, and one of the hallmarks of change will become decline of materialism (creating of value, shared commitments) as it will be understood that material gain is not a sufficient end in itself. These expectations remain wishful thinking at the beginning of the second decade of the century in question.

It sounds similar as Peter Berger’s propositions, pretty obvious in comparison with the centrally (mis)planned economies, that “market forces provide the best, indeed a unique, incentive for ever-improving productivity”; “an economy oriented toward production for market exchange provides optimal conditions for long-lasting and ever-expanding productive capacity based on modern technology; advanced industrial capitalism has generated, and continues to generate, the highest material standard of living for large masses of people in human history; the superior productive power of capitalism, as manifested in the advanced industrial countries of the West, continues to manifest itself today (i.e. in mid-70s—J.W.) wherever global capitalist system has intruded”. If so, why in 8 years—between 2002 and 2010 only—support of Americans for capitalism fell from 80 to 59 %, only a little above the average of 54 % for 25 countries polled? Distrust in, and disappointment with, capitalism have risen very quickly indeed—which calls for reflexion—and thorough research.

Who’s to blame then—enterprises or big and small investors? I would share the view that mostly the latter who (small but numerous ones through their financial intermediaries) exert pressure on enterprises to attain maximum profits in shortest time possible, plus inaction of regulators to impose limits on the financial sector. It was illusory to enjoy for a long time having revenue from capital being maximised in short term, even though globalisation played here a role of facilitator. This situation could not last. Now everyone knows the result of this auto-destructive evolution. Basic advantage of capitalism—optimal, *grosso modo*, allocation of resources, including savings,—was undermined. Enterprises were not anymore much interested to fulfill demand

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72 MAYNARD, MEHRTEIN, p. 6, 8, 12, 26, 31–33 and 43–44.
74 “Market of ideas. Capitalism’s waning popularity”. *The Economist*, 9 April, 2011; p. 60. Continent-wise, 64 % of Americans (still) favour free markets, but only 28 % of Europeans (ZWADZKI, Mariusz. “Wojownicze USA, niepewna UE” (Militant USA, uncertain EU). *Gazeta Wyborcza* daily, 16 March 2011).
and work on business projects to remain on the market and expand their core activities but
pursued instead, or chiefly, a chase for profit recurring to non-productive if not overtly speculative
instruments, with little portion being reinvested. Ha-Joon Chang gives the example: in 2004
GM’s profit came in 80% from financial operations by GMAC which was much easier than making
better quality cars, and managers and constantly changing shareholders benefited; when it came
to bail-out, it was however the taxpayers’ turn. It was precisely this crazy and blind pursuit
of profit plus related “short-termism” that brought the world economy to the brink of an
abyss.

About the middle of the 1990s creation of value for shareholders (under their insistence, to
be sure), but in fact also for managers (who own shares as well), became a must for companies,
especially big holdings, investment funds and assurance firms, of all continents, at the cost—as
bitterly commented by John Bogle—of their principal mission of creating a real value and
ensuring employment on decent, related to the performance and profits, terms. A myth of return
on equity (ROE) target at the level of 15% was born and pursued by companies in relation to
their own funds if not the borrowed ones. Globalisation served often as an excuse, sometimes
as a real pre-condition, because of intensified competition over borders, of cost-cutting through
outsourcing, lowering quality, freeze or decrease of salaries and personnel. Mountains of cheap
and easily accessible credit (before the crisis and pumping fresh cash to the financial sector)
tempted greedy investors of all rank to press further on ROE, ignoring the warning provided
by the Internet bubble which burst towards the end of 1990s. The role of intermediaries in
managing entrusted funds was growing fast in the circumstances during the last two decades;
greed of investors using the intermediaries has been compounded by greed of the intermediaries.
Moreover, the latter’s behaviour patterns differed considerably from that of individuals more
prudent as far as their savings were concerned: inclination to risk and innovative multiplication of
new sophisticated financial instruments when striving to raise ROE and his share of the market
have become guiding principles of virtually every intermediary.

Ha-Joon Chang is even more critical about the shareholder value: today, shareholders often
care the least about the long-term future of the company, their preference being – as
mentioned—corporate strategies that maximise short-term profits usually at the cost of long
term investments, and maximise the dividends from those profits which further weakens the long
term prospects of the company by reducing the amount of retained profit that can be used
for reinvestment. Despite being the legal owners of the company (often only for a while—J.W.)
shareholders are thus, paradoxically, the ones who are least committed among the various
stakeholders to the long term viability of the company. They just need to sell their shares to exit,
while it is much more difficult for workers and suppliers to leave. Therefore, maximising the

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75 ARTUS, Patrick, VIRARD, Marie-Paule. *Le capitalisme est en train de s’autodétruire*. Paris, La Découverte, 2009
(first published in 2005); p. 6–8. JPMorgan Chase CEO, Jamie Dimon, 2006: “One of the problems of being a CEO is
the constant pressure on you to grow, grow and grow. It is there the whole time” (TETT. “Fool’s Gold”, p. 165).
76 CHANG, p. 194–195 and 239.
77 ARTUS, VIRARD. “Globalisation”, p. 95–102. See also ARTUS, Patrick. *La nouvelle économie*. Paris, La Découverte,
78 ARTUS, VIRARD. “Le capitalisme”, p. 71–72, 85–94 and 101–109. For instance, almost a half of American
households’ savings is managed by various financial institutions, over twice as much as in 1980 (p. 89). Michael E.Porter
and Mark R.Kramer in their essay “Creating Shared Value” call for a novel objective of company: action for the benefit
of its environment—which will serve well the company itself (GADOMSKI, Witold. “Œwiat bardziej liberalny” (A More
prevailed at banks, lending becoming a “side activity”, and ROE surged in 1999 to 18% on the average, attaining
as much as 34% at several banks. Lowered interest rates brought the explosion of borrowing by both businesses
and consumers (p. 103). After the internet bust two booming businesses—of mortgages and derivatives—were about to
become fateful intertwined (p. 100).
shareholders value may be bad for the company as running it for the shareholders often reduces its growth potential and ability to survive) as well as for the rest of the economy. “This very ease of exit is exactly what makes the shareholders unreliable guardians of a company long-term future. The speed gap between the financial sector and the real sector grows as the holders of financial assets are so quick to respond to change in profit opportunities, which makes it difficult for real-sector companies to secure “patient capital” that they need for long-term development”. Finance capital is “impatient” and seeks short-term gains instead readily helped by “efficient” financial institutions. This is why most rich countries outside the Anglo-American world have tried to reduce the influence of free-floating shareholders and maintain (or even create) a group of long-term stakeholders (including some shareholders)” e.g. through sizeable share ownership in key enterprises for government. “Shareholder value maximization became the zeitgeist of the American corporate world”79.

As the time wore by, a new class of professional managers, foreseen in 1993 by Peter Drucker80, emerged who became dominant players and replaced the traditional capitalists, as was already signalled. Hired managers more often than not were trying to run the company in their own interests, rather than those of shareholders (frequently not caring about the company’s prospects) although—it must be admitted—meeting the challenge to focus on the shareholder value. “An unholy alliance between the professional managers and the shareholders was all financed by squeezing the other stakeholders in the company”, government was pressured into lowering corporate tax rates and/or providing subsidies81.

“America’s financial markets had failed to perform their essential societal functions of managing risk, allocating capital, and mobilizing savings while keeping transaction costs low. Instead, they had created risk, misallocated capital, and encouraged excessive indebtedness while imposing high transaction costs. At their peak in the years before the crisis, the bloated financial markets absorbed 40 % of profits in the corporate sector”. Although market did misprice and misjudge risk and made an even worse mistake trusting the rating agencies, bankers and other financial intermediaries, incentives and opportunities from outside or by universal (for capitalism) pursuit of profit, market failures, or deficiencies in regulatory functions cannot justify financial agents’ behaviour82. Who remembers that almost 20 years ago Paul Kennedy sounded a warning about the danger related to America’s growing indebtedness at various levels, the frailty of its financial system, and its persistent deficits in trade and current accounts83?! Especially in view of the fact the vast majority of the American and the British population could share in the apparent prosperity out of a seemingly endless corporate boom only through borrowing at unprecedented rates84.

Indeed, for several decades of what Robert Reich ironically calls “A Not Quite Golden Age” profits of enterprises and remuneration of managers were steadily increasing even at times of rather sluggish growth while wages and purchasing power of employees in the OECD area were steadily falling, as was the share of their wages and other remunerations in value added—on

80 DRUCKER, p. 3–8.
81 Ibidem, p. 17–18. Many companies concentrated on reducing costs instead of increasing revenue from their core activity and widely applied own-share buyback to lift their share price and thereby profit level: from 5 % in the early 1980s to 280 % in 2008 ! To satisfy shareholders—and managers who owned shares as well. The ever-increasing share of profit in national income since the 1980s has not been translated into higher investments; the growth rate of per capita income in the U.S. and UK actually fell (p. 19–20).
82 STIGLITZ. “Freefall”, p. 6–7.
84 CHANG, p. 17–18.
a scale never observed since 1945. Outsourcing and weakening of the unions' bargaining power were only partial cause of the phenomenon. Proportions between wages and profits were thus, especially as of 2000, grossly distorted, productivity gains were not equitably distributed among workers (consumers) while being only partially transferred to shareholders who usually save most of them and place at financial markets. As a result, “piège à croissance faible (qui) tourne à plein régime” and a “strategy” of “sortie par le bas”, i.e. cutting costs and salaries and maintaining distortion between profits and salaries, prevailed... Three years later (the book was published first time in 2005) the prophecy that such a situation is unsustainable à la longue was fulfilled: the crisis erupted 85.

J. Bogle, very much like others, reaffirms nonetheless his confidence in the market capitalism and its remarkable resilience, but admits that “the last few years have shown that excesses can come about when finance capitalism and modern technology are abused in the service of naked greed. Only capitalists can kill capitalism ... We have too many investors who are too aggressive ... notorious for performance chasing, and we seem not to care” 86. “The almost instantaneous transport of data and its rapid processing into usable information have ... blurred the line between investment and speculation ... capital could flow so much faster and more freely than things” 87. Although the self-interest of the wealthiest segments of the (U.S.) society has been used to justify the pathological mutation mentioned above, in fact—he claims—the mutation has spread more broadly across society, into the texture of so many of our lives whereas we should strive for returning capitalism, finance, and fund management to their roots in stewardship instead of “chasing the false rabbit of success”, bearing in mind that “no success is the right success if it is achieved at society’s expense” 88. Business ethic is not a moral luxury, or an ornament, it’s essential for good functioning of capitalism 89.

While the (old and—hélàs—always valid) dilemma of how to avert the recurrence of crises is still far (if not farther) from being resolved, let alone well researched in the current circumstances, it seems clear that auto-regulation and strengthening otherwise indispensable government control will not suffice. Both the elaboration of common rules and especially imposing them universally (otherwise capital will flee to unregulated areas) appears a distant though much needed prospect. What seems more promising and more achievable is to try—in parallel—to (a) alter corporations’ behaviour and that of institutional investors, but also (b) to start explain to citizens-investors economic fundamentals in particular what I call a triple nature of homo globalis of XXI century: a prosumer-investor, and inherent contradictions it entails. The purpose of making people realise that they should balance their expectations and can’t have everything in every capacity (as an employee, viz. producer; consumer; investor of savings) is not to make them feel torn-apart inside but to stimulate them to act more rationally in every capacity, and less egoistic.

To be sure, there’s no comeback to a more coherent, or one-sided human nature. Neither technological progress, nor globalisation which sucks us all in, will retreat. And “capitalism has never been a static system that follows a fixed set of rules, characterized by a permanent division of responsibilities between private enterprise and governments ... an adaptive social system” 88.

85 ARTUS, VIRARD. “Le capitalisme”, p. 17–29, 35, 39–41, 45 and 48–49. Same authors in “Globalisation” (p. 18–19 and 33) point to the weak redistributive function of globalisation: in 1999–2007 productivity rose 30 % and salaries in real terms 18 % only.
86 BOGLE, p. 61, 140 and 151. In other words, financial institutions are expected to add value to the society and to the wealth of investors. Instead, they favour quite the opposite of what most investors need and ought to want (p. 49 and 72). He also criticises the disconnect between cost and value in the today’s U.S financial system (p. 41).
88 BOGLE, p. 195, 207, 212 and 218.
89 ALBERT, p. 96.
been the product of a natural evolution rather than—as Communism or many awkward systems like that contained in a green book by Gaddafi, for that case,—based on a blueprint or design by man whatever their intentions might have been (which is not to say that what Bruce Scott calls “human agency” did not affect—or even governed—its development). Although, as Peter Berger maintains, capitalism is not only an element of experience, and a historical phenomenon: it is also a concept, in its full-blown form coinciding with the phenomenon of industrialism. “Capitalist systems have been driven by human purposes from their very origins ... they have the capability of purposive adaptation.”

In particular, the relationship between government and private enterprise had been evolving in search of the golden middle—until it reached the financially dominated market fundamentalism combined with demonizing government, ridiculing regulation, and contempt for the public administration. We know full well the result: the on-going self-destruction of that model of capitalism. Since—however—the system itself “doesn’t break because it bends” as Anatole Kaletsky maintains, what we face, it’s crises in, not of capitalism.

His conclusion that: (a) the events of 2007–2009 should be viewed at the same time as the catalyst for the next transformation of capitalism (into its new version); (b)—again—search for the “right mix” (already mentioned) between these two institutional pillars of the system, none of them being infallible or faultless, is timely; and rebalancing public and private interests is a must;—does deserve careful scrutiny. It looks though that his prophecy (or promise) of the shift from the (past) world of rationalist predictability to one characterised by ambiguity, unpredictability, and fuzzy logic may unfortunately hold.

According to John Gray, nation-states must now act in a world in which all options are uncertain, in unfamiliar environment not merely of risk but of radical uncertainty, in the situation in which the costs of various actions cannot be known with any reasonable probability, nor what the world markets’ response will be—and its effects. We happen to have now disorderly globalised market and much less governable world as the inevitable result of the forces that have been at work over the past few decades. Their behaviour proved to be unpredictable and uncontrollable. The inherent instability of anarchic global markets has been enhanced by the growth of an enormous, highly leveraged virtual economy. History confirms that free markets are not self-regulating, and that financial markets do not tend to equilibrium, overshoot is their normal condition. This volatility at the core of deregulated financial institutions makes the world economy, that is organised as a system of free markets, essentially unstable. All this has brought about a disordered capitalism with the social organisation of work in a nearly continuous flux under the impact of technological innovation and deregulated market competition. Thus, one thing is certain: high uncertainty we are going to live with.

What is less certain, at any rate by far not automatic, is another optimistic belief of Anatole Kaletsky: democratic capitalism has a built-in capacity for solving social problems and meeting material needs, stemming from the principle of competition which drives both democratic politics and capitalist markets. Yet it was precisely democratic nature of contemporary capitalism which has been put in doubt so strongly for instance by Robert Reich who (correctly) claims that we now deal with supercapitalism, not democratic capitalism. “Democracy usually offers capitalism a breathing space that allows the system and its institutions to evolve”—says Anatole

90 BERGER, p. 16–20.
91 SCOTT, p. 21–22.
92 KALETSKY. “Capitalism 4.0”, p. 1–3 and 35–37.
93 Ibidem, p. 2–11 and 26–31. “More than the greed of bankers or stupidity of heedless borrowers or the folly of financial rocket-scientists, it (the financial crisis) was the refusal to understand that government and markets are interdependent ... the rift between politics and economics will need to be bridged” (p. 155 and 159).
Kaletsky—but what if the foundations of democracy are being shaken by the system? Moreover, private markets—in the opinion of Joseph Stiglitz quoted by Anatole Kaletsky himself in this very context—cannot necessarily be relied on to align private incentives with social returns. Similar tone can be found in John Gray’s book: amid the ongoing rivalry of capitalisms, social market economy is on the losing side, we deal with the weakening of companies as (in old good times—J.W) social institutions in tandem with the further commodification of work—while “the economy should serve the needs of society, not society the imperatives of the market”. This he considers to be the argument against unrestricted global freedom in trade and capital movements, besides economic reasons.

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“Development issues—Zdzisław Sadowski sums up—can no longer be reduced to the catchphrase of economic growth” which causes deterioration on environment and “manifests itself in spreading inequalities ... both globally and in individual countries, including the richest ones. These negative phenomena result ultimately from the ways in which market mechanisms work. It is therefore natural that the need for safeguards is looked for... In the modern market economy the state is generally expected to actively support and correct the market ... (it) became (or should become again—J.W) a co-regulator of the economy and social life, expected to co-operate currently with the market mechanism with a view to prevent the ecological and social threats. It can be expected this active role of the state will tend to gain in importance. An increasing role of supranational alliances arising from integration processes can also be envisaged”. Expectations stemming from freedom of capital flows and liberalisation of the trade exchanges, and victorious march of globalisation hand in hand with capitalism in particular were not fulfilled. The expansion of capital markets, more and more detached from the real economy processes, has brought instead high instability to the world economy. Compounded with the growing payment imbalances between the U.S. and many countries, the global financial system gets close to failure: time-bomb is ticking Zdzisław Sadowski wrote in 2006. It did explode 2 years later.

As he predicted, “now state capitalism has returned, sometimes accidentally (several banks have become government-controlled) but often intentionally. Many of the new industrial champions of the emerging world are state-owned, and industrial policy is no longer a rude expression even in Anglo-Saxon countries... (moreover) ... often, the beast (state—J.W) is responding to popular demand. Globalisation, for instance, has increased many people’s reliance in the state” (safety nets, redistribution, security, etc.). Government can make an enormous difference. Also to business: if the state accounts for a big chunk of the economy and gets more efficient, it creates better conditions for growth, if, at the same cost, it renders better services (education, health care, infrastructure—and regulation), the effect on private sector productivity would be electric—stated The Economist. “Our modern society requires that government take on a large role... Long run success requires long-term thinking—a vision—but we have structured markets today in ways that encourage just the opposite, and we have discouraged government from filling the gap. The argument for the government to think long term is even greater—though the incentives for politicians to think short term are as powerful or even more so than for corporate managers”. Moreover, governments’ protective role versus its citizens (including helping them to control

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95 KALETSKY. “Capitalism 4.0”, p. 19–22 and 25.
96 GRAY. “False Dawn”, p. 72 and 79–82. Global markets work to fracture societies and weaken states (p. 196).
97 SADOWSKI, p. 136–139.
98 Ibidem, p. 15–16.
economic risks) is likely to expand, as citizens demand—the more so in time of crisis affecting them—shelter from what John Gray terms as the anarchy of global capitalism\textsuperscript{101}.

After all, “the so-called freedom of economic actors is almost always conditional ... on rules and regulations established by the state. Successful capitalism depends not only upon the state granting power to economic actors to enter, compete in, and exit from markets, but also upon the state restraining private actors so that they do not abuse this power ... (and) market frameworks are key to capitalism; their shape and integrity determines the system’s shape and integrity... However, market frameworks are not self-correcting... Only the intervention of the state can provide the necessary corrective measures to prevent capitalists or other organized groups from abusing the common for their own advantage and thus to promote the public interest... \textbf{In the long term, there cannot be effective capitalist development without effective governmental intervention to modernize its market frameworks} in a timely and appropriate fashion” (unfortunately, more often than not one needs a crisis to make this happen— J.W.)\textsuperscript{102}. But Bruce Scott admits that “if the state does become a direct economic actor, for example as the owner of large enterprises, it becomes a player as well as a provider of institutional foundations of the system. This puts the state agents in a direct conflict of interest”\textsuperscript{103}. Apart from a real chance that they may also abuse their power...

According to Anatole Kaletsky, “economists (and politicians—J.W.) will have to reopen their subject to a much wider diversity of analytical approaches. They will have to draw insights from political science, sociology, and anthropology”. New economic thinking will have to satisfy three conditions: (a) recognise that a market economy is not a static system in equilibrium, nonetheless it remains competitive and adaptive; (b) accept that effective government and dynamic private enterprise are symbiotic and necessary (both of them) for the successful functioning of the system; and—as a cause and consequence of the preceding two— focus on the inherent unpredictability of human behaviour and economic events\textsuperscript{104} (plus natural disasters—J.W.). To be sure, it would be of little utility to cry over eternal unpredictability of individuals’ behaviour; it would be useful to try to follow and understand, then to influence, its evolution. In particular, to bear in mind such pre-requisite as the triple nature of the XXI century man, and its consequences, should he remain unaware of incentives which guide him simultaneously in different directions. In other words — behaviourial economics.

As far as the latter—crucial—dimension is concerned, i.e. behavioural one, nobody has expressed it better than Robert Reich in an interview granted to the supplement of the Polish “Polityka” weekly\textsuperscript{105}. He raised the dilemma of what I call “triple nature” dormant (or active) in most of us in more advanced countries including, more and more, the emerging economies: investor and consumer (caring above all for self-interest) and citizen caring for the common (that is, also but not exclusively, one’s own) good. \textbf{Democracy had been well served as long as a \textit{grosso modo} balance between those individualistic and altruistic features prevailed. These days, as a result of an accumulative process of some 30 years, clearly the first one has prevailed: citizen was overwhelmed by investor and consumer—although there remains a contradiction between the latter two ! And capitalism dominated, instead of strengthening, democratic process.}

\textsuperscript{101}GRAY. “False Dawn”, p. 77.
\textsuperscript{102}SCOTT, p. 40, 54–55 and 68–69.
\textsuperscript{103}Ibidem, p. 53.
\textsuperscript{104}KALETSKY. “Capitalism 4.0”, p. 180–181.
\textsuperscript{105}“Kapitalizm niszczy demokrację” (Capitalism destroys democracy). POLITYKA, Niezbędnik inteligenta, 29 September; 2007, p. 3–8. See also PFAFF, William. “Broken promises”. IHT, 18–19 November, 2006 about the pursuit of profit without regard for social cost or obligation \textit{vis à vis} the employees, economic interests of the nation and “the good of society”.
Another equilibrium—between politics (government) and market has been greatly weakened in favour of free market operating with its invisible hand. Neoliberalism has become the religion in force. New technologies (ICT and transportation, especially container traffic) gave birth to globalisation and deregulation—blessing for consumers and investors—for a while\textsuperscript{106}... The trend has expanded from individuals to companies and financial institutions whose managers have been struggling to exploit as much as possible resources in their reach (natural ones, manpower) and/or increase the value of stock, understandably, at the cost for citizens, environment—and democracy. Pierre de Senarclens rightly asserts: “(néolibéralisme) a eu pour effet de pervertir ‘l’
esprit des lois’ qui est au fondement de la démocratie, Il s’est imposé par un surinvestissment de l’économique, comme si la vie des individus n’avait d’autre objectif que la satisfaction d’intérêts matériels. Son emprise a exacerbé l’individualisme et l’esprit de compétition, émoussant ainsi les liens de solidarité citoyenne”\textsuperscript{107}. By late 2009 “the state had become the central pillar of faith as the other pillars of faith had crumbled, and this situation was inconsistent with any vision of market capitalism”\textsuperscript{108}.

“The finance world’s lack of interest in wider social matters cuts to the very heart of what has gone wrong”. In the spring of 2008 the Institute for International Finance in Washington took the view that the banking system ought to change, to go back to basics (as John Bogle advocated), to revert to a simpler, more transparent and more “honest” style of banking. In sum, a holistic analysis was—and still is—missing, social anthropology teachings ignored by regulators, bankers, politicians, investors\textsuperscript{109}.

Certainly, the future promises to bring us what Hubert Védrine qualifies as “une ère faite de tensions sans précédent, de négociations et de compromis”, with “la géo-économie comme la géopolitique (qui) vont s’en trouver bouleversées”\textsuperscript{110}. In this context, I share Zdzisław Sadowski’s assumption that free markets may prove unable to avert by themselves the trend towards self-destruction not only because of delays characterising the adaptive processes but mainly because markets do function on the basis of sectoral interests—and not of the general interest\textsuperscript{111}. Moreover, as noted, contradictions do also occur on the level of individuals, regardless whether they are aware of their dilemmas and choices, or not. A logical conclusion seems to point to the role of the state—or, in a more distant future,—of global governance foreseen by Anatole Kaletsky in 30–40 years from now for “Capitalism 5.0”\textsuperscript{112}—or maybe “6.0”?

Also, to the old dilemma whether the sole aim of companies should be maximising returns its shareholders (and managers) which dominated the American business for the past 25 years until the crisis hit, or catering to the interests of other stakeholders (closer to what the disdained “stakeholders’ capitalism” practised in continental Europe); shareholders being—incidentally—largely, though not solely, responsible for the outcome\textsuperscript{113}. “During this period the fairness so vital to a modern democracy was seriously impaired... I am a capitalist, and believe that market capitalism is the best economic system ever invented. But it must be fair, it must be regulated, and it must be ethical”—said Felix Rohatyn in the middle of the crisis\textsuperscript{114}.

\textsuperscript{106} “Kapitalizm”, p. 4–5. In 1970, one of six Americans owned shares. Now it’s more than one of two. The average turnover of shares was 2 years on the average 15 years ago, and 6 months in 2006 (p. 5).
\textsuperscript{108} TETT. “Fool’s Gold”, p. 308.
\textsuperscript{109} Ibidem, p. 266 and 298.
\textsuperscript{110} VEDRINE, p. 147.
\textsuperscript{111} SADOWSKI, p. 31.
\textsuperscript{112} KALETSKY. “Postkapitalizm”, p. 81.
\textsuperscript{114} ROHATYN, Felix, op.cit and “Saving American capitalism”. IHT, 29 June, 2009.
Let’s give the floor on the changing substance of capitalism to Antoni Kukliński: (a) “we observe the process of bankruptcy of both the classical laissez-fairism as the uncritical apotheosis of market forces and the classical dirigisme as, in turn, an uncritical apotheosis of the “always successful” intervention of the public authors in the development processes; and (b) “in a simplistic interpretation of the great crisis 2008–2011 is a shifting balance of neoliberalism and neokeynesism as prevailing ideologies shaping the global economy and indirectly also the global society. This dualistic approach is not expressing the dramatic necessity to develop a new doctrine and ideology of capitalism... The deep weaknesses of contemporary global elites are creating a Gordian Knot ... in the first decades of the XXI century the democratic systems are loosing the capacities of innovation, the will to life and the will to power. They are also loosing the capacity of long term strategic thinking... and face a dramatic vision of failure not able to confront the challenges created by dynamic and autocratic China... We need a mega-historical Alexandrian Solutions to (re-)establish the unity of the (Euro-)Atlantic Community as an integrated and powerful actor of the global scene”, thus avoiding the fate of becoming what he calls the “Titanic of the XXI century”.

The 1970s brought a “harsh reversal of economic policies followed hitherto and a move toward neoliberal and neoclassical policies that emphasized privatization and liberalization ... followed soon thereafter in all OECD countries and becoming the conventional wisdom of the West”. Aren’t we however—and capitalism, again, deprived now of such influential personalities as Margaret Thatcher and Ronald Reagan, in another, past turning point?

Whereas, as it formulates Michel Rocard, “le capitalisme est d’une immense efficacité et d’une abominable cruauté ... (et) ... le véritable libéralisme exige une éthique forte. L’ultralibéralisme est en fait antilibéral”. And Financial Times opines that there is a growing perception that what makes it the U.S. (perhaps also other countries albeit to a lesser extent—J.W.) vulnerable today lies inside, not outside, the country; America is again at a crossroads; and this time, there is even more at stake. And worldwide so. Cosmetic changes will not suffice. It won’t be enough to rectify most acute consequences of the misdeeds and mistakes occurred: it’s indispensable to look at, and treat, the profound sources of the crisis since it concerns the process of self-destruction of capitalism, and social discontent leading to its rejection by the public opinion would hardly help individual savers and pensioners.

To be sure, there is no going back to the world before the crisis; change is not only possible and hoped for but indispensable, hélas, little was done so far to block the recurrence of crisis. The question is how deep and fundamental the change will prove to be? Will it go in the right direction? To stop self-destruction processes and permit capitalism to reinvent itself, and raise as Phoenix from ashes ! Don’t we need an “intellectual tsunami” which will wipe out the remnants of the “old model” together with the grave distortions that had eventually degenerated into the crisis? Despite a warning from Paul Kennedy: “Reforms ... are never easy in a democracy, but the American political structure offers the most marvelous opportunities to obstruct changes.”

119 TETT, Gillian. “This time the threats are from within”. FT, 26 January, 2011.
121 KENNEDY, p. 310.
ignore—J.W.) rules—but with predictable outcome: future crises; undue risk-taking at the public expense, no matter what the promise of new regulatory regime; and greater inefficiency”122.

All this gives a vague idea of the enormity of the task we confront to “save capitalism from itself”, and ourselves from its deficiencies and flaws exposed during the crisis. Capitalism as we know it today has to evolve since it exhausted its development capacity; the costs, well-hidden or shifted onto others before, now must be borne by business123. We cannot satisfy ourselves with a popular belief that capitalism is condemned to survive since it “offers the best hopes of all systems in an imperfect world”124, or that “the collapse of the centralized economies of the communist camp have left the world virtually with one model for the engine of economic wealth: capitalism”125. In conformity with its some 200 years long history, it does not mean that a blueprint of something like “Capitalism 5.0” should be urgently elaborated by best think tanks—or politicians. It only means we badly need an “accelerated evolution” of the system to face the challenges of the current century. And a lot of debates on the directions of this evolution and learning from mistakes not only among researchers but also, if not chiefly, in the corporate sector and government... For “political leaders working through the political institutions of legislatures are responsible for shaping the institutions of capitalism such that the markets function for the people... Market forces alone cannot achieve these goals... Government by the people may be essential but is surely not sufficient to achieve such a goal”126. The more so that (as was already mentioned) even democratic governments can be distorted by pressures from interests that develop within the political process127.

The unquestionably high adaptive capacity of capitalism itself will not suffice: a powerful change we need cannot take place without the involvement of leaders of the society preceded by the policy debate on the key agents and methods of change, including the triple nature of the modern man as one of the real though little noticed original causes of the crisis—and the dilemma how to extend people’s awareness and responsibility to overcome the inherent contradiction described above. Otherwise, neither rightly postulated by Bruce Scott “corrective action to reestablish effective regulation that is co-extensive with the markets” nor the “identification and explanation of a more adequate model of capitalism”128 will bring the desired effects. Indeed, all actors—those in the financial sector including investors and regulators, and political authorities (Bruce Scott’s “three levels”) have to rectify their mistakes and alter behaviour; but—as he admits—at a deeper level mistakes have been built upon fundamentally flawed understanding of capitalism (that markets make it alone) — and not what is seen on the surface level, viz. exuberant speculation, greed, and inadequate understanding of complex securities129.

Positively: capitalism badly needs re-imagining. The sooner, the better. Umair Haque warns that we detect a prelude to full-blown revolution, rebellion against the precepts and doctrines of yesterday’s dogma. For the time being, we observe just tiny shoots of a paradigm shift, of a giant leap from one system to another (within capitalism, that is), or is it an illusion? The time has come to urgently look for new “cornerstones” for production, consumption and exchange. And from this perspective—arrive at a blueprint (or a concept at least—J.W) for the postulated

123 “Nowe wyznanie wiary w kapitalizm XXI wieku. Wywiad z Umairem Haque’m” (New declaration of faith in the XXI century capitalism. Interview with Umair Haque). Gazeta Prawna (Legal Gazette), 18–20 February, 2011; p. 4.
126 SCOTT, p. 65 and 68–69.
127 SELDON, p. 112.
128 SCOTT, p. 74–75.
129 Ibidem, p. 73–74.
change. For “even in terms of its own, flawed central measure of success—growth—capitalism needs a reboot”, since “what powered prosperity in the XX century won’t—and can’t—power prosperity in the XXI”, and the latter nowadays has reached sharply diminishing returns—or worse. The XXI century institutions must invest directly in the provision of global public goods and the mitigation of “global public bads” — he asserts.130

“Today’s great challenge is not merely in creating book value, business value (profit—J.W.), or shareholder value, but in creating authentic (effectively “net”—J.W.) economic value”, i.e. one with hidden costs and benefits taken account of, in particular full-spectrum cost of capital” which exceeds considerably its financial cost; applying such full costing would instantly and radically devalue the profit level of industrial era businesses. Companies that can create only what he calls “thin value”, that are borrowing benefits from, or shifting costs to all others, are uncompetitive in XXI century terms. Sooner or later we’ll witness what was baptised after the NYU mathematician Nassim Nicholas Taleb a “black swan event”, or an unpredictable catastrophe, whereby customers will revolt, regulators will have to act, investors will flee, and a competitor that can create authentic economic value and do less harm will surface. A paradigm shift is therefore necessary to escape the dilemma. The Gordian knot cannot be untied: it has to be cut.131

We need a better kind of (and kind !) “constructive” capitalism as XX century capitalism and capitalists’ stance don’t fit XXI century economics anymore. They are caught in a trap: the XXI century challenge isn’t in making, marketing and selling the same old deep-debt-subsidized, consumption-driven, diminishing-returns “product” in slightly better ways but in learning to make stuff that’s not all of the above in the first place, that’s not implying profit only through more harm and hidden cost. Capitalism remains humanity’s great creation. It is high time for a quantum leap into an unexplored terra nova of prosperity and a need for institutional innovators.132

“Capitalism is the worst economic system except for all others”—paraphrases Winston Churchill Ha-Joon Chang, explaining that his criticism is of free-market capitalism, not all kinds of capitalism, and that his book is not an anti-capitalist manifesto but targets free-market ideology of a particular version of capitalism.133 Tinkering on the margins in the hope to improve the free-market system will not do: the system is by no means “fundamentally sound”. “Nothing short of total re-envisioning of the way we organize our economy and society will do”—he says.134 Among his remedies (set of “8 principles”) it’s worthwhile to single out and retain: (a) changes in the attitudes of participants in the economic intercourse and their motives as well as the rules that govern the market; (b) stimulating the best in people and avoiding relying on their narrowly understood self-interest as an apparently inescapable key driver, inter alia by rewarding other features; promoting “active economic citizenship” (similar to A.H.Tofflers’ ideas already referred to); (d) advocating long term thinking and approach to investment and real growth; (e) making government bigger and enhancing its intervention, especially to reconcile conflicting demands in our society and improve our collective well-being while increasing economic dynamism.135 But how to arrive at these commendable changes on various levels?

130 HAQUE, p. 2–5 and 16.
131 Ibidem, p. 21–25. According to U.Haque, a broader economic crisis precedes and envelops transient bubbles and crashes—a crisis of authentic economic value creation. When profit is realised by activities that harm people, communities, society, the natural world, and future generations, the result is value of low quality, counterbalanced by deep, hidden (not endlessly) debt (p. 22).
133 CHANG, p. XV and 253.
134 Ibidem, p. 252.
And Umair Haque’s (equally incomplete and somewhat general and idealistic) recipe for the XXI century capitalism’s “cornerstones”? Organise better saving and accumulation of every kind of productive resource for tomorrow; minimise economic harm (made through leveraging up a company, country, or economy with deep, risky, costly, burdensome debt) and re-conceive and maximise the creation of authentic economic value (of greater worth, that matters and multiplies). The message to capitalists of tomorrow is to re-imagine their role and try to reboot capitalism in collaboration with customers, investors, governments (regulators) and suppliers—offering more authentic, sustainable, meaningful benefits that matter more in human terms, i.e. to aim at a “constructive advantage”—making difference to people, communities and society, and not just differentiating stuff and selling toxic, diminishing-returns, often ephemeral and transient, products including financial ones 136. Thus, hopefully, old paradigms of wasteful growth, inefficient competition, and self-destructive activities could be left far behind at this reset moment to pave the way to globally-conscious and constructive model—and a constructive future.

Antoni Kukliński also alludes to the need of imagination and vision at this turning point of history of the civilisation, and of restoring proper place to ethics (as John Bogle, for instance); to get out of the current multifaceted crisis and make sure it will not prove to be a recurrent one, we cannot do without long term thinking about the consequences of presently taken decisions (or indecisiveness) of all players on the global, national and regional scene and—against this background—without search for a new development paradigm 137. And—I would add—for new elites...

* * *

It is my earnest hope that the fore-going analysis—and plentiful sources—convincingly show a need for a profound change in the shape of the globally prevailing system, without naturally aiming at “one size that would fit all”—it wouldn’t. Attaining higher level of economic security (and stability to start with) worldwide should become a leitmotiv of the effort. Who and how might bring it about, or bring it closer? It would be rather naïve to expect, as already mentioned, that a think tank or a university, or an international conference might do the job in the form of a ingenious all-embracing blueprint to be examined and approved by politicians, or internationally by G-X. Yet a public debate and strategic thinking devoted to the “systemic changes within the overall system” seem to be more necessary than ever — and urgent.

A more realistic expectation would be to look forward to an evolutionary path towards radically improved version of capitalism, with contributions to this end from various circles, governments and international organisations and informal groupings like G8, BRICS or G20, regional ones like the European Union, NGOs like the Club of Rome and WEF, academia and business as well as research teams. Fresh experience—good and bad—of countries which underwent successful transition to capitalism might be of particular utility in the effort to rejuvenate the 200 years old a system A series of international conferences might be useful for preliminary discussion and initial recommendations under the auspices, for instance, of OECD as the trend-setter as well as ILO and Bretton Woods institutions, among others. Commanders and the crew of the boat we are all in has got another serious warning, and the boat is leaking. It doesn’t have thoug to share the fate of the Titanic if its captain, supported by all on board, steers it across the deep waters of globalisation and keep it at a distance from “ice-bergs” of all kind including those man-made.

Turning points are defined according to the conditions in which they occur and their sharpness. Latest production downturn and the perspective of a new one bring states together consolidating their actions to prevent next recession or a deeper downturn. Cooperation which has started within the G-20 after the beginning of the 2008+ crisis has shown that internationally coordinated moves of the main actors have worked. The questions raised here consider if G-20 coordination is the utmost that was obtained within the scope of international cooperation or it is the first step, which will move the G-20 actors to a new Agenda and a turn of the corner.

What is new in the economy today?

There are several new features on the national as well as on the international level, which characterize the economy. The scope of noticed changes depend on the period covered by the analysis. Most of the economists compared the 2008+ crisis with the crisis of the 1930’s what makes a long perspective and comparisons sharper and clearer. Comparing the two deep downturns of the economy we have to admit that the scale of the crisis was different, what was followed by its depth and length of lasting. Comparisons of the two crisis are illustrated in the table below.

Why such big differences occurred in comparisons of the two downturns? The answers seems to be relatively easy although not approved by all economists. The shape of the cycle has changed by application of specific policies which embraced liberalization of trade and factor movements on much wider scale than in the first half of the XX century. Protection of national markets in the past were creating specific conditions which resulted in prolonging the crisis and deepening the down-turn. The Table below indicates what was changed in the applied policies resulting from their coordination on international level.

All listed stages of international coordination of national policies can be considered as specific turning points. One has to remember that the shown areas of coordination are not the only ones.
### Table 1. The two crisis of 1930’s and 2008+

<table>
<thead>
<tr>
<th>Crisis of the 1930’s</th>
<th>Characteristics</th>
<th>Crisis of the 2008+</th>
<th>Characteristics</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Length</strong></td>
<td>1929–1940</td>
<td><strong>Length</strong></td>
<td>2008–2010</td>
</tr>
<tr>
<td><strong>Downturn depth</strong></td>
<td>Production fall: -25–46% Prices fall ca -30% Foreign trade -50–70% Unemployment increase: +129–600%</td>
<td><strong>Downturn depth</strong></td>
<td>Production fall: -2,2% Prices: +2,6% Foreign trade: -14% Unemployment increase: +4% FDI fall: -43%</td>
</tr>
<tr>
<td><strong>Scale</strong></td>
<td>All of the world</td>
<td><strong>Scale</strong></td>
<td>Drop in all economies but emerging markets kept growing</td>
</tr>
<tr>
<td><strong>Trade</strong></td>
<td>Return to protection by increase of tariffs</td>
<td><strong>Trade</strong></td>
<td>Protection by increase of tariffs did not occur, rather protection by exchange rate devaluation where it was possible</td>
</tr>
<tr>
<td><strong>Method stimulating economy</strong></td>
<td>Protection of national markets, war and military expenditures, war economy</td>
<td><strong>Methods stimulating economy</strong></td>
<td>State expenditures used within different framework (as loan, as repeated support, as one injection)</td>
</tr>
<tr>
<td><strong>Recovery</strong></td>
<td>Long and painful</td>
<td><strong>Recovery</strong></td>
<td>Short but leaving some doubts if sustainable as stimulation left some macro consequences</td>
</tr>
</tbody>
</table>

Source: own arrangement, based on statistics from IMF Economic Outlook, World Investment Report, WTO statistics.

Countries cooperated in numerous other areas like law approximation in specific fields enabling e.g. communication, media development, privatization, internationalization, etc. One of the area of coordination of the policies can be ascribed to application of convergence criteria or following the Washington Consensus.

Intervention on the internal markets which was widely commented in the media gives an impression of return to policy of “easy money” which is the opposite of earlier applied “difficult money”. Practice shows that not often the impressions are matching the moves in real policy. Impressions are addressed to calm down the nerves, tensions and fears. This shows that intervention and loud speaking of moves undertaken are more considered a psychiatric remedy than a real policy as everyone is scared of the vision of aggressive capitalism which is fueled by pondering on how to gain more paying less. The same people approve the notions of “social market”, “welfare state”, or even such labels as “great powers come and go”, or “old stars fall-down tired and deprived of power to reform, while the new ones are in a rise”, etc... The crisis has build up such perception of the world what helped the newcomers among developed economies to be approved in a wider circle of coordinated policies.

What has changed and can those changes be considered as improvement or worsening of the world economic climate? The opinions as usually are diversified if one tries to seek answer to


### Table 2.

**Periods and scope of coordination of internal national policies and organizations which have Served to coordinate national activities on international level**

<table>
<thead>
<tr>
<th>Period</th>
<th>Field of coordination</th>
<th>Organizations which helped to coordinate moves internationally</th>
<th>Number of states coordinating their moves</th>
</tr>
</thead>
<tbody>
<tr>
<td>1944–1971/1973</td>
<td>Coordination of the exchange rate policies, what led to certain coordination in economic policies. Compromises were made between internal autonomy of each state and international norms and laws.</td>
<td>The Bretton Woods System; EEC (1957); OEEC (1948–1961); OECD (1961);</td>
<td>44 states or smaller groupings (EEC from 6 to 9); OEEC (16), OECD (from 20 to 24)</td>
</tr>
<tr>
<td>1974–1984</td>
<td>Replacement of fixed exchange rates by floating ones (solution known since the 1920's). Beginning of talks concerning coordination of macro-policies, what is caused by high inflation and relatively high unemployment rate.</td>
<td>G-6, EEC, OECD</td>
<td></td>
</tr>
<tr>
<td>1985–1999</td>
<td>Common solutions, which can have impact on lowering the value of the exchange rate of the US$ and the interest rates, inflation and unemployment rates. Internal market is being created (1967), Policy of difficult money is being applied (in the EC convergence criteria are introduced). The EMU is created in Europe. (1999)</td>
<td>Plaza Agreement 22 September 1985 in New York. Applied policy follows the conditions introduced by the Washington Consensus, invented by J. Williamson; G-6;</td>
<td>G-5 (France, Japan, Germany, US, UK) and after majority of highly developed economies What embraces mainly the EEC/EC</td>
</tr>
<tr>
<td>1989–2007</td>
<td>Macropolitics coordination, end of the era of bipolarity in the international relations, Since 2002 bimonetary in international relation.</td>
<td>IMF, WB, EEC/EU, OECD, NAFTA, G-7/8</td>
<td>IMF—184; WB—183; WTO—152; EU—27; What is followed by ca 220 other agreements on trade in the World</td>
</tr>
<tr>
<td>2008–</td>
<td>Preparation to create single European Internal market on a World-wide scale what can lead to a single world currency in the future.</td>
<td>G-20: G-8 + India, China, Brazil, ASEAN, Mercosur; Basin of the Mediterranean Sea</td>
<td>As above</td>
</tr>
</tbody>
</table>

Table 3.

Washington Consensus and beyond

<table>
<thead>
<tr>
<th>1. Fiscal discipline</th>
<th>The listed conditions were additionally supplemented by following recommendations:</th>
</tr>
</thead>
<tbody>
<tr>
<td>2. Reorientation of the public finances</td>
<td>1. Corporate management</td>
</tr>
<tr>
<td>3. Tax policies reforms</td>
<td>2. Introduction and application of policies based on Washington Consensus.</td>
</tr>
<tr>
<td>4. Liberalization of policy</td>
<td>3. Introduction and following the anti-corruption laws</td>
</tr>
<tr>
<td>5. Coordinated regimes of the exchange rates and at the same time competitive for international trade</td>
<td>4. Flexible markets</td>
</tr>
<tr>
<td>6. Opening of the economy for the FDI inflow</td>
<td>5. Membership in the WTO</td>
</tr>
<tr>
<td>7. Deregulation</td>
<td>6. Observation of the financial rulet and international financial standards (IMF statute, the Basel code)</td>
</tr>
<tr>
<td>8. Protection of Intellectual property rights</td>
<td>7. Effective and transparent accountancy</td>
</tr>
<tr>
<td></td>
<td>8. Elimination of intermediate Exchange rate regimes</td>
</tr>
<tr>
<td></td>
<td>9. Independent Central Banks oriented in their policies in meeting the monetary inflation goals</td>
</tr>
<tr>
<td></td>
<td>10. Introduction of social security systems and application of its rules in practice</td>
</tr>
<tr>
<td></td>
<td>11. Policy oriented on limitation of poverty</td>
</tr>
</tbody>
</table>


the two questions formulated above. R. Baldwin¹, P. Krugman², R. Mundell³, L. Balcerowicz, J. Williamson⁴, R.J. Barro⁵, and a number of other economists think that there are big improvements in the world economy. The cycles have become more flat, the periods of recovery and booms last longer, the depressions are shorter and before the 2008+ crisis for more than 3 decades the decline of rate growth was a typical slow down not a depression as the rate of growth was still in green, not going into the red. In other words the economy was growing slowly but still indicating some vigor. Other economists like F. Fukuyama, J. Stiglitz⁶, D. Rodrik⁷, N. Birdsall, P van den Noord, J. Varga, S. Barrios, S. Langedijk, L. Pench, and many others—think that the 2008+ crisis means return to national politics, intervention and in result also return to protection. The group of first economists is right—according to my knowledge of a specialists in international economy and economy of transformation, while the second group is making a mistake as they misinterpret the information on intervention. The complexity of the world economy demands from us certain number of victims. Those victims and a group of people (scientists, politicians, voters will follow their way of thinking, agreeing with their philosophy). While others, who understand the complexity of strong interdependencies created among states after the II WW, having and

² http://www.youtube.com/watch?v=LG2xSVtDE0; http://current.com/community/89944120_krugman-addresses-one-world-currency.htm
³ http://robertmundell.net/economic-policies/world-currency/
Ties within specific groups of states between changes of size of production, the value of the exchange rate and the level of standards of living

<table>
<thead>
<tr>
<th>Contents</th>
<th>Production</th>
<th>Exchange rate</th>
<th>Reaction</th>
</tr>
</thead>
<tbody>
<tr>
<td>Group of states</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Highly developed</td>
<td>Increases</td>
<td>Drops</td>
<td>Increase of state expenditures, What of ten is followed by an increase of the state’s expenditures below the -3% (of GDP) ceiling. The interest falls down.</td>
</tr>
<tr>
<td></td>
<td>Drops</td>
<td>Increases</td>
<td>Increase of state expenditures, usually accompanied by increase of the budget deficit surpassing the ceiling of -3%. The interest rate goes down.</td>
</tr>
<tr>
<td>Emerging markets</td>
<td>Increases</td>
<td>Drops</td>
<td>Increase of the budget deficit, of ten regional solutions are being worked out and this deepens financial cooperation as well as fiscal. The interest rate is being lowered.</td>
</tr>
<tr>
<td></td>
<td>Drops</td>
<td>Drops</td>
<td>Increase of the budget deficit, of ten search of regional solutions deepening financial and fiscal cooperation. Interest rate is being lowered.</td>
</tr>
<tr>
<td>Developing</td>
<td>Increases</td>
<td>Increases</td>
<td>Searching solutions resulting in acceleration of development in the region and in the subregional relations. Process dominated by search of institutional solutions by building loser and fighter ties with the EU.</td>
</tr>
<tr>
<td></td>
<td>Drops</td>
<td>Drops</td>
<td>Protectionist trends observed in trade policies</td>
</tr>
</tbody>
</table>

Source: own arrangement made with use of the data from the IMF Economic Outlook 2009–2011.

input and knowledge about systemic transformation in East Central Europe, about changes in the world globalized economy, which is opening the national borders for goods, FDI, services and people see that the world is heading towards single world currency. This means more coordination, more cooperation, still deeper changes.

The world economy as a whole, most of the merging and advanced regions are following the pattern of integration which was applied in the European model of integration. In this specific process Europe plays an important role of the pattern setter as well as the hub which opens up towards the outside regions, controlling their declarations of economic changes, which are declared in different types of Partner strategies (from stabilization, via trade and cooperation, free trade or association agreements).

Polish and remaining East Central European strategies of transformation leading to the membership status give a perfect background to interpret the establishment of mutual ties, progress in process of deepening mutual relations as well as using it in the process of shaping changes and accelerating them.
Do the new features help to prevent next downturn or on the contrary they can stimulate them?

The new features observed in national economies as well as in the world international economic relations can be considered as helpful in establishing more stable and stimulating growth conditions. Moreover in a longer run they can lead to sustainable development. The notion sustainable means here something more than growth respecting the conditions of keeping the environment unchanged and economizing the use of natural resources. This means also that the rates of growth in different regions after a period of deep discrepancies will converge, like the macroeconomic indicators did, what was followed in the harmonization of the phases of the cycle on global scale.

Observing the behavior of economies one can see that the only tools of protection of national markets can be ascribed to exchange rate policy, laws, institutions and technical (sanitary, component, originating, etc...) requirements. If so, states during the downturn will try to use those national areas to apply national policies. Removing such options and replacing it by common solutions, integrating the world market into a global whole we come closer to the moment when world growth will be really sustainable.

In order to prevent such policies there is a requirement to create a single world market with liberalization of trade, FDI flows, flows of services and people. The task is difficult and seems to be at this point a bit impossible. Europe faces difficulties in applying liberalization of services and movement of people. If so how such liberalization can be introduced on the world scale? Is it a dream or a realistic plan?

When SEA (Single European Act) was signed in 1987—experts said that such solutions will be applied on the world scale. Are we closer to such solutions today? Nearly a quarter of a century has passed since the SEA was signed and world is closer to a single world market than Europe was signing its new agreement deepening integration, following the B. Balassa model and bringing the European market closer to the Flemming-Mundell model of OCA (Optimal Currency Area) which enables creation of world single market. The progress in this area was achieved in the regions as well as by progress in global liberalization within the WTO.

The coordination of G-20 (the flexible group embracing representatives of the biggest world economies as well as most influential economic and financial organizations. The past cooperation in stimulation of the economy within the G-20 shows the power of the group, which embraces G-7/8, BRIC and EU, IMF, WTO, ECOFIN.

Coordination works and helps frustrated politicians more than anything else. Although there is still a long way to go, we need to be prepared to that move, what means that we need to talk about it and to control the macro indicators.

How states look at the new stage of intensified international cooperation?

States see that the great powers lost their impetus, what makes them more self-confidence what in turn can be interpreted as encouragement to closer international cooperation which otherwise could be received with bigger reservations. Growth in catching up economies, decreased the distance and leveled the former divide. This is the opposite side of the coin, what means that economies feel that they are better off, this eliminated their fear that by closer cooperation with the developed economies—the group of catching up thanks to the slow-down has—as what was
Table 5.

<table>
<thead>
<tr>
<th>Tools proposed in Basel III</th>
<th>International level</th>
<th>Cross sectional dimension</th>
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<tbody>
<tr>
<td>Counter-cyclical financial buffer</td>
<td>Designed to accumulate during the periods when systemic risk builds up, acting as stabilizer in phase of expansion and contraction</td>
<td>Common Equity Tier 1</td>
</tr>
<tr>
<td>Haircuts to funding collateral, market-to-market and collateral requirements applicable to over-the-counter (OTC) derivatives</td>
<td>Reinforcement of effectiveness of macroprudential policy aims, improving transparency</td>
<td></td>
</tr>
<tr>
<td>International Accounting Standards (IASB)</td>
<td>National Accounting Standards</td>
<td>Indicating exposure to losses</td>
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<td>Basel III standards concerning capital</td>
<td>Increased bank capital and liquidity</td>
<td></td>
</tr>
<tr>
<td>Instruments lowering the risks</td>
<td>International derivatives infrastructure underpinning the OTC derivatives market</td>
<td></td>
</tr>
<tr>
<td>Systematically Important Institutions (SIFI)</td>
<td>Attributes and tools of effective national regime; cooperation agreements facilitating cross-border resolutions; mandatory recovery and resolution plans for Global SIFI</td>
<td>Increasing loss absorption, facilitate restructuring; intensifying supervisory oversight;</td>
</tr>
<tr>
<td>National level</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Marginal reserves kept by banks, funding limits, growth rate of aggregate credit</td>
<td>Monetary policy tools</td>
<td>Lowering the systemic risk</td>
</tr>
<tr>
<td>Levies put on non-deposit liabilities</td>
<td>Monetary policy tools</td>
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<tr>
<td>Restrictions on permissible activities of systemic institutions</td>
<td>Structural measures managing risk concentration</td>
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</tbody>
</table>

Source: based on Macroprudential policy tools and frameworks. Update to G-20 Finance Ministers and Central Bank Governors, 14 Feb. 2011. FSB.

said—leveled the differences. The Eastern part of Germany (the former GDR) has had integrated with the West by introducing common currency—the German Mark. The Eastern Marks were transferred into the Western Marks in a ratio of 1:1. Decision of that type gives a very strong impulse to the economy as it creates demand in countries where such demand (in quantity nor quality) did not occur. The decision in Germany was criticized but with time passing it can be considered as a very wise move for the “Eastern lander” of the GDR. The GDR has also taken the political system from the West. The Eastern Germany has also benefited from the rich Western Germany, who send part of the money of the state budget. Additional financial support came from the EU budget general.

In most of the states, no matter if they are in the EU, EMU or remain outside the organization, an opinion prevails that the difficulties within the euro-zone indicate that the decision to introduce common currency was taken too early and some of the states were not properly prepared to join. Trying to argue with such views one can say that preparation to EMU was a method to reform the national policies, leading to reduction of the states engagement in artificial
support of the competitiveness of the production companies. Common currency in case of Europe and the conditions on which EMU was created was supposed to prepare national economies of the EU member states to face more intensified competition, still within the framework of the internal market. In parallel the access of new member states to the EU also can be considered a new condition, which has intensified competition. In the background the Uruguay Round results of the 1995 were also put into life and the EU was signing some new agreements on liberalizing trade with some developing or emerging markets or regions in which such economies dominated. Liberalization of movement of capital and lower prices of labor force—both have enforced on companies a strategy to seek conditions in which production would gain on competitiveness. Catching up economies offered such conditions as production on their markets was cheaper, production located on their markets often was located close to the sources of raw materials, moreover the engagement of those markets in production was playing additionally a twofold role. On the one hand it created jobs, what created demand for the produced goods. On the other hand the increased demand for the production had an impact on lowering the unit costs, what was foreseen in the theory of scale. Engagement of the catching up economies in production can be also considered as a factor stimulating interests of politicians from the region to open up their economies. Protection against imports of products from developed economies became an obsolete vision, which slowly moves to the junk room as the history advances.

Looking at the policies applied in different developed economies one can say that those economies are in trouble which pretended reforms and changes, cheating own society as well as the EC and other authorities, who were supposed to notice what type of fake moves were taken. In other words it is not the common currency that resulted in the problems but lack of the needed reforms has created them. Currently economists are richer by this experience in the new knowledge. This new situation for a group of economists is a prove that cooperation works and thus the integration should go beyond the state’s national interests, while at the same time some other economists draw a conclusion that the world returns to more protection, less deregulation and more intervention. Closer look at the experience of Greece, Ireland, Portugal, Italy or Iceland shows that either the reforms in those economies were too general, or concentrated on the surface of the problem. Comparisons show that economies grow but they need specific policy which unleashes the business. The whole book comparing pairs of market economy shows that despite the same starting point one from the two economies was growing, while the second one lost the momentum after a few months of growth. This shows policy matters. More direct intervention, less own-confidence and sufficiency. Balcerowicz and Rzońca show why Australia was better than New Zealand, Austria came close the level of development of Switzerland, Mexico is drastically poorer than Spain, Venezuela became poorer than Chile, why the Communist China has overtaken in development the capitalist India and finally why Pakistan was developing faster than Indonesia? Moreover, there is a list of differences in the transformation strategies which decided that the Polish economy was growing faster than the Czech’s and Hungarian’s?9

What can work?

Some of the coordination moves work bringing the G-20 closer together. G-20 work started with the first signals of the crisis. They should not end with the recovery. All groups of countries of

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the G-20 can benefit from OCA and WMU (World Monetary Union) on world scale. The countries which are in EMU need an additional external force to control their efforts in preparing to new international arrangements which point at need of further integration, liberalization, globalization of the world economy.

It is clear that countries, markets, regions are interdependent. Problems from one market are being transmitted in a short time to other markets. States see the need to cooperate and coordinate. Coordination works but at the same time it requires some type of control, which eliminates the temptation of being a “free rider” in the process or a “black sheep of the family”. The European experience can be applied on a wider scale and such a perspective is tempting. Everyone has to realize that there is a number of states which are eager to follow the transformation avenue as Poland and other East-Central European states have done but not always they fulfill all the conditions which enable them such changes. It is clear that to make full use of the democracy a country needs to have a well developed, stable middle class. This societal group has to be educated and at least stable or even better when expanding. When those conditions are not fulfilled the society will not be able to make full use of the democratic powers it is given. This means that such society looks for another representation and for other channels than official to communicate with the international society. They need to establish NGO’s (non-governmental organizations). NGO’s are not linked with the government (usually as often they are financed from the state’s budget). The representation should not change when the governments are changing. At least this means some type of stability.

Recent revolution in the Mediterranean Region clearly has shown that the political power was taken by those who knew how to rule and how to use such powers. Moreover, such politicians were not only supported financially and militarily by the biggest and most developed states (USA, UK, France) but also their dynastic inheritance was approved. All was done in the light of stability, peace and specific type of political control. Depriving the politicians who were ruling for years of their powers does not mean at all that the new political structure will be democratic and more fair. Nothing of that type happens automatically. Building political structures requires time. The revolution without leaders who can make wise decisions on selecting partners, shaping reforms, deciding about relations with the outside world, taking the responsibility for supplying the food market can last very long or simply fail. States have the right to decide about themselves. Those remarks are focused on a specific group of states which are considered to be close geographically to Europe and cooperate with Europe for decades. In addition to this group (Mediterranean Basin states) there is a number of states who also have some institutional ties with Europe but geographically are more remote than the Mediterranean states. This is the case with Latin America, this is also the case of African states located further to the South from the Mediterranean. This lists includes also some groupings such as ASEAN, CIS, Mercosur, NAFTA. All mentioned groupings are representing different level of integration and different level of development.

It makes sense that all those groupings find a common perspective with the developed economies, established in such a way that preparation to it will enforce in their case changes of their laws, institutions, policies, functioning of the economy. Such a solution will be desired and approved by most of the catching up and developing economies as well as the developed ones. One can write long description of such solution and methods which will lead to them. My vision is based on simple assumptions, which are following:

- The European experience of integration has proved to be successful and working, what was proved by different enlargements of the EC/EU;
- Europe can play a role of the hub of integration on a wider scale;
• When internal market was created it was said that such solution will be applied on world-wide scale one day;
• States, regions are more ready today than ever before in the past to open their economies, what they need is a perspective after such decisions as they have to do their calculations of costs and benefits;
• States and regions are relatively close to the liberalization following the OCA model of liberalization\(^{10}\);
• OCA is a precondition to common currency. Liberalization is necessary to introduce common currency but this requirement in the past was not so restrictively applied (reunification of the 2 German states, approval of Greece into EMU on the last stage of creation common currency);
• States have proved on smaller and wider scale that they can cooperate in coordinating some of the moves (Plaza Agreement, G-20);
• Common currency is a solution which helps to coordinate policies. Nevertheless, such a solution would require some new solutions helping to make this vision really work;
• On the margin of this we need to be aware that the vision of regional currencies is preparing groupings and their members to such a solution which out threatening that such move will mean one currency for the US, EU and Japan and many other states. Regional currencies, especially introduced by emerging markets, would make life for such economies very difficult. Appreciation of the currency of a catching up economy would play specific role in limiting competitiveness of the producers, while current account deficits in developed economies would result in depreciation of their currency, what will work as a protectionist tool. Common currency eliminates all such problems but creates some other ones.

In sum we can say that a common currency for the world is a solution. It will further eliminate transaction costs. It will further open the economies. It will serve as tool eliminating the problem of current account surpluses and deficits. It will eliminate the problem of appreciation of some of the currencies and depreciation of the others. The list of benefits can be longer.

### What obstacles have to be removed to achieve closer international cooperation on wider scale?

There are numerous obstacles of which some are being removed naturally by the crisis. The crisis enforces a specific vision of states in their international functions and the process of reshuffling. Those who were strong are perceived more and more as weak (US, UK) and those who were weak are perceived as strong (China, India). Is such perception of those states correct? Not really a deficit on the current account (like the US has) was first of all reduced by the crisis. Moreover, the share of the this deficit in the GDP was also meaningfully reduced after the crisis. At the same time Japan (which still a decade ago) was shown as an economic power which will take over from the US and the reins in Asia has its own problems. The most important one is the size of the public debt which surpassed 180%. (Enough to remind that the convergence criteria applied in the EMU and remaining not EU members states is 60% of the GDP)\(^{11}\).

Economists need to look closer at the evaluations of different economies, ask questions which undermine theories that were coined in conditions when the economy was national and closed

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\(^{11}\) K.A. Kłosiński (red.), Japonia, Niemcy. Odzyskany honor w rozwoju gospodarczym, Wydawnictwo KUL, Lublin 2011, s. 25–42.
(read: protected) towards imports of goods and services as well as to the production factor transfers. Those conditions belong to the past, currently economy is international and open. There are certain areas of protection which differ from one group of states to another but there is usually a group of economies with which the trade is free, what is followed by movement of production factors (limited or unlimited). Those new but consequently created and deepened conditions require new policies, knew knowledge, new evaluations and theories. All need to be adjusted to the new setting which create a qualitatively new environment for functioning of the economy. In other words we need a complete review of theories and policies in the context of changed state of affairs. Most of the economists are aware of those changes but this awareness is not always transferred into new approached to policies, evaluations, reactions, stimuli.

Economy with global and regional links, which make the borders more and more porous, what helps states to eliminate some of the political tensions among them, creates new internal challenges towards which remedies can be also found by states who coordinate their moves and policies. Here we approach to the problem of sovereignty or of nationalism and of average understanding of the national economy and international economic relations. All those fields require deep changes in thinking and philosophy in approaching them.

Solutions have to be taken now, while philosophy or knowledge and approaches require time to be approved and fully accepted. What we need badly now is a vision and roadmap how the drafted goals could be achieved.

**Optimism or pessimism of the days to come**

Despite all the mentioned obstacles, which in majority are not of quantitative in their character; while quantitative economics is considered to be the main stream approach to economy today, I see the future of international economic relations optimistically.

Despite all declarations concerning other approaches, penalties and threats, politicians take decisions which are increasing interdependences between states\(^\text{12}\). They cannot scare the world with a vision of “global village” which is governed by one single currency. They need to make diplomatic declarations within which each nations will put own interpretations. Nevertheless it is clear that the world is moving relatively fast towards a single currency and specific type of economic management linked with the governance through the control of monetary affairs. In other words the vision of the “world government” should be replaced by the visions of “world central bank”. This has to lead to invention of new institutions, rules, ways of controlling, a set of requirements. Those who join need to approved by the other members of the “club” or their democratically approved representatives. The solutions applied in such a system have to be based on mutual trust and confidence, should be attractive to those who are in and those who join, should be tempting by offering wealth, stabilization, reducing different financial risks and leading the world towards more predictable future.

This means that we are at the turning point. Decisions need to be taken now and here with participation of the main actors. The world, Europe in the West and in the East went through several turning points. History noted big and smaller turning points. A number of small turning points was creating a type of milestone turns. Big turns never happened incidentally, they were shaped by politicians, in some cases realization of the visions took decades but still having a vision the world was moving towards the defined goals. Periods of acceleration in that march were divided by period of slow crawling or even regresses but in long-run the main goal was closer

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and closer. We need to talk openly that single world currency is a solution. This is not an utopian vision. The idea is based on theory on multi-level management, which serves as a tool helping democracy to work smoothly on world wide scale.

Only some of the states can establish conditions for their political system peacefully, others (being in majority) will use power politics in order to impose their own rules, which would be far from democracy. Still remaining states don’t have laws, institutions nor developed and stable political scene to work on their system. In such circumstances joining the main stream of the economy by introducing world currency can work better for them. Moreover external conditionally is an effective instrument which can speed up introducing all the needed changes shaping the system. This can be done despite all the weaknesses in political structures or institutions.

One can ask why politics are mixed with economy here. Trying to give a brief answer I need to say that economy is politicized or simply political. This fact is crucial if one takes into account what type of solutions single world currency will bring to security, politics and finally to finances and economy.

The concept presented here is brief as it meets the requirements of the current call for papers. Most of the topics can and should be more developed and better explained with theoretical, practical and complex background. Some of the topics are already developed in the literature. Numerous are being dealt in my own writing.

In sum the world is ready to hear the about the vision of single world currency. If we use proper arguments, majority of the states have interest in such solution. There more advantages than disadvantages of such solution. Nevertheless single world currency needs new institutions (at least changed intuitions), followed by new system of control, voting, conditions to join etc. The biggest challenge in launching the idea is the break through the philosophical approach on world economics inherited and well rooted in the past. Nevertheless, such a challenge is not a completely alien thing for the policy-setters and they know how to deal with it.
Introduction

Many people show persistent resistance to change their ideas, positions and behaviour. It is not always rational what people are choosing, certainly when the sequences of our present decisions are not known, or only partially known. However, sometimes external influences force people to reconsider these responses. In human history this is a common problem, where populations confronted with structural changes, will attempt to maintain their current situations, beliefs and relations, out of fear of uncertainties. Also governments are confronted with new conditions and new choices that have to be communicated to their citizens. In general, people tend to favour continuity over changes. They also favour changes which can be predicted with a degree of certainty, or changes which are clearly improving their position in society. Transformations are more or less complete structural changes of society, or at least of some major subsystems, like culture or economics. Structural changes cannot be derived from individual decisions, because of emergency, which means that aggregations of the results alter the nature of just adding up individual decisions. This is investigated in complexity theory.

One important issue in considering change and continuity is whether changes can be caused by endogenous forces, that is by forces originating from inside of the (economic, political, cultural) systems, or that exogenous forces are the main driving factor in explaining changes. This is important because some external powers are clearly evident, like natural disasters, but what are the changing powers of within human development itself? In economics this issue is especially important because the explanation of economic growth has to take a different path whether we consider external or internal developments. In the mainstream Neo-Classical approach, the focus was on ‘given’ external factors like institutional changes or population size and the development of technological knowledge. Persons could then decide rationally within the set of given factors. This is only a solution for very short periods and marginal decisions, not for situations where structural changes may occur.

Increasingly, however, the Schumpeterian perspective is taken in investigations of dynamics in economics. In that perspective development is generated by economic forces created by innovative processes from within the economic system itself, for instance by investments in research and development (R&D). According to Schumpeter development has as its main source the actions of creative and risk-taking entrepreneurs. A remaining problem, however, is from where the creative impulses to innovate are coming. Although Schumpeter himself was certain about the fact that
innovation and economic development were parts of a social system, he did not go into the origins of knowledge and creativity (Schumpeter 1912; 2002). More recently these factors have received more attention by Neo-Schumpeterians, like Nelson and Winter (1982) and Witt (1997), although Hayek (1945) already published on the cognitive basis of knowledge, reason why he was in favour of good education in a free society.

Turning points for the economic development over longer periods of time have to be integrated into a broader theory of social development, with institutional, demographic and political elements (Schumpeter 1912; 2002). Changes can be important, but there will also be a certain attitude of clenching to the old world, for instance in the case of national identities and myths, but also to old systems of laws, values and norms. In many cases continuity gives people a feeling of security. Changes can lead to feelings of unrest and uncertainty. However, certain changes are welcome, if the old institutional, political and economic situation is bad and lead to oppression and developmental ‘lock-in’. Novelties can create new dimensions and perspectives, although many people only recognise it after a certain lapse of time.

Sometimes a cluster of technological and cultural innovations is occurring in a relatively brief period of time (historically ‘brief’ is often some decades), but it can reconstruct the basis of societal patterns. In the long run (at least some decades, but sometimes more than a century) transformations tend to change entire societies. Very important was the influence of the great transformation of the (more in particular) northern European countries, in northern Italy and Austria, in the period between 1400 and 1900. The waves of changes were connected with the Renaissance, the Enlightenment, the Reformation and the rise of urbanisation and democracy. Science and technological development gave an enormous boost to economic processes, resulting in the Industrial revolution, in urbanisation and in the organisation of enterprises and concomitantly in changing ideas on world-views, political institutions, religious institutions and family life of many people.

Great transformations like the Renaissance and the Enlightenment gave uncertainties but also many new opportunities, for instance to science and political reforms. In that regard we can speak, with Stefan Zweig, of ‘Sternstunde der Menschheit’ (Top periods of human society). We should be aware of the fact that this kind of transformations lead to ‘turning points’, or periods with great structural changes and influencing the factors of production, the use of new resources and of human relations, like the Industrial revolution and the French and American Revolutions did show. In economic development the production structure, consumption, labour relations and markets changed considerably in the 17th and 19th Century, because of the strong and deep impact of scientific and technological revolutions and the rise of capitalistic production, based on modern technology. Up to our time incessantly new scientific knowledge develops with still many unknown effects.

Sources of transformations can be divided in natural, economic and cultural (institutional). Natural changes often occur as catastrophes, like earthquakes, tsunami’s, hurricanes, or; even more importantly, climate changes with long-lasting impacts on many parts of the globe. Cultural transformations also take much time. The change of ideas, institutions and political ideologies often are transformations over many decades, even centuries. Economic transformations, in general, have a shorter time-horizon, although the reasons for the changes can differ considerably in their time-horizons and locations. Economic historians have developed theories of major economic transitions (de Vries, 2008; Maddison 2001). Well-known is the theory of Kondratieff, who developed his theory of the long waves of economic transformations, with periods of 50–60 years, with rising and declining sub-periods, but in a regular pattern. Maddison does not accept this regularity, although he contends that development comes in stages, not in regular waves that can be predicted, as with the Kondratieff-cycles. In general, it is accepted that a major source of change
is the development of an entirely new technology (sometimes indicated as ‘General Purpose Technologies’, like the steam engine, electricity and ICT), the introduction of new resources, like oil a hundred years ago, or new markets, as happens in our globalising world. In the theory of Marx ‘material conditions’ are the main cause of societal changes. He described the capitalist production system as the major cause of the changing society. In later perspectives this contention was considered as a vision based on mono-causality, whereas the sources of the changes are more difficult to disentangle. New cultural and political conditions can also cause significant changes, where new scientific opportunities can arise and have impacts on the new technological and economic development. Max Weber contended that institutional and religious values were more important for the modernisation and new developments. He was a close friend of Schumpeter and shared the broad views on societal development.

Transformation in economic development

In economics the idea of transformation is primarily connected with Marx and Schumpeter. Both accepted change as a fundamental characteristic of capitalism, however with different explanations. Marx attempted to find general laws of the development and eventually to prove that the demise of capitalism would be the logical outcome. Schumpeter insisted, as Marx did, on the strong impacts of technology and entrepreneurship and contended that these were basic for the explanation of economic development. However, he did not see the demise of capitalism, but continuous disturbances when new technologies and products were introduced by innovating entrepreneurs, although associated with ‘creative destruction’ of the older parts of the economy. The economic structure would change by the demise of certain firms which could not survive in the changed external conditions with new technological opportunities and a changing sectoral composition. Marx saw correctly that capital goods were increasingly sophisticated and could replace labour in the production process, but he failed to see that the increased productivity would lead to more income and consumption with a strong rise in the services. This was later investigated by Colin Clark in his well-known book (Clark, 1940). He introduced the division of mining and agriculture, manufacturing industry and building, and services as respectively the primary, secondary and tertiary sectors. He saw that the increased introduction of modern capital (machines) would result in a strongly increasing labour productivity in the primary and secondary sectors and, concomitantly, in the shift of labour to the much less productive services.

In the first part of the 19th Century Marx seemed to be right, with the rise of large factories and manufacturing cities, like Manchester and the Ruhr area, with a growing proletariat. The Marxian prediction did not fit the later developments, more in particular after World War II, with an increasing labour productivity, while the labour force in the primary and secondary sectors gradually declined and the tertiary sector (for instance finance and business services, but also retail and public services) increased rapidly, with a concomitantly strong urbanisation in agglomerations with a dominance of the services. Currently in most western countries less than 5% is occupied in the primary sector, 10—20 % in the secondary sector and 70—80 % in the private and public services, combined with a dominant urban population. This change has been a real transformation and a turning point in human history, in economic, social and spatial aspects. All over the world urbanisation and global trade patterns are a main sign of this transformation. The global economy is still developing, but institutions will only follow hesitantly. Many turning points are related to this transformation.

Schumpeter introduced the concept of ‘creative destruction’ indicating that a fundamental shift from old to new kinds of production would lead to disappearing kinds of production and the
renewal of the capitalist system with new products, ways of consumption and new markets. We can add that also the spatial structure of the global economy has changed considerably. More in particular the rapid rise of modern production and urbanisation in Asia is remarkable.

Associated with Schumpeter’s approach is that he was hesitant in two regards. The first is that he accepted that the disturbance of the previously existing ‘general equilibrium’ was temporary. After a period of the introduction of innovations, and imitations of successful firms, a new equilibrium in the sense of the mainstream economy would develop. More recently, Neo-Schumpeterians, like Nelson, deny this, by emphasising that the continuously developing new knowledge will result in continuous disturbances of the system of production and markets. His second problem is that he was not consistent in his emphasis of the individual ‘hero-entrepreneur’. In his first publications (1912) this idea was strongly developed, but in his later publications, more in particular in his well-known ‘Capitalism, Socialism and Democracy’ (1942) he changed this perspective. The reason was mainly that in that period the evolution of large corporations was predominant, and research and development (R&D) became often concentrated in these corporations. Later he returned more or less to his old views, observing that new technologies were favouring changes, while the management of bureaucratic large corporations did not respond quickly enough to external changes (Witt 1997).

The recent emphasis on knowledge, technology, innovations and globalisation has a strong influence on the perspectives of equilibrium theory, as was common to the Neo-Classical approach. However, a new ‘standard theory’, encompassing real dynamics, has not yet been developed. This became clear in our period of severe recession. The explanations of this crisis differ strongly, depending on the school of thought, Neo-Classical, Keynesian, or Austrian-Schumpeterian. Up till now, no explanation is sufficient, nor are the policy prescriptions. However, nobody will deny that, like the Depression of the 1930s, many structures will change. This will also be a real turning-point, with severe impacts on how the developments can be explained and politically managed. One of the intriguing developments is the complete transformation of the balance of economic power in the world, with a shift from the West to the East. This shift is not yet finished, but it will significantly change the global structures. China and India in due time will be the largest economies in the world. China is already the strongest exporter, not only of cheap mass products, but increasingly of high-tech goods. What remains weak in China, as is the case in Japan, is the development of services in the software, finance and consultancy sectors, but this also will be developed in a later stage.

Differences in economic and other turning points

The structure of economic, political and cultural components and the internal network of relations between men and of production, consumption, and institutional structures can change completely (de Vries, 2008; Maddison, 2001). This interrelation has been investigated by ‘complexity theory’, where the emergence of new phenomena is analysed. Many individual decisions or behaviours can develop into completely unexpected and unpredictable macro-patterns, without the possibility to explain the resulting final patterns with the behaviour of the individual components. Also, many patterns are chaotic, in the sense of the patterns of the behaviour of weather; where very small deviations of expected structures can lead to very important new structures, which cannot be predicted.

This means that countries, societies, economic and institutional structures together develop in a complex and chaotic way, at least when observed over longer periods. It would be unwise to
investigate only partial systems with the arrogance that this will be the only way to a scientific approach of transformations.

Conclusions

Although major transformations are very important for human mankind, even since the early steps of evolution, we cannot predict what will happen in the future. Some people still want to choose our future as if it can be influenced according to rational decision-making. One perspective is to choose for continuity, if people are satisfied with that situation. However, humans are always looking for improvement, whatever the consequences. Even the seemingly rational choices of today may be disastrous in the end. Rationality and wisdom are not always systematic twins. As Confucius already said. By three methods we may learn wisdom. First, by reflection, which is noblest. Second, by imitation, which is easiest. Third, by experience, which is bitterest.

Historically seen, may be human mankind is doomed to learn from the third source of wisdom. If wisdom comes in the end, this would be a happy outcome, but this is not certain in the light of the many fundamental changes we still may expect.

Bibliography

In 1776, Adam Smith published his seminal book *The Wealth of Nations*. In the book, he introduced ideas that division of labour causes more increase in productivity than any other factor by letting people to focus on their fields of specialisation. Since the *Wealth of Nations* was published we have seemingly witnessed great transformations in the wealth of nations, particularly in terms of the rise of the USA and the comeback of China and India.

Regardless of these great transformations, I believe that the division of labour has remained and will remain as the most important fundamental issue. I have earlier stated (regarding the foresight project for 2050) that division of labour is a phenomenon which is likely to remain important for the well-being of the people.

Professor Kuklinski is bravely tackling the wearisome task of understanding great global transformations. Particularly, it is a great challenge to understand the current turning points, as we cannot foresee their importance but only forecast. I aim at answering to Professor Kuklinski’s call by exploring the philosophical nature of the turning points from the perspective of structures, and provide some empirical evidence related to turning points. By empirical evidence I highlight the structural constraints we have for understanding great transformations. I relate this discussion to the specialisation and the perception of value. As a result of lacking metrics, I am not able to give exact empirical evidence of turning points of today. But by shifting the focus on structures and perception of value, I hope to lay ground for future scholars. Particularly, I contribute by raising the discussion on the relation between division of labour and wealth of nations, and give fresh insights how we need to change our perception of wealth of nations to consider wealth from the perception of value-in-use rather than accumulation of resources.

**Structures**

Luhmann (1995) taught us that society consists of social systems. Social systems exist as the difference between system and environment. However, the environment is so complex that cognitively-limited social systems (Simon 1996) must create structures and interpretive schemas (Giddens 1979) in order to make sense of it. Structures not only enable us to perceive environment but constrain our perception and actions. Structures which are created by social systems are
based on history, the previous experience of social systems. At the same time structures serve as the basis for expectations for future actions. Structures can be found both in institutions and scientific paradigms. Therefore, structures create the focal point for which to concentrate when studying historical changes or turning points.

A good example of structures is the way divide territories. Territories are divided into cities, regions and nations in order to reduce complexity. Although cities and regions remain important scenes for great transformations, I believe that great global transformations are most visible at the macro-level of nations.

For transformation, nations have a dual role as structures. On one hand, nation states have been created to organize actions so that different monitoring and controlling tasks are given for national authorities. Thus, state institutions save time and secure transactions between systems, i.e. they help in division of labour. On the other hand, nation states have been criticized by liberalists of hindering division of labour by restricting free transactions (Smith 1776; Bastiat 1860).

Smith (1776) attacked mercantilism, and the related ideas of tariffs serving economic interests of a nation, and the necessity of building up large reserves of precious metals. This criticism was further developed by David Ricardo (1891) who introduced his theory of comparative advantage. The theory of comparative advantage can be seen to explain nicely the linkage between division of labour and wealth of nations, as perceived by Smith.

Long before Smith, Aristotle struggled with the concept of wealth. Aristotle used a Greek adjective οἰκονομική to refer to anything related to the use of wealth as means to happiness. Importantly, he distinguished οἰκονομική from χρηματιστική, which in turn refers to the acquisition of wealth. (Crespo 2008, pp. 282–283.) This division between the use of wealth as means to happiness and acquisition of wealth was followed by scholastics, and eventually was adopted by classical economists (Theocarakis 2008). However, the view adopted by classical economists was focusing on the χρηματιστική (the acquisition of wealth) rather than οἰκονομική (the use of wealth). In this sense, Smith’s attack against mercantilists was only half way. Instead of building up large reserves of precious metals, he introduced the idea of large reserves of other resources, neglecting their use value. This had an important influence on neoclassical economics, and the current economic statistics which we are collecting and based on which national authorities make decisions.

### Trade in services

Smith (1776) considered that only production of material utility was contributing to the increase of wealth of nations. Utility was embedded in matter, and it could be shipped across national borders. Despite Bastiat (1860) criticized this kind of materialist view, it was only in the late 20th century when scholars noticed that also immaterial services may be exported. Consequently, services became considered as equivalent source of wealth for nations, and national authorities became interested in trade in services.

Thus, the view had transformed from the one that only shippable resources provide wealth of nations to the widened view acknowledging that resources can also be integrated as services. The view that also services can be exported led to the new ways to allocate and integrate resources in the host country. Consequently, service states became interested in serving other countries. From 1980’s onwards, national governments started removing the structural barriers and creating new structures in order to boost world trade in services. The most important of these structures was Uruguay Round GATT negotiations, which began in 1986.
WTO statistics on commercial service exports indicate that global service trade has tenfolded since 1980. Moreover, most countries are exporting more commercial services than they did in 1995. In Figure 1, we can see how exports in commercial exports have grown exponentially, and a trend analysis for next 5 years is projected. (Kaartemo et al. 2010)

![Graph showing exponential growth in commercial service exports](image)

Fig. 1. World and OECD exports in commercial services in 1982–2007 (US$ billion), and trend analysis 5 years forward.

Thus, it seems like all countries are benefiting from the increase in global service trade. Although it is difficult to prove the benefit, it can be said that not all countries seem to benefit from the increase in service trade equally.

Empirical evidence suggests that OECD countries are exporting relatively less and importing more from non-OECD countries than in 1980’s and peak years of late 1980’s when Uruguay Round negotiations for services were started. (Kaartemo et al. 2010.) This indicates that Uruguay Round negotiations did not only boost OECD-countries service exports but did so more for non-OECD-countries.

After a couple of years from agreement on GATS in Uruguay Round in 1995, the OECD countries started importing more from non-OECD-countries. Interestingly, it seems as the international negotiations to open up service trade led OECD countries to import relatively more from non-OECD countries. This has an implication that the development in the service trade benefited non-OECD-countries more than OECD countries.

The long-term transformation has been tremendous with calculative annual losses totalling US$ 200 billion for OECD countries (Kaartemo et al. 2010). We have earlier called this as the crisis of OECD countries. However, I am no longer sure if this transformation can be referred as such. I will elaborate this later. One thing which we anyway can be sure is that it is nowadays perceived more efficient to conduct services in non-OECD countries than in OECD countries. This transformation has at least two possible implications worth noting:

- OECD countries become more dependent on the resources located in non-OECD countries
- OECD-countries become better off by specialising
These notions are related to the earlier discussion on the perception of value. By having access to non-OECD resources, OECD countries can specialize in other activities which they can conduct to pay for these services. Moreover, as long as the activities in the host country are operated by OECD-based companies a part of the money may flow back home in the form of capital.
But going back to Aristotle, we can question if we should focus here in monetary terms at all. We need to note that monetary value has a little to do with the use value, which refers to the eventual aim of using wealth—happiness. Smith’s example of water as a commodity with low exchange value and high use value is a good example. Similar examples can be found within services. For example, Finnish education has practically zero exchange value but high use value (of which I am a living proof). There is an important need to reconsider the use of statistics, which are guiding our decision-making. The focus should be not only on what we import but how we use the resources which we import and how does the use of the imports improve our happiness in individual, household, regional, and national levels.

Division of labour and specialisation give us opportunities to focus on the things which we are good at and on the things which we like. These remain important issues also under Aristotelian logic focusing on oikonomiké. However, current economic data has a little to do with oikonomiké data but is more based on chrematistiké data. Consequently, we can only guess what the impact of Uruguay Round negotiations have had in increasing happiness and well-being in the OECD countries.

Concluding discussion

The notion of Aristotelian view of wealth and the structural changes in inter-national service trade lead us to ask whether it is exports which create wealth of nations or whether the focus should be on imports, instead. In my opinion, value of commodities and services need to be revisited—from source of exchangeable value to use value of a service for a person. This view is possible by changing the earlier paradigmatic structures which we have created for wealth of nations based on value of commodities. This question was struggled already by Aristotle, and briefly by Smith. It was then forgotten by the economists following Smith’s focus on exchange value. However, the question has recently been revived by marketing scholars Vargo and Lusch (2004).

By overcoming the former structures we can experience great transformations. It is up to us how do we adapt to this new complexity, and create new structures instead of leaning on the collapsing ones. This short book chapter has revealed us structures in terms of international institutions and paradigms which guide our judgments. On one hand, we have had great transformation in service trade with simultaneous structural change in the global service trade. On the other hand, the current paradigmatic thinking does not allow us to study this transformation in its full potency, as the current structures in statistics are based on the monetary value of exports and imports.

As great transformations take place in the global society, we should be able to develop our scientific thinking accordingly. This refers not only to statistics but the perception of what is wealth. The current statistics on service trade do not tell much whether we are better off after the new structures and rules, resulting from the negotiations of Uruguay Round. What we can say is: by division of labour and specialization, new structures have given us all the possibilities for the change for better. Thus, we would need better statistics which would focus more on value-in-use preferred by Aristotle, rather than value-in-exchange, which has been adopted by economists since Smith.

Concluding in other words, there should be measures which focus not on exchange value of exports but combining it with the value-in-use from imports, instead. According to my understanding, the latter is the real source for wealth of nations, whereas the first one is only facilitating it.
References:


Acknowledgements:

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Will the Great Financial Crisis, that was triggered by the bankruptcy of Lehman Brothers (2008), lead to 'the deep and rapid transformation of the global scene creating new structures and new driving forces including the destruction of old path dependencies and the emergence of new trajectories in the development process' (Kuklinski, 2010)? It will be argued that, probably, it will be like that although we do not call it a ‘turning point’ because the turn may last a decade, like the one during the 1930s economic crisis.

First the rise to prominence of internationally oriented financial capital will be described. It will be shown how the rise of speculative finance and the recent explosion of world market prices for food and other commodities are related. The Great Financial Crisis coincides also with Peak Oil. There will be greater competition for increasingly scarce resources, that includes also water. Formerly, conventional wars were fought about resources, nowadays it is more likely that financial means are deployed. The turmoil that speculative capital is causing will probably evoke counter forces that will protect society. Financial capital will be replaced as the driving force behind economic development. Also, the seismic shifts that are accompanying the Great Financial Crisis affect different parts of the world in different ways. Economic globalization as it evolved during the past three decades will likely give way for a more fragmented world in which the decline of the West is accelerated. The more frequent occurrence of human induced environmental catastrophes constitutes a factor that furthers interstate cooperation.

1. What kind of turn?

To put the current turn into perspective, earlier epochs in the history of global capitalism will be described shortly.

The 1930s economic crisis (1929–1939) has meant a transition towards a new accumulation regime that also led to a new paradigm of state-society-economy relations. The crisis was systemic because global capitalism was destabilized while a powerful labor movement was active and a young Soviet Union provided an anti-systemic rallying point. From this crisis several state led

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Hans van Zon

development models emerged, among others the fascist state dirigisme, that would shape the
development of global capitalism till the mid 1970s. Keynesianism became the new orthodoxy.

Some would say that World War 2 was a more important turn because then, with the division
of Europe and the subsequent emergence of the 1st, 2nd and 3rd worlds, the bricks of a more
or less stable post war order were laid. The welfare state emerged in Western Europe under
the shadow of a resurgent Eastern Europe that has been seen, until the late 1960s, also as
a socio-economic challenge. However, the new parameters of the management of capitalism have
been elaborated already in the 1930s.

A less known and less studied transformation of global capitalism was in the period 1973–1980
when the global trend towards state led development was reversed towards one of marketization,
pushing back the state and opening up national economies for globally oriented capital.2

In 1973 general Pinochet introduced in Chile shortly after his coup as the first an economic
package that later would become known under the label ‘Washington Consensus’. Later neo-
liberalism would guide policy makers in the West as well, to begin with UK Prime Minister
Margaret Thatcher (1979) and US President Ronald Reagan (elected 1980).

Above mentioned transitions were brought about by policy makers, in the 1930s under heavy
pressure of economic crisis and systemic threat, in the 1970s supported by financial capital that
sought new outlets and that feared the further expansion of what was perceived as socialism.
These turns deeply transformed state-society relations in developed capitalism.3

Mostly, this kind of seismic shifts are not recognized and less so predicted by contemporaries.
For example, main stream economists and politicians turned a blind eye for the forces that
undermined the latest era of speculative finance.

2. The rise to prominence of speculative finance

Until the late 1970s almost all countries had capital controls that made investments and
speculative activities on the international level quite complicated. By the early 1980s mobility
of capital across the Western world was already so advanced that in 1983 the French government
under President Mitterrand, had to give up its program of nationalizations because capital fled
the country. By the 1990s all developed and most developing countries had given up capital
controls. That in turn enabled economic globalization, apart from the revolution in transport and
Information and Communication Technologies. Not only foreign direct investment4 was boosted
but also the speculative trade in foreign currencies and capital flight.5 Nowadays 98 per cent of
trade in currencies is speculative. Between 2002 and 2006 capital flight from the developing world
was 7.4 times higher than development assistance (Eurodad fact sheet, 8 May 2008). Tax evasion

2 In 1971 the Bretton Woods system was undermined with ending the convertibility of the dollar into gold. We
do not take this date as the starting point of the transformation period because it was the 1973 coup in Chile that
signaled the first orchestrated attempt at roll back of state led development models.

3 Financial markets were flooded during the early 1970s by petro dollars and the money of pension funds and
insurance companies. The emerging Eurodollar market pushed for relaxation of capital controls.

4 According to UNCTAD Foreign Direct Investments worldwide increased from 13.3 billion $ in 1970 to 54.0 billion
$ in 1980, 207.7 billion $ in 1990, 1 401.5 billion $ in 2000 and 1 770.9 billion $ in 2008.

5 According to The Bank for International Settlements (BIS) the average daily trade in the global forex and related
markets was in 2007 over three trillion US dollars (3081 billion dollars) a day. This is several times larger than all the
U.S stock markets combined. This is 24.7 per cent of yearly global exports (2009). In 1975, only 20 per cent of trade
in foreign currencies was speculative. Global Financial Integrity estimates that between 2002 and 2006 illegal capital
transfers from developing countries increased by 18.2 per cent annually to reach an amount of 859–1060 billion dollars.
was facilitated by the numerous tax paradises.\textsuperscript{6} These were connected to the major financial centers, above all New York and London. Deregulation in these two nodes of the neural network that constitutes the world economy enabled the spread of all kind of new and opaque financial products.

What is commonly called economic globalization can also be seen as the financialisation of the world economy in which major capital flows became subservient to the short term interests of internationally oriented speculative capital.

The share holders revolution submitted also the board rooms of industrial enterprises to the logic of finance capital. The new phenomenon of hedge funds enabled capitalists to emerge that operated with someone else’s capital.\textsuperscript{7} This created a massive wave of mergers and acquisitions.\textsuperscript{8}

Increasingly, speculative activities became rewarded while long term investments in manufacturing and infrastructure were increasingly neglected. Bank lending to manufacturing became of minor importance while bank profits were increasingly linked to trade in foreign currencies, financial derivatives and lending to hedge funds.

In the USA profits of the financial sector became bigger than that of manufacturing since the late 1990s (in 2008: 278,9 billion dollars versus 175,5 billion dollars) (Economic Report of the President, 2010, p. 436). Profits of all enterprises in the USA went up from 6 per cent of GDP in 2000 to 13 per cent of GDP in 2007. While profits soared since 2000, investments declined. Profits attained during the third quarter of 2010 its highest level ever, while the US economy is stagnating. It is related to the fact that most profits are related to overseas sales of goods and services made abroad. In the USA business is sitting late 2010 on nearly 2 trillion dollars of cash while in the EU 466 of the biggest enterprises have 691 billion dollars of cash (The Guardian, 30 November 2010).

The crisis that hit the heart of capitalism in late 2008 had many similarities to earlier crises in the periphery. During the seventies, the time of cheap and easy money, many developing countries started to borrow money on a massive scale. Western banks actively marketed these loans and often non-accountable governments used these loans for non-productive ends. Often these loans re-appeared in Western banks on private accounts. June 1981, the Federal Reserve suddenly raised interest rates, to 20 per cent and many developing countries could not service their debts. Then the IMF stepped in and offered cheap loans in order to allow these countries to service their debts. This under the condition of opening up their economies for foreign investment, privatizing state enterprises, pushing back the role of the state and deregulating the economy.

Thus, the IMF protected the banks that took big risks in lending to these countries. This pattern would be repeated later.

Here it also appears that the market fundamentalism preached for the many, did not apply for the banks. The marketization imposed by the creditors, brought about a turning point away from the post-war trend towards state led development (see figure 1).

The Washington Consensus was first tried out in Latin America. Until the early 1990s many newly industrializing countries in East Asia were using state led development models and their

\textsuperscript{6} According to Tax Justice Network, off shore capital increased from 7 billion dollar in 1963 to 50 billion in 1973, 475 billion in 1979, 6000 billion in 1990, 11 000 billion in 2008 and 18 000 billion in 2010.

\textsuperscript{7} Assets of hedge funds increased from 39 billion dollar in 1990 to 1868 billion dollars in 2007 and 1668 billion dollars in 2010. Assets are usually held off shore, mainly the Cayman Islands (Frankfurter Allgemeine Zeitung, 25 September 2010). But they are usually managed from New York or London.

\textsuperscript{8} Mergers and Acquisitions led to value destruction instead of value creation. McKinsey analyzed 160 mergers between 1992 and 1999. It appeared that only 12 per cent of the merged enterprises managed to attain higher growth figures than before the merger while 148 others failed in doing so (McKinsey Quarterly, 2001, no 4). KPMG found in an investigation that 63 per cent cross border mergers between 1996 and 1998 destroyed value while only 17 per cent added value.
Two eras in the development of global capitalism

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Markets were still difficult to penetrate. Under pressure of the USA and the IMF these countries relaxed capital controls and Western capital flowed in, fuelling real estate bubbles and pushing up their currencies. Once the Asian financial crisis started, first in Thailand (1997), foreign capital fled the East Asian countries while putting downward pressure on national currencies. The IMF advised the central banks to support the fixed exchange rate to the dollar and many billions of dollars have been spent for this purpose. But speculative money bet on the fall of East Asian currencies and one after another, the Central Banks were obliged to devalue their currencies. Speculators won. Malaysia was the only affected country that did not follow IMF advice at the time and imposed capital controls. Malaysia escaped the financial crisis that caused millions of unemployed. Also, Western enterprises had rich pickings in the form of enterprises and real estate in a number of East Asian countries.

Earlier, in 1985, the USA had pressured Japan to accept the Plaza agreement in which Japan agreed to revalue the yen and open up its economy. The yen subsequently, during 1985–7, revalued by 51 per cent with respect to the dollar. Due to quantitative easing that was deemed necessary
to stimulate the economy a real estate bubble was fuelled. In 1991 the bubble burst and Japan entered two decades of almost no growth. Japan’s policy was geared towards protecting banks. During the 1990s 200 billion dollars have been poured into the banks that are still burdened with bad debts.

After the Asian financial crisis (1997), East Asian countries decided to avoid IMF influence. Therefore they started to accumulate dollars. From then onward these countries started to finance the growing trade deficit of the United States. This allowed the US to pursue a debt fueled growth strategy in exchange for opening up of US markets.

Within the USA, this translated into lower saving rates and growing debts of enterprises and individual households. Cheap money inflated assets, among others house prices, while spending strategies of households were based on the fiction of ever increasing house prices. Policy makers expressed the belief in self regulating markets and abolished all safeguards that used to guide and restrict economic actors. Massive fraud occurred subsequently and speculative bubbles emerged.

In the latest era of finance, in which finance takes over from the industrial entrepreneur the leading role in economic development, a massive income redistribution took place, drastically diminishing the share of labor in national product.

Since the start of the Great Financial Crisis, income disparities surged. This has been a global phenomenon. The very rich, about 10 million world wide, increased their wealth up to an amount of 39 trillion dollars (World Wealth Report 2010).

3. Why are we now in the midst of a seismic shift?

Deregulation of financial markets allowed the emergence of a new financial system in which shadow banking, with involvement of hedge funds, private equity funds and insurance companies, is closely merged with traditional banking activities. The main profits of banks became linked to speculative and often fraudulent activities. An economic system emerged in the USA and in a range of European countries that eats its own economic base (involution).

Banks increasingly created money out of thin air, increasing their leverage. Moreover, the money creating powers were transferred to the shadow banking system. With minimal or no capital, hedge funds could speculate with borrowed money, with huge returns. Capitalists without capital.

The shadow banking system acquired gigantic leverage without any regulatory supervision. This unregulated credit generation became weapons of mass destruction in the hands of the banking system. Also the creation of securitization instruments, like mortgage backed securities, transformed one man’s liability (a loan) into another man’s asset (the security). These securities were given a triple A rating by the rating agencies. However, the latter were fully financed by the banks. The problem was that these financial derivatives consisted out of hundreds of thousand unidentifiable sources, whose credit worthiness and cash flow were unknown. It were mainly US banks that created these fraudulent derivatives and sold it to the rest of the world. Risk management in the financial sector evolved in such a way that many thought risks can be avoided totally, so creating a crisis free economy. When the bubble burst in September 2008 with the sudden bankruptcy of Lehman brothers, the belief in self regulating markets was shattered.

In the USA, the biggest banks, especially Goldman Sachs, delivered the people on the key posts in the administration. Corporate capture of the state was also enabled by the abolishment

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9 In 2007, the UK had a global share of 42.5 per cent of derivatives based on interest rates and currencies (the US 24 per cent). In the UK it were mainly US banks selling these derivatives.
of all kind of rules that sought to restrict this capture. Nowadays, politicians do not have to reveal anymore the sources of their financial support. It was through this corporate capture that the US governments under Bush and Obama bailed out the banks without asking anything in return. The financial deregulation that enabled the financial bubbles to emerge was not revoked. Late 2010, more than two years after the financial crisis started, preconditions for new bubbles are still there while the real economy is stagnating. Even the IMF says almost nothing has been done to avoid a next crisis (The Guardian, 7 October 2010). The big banks are doing business as usual and the level of bonuses is again on pre-crisis levels.

Across the political spectrum parties are advocating austerity and continue to support monetarist policies. The mood is more anti-Keynesianism than ever. This is not likely to last long because austerity policies have already proved to be a failure in those countries, like Hungary and Ireland, that started first to implement strict austerity policies.

The main argument for the bail out of the banks was that they were ‘too big to fail’. A series of bankruptcies of the largest banks would endanger the world economy. However, few discussed the price of the bailout. The assumption was also that modern economies need banks for efficient resource allocation.

However, most bank lending is not to enterprises. In the UK, 40 per cent of all bank lending is related to real estate (end 2007). Loans to the manufacturing sector declined from 7,9 per cent of the overall loan package during the mid 1990s to 1,6 per cent in 2007 (The Guardian, 4 August 2010). Now, in the UK, loans for business carry 5 to 6 per cent over basic interest rates.

An another misconception is that the stock market serves the real economy. Actually, few enterprises raise capital through the stock market and the stock market is an instrument of extraction rather than investment facilitating. Black argues that capital markets de-capitalize the real economy. ‘Corporate stock repurchases and grants of stock to officers have exceeded new capital raised by the US capital market this decade’ (Huffington Post, 13 October 2010).

Currently, the financial sector in most Western economies is parasitic on the real economy. In the present crisis rather than Keynes’s ‘euthanasia of the rentier’, we are now seeing the threatened euthanasia of almost everything else in society and nature (Foster, 2010). Huge amounts of freely available capital are now circling around the world in search for the most profitable investment (or gambling) opportunities.

Economic policies are reflecting the interests of financial capital, that means keeping inflation low at the cost of employment creation, pushing back the state and re-distribution policies that favors the rentier classes.

The lessons of Keynes have been forgotten. He taught that the government budget cannot be compared to the household budget. For example, cuts in public expenditures during a recession can lead to a rise in the budget deficit. Chick and Pettifor (2010) studied data from 1918 to 2008 and concluded “The empirical evidence runs exactly counter to conventional thinking. Fiscal consolidations have not improved the public finances . . . Consolidation increases, rather than reduces, the level of public debt as a share of GDP ....”

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10 Morgan Stanley got nearly 2 trillion dollar of extremely cheap loans from the Federal Reserve, Citigroup 1,8 trillion dollar, Merrill Lynch 1,5 trillion dollars, Bear Sterns nearly 1 trillion and Goldman Sachs 600 billion dollars, with no conditions attached (Huffington Post, 3 December 2010).

11 According to Kelly (2001, p. 34), ‘New equity sales were a negative source of funding in fifteen out of the twenty years from 1981 to 2000.’ ‘The net outflow since 1981 for new equity issues was negative $ 540 billion’. Kelly concludes that stockholders are not investors but extractors.
4. Financial wars

In the developed West financial capital is still the driving force in economic development. The financial sector has captured nowadays the state and a large chunk of manufacturing while imposing shareholder rule. In the 1930s industrial capital still had enough clout to lobby for a change in economic policies that would revitalize manufacturing. Also, there was in those times systemic competition and a strong labor movement, especially in Europe. Nowadays no strong counter forces are discernable. The present conjuncture can be compared with the year 1932, three years after the stock market crash, when still no major economic policy change occurred in the major Western countries.

Drastic cuts in government budgets are crippling the state apparatus while breaking down what is left of the welfare state. It is a disaster capitalism that earlier has been imposed on a range of developing countries.

Banks are using public money for pay increases. In the USA, printing huge amounts of money creates cheap money that is taken up by banks that largely invest it in areas with high returns. 87.5 per cent of the money that is created with Quantitative Easing (i.e. printing money) is leaked abroad. This means, for example, speculating with foreign currencies, especially those of emerging developing countries that have high interest rates, and investing in mergers and acquisitions in developing countries. It is a financial war against the rest of the world.

The value of the Brazilian real increased with 30 per cent from the start of 2009 till October 2010. The result of this revaluation was that the share of manufactures in exports declined from 55 per cent in 2005 to 40 per cent during the first half of 2010 (Al Jazeera, 29 October 2010).

Of course, Brazil has introduced measures to curb the inflow of hot money. Other countries followed suit.

5. Food crises

An event that almost coincided, not accidentally, with the beginning of the Great Financial Crisis, was the food crisis that led to numerous food riots in developing countries (see table 1).

World Bank and IMF guided developing countries since the introduction of the Washington Consensus in pushing back the state, opening up the economy for foreign investment but also neglecting and dismantling traditional agricultural systems in favor of large scale agriculture oriented towards exports. The assumption was that countries could safely rely on low food prices on the world market. In 2008, during the surge of global food prices, it appeared that many developing countries had become more dependent on food imports and were not able anymore to satisfy food demand.

Food riots spread over the world. For example, in Egypt there appeared a scarcity of bread and other basic food products and many were on the verge of starvation. Suddenly many started to realize that it is small scale agriculture that is feeding most of the developing world. Buffer stocks that aimed at stabilizing prices, had been abolished, urged by the IMF and World Bank. In 2008 food stocks were on historically very low levels. When prices soared, most news media blamed this on the expansion of biofuel crops at the expense of traditional crops and higher prices of agricultural inputs. However, later it became increasingly clear that speculation played a decisive role. For example, in 2009 Goldman Sachs won 600 billion $ with speculation on food markets (The Independent, 1 April 2012). In 2010 food prices started again to sour. Investments in food commodities by banks and hedge funds had risen during 2006–2011 from $ 65 billion to $ 126 billion. High prices for basic foodstuffs combined with the global economic slump have pushed
115 million more people into hunger and poverty since 2008, bringing the total of hungry people in the world to 925 million (early 2012) (The Independent, 1 April 2012).

Increased production of biofuels, global warming, increasing water scarcity, degradation of soils, desertification and higher prices of inputs (related, among others, to higher oil prices) will probably lead to structurally higher food prices (see Nomura, 2010). On top of this is the problem of oligopolies of agribusinesses that are increasingly controlling inputs and outputs of farms.

The enormous amount of money that is circling around the world in search of the most profitable investments turned away from the stock market and the housing market. It turned towards currencies, commodities markets and agricultural land, especially in the developing world. A well known case was that of Armajaro, a London based hedge fund, that purchased in 2010 around 250,000 tons of cocoa, worth 650 million pounds and amounting to 25 per cent of the total cocoa’s stock available in Western Europe. It drove up prices to its highest level in 32 years.

Partly as a result of the food crisis of 2008 many countries began to put food security high on the political agenda. Countries like China, South Korea and Saudi Arabia started to buy up land, on the cheap, in developing countries, especially Africa. Investment funds from the West joined in this new bonanza (see Cotula et al, 2009).

Two cases, that may point to future developments, spring out.

The first is Ethiopia where the government let many millions of hectares of land to foreign corporations. The state owns all the land and there are no legal obstacles to do with the land whatever the government decided. An Indian company was charged a rent of 10 dollar per hectare per year while the first 6 years nothing has to be paid. The population that used to farm and live on this land was chased away. But 30 million Ethiopians had been dependent, over the past few years, on food aid. More than other countries Ethiopia was hit by rising food prices on world markets.13

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12 According to Nomura (2010) the countries most at risk of rising food prices are Bangla Desh, Morocco, Algeria, Nigeria, Lebanon, Egypt and Sri Lanka.

13 Oromia, in Ethiopia, is one of the centers of the African land rush. India had acquired 1m hectares, Djibouti 10,000 hectares and Saudi Arabia 100,000 hectares..."This is the new, 21st-century colonization. The Saudis are enjoying the rice harvest, while the Oromos are dying from man-made famine as we speak," Mr Hirpa, president of the Oromia studies association, said (The Guardian, 7 March 2010).
Another example is Madagascar where the former president decided to lease, for 99 years, half of the arable land to the Korean company Daewoo. The population went to the streets and dozens died. Subsequently the army joined the protesters, sacked the president and annulled the contract with Daewoo (2009).

An Observer investigation (7 March 2010) found that rich countries now farm an area the size of the UK to guarantee supplies for their citizens. It should be emphasized that this land grab only started very recently and is gaining ground quickly.

Above account shows how turbulence in financial markets affects livelihoods in the developing world. Speculative capital from the developed world, together with sovereign wealth funds, predates in novel ways on the economy of poor countries.

In the 19th century wars have been fought in order to seize territory and resources. The first era of globalization (1880–1914) ended with a devastating world war. Nowadays, financial wars are launched with the same aim, but with the help of money and in a legal way. It looks like a monopoly game between corrupt elites and wealthy investment funds over the heads of the people involved. The balance of power in either Europe or Asia is not challenged and therefore no world war may be expected. However, flash points are in Central Asia, especially around nuclear power and failed state Pakistan and Afghanistan, the Middle East and Africa.

6. The end of US hegemony

The USA is weakening due to a long term neglect of infrastructure and education. The USA has become a super power on clay feet. The American Society for Civil Engineers estimates that it will cost the USA a $ 2.2 trillion repair bill to get the country’s infrastructure in good shape (The Independent, 17 October 2010).

Many Americans are pushed into poverty that undermines the legitimacy of the US government. Real unemployment, that includes part time workers that are not earning enough and want full time jobs and that includes the non-registered unemployed that want to work, hovers in 2010 around 17 per cent. 24 per cent of Americans have reported difficulties paying their rent or mortgage. This is happening during a massive wave of forced and often fraudulent foreclosures.

Financialization of the economy heightened the disparities in wealth. From 1980 to 2005, more than 80 per cent of the total increase in American incomes went to the richest 1 per cent (New York Times, 6 November 2010). CEO’s of the largest American corporations earned in 1980 on average 42 times as much as the average worker but 531 times as much in 2001 (Ibidem). In 2009, the net worth of the 400 richest Americans climbed 8 per cent to $ 1.37 trillion. That is more than the US government deficit in 2010 ($ 1.34 trillion) and more than the GDP of India ($ 1.235 trillion, 2009). As income and wealth has moved to the top, so has political power.

Financialization also meant neglect for the industrial base. Industrial employment as a share of total employment diminished from 20.7 per cent in 1980 to 9.0 per cent in 2010.

It seems that the American empire is overextended, military and economically. The wars in Iraq and Afghanistan (recently expanded to include Pakistan) proved to be failures. The US has spent just on the war in Iraq more than 1 trillion dollar, not counting the 700 billion dollar that each year goes to the Pentagon. This pushes up the public debt that increased from 32.5 per cent of GDP in 1981, to 57.3 per cent in 2000 and to 99 per cent in 2009 (Der Spiegel, Nr 44, 2010).
Now unilateral policies are pursued without taking into account consequences for and interests of the rest of the world.\footnote{The US decided to a policy of Quantitative Easing in November 2010 despite the agreement of the G-20 to focus on austerity.} This accelerates the decline of the USA although for many years to come the USA will remain the only superpower.

Another phenomenon undermining US hegemony is the radicalization in US politics and the absence of cohesion within the power elite. Bipartisan policies have been abolished by the Republican Party which undermines whatever the Democrats in power do. It also creates hatred against government among the population, notably through the Tea Party, undermining the cohesion of US power internally and abroad. At the same time both the Republican and Democratic party agree not to endanger the privileges of the financial elite. As Charles Ferguson observes ‘People who should be aligned in calling for fairer taxes, campaign finance reform, stricter financial regulation, better public education, and investment in America’s infrastructure, are instead divided by their opposing views on gun control, abortion, and gay marriage. It is a strategy that has worked remarkably well for both parties’\cite{15}(Huffington Post, 12 November 2010).

This all means that we are heading for a longer period of uncertainty with respect to the usage of US power that contributes in turn to global instability.

7. The EU is falling apart

The fundamental weakness of the euro is that there is one currency with diverging socio-economic systems. During 2000–2010, unit labor costs, that is the best indicator to measure competitiveness, rose by 30 per cent in Greece but only by 5 per cent in Germany. It means that a comparable good or service that has been produced at the same costs in 2000, is now 25 per cent more expensive in Greece compared to Germany. The result is, among others, a growing trade surplus in Germany and a growing trade deficit in Greece.\footnote{Accumulated current account deficits of the PIGSI countries were 336 billion dollars in 2008 and 216 billion dollars in 2009 (OECD).} Similar problems emerged for Italy, Spain and Portugal compared to Germany.

Since the Greek crisis erupted, the imbalances between competitive Northern and non competitive Southern euro-states even became greater. And governments continue to insist that it is government finances that is the problem, not above mentioned structural imbalances. The financial stability fund that the EU created in May 2010 mainly served the interests of banks who were desperate to avoid the implications of their risky lending. But the black hole that the banks created has become bigger and bigger. Late 2010 it appeared that foreign banks lend altogether about 560 billion euro to Irish banks (The Guardian, 22 November 2010). Ireland, with 4,5 million inhabitants, was bailed out with an amount of 85 billion euro. A bail out of Spain would cost about 420 billion euro. The problem is that the financial markets that caused the crisis are pushing government bonds for indebted countries so high that these countries need to be bailed out. This is an utterly bizarre and self-destructive path dependency.

So far, only a EU fiscal pact has been agreed among EU governments that does not even foresee harmonization of tax policies, let alone economic and political union that is deemed necessary by many EU leaders for a single currency to function. Therefore a falling apart of the euro area is still on the agenda. Soon after Greek restructured its debt and got a second bail out package, the IMF and the Greek Prime Minister were saying that the need for a third bail out is likely. Also, the likelihood that Spain, Portugal and Ireland may need a second bail out is growing.
Because austerity policies will not bring any tangible result for the population at large, but only hardships, this will translate into forms of state led development models that will break with EU mainstream, in a similar way as happened with Latin American countries like Argentina, Brazil and Bolivia.\footnote{It is remarkable that still up to May 2010 the Commission of the EU was urging Germany to stimulate demand in Germany in order to smoothen structural imbalances within the Euro area. Since then (the moment EU leaders agreed on a financial package of 750 billion euro), austerity became the new orthodoxy, even for countries with sound government finances, like Germany and The Netherlands.}

Spain, Ireland, Hungary and Latvia had sound government finances and deregulation of financial services. Hungary and Latvia already started several years ago with fierce austerity policies. But with unexpected results. Hungary has known already more than 4 years of austerity but the economy is still not growing (GDP declined in 2009 with 6.3 per cent). Interest rates ranged from 8 to 11.5 per cent, discouraging entrepreneurs from borrowing (The Guardian, 9 August 2010). Ireland, saw its government debt ratio to GDP rising from 25 per cent before the crisis to 64 per cent by end 2009 and 98.6 per cent in November 2010 (Central Bank of Ireland). Irish GDP shrunk during 2007–10 with 17 per cent. Budget cuts have impaired the Irish economy’s ability to grow.

In the PIGS countries and a range of Central European EU countries, the economic crisis is deepening with deep cuts in public services. In Central Europe cuts of 25 per cent in civil servant salaries are common. This and mass unemployment will contribute to increased migratory movements within the Schengen area, so undermining the Schengen arrangement.\footnote{Unemployment ratios (September 2010) were in Spain 20.8 per cent, Ireland 14.1 per cent, Slovakia 14.7 per cent, in June 2010 in Estonia 18.6 per cent, in Latvia 19.4 per cent, in Lithuania 18.2 per cent and in Greece 12.2 per cent (Eurostat).}

Thus, the EU is faced with a multiple systemic crisis: a crisis of the financial system, one of the Euro and one of EU institutions (among others, paralysis in decision making).

8. Environmental disasters, deregulation and the need for international cooperation

The following decades the major challenge for mankind is human induced environmental change. How is this connected to the above analyzed transformation in global capitalism? It seems that economic and ecological challenges are of a totally other nature and involve other timescales. However, there are inter-linkages.

For example, the deregulation that took place during several decades of neo-liberalism led to an irresponsible dealing with environmental challenges. Ecological disasters that are directly related to mismanagement are accumulating the past few years. The oil spill in the Gulf of Mexico and the massive damage caused by forest fires around Moscow were directly related to ignoring environmental risks due to de-regulation.

Changes in the natural environment and their perception are not always gradual. A decade ago many did not believe in man induced climate change while nowadays very few would deny it, due to new scientific evidence but also related to increasingly unusual weather patterns across the globe.

Below a few examples of major environmental challenges that have become known only very recently:

— Since 1950 the oceans have seen a 40 per cent decline in phytoplankton, the base of the food chain (Scientific American, 29 July 2010). Over the past decades 40 per cent of fish...
stocks have already collapsed, meaning that they yield less than 10 per cent of their former potential. 90 per cent of the ocean’s large fish has disappeared (EU Observer, 6 November 2010). Fishing capacity is now, according to a UN report, 50 to 60 per cent higher than it should be (AFP, 17 May 2010).

— According to leading US climatologist James Hansen we soon can expect three major tipping points related to climate change.\(^{18}\) Firstly the ice sheet disintegration in Antarctica and Greenland, leading to a massive global sea level rise, secondly, the sudden melting of frozen methane in the tundra’s\(^{19}\) and, thirdly, a sudden acceleration in species extinction rate as climate zones begin to move much faster than species can move in response. According to Hansen, the future of the planet will be in many ways determined by what we do in ‘the next several years’. This is not a problem to be left to the next generation since we ‘could create a situation out of the control of young people by the time they become adults’ (quoted in Monthly Review, December 2010).

— Two studies found that the disastrous decline in bee population in developed countries (over 50 per cent in the UK and USA over the last 25 years) are most probably cause by new nerve-agent pesticides (The Independent, 30 March 2012). In the USA and the UK these pesticides are still used, but forbidden in Germany, Italy and France.

The threat of ecological catastrophes will support the demand for more and better regulation of economic activities.

9. Environmental challenges, peak oil and resource wars

Most of the world’s energy experts agree that the era of low-cost, easy-to-get oil has come to an end. In 2010 reports from government and military agencies in the USA, UK and Germany all point to shrinking oil and gas supplies as a reality with potentially drastic consequences (figure 2). A recent report written for the US Council of Foreign Relations states that ‘The most significant difference now and a decade ago is the extraordinary rapid erosion of spare capacities at critical segments of the energy chains. Today, shortfalls appear to be endemic. Among the most extraordinary of these losses of spare capacities is in the oil area’ (Strategic Energy Policy, 2010) Dick Cheney said in a speech to the Institute of Petroleum (1999): ‘So, where is this oil going to come from? The Middle East is where the price ultimately lies’.

Conflicts over energy will also affect other regions, among others the arctic.

Another scare resource is water: ‘Population growth, urban development, farm production, and climate change is increasing competition for fresh water and producing shortages so acute that virtually every industry in the world anticipates sweeping systemic transformation over the next decade in their strategic planning, production practices, and business models.’ That is the conclusion of a global opinion poll of more than 1,200 sustainability experts (see waternews, 16 March 2010).

Mismanagement already led in some countries to a drastic decline in crops and arable surface. Many countries have conflicts over water use with neighboring countries, notably countries sharing river water.

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\(^{18}\) See his BluePlanet lecture, 27 October 2010, at http://www.columbia.edu/~jeh1/

\(^{19}\) According to Terranature (15 September 2010): ‘A frozen peat bog covering the entire sub-Arctic area of Western Siberia, the size of France and Germany, contains billions of tons of greenhouse gas that is melting for the first time since it was sequestered more than 11,000 years ago before the end of the last ice age’. It started melting about 2002–3 and could release billions of tons of methane, a greenhouse gas 20 times more potent than carbon dioxide, in the atmosphere.
Scarce resources can be used as a weapon. An example is rare earths that serve as a vital component in everything from lasers, optical fibers and petroleum refining, to automotive parts, computer monitors and televisions. China has about 40 to 50 per cent of global reserves of rare earths but has nowadays a quasi monopoly on its production, related to a carefully implemented strategy of buying up and eliminating foreign competitors. During 2003–2009 China diminished exports of rare earths by 40 per cent and announced the curtailment of exports by 70 per cent during the second half of 2010 (Le Monde Diplomatique, November 2010). As a result prices soared.

Generally commodity prices are rising, also related to financial turbulence. Price trends for all commodities show, on average, a price decline of 5.2 per cent annually during 1980–1989, a decline of 0.4 per cent during 1990–99, but an increase of on average 7.5 per cent during 2000–09 (Unctadstat).

Especially the regions with weak governance will be faced with resource conflicts. The Middle East and Africa might constitute macro-regions of deepening instability.

10. Conclusion

Those parts of the world that have been faced with IMF induced financial crises are now resorting to strategies that ignore IMF advise. In Latin America a range of countries are pursuing state led development strategies. US influence in Latin America, the traditional backyard of the USA, is waning and economic and political relations with China and the EU are strengthened. All major Latin American countries have joined UNASUR that excludes the USA. Banks in Latin
America and Asia survived the Great Financial Crisis better than their counterparts in North America and Europe. Also in East Asia state led development strategies are re-emerging after an interlude of neoliberal policies that led to the Asian financial crisis. China, Japan and South Korea have established a reserve fund of 120 billion dollar (Chiang-Mai initiative). Unlike in 1997, the US did not attempt to block this potential alternative to the IMF. The Shanghai cooperation agreement, in which major Asian powers, also Russia, cooperate and in which the USA is excluded, is becoming gradually more substantial. China signed with a number of countries agreements, even with US ally Turkey, to use currency swaps in order to avoid the dollar in bilateral trade.

Within the Western world, predatory policies of financial capital will ultimately strengthen those forces that will protect society, leading to the emergence of new forms of state-society led development models.

The Great Financial Crisis that has hit the heart of global capitalism is changing geopolitics, accelerating the decline of the US and the EU and promoting the surge of East Asia to the forefront of global politics. Especially Western states seek to advance their interests through financial means. Food provision in the developing world is threatened by speculation, through massive land acquisitions by foreign corporations and increasing water scarcity. Western policies involuntary strengthen those forces in the developing world that want to further regional cooperation at the expense of the institutions of global economic governance. Currency wars intensify this process, leading to the weakening of the dollar as a global currency.

Conflicts over access to increasingly scarce resources, especially energy and water, will above all affect the least developed regions in the world.

One major force that might unite otherwise opposing sides is the huge environmental catastrophes that are threatening humankind.

Literature
Part III:

Long Duration—Turning Points
—Historical Interpretation
ANNA ZORSKA

ACTIVITY OF TRANSNATIONAL CORPORATIONS AS A DRIVER OF CHANGES IN THE WORLD ECONOMY

Introduction

Since the XVIII century internationalized companies—called at present multinational enterprises or transnational corporations (TNCs)—have remained at the forefront of changes in the world economy. Once developed by taking advantage of favorable technological and economic conditions in the Western industrializing countries, TNCs have emerged as entities exerting influence in economic, social and political spheres in many host countries. Under the processes of globalization in XIX and XX century TNCs’ economic activity, foreign expansion and various impacts have increased considerably. With a transition of business to the knowledge-based economy in the XXI century, corporations have intensified research and development, expansion of information and business networks and application of innovations. More and more firms expand abroad and compete on the global market, and the newcomers quite often originate from developing and transition countries, mainly from China.

Due to considerable contributions of the contemporary TNCs to the world’s GDP, exchange of goods and production factors, R+D expenditures etc., changes in TNCs’ activity influence many macroeconomic processes and finally—evolution of the world economy. Not as events but rather as components of new trends which undermine the existing structures and introduce new qualities. Among strands in TNCs’ activity, the recent changes in FDI outflows (value, growth rates and patterns) and in the composition of TNCs’ group—the largest and globalized enterprises—is of particular importance. It is because of the fact that these changes to some extent reflect evolving and new processes underway not only in TNCs’ but in home and host countries, and in the world economy as well. More particularly as some problems have emerged in the last decade at the result of business fluctuations in many countries.

The research aims to quantify and identify changes in FDI outflows and composition of TNCs’ group undergoing in long runs and the last years. The attention is drawn to changing shares of TNCs and their FDI outflows from two groups of countries, i. e. developed and developing ones (and within the groups). Finally, an attempt is made for interpreting the changes within a concept of turning points in the world economy.
1. Evolution of conditions and rise of TNCs —a historical perspective

Looking back to the past centuries one can see three forces that shaped engagement of private entities—merchants, companies, banks—in their business outside a local economy. The three forces included: technological progress, market challenges and political power (of emperors or states). The early industrial revolution in the XVIII century dramatically changed the capabilities (in production and transports) and incentives of companies (new market opportunities) to engage in foreign trade and colonizing activities (hand in hand with states).¹ A factory manufacturing system was introduced in production of goods (e.g. textiles) and it was facilitated by supplies of raw materials and fuels shipped from distant countries and by access of manufacturers and their products to foreign sales markets. Under the increased living standards of people and their demand for manufactured products, one could record a remarkable growth of companies (their assets, sales, exports of goods and capital) as well as improved organization, management, business linkages and market institutions in the leading industrial countries—Great Britain, Germany and France. Companies expanding on foreign markets as exporters and investors—originating mainly from the three countries—became forerunners of developing capitalist, economic system.

The last quarter of XIX century brought about a significant technological progress in several domains or industries: steel processing, engineering of machinery, means of transport and communication equipment, generation of electrical power. Taking advantage of new technologies and economic growth, the most competitive companies could spur industrial production and penetrate new foreign markets at high rates. Not only rapidly increasing international flows of goods and services but also migration of labor and capital in the FDI form could be used to build up economic power of the companies successful on foreign markets—the emerging TNCs.² They benefited from a large scale production and sales (exports included), expanding organizations in horizontally and vertically integrated structures, wider access to banking capital, improving management and coordination of international business in many countries. Many of them have become predecessors of the contemporary corporations. The modern TNCs have become one of key institutions in the capitalist economy—and the market in particular—and crucial changes in their activity do affect the entire economy.

Rapid growth of the capitalist economy proceeded hand in hand with foreign expansion of large companies taking place on the worldwide arena what made a foundation of the emerging globalization process (at its first stage). In this process, the TNCs’ foreign expansion (exports and FDI flows) was a key component and true driver of internationalizing economic activity. The global economic linkages were accompanied by spreading Western social and political values, and resulted in strengthening the modern (Western) civilization as opposed to the traditional one (of nations in Asia, Latin America and Africa). The Western civilization expanded at all continents for almost the next one hundred years.

The stage of rapidly developing capitalist economy and its globalization was driven by the TNCs’ global expansion conducted with more and more FDI outflows.³ Early data on FDI expansion by TNCs are available for 1914 and they clearly indicate the hegemony of European companies which achieved as much as 81.4% of the total value of FDI outward stock in the

³ As there is no reliable information on numbers and origin of TNCs on the threshold of XX century, data on their activity as foreign direct investors are commonly used.
world. The European companies—mostly the Western European ones—were much inclined to invest abroad due to rather small size of home markets, well-developed and competitive industries, and strong center-periphery relations on other continents. The leading home country of foreign direct investors was Great Britain with a share amounting to as much as 44.6% of the cumulated outward FDI, followed by France (12.0%), Germany (10.3%) and the Netherlands (9.6%). American corporations accounted for 18.6% of the world’s total FDI outward stock in 1914. The US domestic market was large enough and full of investment opportunities not only for local companies but also for foreign ones, attracted mainly from Europe. Relatively small investments (FDI) were placed abroad by Japanese and Canadian firms. Up to the second world war no FDI outflows and outward stocks were registered from so-called developing countries.

The first world war and the Great Depression interrupted the FDI expansion and TNCs’ growth in the world economy. However, the economic crisis and sharp competition in the 1930s forced—those firms which had survived—to improve their technologies and production capabilities, strategies, organization, management and to enter accessible foreign markets. American corporations were the most successful ones in the post-crisis recovery on the domestic as well as foreign markets. Moreover, for many of them military supplies for the US army made a new opportunity to upgrade technology, boost production and sales.

The end of second world war, the post-war reconstruction as well as de-colonization and development efforts of the Third World countries created new conditions for growth and expansion on the international market by TNCs, especially the American ones. And they took advantage of the emerging opportunities to boost their growth and foreign expansion, mainly by means of FDI. Setting up basis for the predominance of American TNCs in the world economy over the next decades has been initiated.

Commonly used definitions of TNCs have been worked out by the United Nations for using a precise term in the UN documents. At first TNCs were conceptualized as enterprises which own equity and control activity of factories, mines, sales branches or other entities at least in two countries. Later on it was concluded that ownership of equity and control of entities’ activity needed placing FDI which were used by investors to buy or set up the entities, i. e. foreign affiliates (or subsidiaries) or joint ventures (or mixed companies). A more precise and currently used definition states the following: “Transnational corporations (TNCs) are incorporated or unincorporated enterprises comprising parent enterprises and their foreign affiliates. A parent enterprise is defined as enterprise that controls assets of other entities in countries other than its home country, usually by owning a certain capital equity stake.” To own or control a foreign affiliate, an enterprise must use FDI for executing an acquisition of an existing company or a green-field project (establishing a new capability), or providing some entity with certain loans. As stated: “Foreign direct investment (FDI) is defined as an investment involving a long-term relationship and reflecting a lasting interest and control by a resident entity in one economy (in a home country—AZ) in an enterprise resident in another economy (host country—AZ).”

5 J. H. Dunning, Multinational Enterprises and the Global Economy, op. cit., p. 117, tab. 5.1. It should be added that in 1914 the total value of FDI outward stock in the world amounted to 14,582 million of US dollars.
6 Publications on international business and management quote also other definitions of TNCs which relate e. g. to TNCs’ ability to organize, integrate and coordinate cross-border activity or to TNCs’ globalized value-added chains, or TNCs’ functioning as a “repository of knowledge”. However, all definitions directly or indirectly include FDI as a prerequisite for TNCs’ activity in the international environment. More on that issue see in: A. Zorska, Korporacje transnarodowe. Przemiany, oddzia³ywania, wyzwania, op. cit., p. 122–126.
7 World Investment Report 2006, FDI from Developing and Transition Economies: Implications for Development, UN—UNCTAD, New York—Geneva 2006, p. 293. It should be added that equity stake of 10% or more is considered as a threshold for control of assets.
FDI implies that the investor exerts a significant degree of influence on the management of the enterprise resident in an economy other than that of the foreign investor.\textsuperscript{8} There are distinguished yearly flows of FDI into a host country, i.e., FDI inflows as well as flows out of a home country, i.e., FDI outflows. Due to a cumulative nature of the flows, FDI inward stocks and FDI outward stocks are distinguished and calculated in international statistics.\textsuperscript{9} As forms of entering foreign markets, not only FDI but also exports and cooperation agreements (e.g., strategic alliances) are used by TNCs, depending on a set of internal and external conditions. Form many reasons FDI remains very important for activity of corporations in host countries, in particular as a basis for expanding TNCs' network structures, value-adding operations and various strategies. For host countries, FDI inflow means much more than transfer of capital only. Flows of FDI mean transfer of so-called “investment package” which includes capital, technology, high skills, brands, effective methods of management and organization, access to corporate networks etc. The “FDI package” can be useful for a host economy, although not only benefits arise.

2. Growth, FDI expansion and composition of TNCs under the re-activating XX century globalization

The post-war reconstruction and development in many countries were accompanied by multilateral liberalization of international trade on the GATT forum, activation of regional integration groupings and growth of the world economy, despite the political divide of countries into West and East (or capitalist and communist blocks).

Having benefited from the leading economic and political position of the USA among the Western countries, American TNCs expanded vigorously both in home and host countries. The share of USA in the total value of FDI outward stock increased to as much as 48,3% in 1960. It was the best result reached by American corporations and this happened mostly at an expense of TNCs from other developed countries (excluding the Netherlands). The share of British companies in the world’s FDI outward stock dropped to 16,3% in 1960, the share of German firms to 1,2% and the French ones to 6,2%.\textsuperscript{10} For the first time firms from developing countries appeared as foreign direct investors and their share amounted to 1,1% in 1960.\textsuperscript{11}

In 20 years after the end of second world war, in economic and political conditions on the world arena paved by the Western Governments, American TNCs became the leading group of foreign investors and the strongest “players” on the international market. In many countries they have also started to promote market-oriented business, free-market institutions, Western-type moral values as well as so-called American model of consumption. For many non-Triad (i.e., developing) countries it meant gradual challenging own established values, existing economic structures, organizational modes and life-styles, and consequently—a host of moral and social disruptions. The growing social and institutional dysfunctions heralded a new stage of the globalization process which was reactivated at the end of 1970s.

Uncertain economic trends in the 1970s and 1980s resulted in a change of FDI patterns which indicated enhanced position of countries called the Triad. Three groups of developed countries—in North America, Western Europe and Japan—have formed the Triad, a core of the reactivating

\textsuperscript{8} Ibidem.
\textsuperscript{9} World Investment Reports published yearly by UN—UNCTAD and quoted in this chapter are the most useful.
\textsuperscript{10} J. H. Dunning, Multinational Enterprises and the Global Economy, op. cit., p. 117, tab. 5.1. It should be noticed that in 1960 the total value of world’s FDI outward stock amounted to 66,1 billion of US dollars.
\textsuperscript{11} In statistics, the group of developing countries included then and includes now more developed Asian countries: Korea Rep., Singapore, Taiwan and Hong Kong (the first two being members of OECD at present).
globalization process. The share of Triad countries in the total FDI outward stock reached 96.3% in 1990, while the share of developing countries amounted to 3.7%. These shares can be accepted as a basis for comparing changes in TNCs’ investment (FDI) positions over the next 10—20 years of developments in the world economy. Over that period there emerged rather favorable economic and political conditions for the TNCs’ activity in the contemporary globalization process. The TNCs’ foreign expansion is regarded one of key drivers of the process. At the same time the globalization process opened many opportunities for TNCs’ growth. To take advantage of them TNCs introduced cross-border value chains, organization and strategies, and various modes of foreign expansion. The changes have resulted in a prominent position and large shares of TNCs in the world’s GDP, international exchange of goods and production factors, research activity and impacts on host countries.

The process of economic globalization consists in the cross-border integration of economic activity (at all its levels) led by TNCs and other entities by means of intensified worldwide linkages based on foreign trade, international cooperation and FDI flows. Also worldwide flows of information and knowledge, and intensive communication of people have contributed much to the economic integration. Since the beginning of 1990s the process of global integration has expanded due to the systemic transformation of centrally-planned economies of several European countries, headed by Poland and few Asian countries, first of all China. The transition to market-led economy has opened up the countries to liberalized exchange of goods and production factors with developed market economies, TNCs’ foreign expansion, multilateral international co-operation, regional economic integration (e.g. with the EU), and for new political and military alliances. For several years the external economic relations of emerging-market economies remained rather underdeveloped and asymmetric. However, in some countries the situation has changed at the result of successful policies transforming the economies.

Economic and political processes in the 1990s were favorable for the advance of globalization. In the economic sphere particular countries, industries and enterprises have become more and more integrated by the activity of TNCs and FDI flows, and therefore a special significance is attributed to their high-rate growth. In the years 1991–1995 and 1996–2000 growth rates of FDI outflows reached on the average as much as 17.1% and 36.5%. Under the same periods world’s exports of goods and non-factor services increased by 8.7% and 3.6% respectively. The total FDI outward stock cumulated in the world amounted to 6.148 billion US dollars in 2000. Some information on values and country patterns of world’s FDI outward stocks is presented in table 1 (see the next page).

Not only the value of the FDI outward stock changed considerably over the 1990s, but also its country pattern. The share of developed countries decreased from 96.3% to 85.6% in 1990–2000. Within the Triad countries the EU investors increased their share from 46.7% to 50.0% (owing to the regional integration process), while the FDI share of American corporations dropped from

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12 Source and more data are presented in table 1, see the next section.
15 The available period and reliable data on FDI expansion by TNCs include the year 2000 (not 1999), so it is a little more than the end of XX century. Anyway it does not change much the expressed author’s opinion on trends in the TNCs activity.
16 Sales of goods and services by foreign affiliates of TNCs grew by well over 8% in the 1990s. To some extent it was a substitute to exports of TNCs supplied from their home countries to serve foreign markets. The value of sales by the affiliates in host countries more than twice exceeded the world’s exports. The value of exports of goods by corporate affiliates amounted to 50.7% of the world’s export value in 2000. Own calculations based on World Investment Reports’ data quoted by A. Zorska, Korporacje transnarodowe ... , op. cit., p. 34, tab. 1.2.
17 World Investment Report 2006. ... , op. cit, p. 9, tab., I.2.
25.3% to 21.4%. The FDI share of Japanese firms (suffering crisis in the home country) curtailed much from 11.8% to 4.5% in 1990–2000. Over the same period the share of developing countries and their firms in total FDI outward stock increased from 4.7% to 14.0%. Among developing countries the shares of African and Latin American ones recorded small drops, while the Asian share boosted from 3.8% to 9.5% in 1990–2000. As a matter of fact it was the advantage of five countries: China, Hong Kong, Singapore, Taiwan and Korea Rep. On the threshold of XXI century their TNCs demonstrated a visible presence and increased competitiveness on the global market.

### Table 1.

**Shares of countries in the world’s FDI outward stocks and change of shares in 1990–2009**

<table>
<thead>
<tr>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>DEVELOPED COUNTRIES</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>European Union</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• France</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Germany</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Netherlands</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• United Kingdom</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>United States</td>
<td>25.3</td>
<td>21.4</td>
<td>17.9</td>
<td>21.2</td>
<td>+4.1</td>
</tr>
<tr>
<td>Japan</td>
<td>11.8</td>
<td>4.5</td>
<td>3.5</td>
<td>3.9</td>
<td>+7.9</td>
</tr>
<tr>
<td><strong>DEVELOPING AND TRANSITION COUNTRIES</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>BRIC countries</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Brazil</td>
<td>1.0</td>
<td>6.8</td>
<td>11.8</td>
<td>8.1</td>
<td>+7.1</td>
</tr>
<tr>
<td>• Russia</td>
<td>0.0</td>
<td>0.02</td>
<td>0.8</td>
<td>0.8</td>
<td>+0.8</td>
</tr>
<tr>
<td>• India</td>
<td>0.0</td>
<td>0.01</td>
<td>1.6</td>
<td>1.3</td>
<td>+1.3</td>
</tr>
<tr>
<td>• China and Hong Kong</td>
<td>0.8</td>
<td>6.8</td>
<td>9.2</td>
<td>5.6</td>
<td>+4.8</td>
</tr>
<tr>
<td><strong>WORLD</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total value of FDI inward stock, billion of US dollars</td>
<td>1,785</td>
<td>6,148</td>
<td>15,602</td>
<td>18,982</td>
<td>8.7 times</td>
</tr>
</tbody>
</table>


At the end of 1990s there were registered 63.312 parent TNCs in the world. Out of this number as much as 79.0% of corporations were based in the developed countries, with 61.2% in Western Europe, 6.4% in Japan and 5.4% in the USA. Less numerous American corporations owned much more foreign assets, as far as their share in the FDI outward stock was much larger (over 20%). In 1998–1999 developing countries accounted for 21.0% (12,588 corporations) of the total TNCs’ population. There were 1.710 TNCs from BRIC countries what made 2.7% of the population.

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19 Ibidem.
21 The number of TNCs from developing countries in the UN statistics equaled 20,586 firms, including 7,460 corporations from Korea Rep. and several hundreds from Taiwan and Singapore. It raises some methodological remarks over the quoted data.
total number of corporations. In China and Hong Kong there were seated 1.198 TNCs, making 1.9% of all TNCs at the end of 1990s.

At the result of their expansion in home and host countries, TNCs have developed as powerful entities in the world economy. Although research on this issue is not done yearly, it is possible to quote some data which illustrate contribution of TNCs to various domains of world's economic activity. It was estimated that at the beginning of XXI century TNCs (and their subsidiaries) generated at least 27% of world's GDP and the value-added created by the largest corporations exceeded GDPs of many middle-sized countries. The TNCs' share in world exports was estimated at 80% which is half by half made of their intra-firm trade and export sales to independent firms. FDI and technology flows are one of crucial domains of TNCs' foreign expansion, with shares amounting to 80% of the total value of transactions. The R+D expenditures are borne by Governments and enterprises, and TNCs' share in the latter group accounted for almost 70%. In many cases TNCs' research budgets exceeded states' budgets but still corporations must acquire innovations from local firms and research centers in host countries. The TNCs' competitive advantages need to be constantly upgraded.

Although the TNCs' activity is a crucial part of the world economy, corporations are not safe from unfavorable trends and challenges emerging on the global market. In the recent several years there have emerged many threats for the established TNCs from developed countries both from volatile technological and economic trends, and from hyper-competitive “new global challengers”, i.e. firms from developing and transition countries, China and Hong Kong in particular.

3. New technological conditions and changes in the TNCs’ activity at the beginning of XXI century

In the XX century globalization one of its driving factors—the technological progress—gained momentum. New technological advances in microelectronics, biotechnology, synthetic materials, etc. became strong competitive assets of firms on the global market. Moreover, international transfer and use of technologies by TNCs developed globally and contributed to building up technological capabilities in countries outside the Triad.

On the eve of XXI century a bundle of information and communication technologies (ICTs)—and the Internet in particular—have become very useful for collecting and transmitting information on trends prevailing on the global market. New opportunities for commercialization of information stimulated creating many new companies (so-called dotcoms) and the entirely new information sector has developed, at first in the USA and next in other developed countries. Due to particular advantages of ICTs, their diffusion started to spread at very high rates also in so-called traditional firms and industries which existed before the information revolution. ICTs could be applied effectively and change business models of firms in all industries as well as enabled their users to generate industry-specific, own innovations in every value-adding activity. Soon ICTs—as truly breakthrough innovations—initiated pervasive changes in other spheres of human activity. The world economy and society has entered the age of information revolution. Consequently, the entire civilization has been adapting to new technological and economic conditions.

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22 For more detailed and commented data on TNCs’ position in the world economy see: A. Zorska, Korporacje transnarodowe. Przemiany, oddziaływanie, wyzwania, op. cit., p. 106–117.
Both processes of globalization and informatization have triggered crucial changes in every domain of TNCs’ activity. The key changes have been introduced in TNCs’ products, value-added chains, organization, strategies, operations and foreign expansion. They have been transformed to some extent for adjusting to new technological and economic conditions, and mostly for taking advantage of them. Among the adjustments the most important are: strong focus on core competencies and competitive strategies; development of knowledge, technologies and innovations; customization of products; evolving production patterns from manufacturing to modern services; fragmentation and globalization of value-adding functions; outsourcing and offshoring, growth of business networks and cooperation across in all functions; more intensive expansion outside the Triad—to large sales markets, competitive resources and capabilities in developing and transition countries. TNCs, their activity and impacts have been transformed and strengthened considerably in the last dozen years.

The TNCs’ growth has been focused on application of ICTs, information, knowledge, technology and innovations. The research and development (R+D) activity and budgets of TNCs grew at high rates and in many cases their annual value exceeded R+D expenditures of middle-income countries. The largest Triad’s corporations are true “research powers”, with the R+D expenditures of 5–8 billion of US dollars. However, outside the Triad new technological leaders have emerged. Due to large expenses by the Chinese firms and Government (increasing at ca 20% annually), the role of R+D activity in Chinese economy has been increasing. Moreover, large expenditures on higher education in technical sciences (in the country and abroad) and on modern infrastructure were and are also borne in China. The accelerated development of advanced resources has contributed much to upgrading international competitiveness of TNCs based in China.

An important trend in the knowledge-based economy is internationalization of R+D activity. FDI is placed by TNCs—mostly from developed countries—for setting up their R+D centers, laboratories and innovative subsidiaries in countries endowed in technologically advanced resources and capabilities, also outside the Triad. With a participation of local research centers and innovative firms, technological co-operation is extended by means of cross-border networks conducted by TNCs—technological leaders in global sectors. Knowledge and technology spillovers can much stimulate development of technological capabilities in less developed countries. Local firms can—often supported by Governments—develop their technological capabilities, successfully enter foreign markets, and in several years emerge as TNCs on the global arena. Most of TNCs from BRIC—and especially of Chinese origin—have followed such development path since the end of 1990s.

After a turbulence in the global information sector in 2001–2002, the TNCs’ foreign expansion developed at high rates in 2003—2007. Beside foreign trade and international cooperation, the global FDI flows increased to a historical value of 1.997 billions of US dollars in 2007. However, growth of FDI flows was uneven what resulted in changing geographical patterns of FDI flows and stocks. Due to upgrading production factors and expanding sales markets in developing and transition countries — and in BRIC particularly—their significance in the world’s FDI outward stock increased from 14,0 to 16,4% in 2000–2007. At he same time the Triad’s share dropped by 2,1 percentage points to 83,5% in 2007.

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27 The rise of Chinese TNCs will be discussed in the next section.
29 Calculations based on data in table 1.
Over 2000–2007 the much decreased share of the American TNCs—from 21.4% to 17.9%—illustrated a complex phenomenon. On one hand, growth of dispersed activity led by the US corporations on 3—4 continents and in over one hundred countries could be financed by FDI flows among their foreign subsidiaries in many host countries (in addition to headquarters' FDI outflowing from the USA). Moreover, the FDI form of foreign expansion can be substituted with non-equity cooperation and cross-border business networks. On the other hand, many TNCs from non-Triad countries have emerged and engaged in competition on the global market. They use more and more FDI to build up their global presence and also other forms of foreign expansion as well. They compete successfully not only with low prices of exported products but also with innovative strategies and business models.

In 2010 there were registered 103,788 parent TNCs in the world. As much as 73,144 corporations—i.e. 70.3% of the total number—originated in developed countries. The share included 45.6% of TNCs from the EU and then followed the 9.3% share of firms from the USA. The population of American TNCs (9,692) is not very large but increasing, and their leading positions and international competitiveness are based on knowledge, high skills, capital, modern business infrastructure and effective management methods. The amount of TNCs from developing and transition countries increased to 30,209, i.e. to 29.0% of all corporate parents. 20,209 TNCs (19.3%) were registered in BRIC, with a predomination of Chinese companies. In China and Hong Kong originated 18,592 corporations, i.e. 18.2% of the total TNCs’ population (and 61.6% of corporations from developing countries). 30 Contrary to earlier numbers, most of the firms (64.5%) come not from Hong Kong but from China. Another success of the two countries is becoming the world’s largest host economy, with located 49.9% of the world number of corporate foreign subsidiaries, mostly of the Triad’s TNCs.

If compared with the data quoted in section 2, it becomes clear that in ten years the total number of TNCs increased by 64.0%, while the FDI outward stock grew by 244%. It means that the existing as well as new TNCs were very much engaged in FDI expansion and quickly developed their foreign equity and assets under the new technological and economic conditions in the world. However, a part of that FDI growth should be attributed also to private equity funds and to wealth sovereign funds as well. The country pattern of the “TNCs’ global society” has changed significantly, with the dropping share of Triad’s TNCs by 8.7 percentage points, including diminished shares of the Western European and Japanese corporations. The share of US corporations increased by 3.9 points. The number of parent TNCs based in developing countries grew by 8.0 percentage points31, the BRIC’s share increased by 16.6 percentage points and that of Chinese corporations by 16.3 points. As much as 98.7% of the increased number of TNCs from developing and transition countries was contributed by China and Hong Kong. So, almost the whole increasing global presence of TNCs from developing and transition countries is the “input” of China and Hong Kong.

The numbers indicate changes underway not only in that group of countries but in the contemporary world economy as well. And the question concerns not only the rising global position and power of Chinese TNCs but much more—the emerging global economic power of their home country (considering many other factors, especially the extra large reserves of foreign currencies).

TNCs can be ranked by proceeds, market capitalization or by value of their foreign assets. Lists of the world’s top 100 non-financial TNCs are published in the quoted World Investment Report 2011. Non-equity Modes of International Production and Development, UN—UNCTAD, New York—Geneva 2011, annex table 34 and own calculations.

In addition to TNCs from BRIC countries, there have appeared on the global arena also firms from Turkey, Indonesia, South Africa, Panama as well as from so-called tax heavens, like British Virgin Islands, Bahamas, Cayman Islands etc. Beside the recorded TNCs, thousands of other companies also enter the global market.
Reports. The ranking in 2010 edition is based on data referring to 2008. The 2008 list was headed by General Electric (electrical and electronic equipment, the USA origin)—the corporation owning a huge amount of foreign assets worth over 401 billion of US dollars.32 The next 15 TNCs owned foreign assets valued at 100–222 billion of US dollars and all of them originated in developed countries. The largest owner of foreign assets from developing countries was Hutchison Whampoa (trade and diversified business) from Hong Kong, with the foreign assets worth ca 70,8 billion US dollars. Another 5 corporations (mostly oil companies) from developing countries were classified on the list.33 However, the trends in FDI outflows from developing countries allow us to assume that in 2009–2010 values of foreign assets owned by TNCs from non-Triad countries—and China in particular—increased considerably, mainly through acquisitions of Western brand companies facing financial troubles.

Another UN list ranked the top 100 largest non-financial TNCs form developing countries only. The list included 76 corporations from South, East and South-East Asia, 10 companies from Latin America, 11 from Africa and 3 from West Asia. Three states of the Chinese ethnic base—China, Hong Kong and Taiwan—dominated in the group of developing countries with 53 TNCs. Although in 2007 corporations from the non-Triad countries were less transnationalized34 and owned less affiliates on average but growth rates of their foreign assets, sales and employment were much higher than the rates of Triad’s corporations.35 The newcomers to the “TNCs’ global society” from developing countries spare no efforts to catch up with their older and larger competitors from the Triad countries.

As important factors shaping the FDI involvement by TNCs in many cases there have remained their domestic institutions and established ways of coordinating economic activities in their home countries. If they are cohesive and highly integrated, their impact on firms’ FDI expansion and activities by foreign subsidiaries can be substantial.36 Some country-specific economic conditions and business methods can become firms’ strong competitive advantages on a foreign markets. It is true of advantages enjoyed by Asian firms which have become price competitive (due to low wages and other factors), very responsive to market changes, much oriented to growth of market shares (less to profits), more and more innovative and supported by ethnic linkages. The activity of Asian TNCs on the global market has become a true competitive challenge for Triad’s TNCs at present.

4. TNCs’ activity under the XXI century fluctuations in the world economy

At the beginning of XXI century, economic conditions for the TNCs’ activity were shaped by outbreaks of two world economic crises which started in 2000 and 2007. Under the global slowdowns of economic activity, foreign trade and especially FDI flows suffered heavy declines. Multilateral negotiations on external liberalization on the aegis of WTO were halted and even some protectionist measures were introduced in several countries The globalization process did not

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33 However there are 2 firms from Korea Rep. and 1 from Singapore.
34 It is measured with transnationality index (TNI) which is an indicator including weighted shares of foreign assets, foreign sales and foreign abroad in total categories.
develop at steady pace as in the 1990s but with some breaks and a new word “de-globalization” has appeared. However, a more balanced opinion says that the previous steady growth of globalization has changed into shorter cycles or “waves” of this process.

In 2000–2001, the crisis of information sector (and some other sectors as well) caused economic problems for many firms and countries. The rise of international terrorism was another factor responsible for the economic slowdown. The broken investment climate caused a panic reactions of foreign investors. The value of world’s FDI inflows dropped from 1.388 in 2000 to 560 billion of US dollars in 2003, i.e. by as much as ca 60 per cent. It contrasted a rather small slowdown of the world economy. The global GDP decreased by 0,9% and the world exports dropped by 3,3% only in one year 2001.37 Once again opinion on the particular sensitivity of FDI flows to economic and other conditions was confirmed. However, the FDI recovery was very quick with growth rates of FDI flows rocketing to 30–47% yearly. In four years the ever highest FDI level was reached, amounting to ca 2.100 billion of US dollars in 2007. For the outstanding result mainly mergers and acquisitions (M&A) were responsible.38

TNCs—as the largest group of foreign direct investors—from both developed and developing countries were much involved in the FDI outflows surge, modernizing firms’ capabilities and expanding to new branches and markets on the global arena. In 2007, the world’s cumulated FDI outward stock amounted to 15.602 billion of US dollars and its country pattern changed to some extent.39 The developed countries accounted for 83,5% of the stock, with the leading position of the EU which reached 51,8% (headed by Great Britain with 10,9%). The share of American foreign direct investors equaled to 17,9% and that of Japanese investing firms to 3,5%. The developing countries reached 16,4% of the total FDI outward stock and the share includes Hong Kong’s and China’s leading position with as much as 9,2%. The share of Russia amounted to 1,6% and that of Brazil 0,8%.

Comparing the 2000 and 2007 shares we can draw three conclusions. The first one states that downward trends in shares of the whole group of developed countries, and the USA and Japan in particular, were maintained. The second one means that the EU countries and the developing countries could keep their upward trends (stronger in the latter group). The third one points out that the increasing FDI expansion by firms from China and Hong Kong was underway (to be discussed more in section 5). Thus the inter-crises period of 2004–2007 (till the first half of 2007) was featured with the continuation of long-term trends under the exceptionally high growth rates of FDI flows.

The next financial and economic crisis started in the second half of 2007 in the USA and hit many other countries in 2008–2009. The world’s total GDP (at constant prices) maintained small, positive growth rate in 2008 but it fell down by 2,3% in 2009. The decline rates were severe for the EU (-4,2%) and the USA (-2,7%). The volume of global trade contracted by 12,2% and the value of exports dropped by 23,0% in 2009.40 The GDP growth rates of developing and transition countries were positive on average, although much diversified for individual countries. China reached 8,5% growth rate of GDP and India 5,4%.41 Due to considerable imbalances and tensions in the global finance, the present world’s economic situation is very fragile and uncertain FDI investment climate encourages transactions of mainly well-endowed foreign investors and emerging new, global competitors.

39 World Investment Report 2008. ... op. cit., p. 237–259, annex tab. B.2 and also table 1 in this Chapter
41 Ibidem.
In the 2008–2009 crisis once more global FDI flows turned out to be very sensitive to a business cycle. The world's FDI outflow dropped by 14.9% in 2008 and by 42.9% in 2009.\textsuperscript{42} However, the sales of products by TNCs' foreign subsidiaries fell only by 4.5% and 5.7% in the same years. It reflected quick adjustments in sales, production, purchases, intra-firm trade of the subsidiaries which took advantage of diversified trends on particular foreign markets. Differences in decline of demand for goods and services, protectionist measures in some countries as well as unfavorable changes in supply and cost of capital had a negative impact on the TNCs' activity and FDI flows in the world. However, an upward trend in FDI outflows was resumed in 2010, with 13.0% preliminary growth rate of the global outflows.\textsuperscript{43}

Altogether in the years 2008–2009 the decline of FDI outflows reached 47.0% of the 2007 value (as compared to drop of 60% in 2001–2003). The largest decrease happened in the EU countries—almost 70% (and especially in Great Britain), while in case of the USA the drop equaled to 37.1%.\textsuperscript{44} The EU corporations reoriented business to the home countries, while the American TNCs opted for less cuts in FDI outflow and more adjustments in their activity on foreign markets. The FDI outflow from the developing countries declined by 21.6% over 2007–2009 (much less than from developed ones). Contrary to other countries, China and Hong Kong increased their FDI outflow by over 20% yearly in 2007–2010.\textsuperscript{45} It means that the TNCs of Chinese origin expanded their corporate networks of foreign subsidiaries taking advantage of the economic slowdown (e. g. of low-price acquisitions of Western firms). Due to the less fragile FDI outflows from developing and transition countries, their share in the total value of analyzed investments increased from 11.0% to 25.7% in 2007–2009 and probably to as much as 27.9% in 2010. More information is presented in table 2.

The FDI expansion of investors from developing and transition countries started in 2004 and reached the ever highest level and share in 2010. The share of the countries in the global FDI outflows increased outstandingly from 8.3% in 2003 to 27.9% in 2010, i. e. by 19.6 percentage points. The increase means that under the XXI century economic fluctuations, TNCs from non-Triad countries have become a stronger group of investors on the global market. At the same time these countries have strengthened their position in the world's exports.\textsuperscript{46} Therefore, due to the success of developing and transition countries on the global market in the years 2003–2010, a process of their revival in the world economy has started.

This crucial phenomenon is founded on FDI expansion of the BRIC countries, which increased their share in the FDI outflow of developing and transition countries from 36.3% to 58.8% over 2003–2010 (at the expense of Asian newly industrialized countries). Among the BRIC countries, the key role is played by China and Hong Kong, which share in the BRIC's FDI outflow increased from 33.3% to 65.2% in the years 2003–2010.\textsuperscript{47} The Chinese firms have reached second in the world position as FDI investors, giving way only to the US corporations. A true competitive battle of TNCs on the global market has already started and intensified in 2010 as far as the American TNCs increased their FDI outflow by 31.2%, up to 325.5 billion of US dollars. The FDI outflows of Chinese origin reached growth rate of 20.6% and value of 144.7 billion of US dollars in 2010.\textsuperscript{48}

\begin{itemize}
  \item \textsuperscript{43} UNCTAD Global Investment Trends Monitor, 2011, No 6, 27th April, p. 7, annex tab. 1.
  \item \textsuperscript{44} Own calculations based on data by World Investment Report 2010..., op. cit. p. 167-171, annex tab. 1.
  \item \textsuperscript{45} Ibidem and UNCTAD Global Investment Trends Monitor, op. cit., p. 7, annex tab. 1.
  \item \textsuperscript{46} In the years 2000–2009 the share of developing and transition countries in world's merchandise exports increased from 34.3% to 43.4%. Source: UNCTAD Handbook of Statistics 2010, UN—UNCTAD, New York—Geneva 2010, p. 8, tab. 1.1.1 and own calculations.
  \item \textsuperscript{47} Own calculations based on UNCTAD data included in table 2 in this Chapter.
  \item \textsuperscript{48} UNCTAD Global Investment Trends Monitor, op. cit., p. 7, annex tab. 1 and own calculations.
\end{itemize}
Activity of transnational corporations as a driver of changes in the world economy

Table 2.

FDI outflows from developing and transition countries in 2003–2010: their value and share in the global FDI outflows.

<table>
<thead>
<tr>
<th>Year</th>
<th>Countries</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010*</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>value</td>
<td>46.3</td>
<td>131.3</td>
<td>130.5</td>
<td>192.5</td>
<td>236.0</td>
<td>350.2</td>
<td>306.2</td>
<td>376.7</td>
</tr>
<tr>
<td></td>
<td>share</td>
<td>8.3</td>
<td>15.0</td>
<td>15.6</td>
<td>15.8</td>
<td>11.0</td>
<td>18.9</td>
<td>25.7</td>
<td>27.9</td>
</tr>
<tr>
<td>ALL DEVELOPING AND TRANSITION</td>
<td>value</td>
<td>16.8</td>
<td>77.0</td>
<td>57.3</td>
<td>115.4</td>
<td>153.9</td>
<td>202.6</td>
<td>190.2</td>
<td>221.1</td>
</tr>
<tr>
<td></td>
<td>share</td>
<td>3.0</td>
<td>8.8</td>
<td>6.8</td>
<td>9.5</td>
<td>7.2</td>
<td>10.9</td>
<td>16.0</td>
<td>16.4</td>
</tr>
<tr>
<td>BRIC**</td>
<td>value</td>
<td>5.6</td>
<td>51.2</td>
<td>43.8</td>
<td>59.6</td>
<td>83.6</td>
<td>112.0</td>
<td>120.5</td>
<td>144.1</td>
</tr>
<tr>
<td></td>
<td>share</td>
<td>1.0</td>
<td>5.8</td>
<td>5.2</td>
<td>4.9</td>
<td>6.9</td>
<td>6.0</td>
<td>10.1</td>
<td>10.7</td>
</tr>
<tr>
<td>China and Hong Kong</td>
<td>value</td>
<td>1.0</td>
<td>5.6</td>
<td>4.8</td>
<td>5.2</td>
<td>4.9</td>
<td>6.9</td>
<td>6.0</td>
<td>10.1</td>
</tr>
<tr>
<td></td>
<td>share</td>
<td>1.0</td>
<td>5.8</td>
<td>5.2</td>
<td>4.9</td>
<td>6.9</td>
<td>6.0</td>
<td>10.1</td>
<td>10.7</td>
</tr>
</tbody>
</table>

Notes: * Preliminary estimates by UNCTAD; ** Brazil, Russia, India, China and Hong Kong


The EU firms have not joined the global competition in 2010 what is evidenced by a small growth rate of FDI outflow 3,8% and negative growth rates by the leading European foreign investors.

It should be added that the significance of non-Triad countries has been increasing also in FDI inflows. The share of developing and transition countries in the world’s FDI inflows grew from 37,0% to as much as 51,5% in 2005–2010. The BRIC share increased from 14,4% to 22,8%, with China and Hong Kong taking the largest (14,0%). The two countries remain the second largest—only after the USA—host economy in the world. Large developing countries—and China in particular—are very attractive locations for Western TNCs as sales markets, low-cost production sites as well as sources of innovations and talented staff.

A successful FDI expansion promotes sales growth and profits of the investing firms, and finally their international position. The Global 500 list published in “Fortune” journal includes the largest firms (of all sectors) ranked by value of their proceeds in a given year. In 2008 the BRIC “team” consisted of 52 companies with the largest group of 37 firms from China, 7 from Russia, 5 from India, 3 from Brazil. The number of Chinese TNCs grew from 6 in 1998 (to 37 in 2008) and the share of their proceeds in total value increased from 1% to 7% in 1998–2008. Under that period the number of American corporations shrank from 185 to 140 and the share of their proceeds decreased from 37% to 30%. The journal commentators emphasized competitive threats by the Chinese firms to American companies. In 2010 the opinion was confirmed. The number of Chinese corporations on the Global 500 list increased to 61 (by 24 firms in the two years only!) while that of American companies curtailed to 133. And the shares in total proceeds of 500 firms boosted to 11,1% in case of Chinese corporations and dropped a little to 29,5% in case of the American ones. The position of TNCs from BRIC grew clearly stronger—to 83 firms in 2010, as ranked by “Fortune”. Beside China (61 firms), other BRIC launched: Brazil 7 corporations (4

companies more), Russia 7 and India 8 firms. Those numbers confirm the trends in FDI outflows which have revealed growing economic power of the BRIC corporations and especially the ones from China and Hong Kong. The rising position of Chinese corporations in the group of 500 largest companies in 2010 shows their ability to expand at high rates despite the economic crisis which started in 2007. Contrary, the crisis has opened up new business opportunities for strong competitors and capital owners on the global market and the Chinese TNCs have taken advantage of them.

The economic crises which started in 2001 and 2007 have changed much FDI flows and the activity of large firms—mostly TNCs—in a relatively short period of 10 years. The declining shares of developed countries—with few short-term exceptions, e. g. that of the USA—and raising shares of developing and transition countries—first of all China and Hong Kong—deliver important message for the near future. The after-crisis economic recovery will bring about the increasing rivalry of TNCs from two leading countries—the USA and China. Economic processes and technological progress in the home countries of American and Chinese corporations may underlay their changing positions in the global economy.

5. Emergence and global expansion of the Chinese TNCs

Globally competing corporations from China are much younger than the Triad’s TNCs, most of which were established over one hundred years earlier. The development of Chinese corporations (mostly industrial ones) has started in the recent 30 years and their accelerated internationalization—exceptionally quick by Western standards—has led many of them to the groups of leading “players” in global sectors at present. The growth and transition of Chinese firms from domestic enterprises (and exporters) to transnationals (as both exporters and FDI investors) was due to two groups of favorable conditions: internal ones linked to the home country as well as external ones related to the globalization process.

The emergence of Chinese TNCs is closely linked to economic reforms in China which have been conducted since 1978. The reforms consisted in a gradual transition from centrally-planned economy to “socialist market economy”, as once declared by communist party leaders. The economic transition was executed in evolutionary and pragmatic ways, basically in three stages and the fourth one is formed currently under the 2007 world's economic crisis. The stages were different in policy directions, used instruments and obtained results. In fact, all the stages included—with changing focus—three interacting processes: economic marketization, external liberalization and technological modernization. First and foremost, the development of market and competition in China was a key task for moving away the system of central planning. The emerging domestic market was promoted with gradual opening the economy and giving a way to inflows of foreign goods, capital and technology.

The growth of Chinese companies—more and more market-oriented and competitive—was supported by the Government policies promoting institutional changes, technological progress, high skills and modern infrastructure. The policies have activated crucial changes moving from the macroeconomic to microeconomic levels. State owned enterprises (SOEs) were stimulated to take up market-oriented methods, to restructure their output and assets, convert into commercial companies, introduce new technologies and boost exports. In the middle of 1990s—with a capital support of the Government—the Chinese enterprises started to invest abroad, set up their subsidiaries and develop cross-border structures.

The transformation of Chinese economy and enterprises has been conducted in favorable external conditions which have been formed by the process of globalization. The stimulating role of globalization for the China’s economy and reforms is twofold. On one side, the economic globalization advancing in the 1990s and 1990s pushed the Western TNCs to enter the large Chinese sales market. At that time TNCs faced high barriers in access to the fully-protected Chinese market and were ready to accept China's hard entry conditions. One of the crucial conditions was the principle “Market access for technology access”. It meant that to export goods or to place FDI on the Chinese market, Western TNCs had to engage in joint ventures with Chinese firms and to allow them access to new technologies and effective methods of international business and management. The Chinese partners could learn much and quickly catch up with foreign competitors. To speed up growth and competitiveness Chinese companies could also acquire new technology and business expertise on globalizing markets. The internationalization of R+D activity by Western TNCs (i.e. setting up their research centers abroad) reached China, demonstrated new methods in this domain and brought about many spillover effects for the domestic R+D sphere. On the other side, the globalization of Triad economies and corporations has resulted in a high-rate growth of their foreign trade, stemming from demand for cheap intermediary and final products. The processes of outsourcing and offshoring to China (and other low-cost countries) added much to the foreign expansion of her enterprises. The exports of Chinese price-competitive products could expand at exceptionally high dynamics to many countries, following China’s accession to the WTO. Not only volume but also value added and technology content of the exported products have increased substantially in the recent years, making China the world’s leader in merchandise exports at present. The export expansion has been supported by growing FDI outflow from China and establishing TNCs networks on foreign markets.

In 1998, 379 Chinese firms could be called parent corporations of foreign subsidiaries (i.e. TNCs) and in Hong Kong there were 819 parent corporations more. The added number makes 1.198 TNCs of Chinese origin and 9,5% of the total population of corporations from developing and transition countries. In 2003 there were 3.429 parent companies (TNCs) seated in China and 1.167 corporate parents in Hong Kong in 2007. The added numbers equal to 4.596 TNCs of the Chinese origin and it allows to regard them the largest group—taking up 21,5%—of TNCs from developing and transition countries. As mentioned in section 4, in 2010 the number of TNCs from China and Hong Kong increased to 18.952 companies, i.e. to 65,4% of all corporations from developing and transition countries and 18,2% of the total TNCs’ number. The last decade was a crucial time for the quick internationalization of Chinese firms and their successful expansion as TNCs on the global market.

The process of emerging Chinese enterprises as TNCs has been initiated with exports in the middle of the 1980s but a breakthrough stage consists in the accelerated FDI expansion since 2003. However, the export stage was very important for learning international business (often

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In 1980–1990 the average growth rate of merchandise exports from China amounted to 12.8% and increased to 14.5% in 1990–2000. After the China’s accession to WTO (2002), the dynamics of her exports boosted to average 26.7% in 2000–2007 (and to over 30% in some years).57 Due to the 2007 world crisis, the growth rates of Chinese exports became negative and reached (–)16–17% in 2008–2009. However, those were much better rates than the world’s average –23% and Germany’s –22%. Anyway, the 2009 value of China’s merchandise exports reached 1.202 billion of US dollars and amounted to 9.6% of the world’s total exports. It has resulted in moving up China to the leading position in the world and taking over Germany.58 The shares of developed and developing countries in China’s exports of goods amounted to ca 70% and 30% in 2008, with the rising share of developing ones. It should be added that in 2009 China’s exports of commercial services reached 129 billion of US dollars and that of Hong Kong’s 86 billion of US dollars, what has placed them among the leading services’ exporters.59

Having gained experience in penetrating foreign markets as exporters, the Chinese enterprises engaged in FDI at the end of 1990s. Few years earlier the Chinese Government selected 120 enterprises “mature” for the outward investment expansion, converted them into public companies (with state’s equity shares of 50–90%) and encouraged to invest abroad (e. g. by providing with capital guarantees).60 The FDI expansion of Chinese firms was and is motivated by seeking attractive sales markets (e. g. in the integration groupings) and production factors (both raw materials as well as technology and knowledge), and acquiring strategic assets (e. g. brands, patents). The efficiency-seeking motive is less important due to low costs of manufacturing in China.

The FDI outflow from China increased from 2.8 billion of US dollars to 55.9 billion of US dollars in 2003–2008 and to 68.0 billion of US dollars in 2010, i. e. outstandingly by almost 25 times in seven years.61 The present share of China in the world’s FDI outflow makes 5.04%—and 10.7%, if Hong Kong’s share is added—and only shares of USA, Germany and France are larger.62 The geographical pattern of Chinese FDI outflow revealed dominance of developing countries as host economies, with a share of 77.8%. Europe and North America accounted for 22.1% of the Chinese outflow in 2008.63 Contrary to exports, the FDI expansion of Chinese TNCs is not oriented mainly towards developed countries but to developing and transition ones. It means a focus on the foreign markets with less presence of tough competitors (TNCs) from he Triad to avoid premature “frontline battles” at present.

In the industry pattern of Chinese FDI outflow manufacturing is not the main target as far as it accounted for 3.3% in 2008. The share of mining equaled to 11.0% and probably was on a rise in the last years. As much as 85% of the FDI outflow value was made by services, with a key role of leasing and business services, and financial intermediation (jointly almost half of the share).64 It means that the investments by Chinese TNCs make a kind of support for the export expansion, mainly to penetrate underserved markets of developing countries. Markets of developed countries are served by general distribution channels (wholesale trade) and by Western TNCs’ distribution networks. The last foreign acquisitions showed growing interest in establishing

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58 WTO Press Release, op. cit., p. 8, 10, annex tab. 1, 3.
59 WTO Press Release, op. cit., p. 12, tab.5.
64 Ibidem.
own distribution and service networks by the leading Chinese firms. Another important direction of the recent FDI expansion by Chinese TNCs is mining of mineral ores and fuels (oil, coal) in the Third World. Both investment and trade linkages are aimed to assure imports of raw materials, fuels and foodstuffs for the Chinese market.

The patterns of FDI outflows placed by Chinese TNCs reflect investment conditions both in the global and national economies as well as conditions in the investing TNCs. To some extent the latter ones show unique features of the evolving ability for FDI expansion by Chinese enterprises. Within the framework of OLI paradigm, three conditions should be discussed: competitive advantages based on ownership, locational advantages used in host countries and internalization advantages obtained in corporate foreign subsidiaries and their networks. The competitive advantages owned and developed by Chinese enterprises have evolved from low-cost and low-quality production (and exports) to advanced technologically and innovative products of better quality. The ability of Chinese people to work hard and learn quickly, absorb transferred technology, upgrade business knowledge and develop new technologies makes one of key factors of increasing international competitiveness enjoyed by Chinese enterprises. Advantages of foreign locations which are attractive for the Chinese investors depend on country and industry involvements. Placing FDI in developed countries takes advantage of high-income and large sales markets, and technologically advanced resources and capabilities. FDI located in developing countries is used for mining of minerals, establishing infrastructure and other services. Financial intermediation supports various businesses of Chinese firms in all countries. Internalization advantages gained by Chinese investors consist mainly in increased effectiveness of foreign operations (e.g. from close contacts with key customers) and even more in strategic benefits (e.g. from acquiring new technologies and/or global brands). The subsidiaries of Chinese TNCs in foreign countries search for business information, valuable knowledge, new technologies, innovations and high-skilled staff. Such new assets can serve building up stronger international competitiveness of Chinese firms on the global market in the future. For better control and use of strategic assets and high operational flexibility, Chinese corporations usually take a full stake in their foreign subsidiaries (i.e. make them wholly owned).

It is useful to consider both FDI forms and outflow patterns by Chinese TNCs. It becomes clear that at first Chinese enterprises benefited much from joint ventures and technology sharing with the Western TNCs which had entered the Chinese economy. When the FDI expansion of Chinese corporations increased, they used to avoid joint ventures and sharing their equity or competitive advantages with foreign partners, for commercial reasons (sometimes political reasons motivated partnerships, e.g. in large infrastructure projects, in developing countries). Having acquired some assets in developed countries, Chinese firms were and are able to upgrade the assets quickly and make them even more competitive.

Among TNCs from developing and transition countries, Chinese corporations make the largest group of “new global challengers”, as coined by The Boston Consulting Group (BCG). On the list of 100 leading companies from the countries in 2006, BCG ranked 42 TNCs from China and 2 from

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Hong Kong.\textsuperscript{70} Few names of companies which are prominent “challengers” and large exporters in some global sectors can be provided: BYD Company (batteries, 23\% of global sales of batteries for mobile equipment), China Marine Containers Group (50\% of the containers market), Galanz Group Company (microwave ovens, 45\% of the EU market), Hisense (flat monitors, one of the leading global vendors), BOE Technology Group Company (electronic household appliances, one of the leading vendors), TCL Corporation (as before), China Aviation Company (aircrafts), Haier Group (“white goods”, one of the leading vendors), Huawei Technologies Company (information and telecom equipment and parts, one of the global, technological leaders and vendors), ZTE Corporation (as before). It is not hard to believe that since 2006 the Chinese “challengers” have turned into tough competitors on the global market at present.

The BCG analysis has revealed the following important facts and figures:

- Chinese companies are very strong against other researched national companies on the list, in terms of their international competitiveness and accelerated foreign expansion.
- Equity structure of Chinese “challengers” was specific—and different from Triad’s TNCs—because over 2/3 of them (in 2006) were state-owned or state-controlled companies, and only 3 companies were private ones.
- Although most of the companies are engaged in manufacturing, many different branches are also represented in the group of Chinese “challengers”.
- Expanding Chinese companies apply various competitive strategies, e.g. introducing innovative and quality products, developing global brands and own distribution networks, globalizing innovation activity, discovering niches of the global market.\textsuperscript{71}

The evolving geographic scope of Chinese TNCs led from regional to global. At first, there were set up corporate networks in Asia and the investment expansion to other continents has accelerated since 2005. Under the recent crisis, the global presence of Chinese TNCs has increased, as the value and pattern of FDI (including M&A) suggest.

The competition on the global market becomes more and more intensive, and it involves the established Western TNCs and emerging transnationals (newcomers) form developing and transition countries, especially from China. Competitive advantages of the key rivals cannot be confined to price and/or quality of products but must include many other attributes: quick response to market, climbing the value-added ladder, flexibility in all operations, radical innovativeness, ability to cooperate and expand business networks, etc. The global market will reward those TNCs—of any origin—which can sustain “bundles” of truly competitive advantages.\textsuperscript{72} Probably, the Chinese TNCs will not turn out to be losers.

Resulting from the transformation of China’s economy, the emerged TNCs have participated in changes underway in the home economy and in the world economy. As much as high-rate growth of China’s economy and her participating in the economic globalization have contributed to changes in the contemporary world, so much is the share of Chinese TNCs in their home country contribution.

One can ask whether—following TNCs’ global expansion—the business models and values of Chinese corporations can be accepted in other countries at present, as it was with American TNCs under the XX century globalization? It seems that the answer depends on a group of host countries. It is rather “no” in case of the Triad countries (and societies) for which it is to hard to accept the Chinese patterns and values, both in economic, social and political spheres. However,
a concept of “Chimerica” indicates the interdependence of relations between the USA and China. And it can be “yes” for many other developing and transition countries, especially for the ones receiving aid or leading exchange of goods and production factors with China.

Final remarks

The rise and activity of TNCs have remained a crucial part of the world economy for over two centuries. In the XVIII and XIX centuries TNCs’ growth accelerated due to technological progress in manufacturing industries and capability to deliver modern products (and capital) to many new markets. The expansion of capitalist economic system was driven by the expanding or emerging TNCs. The capitalist market economy spreaded from England and Western Europe to other regions and continents altogether with some accomplishments of the Western civilization. The international transfer of goods and production factors by TNCs—in given political conditions, e.g. predominance of colonial powers—contributed much to the XIX century globalization of the world economy. The first stage of globalization process was generated by the rapid growth and foreign expansion mainly of Western European TNCs, with some contribution of the US corporations. On the threshold of XX century TNCs have become one of key entities in the growth of capitalist economy and its globalization. The events of XX century (wars, crises) changed much in the world’s economic and political arena what paved a way to high-rate foreign expansion of the American TNCs in the second half of the XX century. Under the contemporary globalization, Triad countries and their TNCs — headed by the US corporations—have emerged as a center of generating global trends in the world economy.

At the end of XX century, the growth of globalization (at its second stage) and information economy accelerated, followed by development of the knowledge-based economy. Once again technological progress made a kind of springboard for expanding global business by TNCs, at present mostly in high-tech manufacturing and modern services. The crucial facts in the recent situation consist in accelerated spread of new technologies, capital and business methods on the global scale, while their absorption and growth of national resources and capabilities has increased much in the non-Triad countries. At the same time the market economy has been extended at the result of systemic transformation carried out in the centrally-planned economies, and China in particular. Some of developing and transition countries—especially BRIC and mainly China—have taken advantage of technological and economic opportunities on the global market to speed up their development and nourish TNCs. More particularly as many of the leading Triad countries and their TNCs have suffered much from the economic crises started in 2001 and 2007. A new set of external and internal conditions have created a favorable situation for aspiring “new global challengers”, i.e. TNCs from developing and transition countries, especially from China. The new entrants are firms with a high competitive potential to change patterns and rules on the global market.

The analysis of contemporary expansion of TNCs conducted in this Chapter results in some conclusions. They refer first of all to considerable changes in the structures of FDI outward expansion of TNCs as well as the composition of corporations’ leading groups in the present decade. The general conclusion is that the growth of TNCs from developing and transition countries has gained momentum and their global presence has increased clearly. More precisely it should be added that it is only a handful of countries making the BRIC group and in fact it is mainly China and Hong Kong. The emergence of Chinese TNCs is a complex phenomenon which stems from the interaction of changing conditions in China’s economy (its transformation) and in the world economy (its globalization). The rise of Chinese TNCs as new global players and
China as an emerging economic power has created new phenomena which reveal crucial changes underway in the present world economy.

The rise and growth of TNCs and their influence on changes in the world economy can be interpreted from various viewpoints. In this Chapter the analysis was focused on international business, TNCs and their FDI, in particular. It is possible to assess the research results also within a different framework as well, e.g. within a concept of turning point in the world history. The concept of turning point in history—as developed by K. Szczerski in Chapter 1—is focused on political and sociological aspects of history, however it can be to some extent adapted and applied to history of the world economy. The key notions to be applied in the assessment of TNCs, their activity and FDI flows include: evolving characteristics of objects and their activity; conditions, factors and scope of changes; key economic processes shaped by the influence of TNCs; transformation of economic structures under the decisions of TNCs (FDI patterns, in particular); implications of changes in the TNCs’ activity for a new order in the world economy.

In a historical perspective, the development of world economy has advanced through some breakthrough events (like the discovery of America) but much more it has been shaped by long-term processes of change. The changes were and are of complex character and include various interacting spheres—technological, economic, institutional and social ones—and in some cases have taken a revolutionary form. Outstanding examples relate to changing economic systems (e.g. passing to the capitalist market economy) or advancing new technological revolution (e.g. based on steam engines or nowadays on ICT). Such grave changes must be driven by action of some key entities (objects, actors), while at the same time transformation of the entities themselves and structure of their group also matters. In the contemporary economic sphere, the key entities are: nation states, firms (mostly TNCs) and international organizations. A long-run transformation of their characteristics and activity, and cumulating impacts on other entities, external conditions and other spheres can lead to a modification of the existing economic structures or even more—to gradually undermining them or even finally to dominating new structures over old ones. Thus changes are combined into processes and forces which transform structures of the world economy. The increasing changes and cumulating impacts can be documented with statistical data and other information which show special qualities and dynamics of particular new phenomena, and reveal their power to transform order of the world economy. The new phenomena in TNCs and their group as well as evolving or new characteristics of their activity can develop in the next years and contribute much to changes on the global scale.

Considering growth of international business and the world economy in the last over two centuries one can distinguish several turning points in which TNCs have participated. In fact, their activity can be regarded as an important driver of changes in particular processes shaping new structures of the world economy. Since the end of XVIII century to the beginning of XXI century, TNCs’ growth and activity have contributed to the following turning points in history of the world economy:

1. Early development of the capitalist economy as a new, expansive economic system in England and Western Europe, and next spreading to some other regions of the world.
2. Growth of globalization process at both stages—although in different political, economic and technological conditions—in the late XIX and XX centuries.
3. Growth of ICT use, information sector, modern services and knowledge-based economy at first in the USA and the Triad, and next spreading quickly to many other countries in the world.
4. Integration of the former centrally-planned economies—especially in countries of Europe and Asia—with external flows of goods and production factors (mostly capital and technology) and business linkages with the global market economy.
5. Transforming structures of the contemporary global market and the world economy with accelerated foreign expansion of TNCs from BRIC—mainly China—and some other non-Triad countries. This issue will be discussed in details, following and extending analysis in the previous sections.

Being one of the key entities in the world economy, in a long run TNCs have been undergoing considerable changes as subjects of their specific activity and objects participating in changes and fundamental processes in the world economy. TNCs as modern companies, complex organizations, strategy executors and foreign investors have emerged mostly in the late XIX century. Despite evolving functions, structures and various strategies, their forms did not change much till the last quarter of the XX century. Under both processes of globalization and informatization, TNCs’ products, value-added chains, organization, strategy and foreign expansion have been transformed to some extent for adjusting to new technological and economic conditions and for taking advantage of them. Among the adjustments the most important are: strong focus on core competencies and competitive strategies; development of knowledge, technologies and innovations; customization of products; evolving production patterns from manufacturing to modern services; fragmentation and globalization of value-adding functions; outsourcing and offshoring; growth of business networks and cooperation across all functions (including R+D); more intensive expansion outside the Triad—to large sales markets, competitive resources and capabilities in developing and transition countries. TNCs, their activity and impacts have been transformed considerably in the last dozen years.

TNCs’ impact on changes in the world economy has not diminished but it has moved more towards knowledge-based competitive advantages, modern ICT-based services, leaner organization, heterogeneous networks, foreign locations outside the Triad. The modification and modernization of TNCs’ activity have empowered them to use more effective instruments of exerting influence on processes in the world economy.

The changes introduced within TNCs and in their cross-border activity have generated some implications for particular countries (both home and host ones) and in the global environment. Particular impacts (both direct and indirect ones) and implications are generated first of all by FDI flows, mainly due to their form as “a package” of capital, technology, high skills, effective business methods, corporate networks etc. The FDI-based implications—through flows of goods, services and production factors as well as business linkages with local firms and business-government relations—can affect other enterprises, domestic markets, global sectors, economic conditions and processes in many countries, and finally in the world economy. The changes spread across various spheres and cumulate into evolving and increasing processes which contribute to modification of conditions, mechanisms and structures in the world economy.

Changes in FDI flows—their value, growth rates and structures, composition of “investment package”—comprise much more than just capital reshuffling. They reveal evolving motives (and requirements) of corporations, their efforts to sustain international competitiveness and to improve internalization gains (from activity of foreign subsidiaries) as well as evolving strength of locational advantages of a home country and foreign countries. Therefore, in a very concise form of FDI conditions, relative changes in international competitiveness of firms and countries are revealed. To some extent, trends in FDI flows indicate possible gainers and losers in the evolving conditions in the world economy.

Considerable FDI-generated changes can arise in host countries. FDI inflows and activity of TNCs’ foreign subsidiaries—if large enough, competitive and successful—can change structure of local sales markets; dynamics of domestic investments, production and economic growth;

73 As formulated in the OLI paradigm.
transform GDP industry pattern; upgrade technological capabilities of local enterprises; activate and restructure foreign exchange of goods and production factors etc. Government policies can to some extent attract, re-direct and stimulate FDI inflows and TNCs’ activity in a host country in order to capture more benefits for the national economy. China is a good example of capturing large technological economic benefits out of the expansion of foreign TNCs, using them to support favorable changes in the domestic economy and next to reach more success and benefits on the global market. Therefore, the FDI expansion of Triad’s corporations—under the processes of XX century globalization and systemic transformation—has turned into a process of upgrading international competitiveness of some host economies (less developed ones), especially of BRIC—and mainly China. Successful processes of marketization, external liberalization, technological transformation and accelerating growth of the economies and enterprises have resulted in emerging and raising power of their TNCs as “new global challengers”. In fact, it is raising power of new competitors which can change rules on the global market. In a wide perspective, it is a very important, much complex, long-run process of gradual undermining old structure of the world economy—i.e. traditional division into developed countries and developing ones (or backward, in fact)—and possibly setting up a new order in the world economy.

The FDI fluctuations which happened in the first decade of XXI century were much more unfavorable for Triad’s countries and TNCs than for non-Triad’s ones. Recently only the American TNCs have invested more to adjust to new conditions and prepare for a very tough competition of corporations from the USA and China in the recovering world economy. The situation of non-Triad countries and firms was less unfavorable and they could avoid large cuts or even afford FDI expansion. The structures of FDI outflows and stocks have changed much in favor of developing and transition economies. Many of their new corporations have invested on foreign markets (e.g. to support exports) and already competing TNCs expanded FDI to sustain or improve their positions in the global sectors. Also in the global FDI inflows shares of non-Triad countries have increased what indicates increasing attractiveness of the economies for globally competing TNCs.

Among developing and transition countries, the group of BRIC is distinguished (among others) with high growth rates of FDI outflows (and exports) and TNCs’ numbers. However, contributions of particular countries to BRIC’s growth rates and increasing shares is diversified, with China and Hong Kong much ahead of other countries. TNCs of Chinese origin have developed successfully in the recent several years and their increasing shares and positions to a large extent demonstrate specific competitive assets, conditions and country patterns of accelerated FDI expansion (supported by the state, in many cases) on the global market. Even more, they demonstrate the results brought about by 30 years of successful transforming, opening and modernizing China’s economy. Moreover, large potential for growth and global competitiveness in the future are also demonstrated. The emergence of TNCs from China and Hong Kong—and some other developing and transition countries — has not been a recent breakthrough event but a consequence of long-term, positive changes in their economies as well as smart taking advantage of opportunities in the global environment.

As compared to the features of Triad’s TNCs, the corporations of Chinese origin are much younger and less transnationalized, stemmed from public sector, turned from domestic companies to TNCs very quickly. The corporations are considerably supported by equity stakes and policies of the Government. To some extent they have different motives, specific conditions and patterns of their FDI expansion. The Chinese TNCs (as exporters and investors) compete aggressively, use somewhat different strategies, networks and directions of FDI expansion. They demonstrated to be less vulnerable to crisis trends in the world economy. It is expected that their competitive advantages will be increasingly based on new technology, high skills and innovations what will lead them to more success on the global market. However, final results will depend to some extent on
the interdependence of financial and economic relations, and processes in two countries—China and the USA.

Summing up, the evolving activity and foreign expansion of TNCs—with clearly raising FDI shares and position of Chinese corporations—can be interpreted as a new phenomenon and a part of current economic changes cumulating into worldwide processes which undermine the existing structure of the world economy, i. e. emerge as a new turning point in the world's economic history. And it seems that the phenomenon heralds even more important process of raising China as a new, global economic power. Although it is a true challenge to the order existing in the world economy at present, nevertheless one should not expect a quick ending of the order.

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THE GREAT TURNING POINTS OF WORLD URBANISATION

I. Introduction

Prof Kuklinski broadened his call for papers for Volume 7-Reupus 2011 from “The Great Turning Points 1989 and 2009” into “The Turning Points of World History”. Although one of the major “Turning Points of World Urbanisation” happened around the period 2007–2009 parallel and coinciding with a major financial and economic crisis, it is worthwhile to consider World Urbanisation within the larger context of World History.

Already in 2007, the UN-HABITAT announced: “Urbanisation: A Turning Point in History” because “one out of every two people in the world will be living in a city”\(^1\).

The 2009 Revision of UN’s World Urbanisation Prospects confirms that “the world population is currently slightly more urban than rural, since the level of world urbanisation crossed the 50 per cent mark in 2009”\(^2\). Only in Asia and Africa the majority of the population are still living in rural areas, but mainly Asia is urbanising very rapidly.

This fact can be considered as an important “Turning Point of World History”. Permanent human settlements emerged already more than 10,000 years ago thanks to the worldwide emergence of agriculture. The first towns and cities appeared about 5000 years ago in the most fertile river valleys of the world thanks to the increasing productivity in agriculture. However the share of urban within world population remained rather limited until two centuries ago when industrialisation started in Britain and Western Europe and gradually globalised, with a majority of urban population worldwide since the start of the XXI Century.

The main reason why this is a major turning point is because the question is raising if the urbanisation process will continue further on a world scale or if we are approaching an optimum or a saturation point and if we should strive toward an urban-rural equilibrium?

II. From archeology to “big history”

The Australian archaeologist V. Gordon Childe coined the term ‘Neolithic Revolution’ in order to describe the process by which Hunter-Gatherer Societies domesticated crops and animals and

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2 Executive Summary, World Urbanisation Prospects: The 2009 Revision, United Nations Department of Economic and Social Affairs/Population Division.
started a farming lifestyle\(^2\). In the same book he introduced also the term ‘Urban Revolution’ as the process by which small, kin-based, non-literate agricultural villages were transformed into large, socially complex, urban societies. The ‘Urban Revolution’ according to him was followed by a ‘Revolution of Human Knowledge’ as never before\(^4\). Later he explained more into detail the changes that characterised the ‘Urban Revolution’\(^5\) with advanced division of labour, agricultural surplus, writing, state formation, etc. It is now generally recognised that he correctly identified one of the most far-reaching social transformations prior to the Industrial Revolution. In combining archaeology with social sciences, his very important book concludes: ‘Man Makes Himself by social traditions which are constantly changing as society deals with ever new circumstances\(^6\).

‘Big History’ is a new approach to history that places human history within the wider context of the history of the universe. It arose as a distinct multidisciplinary field in the late 1980’s examining history of life, the earth, the solar system and the universe from the beginning of time with the Big Bang to the present day. Big history allows better to place the current evolution of the world within the largest possible context which human mind can observe and understand actually also thanks to the new generations of telescopes. Big History can be considered as a new subfield of World History which had its own Journal since 1990.

One of the first authors is David Christian, Professor of History at San Diego State University, who launched the new term ‘big history’, in jest, by inviting all related and interested disciplines during his professorship from 1975–2000 at Macquarie University in Sidney. His best known book (as a result of his multidisciplinary approach): Maps of Time: An Introduction to Big History\(^7\), explores the trajectory of history from the first micro-seconds of the Big Bang, to the creation of the solar system, the origins of life on earth, the evolution of humans, the agricultural revolution, the urban revolution and modernity till the 20\(^{th}\) century.

Another ‘scientific creation story from the big bang to the present, told in succinct understandable language’ is formulated by Prof. Cynthia Strokes Brown, professor of history and pedagogy at the Dominican University in California\(^8\). As she states in the Preface: “I have woven many disciplines of human knowledge together into a single, seamless narrative”. Traditional history as a discipline is based on written records from about maximum 5500 years ago. Big History is extended history to the limits of what is currently knowable by scientific methods. Her book contains two main parts with the first part ‘The Depths of Time and Space’ starting with ‘Expanding into Universe’ (13,7 Billion-4,6 Billion years ago), followed by the ‘Living Earth’ (4,6 Billion-5 million years ago), the ‘Human Emergence’ (5 million -35.000 years ago) and the period of ‘Advanced Hunting and Gathering’ (35.000–10.000 years ago).The second part (Ten Thousand Warm Years) contains a more detailed description of the last ten thousand years starting with early agriculture followed by early urbanisation, globalisation, industrialisation and with some final reflections on the future.

My own interpretation of the great turning points in world urbanisation is mainly inspired by her book. Two major ideas come out of this challenging book. First that man is an integral part of life on earth and of the biosphere and secondly that earth itself as part of the universe is continuously changing in time. The actual discussions on climate change illustrate this.

One of the most recent big history books now is written by Prof. Fred Spier from Amsterdam University and Eindhoven University of Technology with as title: “Big History and the Future of

\(^4\) Childe, oc. The Urban Revolution p 140- 178 and The Revolution in Human Knowledge” oc. p 179–226.
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Humanity"9. In his first chapter he is raising the question: “A Historical Theory of Everything?” and in the final chapter he comments on the Recent Human History as being the “Greatest Known Complexity” starting with the Agrarian Revolution, the emergence of Religions, the early formation of States and the successive waves of Globalisation with the discovery of the new world, the industrialisation and the rising world information society.

There seems to be a movement underway according to Wikipedia in order to make Big History a basic course for students in higher education throughout the world.

III. The agricultural revolution with permanent human settlements

Based on empirical evidence (discovery of fossil remains) Prof Stokes- Brown concludes that the “Out of Africa” theory about the appearance of “homo sapiens” on a world scale is the most plausible. Only about 100,000 to 200,000 years ago “homo sapiens” left eastern Africa to inhabit the earth. The typical geography that in the most optimal way made human development possible is found in the grasslands of the Great Rift Valley of eastern Africa. Advanced hunters and gatherers had gradually built up a hunting and gathering life over 100,000 to 200,000 years until they were able to advance considerably the complexity of their activities, also thanks to the invention of language more than 100,000 years ago. In his book “Stone Age Economics” Marshal Sahlin calls this period “The Original Affluent Society”10.

The nomadic life of small groups was spreading to the middle east and the Mediterranean basin. These small groups had to be large enough to defend themselves and devide tasks, yet small enough not to exhaust food supplies within walking distance. During winter periods they remained in caves near animal supplies and when available they tried to find as much as possible south-facing caves. But when the food supply was exhausted, they had to move again and probably they used lightweight and portable shelter materials. It is estimated that the number of people leaving Africa was no more than about 50,000 but that gradually their number increased until 5 to 6 million at the beginning of the Neolithic or Agrarian revolution.

Gordon Childe formulates it as follows: ‘since the time when skeletons of “Homo Sapiens” first appear in the geological record, perhaps 25,000 years ago, man’s bodily evolution has come virtually to a standstill, though his cultural progress was just beginning.....Progress in culture has, indeed, taken the place of further organic evolution in the human family’11. And further during the transition to the Neolithic Revolution he comments: 'in the last twentieth of his history man has begun to control Nature, or has at least succeeded in controlling her by co-operating with her. The control of fire was presumably the first great step in man’s emancipation from the bondage to his environment. The steps by which man’s control was made effective have been gradual, their effects cumulative. But.... The first (Neolithic) revolution that transformed human economy gave man control over his own food supply’12.

Since hunting and gathering was no more sufficient for feeding the increasing population, they were obliged to start with agriculture on fixed places with more permanent settlements. Meantime also domestication of animals and plants was already taking place thanks to the invention of farming (planting crops) followed by the invention of pastoralism (animal herding).

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The Agricultural Revolution with permanent settlements can be considered as the first important turning point or rather the real starting point of the establishment of permanent human settlements and indirectly of world urbanisation. Prof Soja in his book “Postmetropolis” even calls this period of about 10,000 years ago “The First Urban Revolution” because of the existence already of pre-agricultural urban settlements in Jericho in the Jordan valley and in Catal Hüyük in southern Anatolia 13.

IV. The urban revolution worldwide

Once people had developed food production to the point of being able to store surpluses, the human population started to grow more rapidly. Prof Stokes-Brown estimates that the population was increasing from about six million only around 10,000 years ago till about 50 million about 5000 years ago when “urban life” became possible and when the first cities appeared in the most fertile river valleys of the world. These were first in four areas of Afro-Eurasia, the continents of the first human habitation. These earliest cities appeared in the Tigris and Euphrates valleys in southern Iraq (the Sumerian cities Uruk, Ur and later Babylon in Mesopotamia), Memphis and Thebes in the Nile valley in Egypt, Mohenjo-Daro and Harappa in the Indus valley in Pakistan/India and a bit later in the Yellow (Huang) River valley in China. Later also in Meso-America (Mexico and the Andes).

Gideon Sjoberg made a distinction between three preconditions or requirements which had to be fulfilled in order to make the existence of the preindustrial city possible. The first is the ecological condition. The world’s earliest cities seem to have arisen in regions where climate and soil were highly favourable to the development of plant and animal life, so that relatively larger populations could be supported upon a small land area. The second fundamental requirement for city life is an “advanced technology” in both the agricultural and non-agricultural spheres. A sizeable food surplus is required before cities can emerge so that other activities than food production such as handicrafts, education, government, etc could be carried out in these cities. The third precondition for city life was a well-developed complex social organisation, particularly in the political and economic spheres.

Civilisation as an advanced stage of development and social organisation was going together with Urbanisation. However because under the name of ‘civilisation’ often colonisation with destruction of other ancient civilisations took place, this word is usually now replaced by “complex social organisation”. Fred Spier refers to the “Greatest Known Complexity” in human history since the agrarian revolution.

Karen Armstrong in her book “The Great Transformation” with the beginning of our religious traditions, refers to the “Axial Age” (Karl Jaspers) when all important religious traditions in the world, with as central themes compassion and charity, emerged at places of early urbanisation. This was the case with monotheism in Israel and the Middle East (Judaism followed by Christianity and Islam), the philosophical rationalism in ancient Greece, Confucianism and Daoism in China and Hinduism and Buddhism in India 15.

Also Gordon Childe adds an element to the distinction between urbanisation and civilisation 16. Childe contends that “in addition to size, heterogeneity, public works, etc writing is essential to the categorisation of the city, as the nucleus of civilisation, implying as it does the existence of a highly

specialised non-agricultural group that has the necessary leisure to develop such a complex skill”\textsuperscript{17}. And further Gordon Childe comments on writing: ‘The invention of writing was probably inspired everywhere, as in Sumer, by the peculiar practical needs of the urban economy. The Sumerian priests invented writing and like the Egyptian and Minoan scribes, used the invention first not for magical and liturgical purposes, but for practical business and administration like they did also with the invention of numeral notation and the solar calendar’\textsuperscript{18}.

V. Industrialisation and the urban explosion

The third major turning point in world urbanisation was a consequence of industrialisation.

Industrial revolution is defined in the Encyclopaedia Britannica as the process of change from an agrarian, handicraft economy to one dominated by industry and machine manufacture. This process began in England in the 18\textsuperscript{th} Century. The term Industrial Revolution has been popularised by the economic historian Arnold Toynbee in his lectures on the Industrial Revolution in England. Industrialisation and urbanisation largely coincided during the 19\textsuperscript{th} Century mainly based on the existing urban systems with the exception of the mining areas.

The migration from traditional agricultural locations in the countryside towards large industrial towns and cities where the factories were based, started indeed in England and was followed gradually by other countries of Western Europe. This transition from the primary towards the secondary sector was in fact a twofold process. At the one side there was the transition from an agrarian towards an industrial economy. But at the other side there was also an agricultural revolution taking place, thanks to the increase in agricultural productivity, enabling a larger population growth with massive migration towards the expanding industrial towns and cities. Until the industrial revolution the majority of the population in Europe was indeed surviving in rural areas thanks to a kind of ‘subsistence agriculture’.

Population concentrations in larger cities (100,000 and more inhabitants) remained rather limited in the world before 1800\textsuperscript{19}. They represented at that moment only 1.7% of total world population and 2.9% of European population. But in 1900 already 5.5% of world population lived in such larger cities with 11.9% in Europe and 12.8% in America. This share more than doubled already in 1950 with 13.1% of world population in larger cities and with about 20% in Europe and 22.6% in America.

The total world population reached not yet one billion inhabitants in 1800 but already 2.54 billion in 1950 and more than doubled in 2000 till 6.12 Billion.

In 1950 the United Nations started with their regular World Urbanisation Prospects. The UN uses the definition of urban that is used by each nation’s census takers. These definitions vary according to the UN web site\textsuperscript{20}. In 1950 the world numbered already 29.1% urban population with 63.9% in North America, 62% in Oceania, 51.1% in Europe and 41.4% in Latin America. Only Asia with 16.8% and Africa with 14.5% were much lower.

\textsuperscript{17} Sjoberg, o.c p 33.
\textsuperscript{18} Childe (1936) Man Makes Himself, oc p 185 and 227.
\textsuperscript{20} Satterthwaite D,(2007) The Transition to a Predominantly Urban World and its Underpinnings, Human Settlements Working Paper Series Urban Change N\#4, International Institute for Environment and Development, London, states the following: “Thus, the world’s level of urbanisation is best understood not as a precise figure but as being between 45 and 55 per cent, depending on the criteria used to define an urban centre. It may be that the much-discussed transition to more than half the world’s population living in urban areas actually took place some years ago, while its recognition has been delayed by various governments deliberately understating their urban populations by classifying most small urban centres as rural.” p 8.
From 29% world’s urban population in 1950, the urbanisation of the world increased to 37.3% in 1975, to 46.6% in 2000 and to 48.6% in 2005.

In 2005 North America reached already 80.7%, Latin America 77.5%, Europe 71.9%, Oceania 70.5% and Asia 39.7% and Africa 37.9%. The most recent World Urbanisation Prospects are the 2009 Revision\(^{21}\) in which the confirmation is announced that the world population is currently slightly more urban than rural. Both Oceania and Latin America had already relatively high urbanisation rates due to historical reasons. Oceania because of foreign immigration mainly into the main cities. And Latin America also because the choice of their main urban centres was already made in the 16th Century by the Spanish and Portuguese discoverers and colonisers and reinforced by industrialisation during the last centuries.

Prof. Brown concludes her chapter on Industrialisation with the observation of Prof J.R. McNeill (2000) that during the twentieth century human population doubled four times as well as the incomes per capita and that the world economy increased fourteen times and the energy consumption sixteen times, which is unknown in human history\(^ {22}\). She starts her final chapter with the following observations: "In the year 2000 there were 6.1 billion people in the world, 6 to 12% of all estimated 50 to 100 billion who have ever lived. By many measurable indicators, the lot of people now alive has much improved by comparison with earlier times. In 1900 the global average life span covered about 30 years, not much different from the 22 years life span of an average citizen in Imperial Rome. By 2000 the global average life span had reached sixty seven years with extra years of good health rather than suffering"\(^ {23}\).

VI. The “Urban Millennium” of the XXI century

Somewhere beginning of the XXI century for the first time in history the world moved from a predominantly rural towards a predominantly urban world. This ‘tipping point’ is often referred to as the “Urban Millennium”.

In his comments on the transition to a predominantly urban world, David Satterthwaite made the following observation: “The world’s urban population multiplied tenfold during the 20th Century and most of this growth was in low- and in middle-income nations; throughout history it is the richest nations that had most of the world’s urban population”\(^ {24}\).

In the Key Findings of the 2009 Revision of the World Urbanisation Prospects it is stated: “Historically, urbanisation has been driven by the concentration of investment and employment opportunities in urban areas. Productive activities in industry and services cluster in cities. By one estimate, 80% of the world’s gross domestic product (GDP) is generated by urban areas. As cities attract businesses and jobs, they bring together both the human and the entrepreneurial resources to generate new ideas, innovations and increasingly productive uses of technology.”\(^ {25}\).

David Satterthwaite comments more in depth: “Economic change or the geography of where private enterprises choose to concentrate (or to avoid) is the dominant driver of urbanisation in most nations as shown by:

\(^{21}\) UN Department of Economic and Social Affairs/Population Division, World Urbanisation Prospects, The 2009 Revision, New York, 2010.


\(^{24}\) Satterthwaite D. (2007) oc p

\(^{25}\) UN Department of Economic and Social Affairs/Population Division, World Urbanisation Prospects: The 2009 Revision, paragraph 32, p 14.
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— the high concentration of urban population and largest cities in the world’s largest economies;
— the strong association between a nation’s per capita income and its level of urbanisation;
— how increases in levels of urbanisation for most low and middle-income nations over the last 50 years track increases in the proportion of GDP generated by industry and services and the proportion of the labour force working in these sectors;
— the evidence that it is generally those nations with the most rapid economic growth that have urbanised most and those with the poorest economic performances that have urbanised least.”

But Satterthwaite concludes his summary by delinking in some way economic success and further urbanisation. He states the following: “Finally, with regard to Europe having an ever-lower proportion of the world’s urban population and its largest cities, Europe is actually leading the way in showing how economic success need not imply ever-larger cities. But comparable trends are also evident in most other regions of the world, as smaller cities successfully compete with their nation’s largest cities for new investment. With advanced transport and communications systems, many new economic activities can prosper in small towns and rural areas. Thus wealthy nations can stop urbanising, as increasing proportions of their rural population can work from their homes or in rural enterprises and enjoy access to services that have previously only been available to urban populations.”

It must be stated that in Europe spatial planning policies have been launched since several decades in order to move in the direction of polycentric urban developments.

These efforts have a follow up at a European scale under the umbrella of “Territorial Cohesion” (see further under X).

While mainly Asia was urbanising very rapidly during the last decade and is expected to do so further in the near future, it seems worthwhile to have a closer look at the European example. This is possible thanks to a short ‘Regional Focus’ paper on “Metropolitan Regions in the EU” by Lewis Dijkstra, Deputy Head of the Analysis Unit of the DG for Regional Policy of the European Union.

In analysing the population and GDP share between 2000 and 2006 of 258 metropolitan regions in the EU (NUTS-3 regions or groupings of NUTS 3 regions representing all urban agglomerations of more than 250,000 inhabitants), he shows that overall there is no substantial increase since 2000. However as he states: “A high concentration of economic activity and growth in one or two metros is typical of the less developed EU countries. In the more developed EU countries, the differences between the metros and the rest of the country are smaller and growth is far less concentrated. In several of them, growth is higher outside the metros. This confirms the Williamson hypothesis that agglomeration economies are more important in less developed countries.”

Mainly the examples of the Capital Metros is illustrative in this respect. As Dijkstra states: “In most Central and Eastern EU countries, the capital metro is very dominant, with a GDP per head far higher than any other metro and the rest of the country, which is often described as mono-centric development. The most extreme case is Bratislava, which has a GDP per head almost three times higher than Kosice, the Slovak metro with the second highest GDP per head. The difference is also large in Hungary, Bulgaria, Slovenia, the Czech Republic, Latvia and Poland. To a certain extent these differences in economic development reflect differences in the

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quality of the business environment...”. Dijkstra finally concludes his paper with the observation: “A comparison with the more developed EU countries suggests that this trend will likely reverse with higher growth outside the capital”.

VII. A new world phenomenon: Mega & Meta Cities

Table 3 of the Key Findings of the 2009 Revision of the World Urbanisation Prospects with the Population of Urban Agglomerations with 10 Million Inhabitants or More in 1950, 1975, 2009 and 2025 proves that the emergence of Megacities on world scale is a relatively recent phenomenon and that their multiplication is characteristic for the beginning of the XXI century. In 1950 only New York-Newark and Tokyo had more than 10 million inhabitants. Only Mexico City joined them in 1975. But in 2009 there were already 21 megacities with Delhi, Sao Paolo and Mumbai which had already more inhabitants than Mexico City and New York after Tokyo with 36.5 Million inhabitants. In 2025 there would be already 29 megacities based on actual trends almost exclusively in the developing world. The fastest growing megacities during the period 1975–2009 are Dhaka in Bangladesh with 5.47% annual rate of change, Lagos in Nigeria with 4.96% annual rate of change and Delhi in India with 4.68% rate of change.

UN-HABITAT in their State of the World’s Cities 2006/7 formulate it as follows: “The Urban Phenomenon of this Century will be Megacities, high-density metropolises of more than 10 Million inhabitants. As hubs of trade, culture, information and industry, they will be vested with such power that at many levels they will act as City States that are independent of national and regional mediation.” Reference is made to Lagos in Nigeria, the fastest growing megacity in the world, which is expanding at more than 5% a year. The concern of UN-HABITAT is that particularly in Asia and Africa, such megacities will be ‘overwhelmed by burgeoning slums and that the Millennium Development Goals will not be met.”

Another totally new phenomenon is the emergence of the meta-city or hyper-city, an epithet that refers to massive sprawling conurbations of more than 20 million inhabitants. Tokyo became already the first hyper-city in the mid-1960s when it crossed the 20 million threshold. Today it is the largest urban conglomeration in the world. Tokyoites—more than 35 million—outnumber Canadians. By 2020 it is expected that also Mumbai, Delhi, Mexico City, Sao Paolo, New York, Dhaka, Jakarta and Lagos all will have achieved meta-city status.

Reference is made to Sir Peter Hall, Professor of Planning at the University College of London and a renowned expert on urban trends, who predicts that this century will see a resurgence of economically powerful global cities in Asia mainly and specifically Beijing, Shanghai and Mumbai. Once the sole domain of Europe and North America, world cities are emerging now in the developing world to compete with long-established capitals of commerce such as London, New York, etc. Istanbul and Mumbai are culturally influential within their regions through film, literature, satellite TV networks and other forms of entertainment. Nairobi, Addis Ababa and Bangkok, amongst others, host regional headquarters for international agencies and development partners. Other cities that have become hubs of global economic activity are Frankfurt, Hong Kong, Amsterdam, Singapore, Sao Paolo and Shanghai for Finance, Dubai and Rotterdam for Transport, Bangalore, Seattle and Silicon Valley for Information and Communication Technology (ICT).

32 UN World Urbanisation Prospects: The 2009 Revision, oc p 6 Table 3.
33 UN World Urbanisation Prospects: The 2009 Revision, oc p 7 Table 4.
Also Manuel Castells in his book on “The Information Age” provides his description of “Megacities and metropolitan galaxies”\textsuperscript{34}. His formulation is as follows: “The new global economy and the emerging informational society have indeed a new spatial form, which develops in a variety of social and geographical contexts: megacities...They are the nodes of the global economy, concentrating the directional, productive, and managerial upper functions all over the planet...Megacities concentrate the best and the worst, from the innovators and the powers that be to their structurally irrelevant people, ready to sell their irrelevance or to make “the others” pay for it... It is this distinctive feature of being globally connected and locally disconnected, physically and socially, that makes megacities a new urban form... Megacities are discontinuous constellations of spatial fragments, functional pieces, and social segments.”

Finally as UN HABITAT states: “Mega-and meta-cities are a key to globalisation, a state of interconnectedness around the globe that transcends and largely ignores national boundaries.” Therefore they can really be called “City States”.

### VIII. The future of urbanisation

The Press Release of the 2009 Revision of World Urbanisation Prospects has the following significant title: “Number of city dwellers grows amidst continuing disparities in level and pace of urbanisation worldwide”\textsuperscript{35}. Further it is stated: “According to the 2009 Revision of World Urbanisation Prospects, Northern America, Latin America and the Caribbean, Europe and Oceania are highly urbanised, with proportions urban ranging from 70% in Oceania to 82% in Northern America, and their level of urbanisation is expected to continue rising, even if slowly, so that by 2050 all of them, except Oceania, are expected to be more than 84% urban.

In contrast, Africa and Asia remain mostly rural, with just 40% and 42% of their respective populations living in urban settlements in 2010, and even by 2050 they are expected to be significantly less urbanised than the other major areas, reaching a proportion urban of 62% in Africa and 65% in Asia.” In the Press Release it is also stated that ‘the rural population will decline in every major area except in Africa’ and that ‘Africa’s urban population will become the second largest in the world’ (after Asia).

Apparently the rest of the world outside Asia and Africa reached a certain state of maturity of their urban system or they are probably close to the saturation level of urbanisation. Dennis Meadows even mentions “De-urbanisation and/or localisation (keeping families and communities together)” as one of the three measures for limiting growth to save the world, that even politicians can understand\textsuperscript{36}.

A linear extrapolation of former urbanisation trends has been questioned by several experts. In answering the question “How urban is the future?” Satterthwaite answers: “The world will be certainly more urbanised in 10–15 years time and will have more large cities, including more megacities.. But most nations will certainly have fewer urban dwellers than has been suggested by many projections made in the last 20–30 years. Most cities will also be considerably smaller than anticipated.”\textsuperscript{37}

Two observations should be made in this respect.

First the problem of urban projections in general. The UN methodology of linear forecasting has been critically questioned as leading to a gross overestimation of urbanisation trends mainly

\begin{itemize}
\item United Nations, 25 March 2010.
\end{itemize}
for Developing Countries and in particular for Africa, India and Oceania according to Philippe Boequier-38, a demographer of the University of the Witwatersrand in Johannesburg, South Africa. He states that “the UN methodology used for projection inevitably forecasts that the proportion urban would one day reach 100%.”39 In “The Futurist” he mentions as the main reason for the urban saturation “The messiness of rapid urbanisation is unsustainable”40. Reference is made also to the comments of Boequier that many people in Africa are likely to leave the city again ‘upon discovering that there is no work for them and no place to live’.

Referring to our earlier discussion on the determining factors of urbanisation, one can conclude as Satterthwaite states: “Globally, it will be the economic performance of the world’s more populous nations with currently low levels of urbanisation (such as Sub-Saharan Africa) that will be the main influence on how urbanised the world becomes41.

The second problem refers to the future of mega- and meta-cities. Here also the economic performance of the cities concerned is the most important key factor but “few economists will predict the likely economic performance of any city 20–30 years into the future”42. “No one in 1975 with China still under Mao could have predicted the political and economic changes that were to occur, and the vast expansion in China’s industrial and service (and thus urban) economy during the 1980’s and 1990s.” Not only new megacities such as Guangzhou, Shenzhen and Chongqing were arising in China next to Beijing and Shanghai, but also in India next to Mumbai, Delhi, Kolkata, etc., there are new economic centres as Hyderabad, Bangalore, Surat and Pune. Also the economic success of Dhaka (and of Miami) was difficult to predict as well as the emergence of Dubai as a major city. But there are also other factors which can play a role such as political factors (Beirut, Baghdad and Kabul), climate change and sea level rise (New Orleans lost 27% of its population), diseases and the impact of HIV/AIDS mainly in Africa.

But Satterthwaite concludes that “effective local governance” is a very important factor in ensuring that both environment and development goals are met. It is surprising to find so little discussion of “local governance” within most discussions of sustainable development or how to meet global targets such as the Millennium Development Goals43. In this respect he refers to the examples of Curitiba and Porto Alegre in Brazil. Porto Alegre has grown from under half a million inhabitants in 1950 to around 3.5 million in its metropolitan area today; Curitiba from around 150,000 in 1950 to 2.5 million in its metropolitan area. Both have high quality living environments and innovative environmental policies. Curitiba is mainly known for its much admired Rapid Transit Bus System thanks to his inspired mayor Jaime Lerner, architect and urban planner, born to a Jewish family from Poland, who became later Governor of the State of Parana and who was elected in 2002 for a period of three years (till 2005) as the President of the International Union of Architects. Porto Alegre is Brazil’s fourth largest metropolitan area and capital city of the southernmost Brazilian State of Rio Grande do Sul, bordering Argentina and Uruguay. Porto Alegre hosted in recent years also the “World Social Forum”, an initiative of the non governmental organisations (NGO’s) as an alternative to the “World Economic Forum” in Davos, Switzerland. Also the 9th Assembly of the World Council of Churches of the Ecumenical Centre in Geneva was held in Porto Alegre in 2006.44

38 Boequier P (2005) World Urbanisation Prospects: An Alternative to the UN model of projection compatible with the mobility transition theory, Max Planck Institute, Rostock.
44 Information about Curitiba and Porto Alegre is from Wikipedia.
IX. Change and continuity in urban theory

With the increasing urbanisation worldwide first in Europe, the United States and Latin America, the question raised which were the specific characteristics of urban versus rural life. There have been several ‘Theories of Contrast’ by famous sociologists such as Max Weber (Traditional versus Rational), Tönnies (Gemeinschaft versus Gesellschaft), Durckheim (Mechanical versus Organic Solidarity), Becker (Sacred versus Secular), Spence (Military versus Industrial), etc. A very well known article by Louis Wirth of the famous Chicago School: “Urbanism as a Way of Life” in the American Journal of Sociology in 1938 tried to develop a Theory of Urbanism. He developed his theory by deduction from the physical characteristics of the city (Size, Density and Heterogeneity of the population) in order to describe the specificities of city life.

This urban-rural dichotomy has been heavily discussed till it was observed that the former differences between urban and rural are rapidly diminishing and disappearing to a great extent. In 1961 Lewis Mumford summarised this discussion nicely by introducing his well known book: "The City in History" as follows: “This Book opens with a city that was symbolically a world; it closes with a world that has become, in many aspects, a city.”

How do postmodern political geographers, sociologists and urban planners see it now? Prof. Edward Soja of the University of California and the London School of Economics identifies three components of the post-metropolitan transition:

- globalisation of capital, labour and culture;
- rise of the new geopolitical economy (flexible, knowledge intensive, global and post-fordist)
- revolution in ICT.

According to Soja the leading edge of the new Urban Theories should focus on “The Stimulus of Urban Agglomeration” or what he calls “Synekism” derived from the Greek word ‘synoikismos’ used by Aristotle in his book ‘Politeia’ in order to describe the formation of the city state of Athens. The ‘Stimulus of Urban Agglomeration’ includes the generative forces for economic development, technological innovation and artistic creativity, also called ‘the Jane Jacobs externalities’ with cities as motor of economic development thanks to conditions of density. It resembles the “agglomeration economies” with the explanation of why development is going faster at specific places. Urbanisation in the contemporary world is becoming increasingly concentrated in polycentric and highly globalised megacity regions.

Prof. Soja concludes with reference to two main contemporary challenges:

1. The planning challenge in order to maximise the positive effects of “synekism” and spatial capital, while minimising socio-spatial injustice and environmental degradation.
2. The research challenge in order to better understand the “new regionalism” and “the stimulus of urban agglomeration”.

45 Reissman L. (1964) oc p 123.
X. Towards territorial including rural-urban cohesion?

Are the most urbanised continents evolving towards a rural-urban equilibrium? The example of the European Union is interesting in this respect. David Satterthwaite warned already for “Urban Comparisons that can mislead and confuse”\(^{50}\). Although the forecasts of the UN foresee an urbanisation rate of more than 80% for Europe, in the Management Plan 2010 of the Directorate-General Agriculture (DG AGRI) of the European Union, it is mentioned: “With over 50% of the population living in rural areas, which cover 90% of the territory, rural development is an important policy area”\(^{51}\). Also in the Green Paper on Territorial Cohesion of the EU it is mentioned: “Although most economic activity is concentrated in towns and cities, rural areas remain an essential part of the EU. They are the location of most of the natural resources and natural areas (lakes, forests, Natura 2000 sites, etc), have good air quality and are often attractive and safe places to live or visit.”\(^{52}\).

EUROSTAT prepared a revised urban-rural typology in the Regional Yearbook 2010\(^{53}\). This new typology of predominantly rural, intermediate and predominantly urban regions is based on a variation of the OECD methodology and has been prepared over the past two years by the Directorate-General for Agriculture and Rural Development, Eurostat, the Joint Research Centre (JRC) and the Directorate-General for Regional Policy. According to this new typology EU-27 would be 40,3% predominantly urban, 35,6% intermediate and 24,1% predominantly rural. Most urbanised are respectively the United Kingdom with 71,3% and Belgium with 67,5% apart from Malta (100%). The most rural are Ireland with 70,5% and Slovakia with 50,3%.

The Common Agricultural Policy (CAP) with Agriculture and Rural Development have also the highest share in the yearly budgets of the European Union and food security continues to be a very important priority. In this respect it is useful to refer to serious warnings of urban planners for situations of over-urbanisation where food security is not any more assured. The most relevant recent publication is the book “Hungry City” by Prof. Carolyn Steel with the new word “sitopia” derived from the Greek words ‘sitos’ (food) and ‘topos’ (place) or planning for places where food can be assured for the urbanised world\(^{54}\). She states that “Global Food production increased by 145% during the last decades of the 20\textsuperscript{th} century, but that there is still an estimated 800 million people hungry in the world.” With reference to Ebenezer Howard’s Garden Cities of Tomorrow, there is a need to develop new forms of food planning including “urban and metropolitan agriculture”. The “Amsterdam Food Strategy” discussed during the Urban-Rural Seminars of DG REGIO in relation to “Territorial Cohesion” are an interesting example in case\(^{55}\).

The chapter 2: “Towards more Balanced and Harmonious Development” in the Green Paper on Territorial Cohesion starts with the following observation: “The settlement pattern of the EU is unique. There are about 5,000 towns and almost 1,000 cities spread across Europe, acting as focal points for economic, social and cultural activity. This relatively dense urban network contains very few large cities. In the EU, only 7% of people live in cities over 5 million as against 25% in the US, and only 5 EU cities appear among the 100 largest in the world.”\(^{56}\).

\(^{50}\) Satterthwaite (2007) oc Box 3, p 7–9.
\(^{52}\) Turning Territorial Diversity into Strength, Green Paper on Territorial Cohesion, EU Regional Policy, October 2008, p 6.
Indeed as already mentioned, there is a tradition in European spatial planning in order to promote a rather polycentric urban development instead of a mono-centric urban development mainly oriented towards capital city-regions. Already in the European Spatial Development Perspective (ESDP) of 1999, one of the major policy options for the Territory of the EU was to strive towards a “Polycentric Spatial Development and a New Urban –Rural Relationship”\textsuperscript{57}. Since the Lisbon Treaty “territorial cohesion” has been added as a third dimension to the goals of economic and social cohesion of the European Union\textsuperscript{58}. Regional policy is the European Union’s second largest budget item, with an allocation of 348 billion euros (2006 prices) for the period 2007–2013 \textsuperscript{59}. Enlargement to 27 Member States in January 2007 has meant an entirely new order. The surface area of the European Union has increased by over 25\%, its population by over 20\%, and its wealth by only 5\% approximately. Average GDP per capita in the EU has fallen by more than 10\% and regional disparities have doubled. Since 60\% of the regions whose development is lagging behind are in the 12 Member States which joined in 2004, the centre of gravity of regional policy is shifting eastwards. This is probably the most challenging regional disparity which the EU has to overcome in its history. All efforts are organised in this respect as demonstrated by the fifth Cohesion Report as the first report adopted under the Lisbon Treaty, which added territorial cohesion to the twin goals of economic and social cohesion.\textsuperscript{60}

Several seminars have been organised in order to prepare for this new dimension of territorial cohesion including the urban rural distinction. Mrs Katarina Mathernova, Deputy Director General of DG REGIO introduced the already mentioned Urban-Rural Seminar with the observation that “Urban and rural development have, for decades, been conceived and shaped as different strands of spatial policies. Integrated approaches to what we call regional development are, until this days, rather perceived through the lens of growth poles and urban centres, whereas the common concept of rural development has- and I think it is fair to say still is- strongly influenced by the agricultural perspective, despite the introduction of the second pillar of the CAP.”\textsuperscript{61} It has been admitted that urban-rural linkages until now have been the missing link in EU policies with a territorial dimension.

However all efforts are now oriented towards the EUROPE 2020 Strategy or the European Strategy for Smart\textsuperscript{62}, Sustainable and Inclusive Growth where both urban and rural development are expected to contribute. In this respect it is important to consider the three scenarios for Europe by 2020 which have been developed. They are Scenario 1: “Sustainable Recovery” if Europe is able to make a full return to earlier growth path and raise its potential to go beyond, Scenario 2: “Sluggish recovery” when Europe will have suffered a permanent loss in wealth and has to start growing again from this eroded basis and finally scenario 3: “Lost Decade” when Europe will have suffered a permanent loss in wealth and potential for future growth.\textsuperscript{63} It is stated that “in doing so our exit from the crisis must be the point of entry into

\textsuperscript{57} European Spatial Development Perspective (ESDP) Towards Balanced and Sustainable Development of the Territory of the European Union, oc. p 20–26.
\textsuperscript{58} Summary of the 5th Cohesion Report, November 2010, under “Strengthening Governance: Introducing a third dimension: territorial cohesion” p 7.
\textsuperscript{59} Europa-Glossary- Economic, social and territorial cohesion.
\textsuperscript{60} Investing in Europe’s future, Preliminary Version of the Fifth report on economic, social and territorial cohesion, November 2010.
\textsuperscript{62} The significance of “smart” here is in the sense of an economy based on knowledge and innovation. I used the word “smart” in a broader sense including “sustainability” and “inclusiveness” in an article: “A Multipolar World of Smart City-Regions”, in REUPUS 6 (2010): The Atlantic Community, The Titanic of the XXI Century?, Editors: Antoni Kuklinski & Krystof Pawlowski, Nowy Sacz, p 172-181.
a new economy”. It sounds similar to the more optimistic views of Richard Florida in his book “The Great Reset”64 (see under XI).

In any case several efforts are underway in order to support the Europe 2020 strategy by integrated territorial, spatial or place-based strategies for Europe. An example is the first ESPON 2013 Synthesis Report with as title: “New Evidence on Smart, Sustainable and Inclusive Territories”65. In the Executive summary (p 6) it is mentioned: "Place-based policy making to realise the territorial potentials of European Regions and their diversity has a key part to play. A stronger focus on the territorial dimension can improve the coordination and efficiency of public policies and private investments. Territorially targeted measures make use of Europe’s diversity to strengthen economic growth and reduce imbalances in territorial development and enhance social cohesion. Recovery and growth strategies need knowledge and understanding of the territorial structures and dynamics shaping development across Europe, benchmarking the position of regions and cities.”

XI. Epilogue: Visions of the future

Few visions for the future make reference to the urban-rural continuum. Richard Florida calls this period of the actual financial and economic crisis a period of “creative destruction” or an opportunity to remake our economy and society and to generate whole new eras of economic growth and prosperity, what he calls the “Great Reset”. He refers therefore to the Long Depression of the late nineteenth century and to the Great Depression of the 1930s as “the shift from an agricultural to an industrial economy then, the shift from an industrial to an idea-driven creative economy now. The challenge is to accelerate the transition from the old to the new order and, at the same time, to spur the transition to a new geographic framework in which new living habits and work habits can take shape”66. According to him we are moving towards a radically altered and much denser economic landscape organised around “mega-regions” that will drive the development of new industries, new jobs and a whole new way of life with new forms of infrastructure that speed the movement of people, goods and ideas. He sees new patterns of consumption and new attitudes toward ownership that are less centred on houses and cars with the transformation of millions of service jobs into middle-class careers that engage workers as a source of innovation. He states that the history of economic development has been a history of greater expansion and more intense use of land and space. The First Reset saw the transition from small cities and an agricultural society to dense industrial cities. The Second Reset gave us the sprawling suburbs and great metropolitan areas that defined recent times. The current Reset is premised on the rise of a new and even larger economic landscape defined by mega-regions that spread across multiple cities.....Instead of building more highways, we’ll need to invest in high speed rail that can knit these mega-regions together...67. And further he pretends: “The promise of the current Reset is the opportunity for a life made better not by ownership of real estate, appliances, cars, and all manner of material goods, but by greater flexibility and lower levels of debt, more time with family and friends, greater promise of personal development, and access to more and better experiences”68.

65 First ESPON 2013 Synthesis Report (Results by Summer 2010) New Evidence on Smart, Sustainable and Inclusive Territories, Luxembourg.
The optimistic views of Florida\textsuperscript{69} sound similar to the optimistic scenario of Jacques Attali in his book “Une brève histoire de l’avenir” with his belief in the future “hyperdémocratie”, which he sees emerging toward 2060, as a superior form of human organisation and as an expression of the motor of history: freedom. His “hyperdémocratie” (on the condition that the other scenarios “hyperempire” and “hyperconflict” will not be realised) will replace the outdated concepts of “market” and “democracy” with a new type of “relational economy” and the emergence of a “universal intelligence”\textsuperscript{70}. “New forces, altruistic and universalist, already at work now, will take the power worldwide because of ecological, ethical, economic, cultural and political needs”.

But even in trying to construct an ideal world or a “Heaven on Earth” with an optimal mix of urban and rural areas with environmental quality and differentiation, “Big Historians” tell us that the future of the world is rather determined by the universal context to which the world belongs and by phenomena such as climate change and environmental degradation. An eventual “collapse” of our world civilisation is rather to be expected from a possible ecological suicide as Jared Diamond tries to explain by means of several examples, such as the Maya civilisation\textsuperscript{71}. At the end of his book he states that only “archaeologists” (who uncover details of earlier societies mistakes) and television can save the world from disaster. Ian Morris concludes his book referring to “a third savior; history: Only historians can explain the differences that divide humanity and how we can prevent them from destroying us”\textsuperscript{72}.

XII. Concluding executive summary

Prof Kuklinski’s Call for papers 2011 for REUPUS 2011 (Volume 7) with as title: “The Turning Points of World History. The Experiences of the Past. The Expectations for the Future” is only one step in a long term reflection which Prof Kuklinski is organising and inspiring from Poland with different international partners and actually in at least three major working directions. The first is the Regional Development Forum of the Ministry of Regional Development on “The Future of Regions in the Perspective of Global Change”\textsuperscript{73}. Another is the famous Reupus Series of the Business School of the National-Louis University in Nowy Sacz with Volume 6 on “The Atlantic Community. Titanic of the XXI Century?”\textsuperscript{74}. Recently started the “Europe Quo Vadis?” publication of the Regional Development Foundation of Lower Silesia\textsuperscript{75}. The reflection on the turning points in world history is part of the reflections which Prof Kuklinski is organising on “Quo Vadis Poland, Europe and the World?”.

The Chief Editor of TIME magazine Nancy Gibbs, in a recent issue on the last decade 2000–2010, entitled her contribution Time-frames as follows: “The End of History? More like the Start!”\textsuperscript{76}. In the same issue there are 10 Questions for the futurist Ray Kurzweil, who states: “By the time we get to the 2040s, we’ll be able to multiply human intelligence a billion-fold. That

\textsuperscript{69} There are also rather pessimistic views. An example is Prof. Santiago Nino-Becerra of the Ramon Llull University of Barcelona in his book: “El crash del 2010: Toda la verdad sobre la crisis”, Madrid, 2009.
\textsuperscript{76} TIME (2010 December 6) 2000–2010: What really happened?
will be a profound change that’s singular in nature.” And on the question: “Do you think we’ll find intelligent life elsewhere in the universe? His answer is: “The consensus in the field is that there’s somewhere between a thousand and a million technologically advanced civilisations just in our own galaxy. But once you get to a point where we are, within a few centuries at most, these civilisations would be doing galaxy-wide engineering. It’s impossible we wouldn’t be noticing that. So my conclusion is that we may be the first.” It sounds similar to the visionary Polish author Stanislaw Lem in his publications such as “Solaris” in which he predicted already the difficulties of communication with other civilisations in the universe.

But coming back on earth, the so-called “Urban Millennium” of the beginning of the XXI century seems to be at least a symbolic milestone in the transition of a predominant rural towards a predominant urban world. What will be the future evolution? While the West is looking for an Urban-Rural equilibrium and regenerating its cities, the East and in particular China is urbanising rapidly in creating new cities. A good sign is that experiments are going on for creating “eco-cities” such as the Sino-Singapore Tianjin eco-city experiment as a model for sustainable development for other cities in China. In the Japanese mega-polis experiments with the MAGLEV train (magnetic levitation) are in preparation for high speed of 500km/hour competing with more polluting airplanes. Japan is experimenting with smart city technology and trying to export it to India and China. There is for instance the Yokohama Smart City project, a consortium of Japanese companies for creating the energy efficient city of the future in a post-fossil fuel world by means of “smart grids”. In South Korea new city building is even considered as a new industrial activity with New Songdo City as example.

Africa is still a question mark. According to UNHABITAT, Cairo, Kinshasa and mainly Lagos will have mega-city status with more than 10 million inhabitants. But the prediction is that 70% of urban growth will occur in smaller cities following more the example of Europe.

Morris’ book argues that history is a slow, complicated tango between geography and social development. He states: “It is reasonable to suspect that after 2050 Eastern Social Development will catch up quickly.” So there are prospects that the world is not only moving toward an urban-rural, but gradually also toward a socio-economic equilibrium.

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77 Lem S. (1961) Solaris (translated in english in 1987 and two times filmed)
TOMASZ GRZEGORZ GROSSE

EUROPEANISATION AS A TURNING POINT OF MODERNIZATION PROCESSES? THE CASE STUDY OF EU RURAL DEVELOPMENT POLICY

Abstract

The objective of the article is to analyse EU rural development policy, as a possible turning point for modernisation processes in the country. European activities in this field are carried out within Cohesion policy and the Common Agricultural Policy (CAP). Specifically, the article presents the role of the two main governance mechanisms for that policy, the sectoral and integrated. It considers the impact of using both mechanisms on the development of rural areas in Poland. The article claims that the decision to move activities targeted at development of rural areas from the Cohesion policy to the CAP was a turning point as far as the chances of modernisation of rural areas were concerned. The reason for this was that the said decision strengthened the sectoral method of management, and thus narrowed the perspectives of development of rural areas. This aspect was of special significance in the countries and regions whose pace of development is slower, and who in addition have traditions of heavily centralised and sector-based administration.

The analysis is based on the concept of Europeanisation. For the purposes of the article, this concept is defined as the influence of EU membership on the member states. Europeanisation also influences the state administration and the methods of managing public policies. In this way, it also affects modernisation processes of the rural areas. Implementation of the sectoral approach strengthened the departmental method of management of the policy of development of rural areas in Poland. It was consistent with the administrative traditions of the Socialist state and made the modernisation processes in the country more difficult.

The article argues that the method of management plays a crucial role when it comes to the effectiveness of European policies in the field of modernisation. It also points out that European policies (and, to put it more broadly, the influence of Europeanisation on the member states) is to a large degree an accidental result of decisions taken by diverse players who look after their particular interests. Among them, it is the biggest member states who have the most momentum. Meanwhile, the goals of these games of interests are not always consistent with ensuring development and effective modernisation of the areas whose pace of development is slower.
Introduction: Europeanisation as a platform for modernization?

European integration and related Europeanisation processes of public policies in Poland are usually perceived as unequivocally advantageous for modernisation. Whereas EU policies could sometimes impede national development. The good example analysed in this article is EU rural areas development policy. Is it supporting for rural areas perspective of development? Was it a turning point for the governance and direction of modernisation process in the Polish country?  

The modernisation of rural areas in Poland is determined not only by the scale of public funding, including that provided by the EU. What is of large importance is the way the funds are targeted and the mechanisms of managing policy toward those areas. In the case of EU instruments, activities in rural areas fall under the Common Agricultural Policy (CAP) and Cohesion Policy. There are also two main standards of governance models for these instruments; I refer to these as governance methods. The purpose of the present paper is to analyse their evolution and change processes. In terms of programming, the integrated method covers many aspects of rural development and at the same time it attempts to coordinate various activities within governance processes. Thus it covers both the essential elements of public policies and organisational activities and governance methods. The sectoral method, on the other hand, approaches rural development from the point of view of agriculture, forestry and the food sector. It also restricts governance mechanisms to structures subordinate to the Ministry of Agriculture. I am interested in the factors that cause a given method to gain in importance or to undergo change. It is basing on this that I aim to sum up the current debate on the future of European policy on rural development.

I am also interested in how divergent governance models are applied in Poland. This country continues to be marked by its history as a socialist state with its strong tendency toward sectoral administration and weak coordination between the individual public policies. EU membership, and especially aid provided as part of the Cohesion policy, have increased the importance of a territorial perspective in development policy and an integrated governance method. However, strong tendencies toward the sectoral approach continue to be visible. They may become strengthened in the event of a weakening of the integrated method in European policies. I intend to investigate the way in which the selection of the governance method used in Poland and supported on the European stage can influence the modernisation processes taking place in this country.

The issue of governance methods in European policies can be considered through the prism of the Europeanisation concept. The European Union's political actions are carried out within the member-states by national authorities. In this way, the union exercises a strong influence over the directions of the public policies implemented in individual countries and over the shape of their institutional systems and governance methods. The term used in the literature on the subject to describe the European Union's impact on member-states due to implementation of EU policies and law is Europeanisation. It is especially interesting to analyse Europeanisation processes

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Europeanisation as a turning point of modernization processes?

with respect to the organisation and functioning of state administration. The member-states introduce administrative reform partly in response to a growing interest in the effectiveness of European policies\(^4\). For instance, Poland introduced a new administrative division into 16 provinces (1998/1999) in preparation for taking part in the EU regional policy.

Change is usually motivated by the European Commission or other community institutions. They are also the result of member states’ observing each others’ experiences\(^5\). The changes are rarely revolutionary. They also do not aim at a unification of solutions on a European scale\(^6\). The national administrations continue to exhibit strong institutional variation. These are due to different historical traditions and organisational cultures, which shape administrative structures, legal standards and the formal and informal behaviours of civil servants\(^7\). What is more, member-states maintain a high degree of autonomy in determining the way in which EU policies are implemented, suitting it to local administrative conditions and tradition.

Europeanisation processes can be divided into two basic stages. The first consists of influencing the shape of European policies, including their organisational principles. This involves the formation of two parallel governance methods—the sectoral and the integrated. The second stage is when the Europeanisation processes actually take place, with the transfer of models and regulations from the level of the EU to the member-states.

The present article deals primarily with the first stage of Europeanisation, meaning the development of specific organisational solutions and EU policy directions. The key issue at this stage is the way in which Europeanisation standards are formulated. This takes place in the course of discussions between various actors including member-states, representatives of community institutions, lobbying groups, experts, local government representatives and other EU policy stakeholders. This debate usually intensifies during the preparation of the next multi-year financial perspective or the negotiation of European treaties. What I am most interested in are the factors that influence the directions of change in the area of governance. What is the role of the European idea and discourse and how much depends on the interests of EU policy stakeholders? Is there a hierarchy of those interests discernable on the EU stage? Are there relations between ideas, e.g. academic paradigms and expert conceptions, and the interests of the principle actors of the European discourse?

The basic issue in the case of the second stage of Europeanisation is what determines the effectiveness of the implementation of union standards and models in the member-states. Based on previous research, I am assuming\(^8\) that the extent of Europeanisation is greater in the case of transferring hard law than soft law\(^9\). Europeanisation is thus stronger in the case of redistribution

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policies such as Cohesion policy and rural development policy, that make use of European funds. Here there are greater possibilities to effectively discipline aid recipients through “hard” legal regulations.

According to the literature\textsuperscript{10}, the pressure to Europeanize by adopting governance methods and direction of public policies is much greater in the new member-states than in Western Europe. In Central Europe, the political system transformation led to an active search for new governance methods for public policies. That increased this region’s openness toward accepting models from the European Union. In addition, implementation of EU law and adoption of a number of governance methods in public administration were a condition for accession to the European Union. The fact that European integration was a priority for a large part of the political leaders of the region facilitated the transfer of European institutions and governance methods.

A hindrance to the Europeanisation process is the fact that the standards are not uniform or mutually compatible. This is e.g. the case with the simultaneous promotion of integrated and sectoral governance mechanisms in European policies. The diversity, low level of compatibility and sometimes even conflict between different governance mechanisms not only limit the effectiveness of Europeanisation but also transfer conflicts and organizational problems from the European to the national level. They stimulate national the conflicting of interests which play a crucial role in the rivalry over the form of institutional solutions. In such a situation, the effectiveness of Europeanisation processes depends largely on local conditions. Europeanisation will be stronger in the event of agreement between the institutions being adopted and local administrative conditions, i.e. the institutional system and administrative tradition and culture. This means that the decision to choose the integrated or sectoral governance mechanisms is determined largely by national preferences.

\textbf{Two governance methods used in rural area development}

From the signing of the Treaties of Rome in 1957 until the beginning of the 1990s, the Common Agricultural Policy was dominated by an interventionist approach and served mostly to stimulate the growth of farm production. It is thus only natural that—both at the programme level and in the area of governance—it was based on a sectoral method. The way in which this policy functioned was largely determined by the interests of a sectoral lobby. The financial interests of the largest member-states were also important, with disbursements under the CAP representing a way of regaining part of their contribution to the EU budget. According to the European Commission\textsuperscript{11} the main beneficiaries of the policy in 2005 were France (approx. 21.6 percent of the entire CAP budget), Spain (approx. 14 percent), Germany (13.5) and Italy (11.4).

The position of the largest countries—France and Germany—was decisive. An example of such influence are the decisions made at the agriculture ministers’ conference in Stresa (in 1958), where France and the Netherlands forced Germany into concessions regarding CAP in exchange for establishing a customs union. A characteristic trait of this agreement was that it concerned an exchange of benefits between sectoral interest groups. The German industrial interest groups


obtained an opportunity to expand on a common market in exchange for benefits to the farm lobby, represented mainly by the government of France. The agreement is termed the “iron pact of rural policy” and was later referred to several times in French-German negotiations on the allocation of European budget funds and the future of agricultural policy.

According to researchers the beginnings of the Common Agricultural Policy are connected with two additional political motives. The first was to provide social security for farmers in a common market, which required ensuring stability and increasing their income. This shows the importance of the welfare state idea in the years following the war and applied to, among others, rural residents. This concept led to the formulation of Europe's first redistribution policy and the further strengthening of the farming lobby. The second cause was the desire to transfer the burden of the agricultural policy from the national level to the community level, together with the related political and financial responsibilities for agricultural issues. The plans did not fully succeed, however. The rural electorate remained strongly rooted in the national electoral systems, which means that national politicians continue to be influenced by these pressure groups. This is one of the reasons for the durability of the CAP and most member-states' active interest in that policy.

In 1998 the guidance section of the European Agricultural Guidance and Guarantee Fund (EAGGF) was transferred out of the CAP and under Cohesion policy. This occurred at a time of the greatest growth of regional policy within the community and was the result of reforms initiated by European Commission head Jacques Delors (1988–1999). His role in supporting Cohesion policy as well as the integrated governance mechanisms, are especially noteworthy. It was an instance where a strong leader pushed for an integrated method which limited sectoral interests and posed new challenges for bureaucracy. Strengthening the dimension of socio-economic cohesion within the union compensated for the successive stages of building a common market, including the introduction of a European currency. It was also caused by political pressure from the slower developing member-states and of the political negotiations that accompanied each European Union enlargement.

Initially the guidance section of the EAGGF served to fund activities to modernise farms and to support farmers operating in areas not favourable for agricultural production. Over time, it began to focus more on supporting the diversification of farming activity, as well as development of non-agricultural activity in rural areas. It was coordinated with actions financed out of other structural funds. That meant that funding rural development within the Cohesion policy promoted the gradual introduction of the integrated governance method. In spite of this, programmes aiming at rural area development still had a clear sectoral character. Rural development was funded partly under Cohesion policy and (to a smaller extent) within the CAP. The decided majority of EAGGF funding was transferred to farmers as part of sectoral support of individual markets (during 2000–2006, only about 15 percent of funding was allocated to rural development).

An interesting example of targeting rural support funds is the way they were implemented in Poland between 2004 and 2006. The main funding source was the Rural Development Plan implemented within the CAP with a budget of 14.2 bln zlotys. It was aimed at sectoral objectives relating to supporting agricultural activity in areas unfavourable for farming and for adapting farms to EU standards. It also paid out structural pensions and was partially responsible for area payments. It was administered by the Ministry of Agriculture. In addition, Poland performed the Restructuring and Modernization of the Food Sector and Rural Development Sectoral Operational

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Programme. It was funded within the Cohesion policy and had a budget of 6.8 bln złoty (over two times smaller than the development plan mentioned above). This programme was also dominated by sectoral objectives related to investment in farms and improvement of farm product processing and marketing (61 percent of the total programme allocations). It was administered by the agriculture ministry with only symbolic participation by province governments. Another Cohesion policy instrument for implementing tasks relating to rural development was the Integrated Regional Development Operational Programme, which allocated approximately 2.35 bln złotys\(^\text{14}\) to rural areas. This programme contained a much larger variety of activities related to rural areas and was not governed using the sectoral method.

The example of rural development actions in Poland between 2004 and 2006 shows that the sectoral method was combined with the integrated one. Even though a large part of the work was funded under the Cohesion policy, it was the sectoral mechanism that was also important. This was due to the unclear inconsistent models received from the European Union. Europeanisation processes were supported by both the sectoral and integrated public policy governance mechanisms. Also important was the departmental approach of most Polish decision makers. Evaluation studies\(^\text{15}\) show that in spite of the integrated approach being promoted within Cohesion policy, the Polish administration experienced difficulties with coordinating joint activity and overcoming sectoral barriers. As a result, assistance to rural areas remained centralised under the responsibility of the central government and largely subject to the logic of the sectoral mechanism. Research\(^\text{16}\) has shown that the funds allocated to Poland’s rural areas during that period were largely limited to farming (with development of non-agricultural activity in those areas being assigned no more than 7 percent of the funds). In addition over 50 percent of the funding consisted of social transfers which served only to increase the farmers’ income. It would be difficult to term this a pro-development approach.

### Turning point of the European rural development policy

The decision to move the activities connected to the development of rural areas from the Cohesion policy to the CAP had a special significance for directing the management processes within the European policy. The decision strengthened the sectoral mode of management, which is less beneficial for rural areas than integrated management. The said decision can be viewed as a *sui generis* turning point, which will also have long-term political, economic and social consequences. In this chapter I intend to study the factors that contributed to reaching this decision. I contend that the subtle game of interests in which the shaping of European policies is involved can diminish the positive influence of Europeanisation on the modernisation processes in member states.

The agricultural policy reform processes that started in the 1990s led to, among others, increased interest in rural area development and later on resulted in the transfer of a large part of the activities and funds related to these areas back within the CAP. International pressure to radically reform the community’s agricultural policy system was growing since the 1980s, due partly to the trade negotiations being conducted within GATT and subsequently the

\(^{14}\) It was estimated on the basis of: *Kierunki rozwoju obszarów wiejskich. Założenia do Strategii Zrównoważonego Rozwoju Wsi i Rolnictwa*, Ministerstwo Rolnictwa i Rozwoju Wsi, Warszawa, styczeń 2010 r., p. 54.

\(^{15}\) *Ocena systemu realizacji polityki spójności w Polsce w ramach perspektywy 2004–2006*, EGO s.c., Warszawa 2010, p. 92.

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WTO. It is worth remarking that in this case the expectations of external economic partners regarding lowered interventionism on agricultural markets and decreased support for food exports coincided with the interests of Europe’s industrial sector. Europe’s industry wanted to expand on international markets, and this expansion could be at risk in the event of difficulties with international trade negotiations. Once again there was an instance of an exchange of benefits between the industrial and agricultural interest groups, with the interests of the continent’s largest conglomerates and economic sectors proving stronger. In addition, there was increasing social pressure for farming sector reform—consumers unhappy with rising food prices and the powerful environmental lobby. Other organisations that pointed out the effects of agricultural policy on increasing world poverty and the concentration of benefits from the CAP in the hands of a small group of the largest landowners or food conglomerates also became more active. These accusations compromised political legitimacy of the CAP and created pressure for its overhaul.

As a result of these processes, politicians and officials working on the topic of agriculture began to focus more on the issue of environmental protection and directing the CAP towards rural development. These changes were intended to restore the legitimacy of the Common Agricultural Policy and broaden the circle of interest groups supporting the policy to include environmental activists and inhabitants of rural area (not necessarily those connected with agriculture) 17.

An analysis of the European discourse on CAP reform shows that during the first part of Franz Fischler’s term as the EU commissioner responsible for agriculture (1995–2004) rural development appeared in his statements as something supplementary to other CAP sectoral mechanisms. As the years went by, however, rural development came to the fore, which influenced political decision-making. As part of the Agenda 200018 reform package, undertaken in connection with the Union’s next financial perspective and the planned expansion of the Union—the development of rural areas became the second pillar of that policy (1999). In his statements, Commissioner Fischler began to emphasise questions of environmental protection and a multifunctional approach to rural development and agriculture19. This was reflected in the changes in agricultural policy introduced under Agenda 2000.

Experts note20 that although activities for rural development became more important in EU agricultural policy, they were primarily aimed at farmers, and distributed within sectorally managed programmes. Moreover, although the funding of rural areas increased (from about 5 percent in the 1990s to about 15 percent in 200421) the majority of CAP funds continued to be spent in areas directly related to agriculture. It can thus be said that the changes were part of rhetorical manoeuvres designed to improve the image of the CAP and strengthen the policy’s position among other European policies. That is why this policy is accused of institutionalised hypocrisy22, that is, of the divergence of rhetorical manoeuvres and of actually pursued objectives and the direction of EU fund allocation. The reforms had a small effect on changing sectoral method of the CAP governance. Actions initiated in the area of European discourse, on the other hand, contributed to the improvement of the CAP’s political position. Commissioner Franz

17 K. Zawalińska (2009), p. 95.
Fischer often criticised the ineffectiveness and excessive complexity of rural development funding both through Cohesion policy (guidance section) and rural policy (EAGGF guarantee section)\(^{23}\). His statements made it easier to transfer a portion of the funds and activities related to rural development from Cohesion policy to agricultural policy.

This decision was motivated by the financial interests of the largest member states. The negotiations of the EU 2007–2013 budget followed Chancellor Gerhard Schröder’s and President Jacques Chirac’s October 2002 agreement to keep CAP expenditures during the next financial cycle at their 2006 level (with a small adjustment by an index lower than the forecast inflation rate). Also agreed were mechanisms for funding the policy after EU expansion that were favourable to the countries of the old “EU 15”.

This decision was beneficial for France—the largest recipient of agricultural policy aid. It guaranteed high transfers within that policy taking into account the upcoming EU expansion. At the same the decision opened the door to the EU’s expansion eastward which was supported by Germany.

The decision to transfer rural development and fisheries policy funds to the CAP should also be viewed in a financial context\(^{24}\). EU agricultural policy expenditures were frozen, and the Cohesion policy was to play a larger role in the new member states than the CAP. In this situation the transfer of additional funds to agricultural policy meant that France and the other old member states could expect to receive larger farm subsidies from the EU budget. It should be noted that the person who played a leading role in preparing this decision was the then-commissioner for regional development, Michel Barnier, later the minister of agriculture in France. According to those I spoke with\(^{25}\) he was the one who initiated talks on removing part of the funds from Cohesion policy. His partner was commissioner Franz Fischler, responsible for agriculture in the European Commission. The decision was announced by both commissioners in November 2003 at the Salzburg conference “Planting seeds for rural futures—building a policy that can deliver our ambitions”. It was supported by many member states (including France, Austria, Spain, Italy, Greece, Portugal, Sweden and Germany), as well as the agricultural lobby (at the Union level and in most member states). The change was also supported by environmental organisations which believed that it would have a positive impact on environmental protection and would increase complementarity between various EU policies. The traditional supporters of regional policy, on the other hand, had certain reservations, but did not mobilise forces to block the proposals in the European debate.

An important factor was the opinion of the Brussels bureaucracy, which to a large extent accepted the proposed changes. This was connected with a desire to simplify the governance of regional development activities between various European Commission directorates. The concentration of governance and funds in the directorate responsible for agricultural policy was meant to prevent a duplication of procedures in EU activities in rural areas. It was also intended to improve the quality of governance within the CAP toward the integrated method, among others by transferring methods used heretofore in Cohesion policy, improving coordination and synergy between European policies. It was also diversify the activities used in rural areas, including their structural (and non-sectoral) development dimension. According to my sources\(^{26}\) the officials responsible for agriculture believed that a strong argument in favour of the change was that it concentrated European policy instruments within the directorate that dealt more closely with the

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\(^{24}\) Interview with senior representative of the European Commission, September 2010.

\(^{25}\) Interview with representative of the FAPA, July 2010; Interview with representative of the European Commission, July 2010; Interview with representative of the Polish Ministry of Agriculture and Rural Development, July 2010.

\(^{26}\) Interview with the Member of the European Parliament, August 2010.
problems affecting rural areas and would be better at applying them in the future. Some officials in charge of regional policy, on the other hand, supported a stronger reorientation of Cohesion policy toward the Lisbon goals and questions of promoting regional economic competitiveness. This meant that their attention was focused primarily on urban development policy instead of activities conducted in rural areas which they associated primarily with conventional cohesion instruments. This is confirmed by specialists’ papers which point out that since the end of the 1990s DG Regional Policy officials have exhibited a growing interest in issues of urban development. This tendency was demonstrated by successive proposals for community instruments to support development of urban areas.

The communication of the Commission on the 2007–2013 financial perspective, issued in the summer of 2004, confirmed the agreements of commissioners Michel Barnier and Franz Fischler. It presented information on the removal of fisheries and rural development funds out of the structural funds category, and hence outside Cohesion policy. 2005 saw the establishment of the European Agriculture Fund for Rural Development (EAFRD), whose funds were reallocated from the former guidance and guarantee sections of the EAGGF. After 2006, the inter-governmental institutions’ work on aid to rural areas was conducted without the proper coordination with the Cohesion policy preparation actions. This led to the development of separate regulations on the two policies by two separate working groups. The Regulation on support for rural development was developed earlier than the regulations dealing with Cohesion policy, which further interfered with the complementarity of work undertaken at the community level. The lack of necessary consultations at the legislative work stage had a negative impact on the coordination of these policies later on, and especially during the construction of governance mechanisms in the member-states. It also contributed to strengthening the sectoral governance standard in relation to rural development.

The transfer of activities relating to rural development from Cohesion policy to the CAP was received negatively by regional policy circles and positively by persons connected with agricultural policy. However, as all my sources agree, the change did not improve the coordination between the two policies. Rather, it only deepened the divisions between them, hindering the complementarity of actions in rural areas. It should be recalled that during the 2007–2013 period, the instruments supporting these areas still exist in both Cohesion policy and in EU agricultural policy. For example, in Poland within the Cohesion policy rural development is being supported by sixteen regional operational programmes, and the sixth horizontal objective of the National Strategic Reference Framework, which applies to all the sectoral programmes of this policy. This means the duality of approach to rural development continues to exist and the coordination problems have been exacerbated. An analysis of European discourse bears this out. After 2006, references to coordination between the CAP and Cohesion policy were practically never heard in statements made by agriculture commissioner Mariann Fischer Boel. The European regulations and programme documents for both policies were developed separately, as were the strategic documents at the national level. The operating systems in most of the member-states are functioning separately as well. In addition, the activities within the CAP are implemented

29 Interview with the member of the European Commission, July 2010.
30 Interview with the Member of the European Parliament, August 2010; Interview with the official of the European Commission, July 2010; Interview with official of the Polish Ministry of Agriculture and Rural Development, July 2010.
according to the sectoral mechanism while the implementation of Cohesion policy activities usually follows the integrated approach. Frequently—as is the case in Poland—with regional operational programmes.

Another difficulty in coordination was caused by the introduction of the requirement for national governments to determine a so-called demarcation line between Cohesion policy and CAP activities. This community initiative was intended to limit the doubling of tasks within the two policies but in fact became a serious obstacle to their correct coordination. “The logic of separation of activities won out over their integration.” It should be emphasised that this was an effect of Europeanisation that reinforced sectoral tendencies within the national administrations. In that way, the requirement for the demarcation line contributed indirectly to the weakening of the ability to conduct agricultural policy activities in line with the integrated mechanism. “A large portion of the areas of rural development support falls under cohesion policy, either entirely—e.g. education, healthcare, the information society, local roads, the regional transportation system—or mostly, e.g. enterprise, water supply and sewage projects and waste governance.” In this way, the demarcation line does not allow for wider diversification of activities within agricultural policy, which means that its impact is concentrated around the agricultural sector.

On the other hand, the removal of a large portion of the funds allocated to rural development from the Cohesion policy has decreased its sensitivity to rural problems. According to one opinion, it moved the policy even further toward the paradigm of stimulating regional competitiveness, focusing primarily on urban growth centres. This opinion is confirmed by the Polish Ministry of Agriculture and Rural Development, according to which the selection criteria used within Cohesion policy programmes clearly favour larger-scale projects, and hence mostly applicants from large cities. The European Parliament has also perceived the risk of Cohesion policy funds being used primarily to develop competitiveness of the larger urban areas or the most active regions. The rural policy carried out within the CAP, on the other hand, focuses on sectoral objectives related to improving the competitiveness of agriculture. Paradoxically, this may lead to rural issues and problems being marginalised by both these EU policies.

According to a representative of the agriculture ministry, the change in rural development governance after 2006 achieved only limited success in transferring governance mechanisms from Cohesion policy to agricultural policy (which was supposed to increase the policies’ complementarity). On the contrary, the Cohesion policy activities had to adapt to the governance mechanisms used within the CAP, including relating to the paying agency accreditation of beneficiaries. My source believed that the organisational changes were complicated and caused serious delays in the implementation of the Rural Development Operational Programme after 2007. It can thus be said that the sectoral governance mechanism of rural development programmes encountered during the previous EU budget period has been maintained. The removal of these tasks from the Cohesion policy has additionally reinforced this governance mechanism, among others by decreasing the level of inter-ministerial coordination.

33 Interview with the official of the Polish Ministry of Agriculture and Rural Development, June 2010.
34 Kierunki rozwoju obszarów wiejskich. Założenia do Strategii Zrównoważonego Rozwoju Wsi i Rolnictwa, Ministerstwo Rolnictwa i Rozwoju Wsi, Warszawa, styczeń 2010 r., p. 89.
35 Interview with the Member of the European Parliament, August 2010.
36 Kierunki rozwoju obszarów wiejskich, p. 90.
38 Interview with the senior official of the Polish Ministry of Agriculture and Rural Development, June 2010.
Experts have noticed that over the years, rural development policy conducted within the CAP has increasingly come to include environmental and non-agricultural activities. They point out, however, that agriculture—especially the largest farms and food enterprises—continues to be the largest beneficiary of this policy. During the 2007–2013 period, about 85 percent of the funds expended within the CAP 2nd pillar was allocated to the first two axes of the rural development policy, closely tied to the agriculture sector. These are activities aiming at increasing competitiveness of agriculture and forestry, as well as agriculture-environmental programmes. The remaining axes of this policy, dealing with improvement of living standards of the residents of rural areas and with local development strategies (within the LEADER programme) have been assigned—in the EU as a whole—only 15 percent of the EAGGF funds. Also in Poland funding is allocated primarily to the first two axes of the policy. They account for over 80 percent of the value of the value of the Rural Development Programme 2007–2013. Specialists point out that compared with the previous EU funding period (2004–2006) there has been an increase in funds allocated to non-agricultural sectors of the economy (from 7 to 17.5 percent of the total funding) and the share of funds intended to increase effectiveness. However they emphasize that in Poland, rural development policy continues to be aimed primarily at farmers and owners of forests, while in most provinces agriculture is not the rural population’s main source of income.

The European Parliament has pointed out that the level of the CAP 2nd pillar funding during 2007–2013 was significantly decreased in comparison with the original assumptions, which means that rural development policy may prove ineffective and result in deepening the divisions between farmers and the other residents of rural areas. It stresses the policy’s insufficient level of support for alternative economic activity and occupational diversification in rural areas. It has expressed concern over the insufficient coordination of CAP activities with Cohesion policy, both at the community level and in the member states. The Parliament notes that “in this process the emphasis was mainly placed on ensuring the demarcation of the various funds and programmes, rather than creating synergies from them.”

Let me conclude the this part of my paper by pointing out that during the 2007–2013 period difficulties with executing the integrated governance standard also became apparent in Cohesion policy. This was due, among others, to the introduction of single-fund programmes. Simplifying activities in this area was the result of a rational approach by officials who were attempting to limit the complicated settlements between individual European Commission directorates. At the same time the new changes made it more difficult to coordinate activities conducted under separate different EU funds. In that way it strengthened departmental tendencies present in many member states making it more difficult to coordinate sectoral activities even within the Cohesion policy. Poland also experiences difficulties with coordination, which was conducted by the Ministry of Regional Development. According to one opinion this was due to the government’s weak political leadership. This led to increased influence of sectoral ministers, who are rather unwilling to follow the integrated standard used in Cohesion policy. The problem of coordination among Polish ministries has also appeared in the case of national development policies and Polish policy in the European arena (especially following the dissolution of the Office of the Committee for European

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43 Ibidem.
44 T. G. Grosse, Ł. Hardt (2010), chapter 5.
45 Interview with the senior official of the Polish Ministry of Regional Development, June 2010.
46 Interview with the senior official from European Commission, September 2010.
What are the chances the future of rural development policy could change?

A European Parliament resolution calls on Union decision makers to introduce an integrated approach in rural development policy in the next EU budget cycle. This relates primarily to a stronger diversification of aid activities aimed at increasing the competitiveness of the local residents’ non-agricultural economic and professional activities. In the Parliament’s opinion an integrated approach also covers greater coordination between various European policies and funds, especially with Cohesion policy and regionally implemented financial mechanisms. Interviews with persons involved in negotiating future European policies show that although there is a chance that certain changes supporting the use of the integrated standard will be introduced, nevertheless serious reforms in rural development policy after 2013 should not be expected. This is especially true of the dominance of sectoral funds in the CAP, sectoral governance methods, and the high likelihood that difficulties will remain in the area of coordination with other European policies.

The study of the European discourse indicates a possibility of change in rural areas policy, among others, towards a greater recognition of environmental issues and climate challenges. The European Commission has announced it will target the future CAP toward making agriculture more “green” and its better adjustment to climate changes. Other European documents summing up the state of the debate on the future of rural development stress the need to increase the diversity of aid activities. A number of proposals deal with social issues, including improving the local population’s quality of life and access to public services, increasing rural residents’ incomes and alleviating their social exclusion. The European debate has also included voices proposing an increase in economic diversity in rural areas, including supporting the development of services and entrepreneurship, and even innovation and R&D activities.

We should however note that a high proportion of the proposals continue to be closely tied focus on sectoral objectives. This is true of, among others, increasing funds for nature conservation, protecting natural resources and the landscape in agricultural activity, using agriculture to increase the production of renewable energy sources, increasing farmers’ income, ensuring food security, supporting diversity and high quality of agricultural production, introducing new technologies and innovation to agricultural activity, etc. In EU documents the term “diversification” is

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51 The CAP towards 2020: meeting the food, natural resource and territorial challenges of the future, Communication from the Commission to the Council, the European Parliament, the European Economic and Social Committee and the Committee of the Regions, COM(2010) version finale, Brussels 2910912010, p. 3.
53 Ibidem, s. 11.
54 Ibidem, s. 4-5, 9.
55 The CAP towards 2020, s. 7.
increasingly applied to structural changes in farms and not to seeking new forms of non-agricultural economic activity. In its proposal for agricultural policy reform after 2013 the Commission stresses that agriculture remains the “engine” of rural development, and the future of these areas depends primarily on the development rate and competitiveness of the agricultural sector. The analysis of European discourse bears out the high and even growing importance of the sectoral approach to the future of the CAP. Statements by commissioner Mariann Fischer Boel have indicated the importance of the issue of food security, which is related to maintaining Europe’s agricultural production potential. Based on her public statements, the importance of rural development policy is secondary to sectoral objectives. It is primarily connected with the issue of climate change and serves to legitimise the CAP in order to maintaining its current funding levels. The Commission’s proposals regarding the future agricultural policy of the EU also puts the challenges of food security in the first place, while rural development comes last.

My sources also point out that the primary objective of the EU politicians and officials responsible for the CAP is to maintain the highest possible budget, especially in the 1st pillar of the policy, which covers sectoral issues. Any increase of the variety of actions within rural development policy (the 2nd pillar) will not be accompanied by a corresponding increase of the policy’s budget. Instead, possibilities are being sought to limit this pillar of the CAP and increase the scope of funding of the sectoral actions performed within the 1st pillar. This means that after 2013 rural development policy cannot be expected to obtain a significantly larger budget but only to have the scope of activities extended. Many of these continue to be strongly tied to the sectoral approach and are aimed at farmers, owners of forests and food processing enterprises. This highlights the fact that the changes introduced so far have been rhetorical in character and intended to increase the CAP’s legitimacy rather than qualitatively change the policy toward rural areas.

My sources say that what the new members-states from Central Europe are trying to achieve in the budgetary discussion is to ensure that after 2013 the funding mechanisms within the 1st pillar for the “old” and “new” member-states are comparable (until now, the countries of the old “15” enjoyed financial preferences). Western European countries, on the other hand, are pressing for eliminating mechanisms of calculating subsidies within the 2nd pillar of the CAP for less-developed countries (based partly on the so-called Berlin methodology). The proposals clearly show the impact on the shape of future European policies of financial negotiations and member-states’ interests regarding fund transfers from the European budget. They also demonstrate that Poland, like the other less-developed member-states, has difficulties with maintaining the financial preferences within the 2nd pillar of the CAP. This should convince these countries to move these funds to Cohesion policy, which gives a higher probability of maintaining preferences for the more slowly developing member-states.

There have been suggestions within the European discourse to regionalise the rural development policy implemented under the CAP. It has been proposed that these actions be adapted to regional and local conditions (as is the case with the Leader programmes), that coordination and governance at the local level be increased and that the actions be more closely tied to regional development strategies etc. There have also been proposals to give the member-states more flexibility in programming the activities, which could lead to increasing the powers of national

\[56 \text{ Ibidem, s. 5.}
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\[57 \text{ Ibidem, s. 4.}
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\[58 \text{ Interview with the senior official from European Commission, September 2010; Interview with the senior official of the Polish Ministry of Agriculture and Rural Development, June 2010.}
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\[59 \text{ Interview with the senior official from European Commission, September 2010.}
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\[60 \text{ Report on the Contribution of the European Network for Rural Development..., s. 13, 15.}
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ministries responsible for agricultural policy. In the opinion of a large proportion of my sources, the probability that the present sectoral governance principles applied in this area will be changed is low. This is due mostly to most national-level decision makers’ belief that sectoral governance offers greater competencies and organisational resources in the area of rural and agriculture governance than do other areas (levels) of public administration.

As recently as the end of 2009, European politicians involved in regional development activities were suggesting that actions relating to rural development had to be transferred from the CAP to Cohesion policy. Commissioner Fischer Boel firmly rejected this option, however, as did regional policy Commissioner Johannes Hahn. This practically closed the debate on the possibility of reversing the 2003 decisions. This development means that there will be no new turning point in the European policy in the coming years. To the contrary, we can expect a perpetuation of the extant tendencies.

It should be pointed out that the interest groups coming out most strongly in defence of 2003 decision are those connected with agricultural policy. This is due to many reasons, but mainly with the desire to defend the future CAP budget. My sources also frequently admitted that rural development would be better served by the CAP than Cohesion policy, which is becoming more and more focused on “growth engines” instead of rural areas. They also believe that Cohesion policy funding is more liable to be cut during the upcoming EU financial negotiations and so transferring funds to it from the CAP would be counterproductive.

The need to improve coordination between the CAP and Cohesion policy has been raised several times in the European discourse. One of the solutions in this area could be to formulate one programme document at the EU level for several funding instruments such as the EAGGF, the European Fisheries Fund and structural funds related to Cohesion policy. Several commissioners responsible for European policies connected with those funds have even come out with such an initiative. This demonstrates the level of advancement of the discussion on increasing the level of integration between rural development activities conducted within the CAP and Cohesion policy.

Nevertheless, many of the persons I spoke were sceptical as to the real chances for improving coordination in this area. The political initiative in this case belongs to the European Commission’s directorate general responsible for agriculture, which decreases the chances for greater coordination effectiveness since Agriculture, unlike DG Regional Policy, prefers the sectoral governance mechanism to the integrated one. Respondents emphasised among others the small probability of abandoning single-fund programmes, which seriously interferes with the ability to build operational programmes that would be financed both out of the EAGGF and structural funds. Cross-financing (between different EU funds) remains a certain option, but it should be

61 Interview with representative of the FAPA, July 2010; Interview with representative of the Polish Ministry of Agriculture and Rural Development, July 2010.
65 Interview with representative of the Polish Ministry of Agriculture and Rural Development, July 2010; Interview with representative of the FAPA, July 2010.
68 Interview with representative of the Polish Ministry of Agriculture and Rural Development, July 2010; Interview with representative of the FAPA, July 2010.
69 Interview with senior representative of the European Commission, September 2010.
considerably simplified and, in many programme areas, made more flexible. The demarcation line mechanism that increases the separation between CAP and Cohesion policy activities will also be retained in the next budget cycle. Much depends on whether it will be possible to unify organisational principles and fund distribution mechanisms—including public assistance and VAT settlements, as well as oversight, monitoring and evaluation—between the two policies. The next problem relates to the fact that many governance issues have been left within the competence of the member-states. And at the national level, structures that prefer the sectoral mechanism and are somewhat negative toward coordination with regional policy are usually dominant.

Summing up, it can be expected that after 2013 the EU’s agricultural policy will be dominated by activities within the 1st pillar, and thus be focused on sectoral objectives. Rural development policy (the 2nd pillar of the CAP) will also be devoted largely to actions related to modernisation of agriculture and its adaptation to environmental issues and climate challenges. This means that the sectoral governance mechanism will become dominant both on the substantive and organisational level. It is also probable that the current difficulties with the coordination of the CAP with other development policies, including the Cohesion policy, will remain.

Conclusion

This paper considers governance methods from the perspective of Europeanisation concepts. In the literature, this term refers to the influence of EU law and policy implementation on member state administrations. A basic problem is that in rural policy development in Europeanisation processes we encounter two divergent governance standards and two separate Union policies. It should noted that this discrepancy, or even inconsistency of EU models is not accidental, but is an essential feature of Europeanisation. For example, the principles of competitiveness policy relating to limiting public assistance frequently interfere with Cohesion policy, including by complicating procedures and lengthening the fund absorption process. However, the key issue is that both policies are accompanied by different economic paradigms. Thus, a liberal philosophy that favours market development mechanisms collides with a philosophy of public interventionism, which considers such support necessary, especially in areas that are developing more slowly.

The sectoral approach dominates in EU agricultural policy. This is related to the central role of support for sectoral activities, both within the 1st and 2nd pillars of the CAP. Although rural development is being spoken of more and more often, agricultural policy funds continue to be earmarked mainly for tasks related to agriculture, and their recipients are usually farmers, forest owners and food sector businesses. This state of affairs curtails modernisation processes in the rural areas, especially in the countries and regions whose pace of development is slower.

Therefore, rural development policy serves more to legitimise the CAP and keep its budget high than to further actual economic diversification in rural areas. A symptom of the sectoral approach used within the CAP is also basing its governance on an administration specialised in agriculture. This bureaucracy is usually unfavourably disposed toward decentralisation or regionalising implementation, as well as closer coordination with other development policies, including national regional policies and the Union’s Cohesion policy.

Cohesion policy, on the other hand, is based on an integrated approach to governance, which is more favourable for the modernisation of rural areas. Even though a tendency to use the sectoral mechanism also appeared in the area of rural development. An example of this phenomenon

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was the way that programs to develop rural areas were implemented within Cohesion policy in 2004–2006. Differing standards in Europeanisation meant that local conditions had an impact, and these were usually more likely to favour sectoral governance mechanisms. It should be noted that in recent years the implementation of the integrated standard in Cohesion policy has encountered certain difficulties. This is a result of the conflict of interests in the European arena. For example, net contributors to the EU budget increasingly aim to limit cohesion expenditures and move the saved funds to other development policies, which will have more of a supporting effect on the development of their economies. They are supported by sectoral interest groups which during the economic downturn (2008–2010) have gained an important political role both in the union and in the member-states. These interest groups are usually stronger and more influential than those which support Cohesion policy. One example is the agricultural lobby, which has strong organisations, the support of administration connected with this sector and exercises a strong and permanent influence in national electoral systems. Meanwhile, the Cohesion policy lobby is dispersed and less able to unite behind its financial interests. Another factor that weakens the integrated mechanism is officials' rationality. In striving to streamline organisational procedures, they limit the possibility of performing integrated actions, which are usually more complex and require additional coordination. As a result, the integrated standard encounters a number of problems with implementation and actions to promote it are more often spoken of than actually performed. European policies are becoming more dominated by governance methods closer to the sectoral principle, which leads to problems with coordinating various European policy instruments.

Europeanisation processes are of primary importance to shaping governance mechanisms in the member-states. This is especially true of the union's formal regulations defining the organisational and financial principles of EU fund implementation. This in spite of the fact that the details of implementing EU funds are left largely up to the member-states. The analysis presented in this paper proves that in Europeanisation, when there are divergent governance mechanisms, local administrative conditions become more important. These include mostly existing system solutions and administrative traditions, as well as the dominant bureaucratic and political interests. These traditions can be reinforced further when preferences toward governance mechanisms that are compatible with them come to the fore on the EU level. The fact that the sectoral mechanism has been applied to an increasing extent in the EU can be expected to reinforce those circles in the member-states that support sectoral governance mechanisms.

The analysis so far also seems to point to the conclusion that Europeanisation processes are not static but are in fact undergo deep changes over time. These changes are determined by the structuring of the content of European policies and law in the European discourse, relating especially to policy directions and governance models. Policies are usually changed upon the introduction of new treaties or during the preparation of the next multi-year EU financial perspective. The European discourse pits various ideas and academic paradigms against each other. They are used to support specific change directions, legitimise specific EU policies, including the need to fund them out of the EU budget.

However, what is most important are not the ideas, but the interests of the main players on the European scene which underpin them. It is those interests that determine whether the changes being initiated remain only on paper, or whether they are actually implemented. The most important are member states, especially the largest contributors to the EU budget. Their approach is dominated by their financial interest, i.e. maximising the disbursements they receive from the EU budget. They were the factor determining changes in rural development policy. A good example is a groundbreaking decision regarding the policy which was taken in 2003.

The transfer of some funds from Cohesion policy to the CAP was a way for some states to ensure that they would continue to receive high levels of financing from the EU budget after the EU’s eastward expansion. In addition, decision-makers from European institutions, including representatives of the European Commission directorates, have large influence, as do, albeit to a smaller extent representatives of other community institutions. The analysis conducted has shown that the actions of high Commission officials are sometimes closely coordinated with national European policy objectives (which means that they are not impartial defenders of community interests). Also, a weak political leadership in the Commission strengthens the sectoral interests of the Directorates and the rationalising impulse of officials who try to streamline governance mechanisms. This usually favours the sectoral method and hinders the integrated method in EU policy governance. Another factor are the various lobbies that can influence European structures both directly and indirectly through national political institutions. This is especially true of the strongest voter groups, which are closely connected to “sectoral” political parties, for instance the agricultural lobby whose impact on election in Europe is out of proportion with the actual number of farmers in the population. Changes in the CAP are also determined by external conditions, including international pressure which accompanies trade negotiations. It should be noted, however, that the pressure from the EU’s internal sectoral interest groups is also not without significance. For example, industrial groups may lobby for changes in agricultural policy because of the benefits they expect to gain in global trade.

European integration and related Europeanisation processes of public policies in Poland are usually perceived as unequivocally advantageous for modernisation. Whereas EU policies could sometimes impede national development. The good example analysed in this article is EU rural areas development policy. It is strongly sectoral oriented, what is hampering for Polish rural areas perspective of development. In this manner European integration was not a turning point for the governance and direction of modernisation process in the Polish country. European policies rather strengthened sectoral way of governance in rural areas, what is in accordance with socialist state administrative tradition (1945–1989).

Governance based on the integrated method would be more beneficial to the socioeconomic modernisation of Poland’s rural areas than the sectoral approach. Experience from carrying out public programmes in these areas shows that the use of sectoral mechanisms not only provides support primarily for agriculture, but also leads to a situation where the transfer of funds takes on the form of welfare, and not necessarily pro-development assistance. This means that efforts should be made to transfer these tasks from the CAP to Cohesion policy. At the same time, Cohesion policy should be targeted more toward stimulating growth and economic competitiveness of the less developed areas, including rural areas. This would give the opportunity to expand rural policy to cover a wider spectrum of development activities and improve their coordination with regional policy. The reassignment of activities supporting rural areas from the CAP to Cohesion policy is, however, politically impossible in the current phase of the discussion on the next EU financial perspective. This means that in work the future of the CAP and on improving its coordination with other European instruments—primarily those carried out within Cohesion policy—the EU decision makers should focus on promoting the integrated method.

This article argues that the method of managing the European policies has a crucial significance for directing the modernisation processes in rural areas. Additionally, it points out that the game of interests around the European policies is not always targeted at modernising the

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slower developing or peripheral areas. The modernisation of such areas remains a major challenge for the future years of European integration. For the present, ensuring the effectiveness of the EU public policies, and especially channelling them to development and modernisation initiatives, is still an important problem. In my article I contend that the game of particular interests being played around the decisions that shape European policies is the greatest obstacle that needs to be overcome in order to achieve this goal. The game is played by diverse players, whose interests are often contradictory. As a result, the resultant European policies are not always optimally designed to promote modernisation, and the Europeanisation processes may even in fact curtail the development potential of the weaker regions.

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Europeanisation as a turning point of modernization processes?


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BARBARA SAWICZ

TURNING POINTS IN THE EUROPEAN UNION’S REGIONAL POLICY

Abstract

The author presents the development of the European Union’s regional policy from the day of its announcement until today as well as planned for the future financial framework 2014–2020. Its evolution has resulted from dynamic changes in the economy and has been subjected to the challenges emerging from the consecutive enlargements. It has also been strongly influenced by the suggestions from the representatives of the economic theory of convergence and divergence schools as well as the World Bank experts. Whereas some changes introduced to the regional policy resulted in small amendments to the list of its objectives or in slight improvements of its management and controlling system, others marked real turning points directing the regional policy towards new priorities as well as substantially broadening its scope of activity. However, all the changes have influenced the present pattern of the EU’s regional policy and explain why this policy, which received very little attention in the early years of the European Union, has increasingly come to assume a very important position in the EU’s policy portfolio.

Key words
European Union, EU’s regional policy, cohesion, regional GDP per capita, Cohesion Fund, structural funds, real convergence.

1. Introduction

The European Union1 (EU) comprises at present 27 member states that form a Community, and a single market of 493 million citizens, however there have been considerable differences in standards of living between its 271 regions. It is against this background that the EU has developed a regional policy to enable all regions to compete effectively in the internal market and hence to promote economic and social cohesion. While these has always been the primary goals of the regional policy, the challenges faced by the Europe’s regions have changed over time. Therefore, the policy has evolved to meet the new realities, and to deliver a more strategic and effective response to them and even to anticipate changes.

1 Following the success of the Coal and Steel Treaty, signed in 1951, the six countries, namely Belgium, France, Germany, Italy, Luxemburg and the Netherlands expanded cooperation to other economic sectors. In 1957 they signed the Treaties of Rome, creating the European Economic Community (EEC), or “common market” and the European Atomic Energy Community (EURATOM). In this article the author refers to these organizations as to the European Union despite of the fact, that only Maastricht Treaty introduced such a name.
The most important developments in the regional policy followed or proceeded every consecutive stage of economic integration as well as accompanied the majority of the enlargement negotiations rounds. Those turning points enabled to develop the present pattern of the EU’s regional policy as well as to indicate directions of its further evolution.

2. The origin of the EU’s regional policy

The origin of the regional policy in Europe goes back to the global economic crisis of the late 1920’s and 1930’s. As the crisis passed the regional policy evolved into a genuine policy for structural change in the economy. However, in practice, it confined to changing the structure of the economy of a few disadvantaged regions (Mezzogiorno in Italy and some regions in UK).  

In the 1950’s most western European governments followed the lead of Italy and Great Britain and developed some forms of regional policy, especially to combat persistent unemployment and inflationary pressures.

The importance of regional policy was underlined in the Treaty of Rome, upon which the EU’s founding members stated, among others:

*Member states of the European Community are anxious to ensure their harmonious development by reducing the differences existing between the various regions and the backwardness of the less favoured regions.*

*In order to promote an overall harmonious development, the Community shall develop and pursue its action leading to the strengthening of its economic and social cohesion.*  

In the Treaty itself the founders decided to create a couple of instruments at the level of Community to co-finance national programs against poverty and unemployment of backward regions, namely, the European Social Fund (ESF), Common Agricultural Policy (CAP) as well as inexpensive loans from the European Investment Bank (EBI). The ESF helped to carry on the national activities that alleviate long-term unemployment while the CAP instruments and loans from EBI shaped the additional channels of redistribution of the resources to the less developed regions.

Despite the abovementioned EU’s instruments, the regional policy initially remained the prerogative of the individual member states. All operations were purely national, financing predetermined projects in the member states, launched by the states, with little European Union’s influence.

The question that arises, why the Community did not develop more of the regional policy at the Union’s level at that time, cannot be answered precisely. There were probably numerous reasons. Firstly, there was no case of regional multinational policy anywhere in the world and therefore there were no experiences to follow. Secondly, the governments of the member states were probably reluctant to share their own rights and obligations with the multinational body of...
unknown effectiveness. Thirdly, the economic prosperity in post-war Europe accompanied by huge migrations of population hid many of the regional problems inherited in the Community in those years; hence it appeared that more intervention would not be needed.

However, in the author’s opinion, there was the additional and the most reliable reason responsible for performing such a limited scope of regional policy set up in the Treaty of Rome. Namely, it seems that the governments of the member states believed at that time, that economic integration would lead to a greater prosperity of the entire Union as increased wealth produced in the core member states eventually spreads to the periphery states and periphery regions.

This thesis had its root in the Convergence School’s theory evolving at that time on the base of Solow’s neoclassical growth model. In this theory the capital is subject to diminishing returns. This statement allows to predict that economies with similar technologies and preferences are expected to converge to the same level of GDP per capita. If technologies exhibit constant return to scale and declining capital productivity, the growth rate of GDP per capita tends to be inversely related to the starting level of output or income per capita. Therefore, an initially poorer economy with a lower starting value of the capital/labour ratio tends to grow faster in per capita terms than a richer one. Hence, countries will converge to one another, regardless of their initial economic base.

The representatives of the neoclassical theory put forward also a few additional arguments. In particular, having assumed that all factors of production grow at the same rate, they predicted that internal growth is feasible until the capital stock reaches a steady-state. When it is reached, the growth rate of GDP per capita is independent of internal factors of growth, such as the rate of saving and investment, and depends only on the rate of exogenous technological progress. Against this background, the economists of convergence school predicted as well a gradual reduction in regional imbalances through economic integration and gave no support for any regional policy.

Nevertheless, the Community decided to give some support to the most backward regions or groups of society in order to speed up the process of convergence, being a result of the natural market forces. At the same time the individual regional policies of the member states had continued alongside the EU’s regional policy.

3. European Union’s regional policy in the 60’s

In the beginning of 60’s, the European Commission started to demand the regulations and resources enabling the establishment of the supra-national regional policy. The most important argument advanced in support of a separate EU’s regional policy was concerned with the concept of cohesion. The European Commission often underlined the possible threat that individual national regional policies would deepen the regional disparities caused by the market forces. On one hand the more developed member states tended to have fewer regional problems and on the other, they had greater financial resources. Therefore, without EU’s intervention, the richer member states could spend more on their regional problems than could do the poorer ones. As a result the EU’s regional policy could make sense only if resources were to be concentrated in the EU’s regions with greatest needs.6

In the late 60’s the European Commission achieved its first success. Upon the Council Decision 64/247/EEC of 15 April 1964 the regional policy was included into financial policy of the EU for the period 1966—1970 and soon after the Directorate General for Regional Policy was set up.

4. European Union’s regional policy in the 70’s

In the early 70’s the EU began its accession negotiations with Denmark, Ireland and Great Britain. Danish economy was more or less homogeneous and its GDP per capita was similar to the EU’s average. Therefore Denmark did not pose any special requirements on its entry. On the other hand Ireland with its GDP per capita lower than 1/3 of the then EU’s average was too poor to question any terms and conditions offered. On the contrary, Great Britain though suffering from severe regional problems stemming from declining industries, enjoyed relatively high standards of living as compared to the EU’s average. However, the situation was more complex. While the UK by its entry would gained free access to the EU market the British at the same time would have to bear higher food prices due to tax duties laid on agricultural products imported to the EU. Therefore, Great Britain calculated its financial support available from the EU Common Agricultural Policy as marginal and requested creation of a source of finance to the benefit of the British society.

By the end of the negotiations, the first concept of the European regional policy had been worked out. It was developed later on at the Copenhagen Summit in 1975, when the European Regional Development Fund (ERDF) was set up though without an explicit legal base in the Treaty of Rome. Simultaneously the ESF and one of the two CAP policy instruments, namely the European Agricultural Guidance and Guarantee Fund, became more regionally oriented.

In the initial phase ERDF with modest budget of less than 2.5 billion ECU for 1975—1977 supplemented merely national expenditures without any focus or emphasis on really disadvantaged regions. Its resources flowed back into the member states according to fixed quotas for each of them.

Simultaneously, in the decade of 70’s the economic situation in Europe drastically changed. The golden age of the post-war period characterized by high economic growth was over. The world economic crisis caused by (the) two oil price shocks in 1974 and 1979 hit Europe especially hard causing the unemployment problem extremely painful.

As a result, the first enlargement of the EU that welcomed different regions, accompanied by the economic crisis had a strong negative impact on real convergence in the united Europe. Experienced since the creation of the EU tendency of regions and countries to economic convergence stopped in the whole EU and that was followed by the widening disparities in the regional GDP per capita.

Therefore, the crisis favoured important changes in ERDF rules of operation. In 1979 5% of its resources were reserved for the European Commission to finance Specific Community Programmes according to the EU’s own criteria. It enabled the European Commission to run the regional policy, however modest, independently from the national regional ones.

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In the beginning of the 80’s, some more extensive experimental projects were undertaken in chosen regions of the Community, namely Integrated Development Operations which were focused on an integrated approach to the regional planning.

In mid 80’s new larger programmes with bottom-up approaches financed at the European level, namely the Integrated Mediterranean Programmes, were allocated to Greece, Italy and France. They embraced also ‘soft’ measures in contradiction to the earlier programmes that were focused on physical investments only.11 These new programmes were used by the European Commission to help to mitigate adverse regional effects of other EU’s policies, and though quantitatively not of a great importance they marked a qualitatively remarkable change in the European regional policy.

5. The economic and political background of the first turning point in the European Union’s regional policy

Further widening of the EU’s regional divergence in GDP per capita in the 80’s causing rising dissatisfaction of the united European society, made the politicians of the EU no longer assume that natural market forces would converge the living standards of population of the European regions. They seemed to be no longer fascinated by the convergence school and, on the contrary, opted for the divergence school theories.

The concept of divergence has developed on the base of endogenous growth theory which offers an alternative to the convergence school’s view of’ long-run prospects for growth. In particular, divergence school predicts that in a fully specified competitive equilibrium, GDP per capita can grow without a limit possibly at a rate monotonically increasing over time.12 The rate of investment as well as the rate of return on capital may increase alongside with increases in the capital stock because long-run growth is driven primarily by the accumulation of knowledge that is crucial in the process of economic growth. Therefore levels of per capita output in different regions or countries need not converge; growth may be persistently slower in less developed regions or may even fail to take place at all.

The economists of the divergence school cautioned the EU politicians that any further step in economic integration would create incentives for factors of production to move from peripheries to the core areas, thus draining economic resources to the centers (causing core-peripheral effects) and inevitably worsening economic imbalances of the united territory. This was especially valuable indication while the European Commission was working on further integration of the common market and simultaneously planned the new enlargement of three South European countries. It was clear that accession of Greece, Portugal and Spain would bring into the EU huge regional GDP per capita differences and lower European average standard of living. Even in the most optimistic scenario, the forthcoming Single Market Programme, facilitating both deeper economic integration and greater competition through free trade, constituted a real threat of further substantial rise in the regional imbalances of the united Europe. The forecasted differences in the performance of the regional economies posed a threat to the processes of integration similarly as the lack of convergence of the member states’ economies did.

The expected negative effects of further integration on regional economies had been widely used to justify the existence of the EU’s regional policy and even the need of its strengthening. Namely, it was considered that strong European regional policy was needed to help weaker economic regions of the newly integrated countries to overcome pressures of increased market liberalization. There were two aspects to that argument. Firstly, a strong regional policy was necessary because EU itself was the cause of the part of the regional problems as a side effects of the integration processes set in motion.

Secondly, a strong EU’s regional policy was essential if the full benefits of the Single Market Programme were to be achieved. It was emphasized that most of the industries of the EU had to rationalize their production processes in order to reap the static and dynamic gains from integration and the effects of this rationalization should be felt in each region of the EU.

On the other hand, old member states expected several advantages from the Single Market Programme to be achieved within the substantially enlarged market, such as the economy of scale and free trade. Therefore, they were ready to accept the additional expensive financial instruments for the newly integrated countries of South Europe as well as to approve all other reforms suggested by the Commission.

Summing up, the then discussed setup of the European regional policy seemed to be essentially an example of ‘side payments’, in which the richer and more competitive member states had assuaged the poorer and less competitive ones with budgetary monetary transfers. To put this another way, cohesion “side payments” were part of an extensive system of trade-of in which the richer and more competitive member states had ‘compensated’ the poorer and less competitive member states for opening-up their markets to foreign trade and foreign direct investments.

6. Turning point in the regional policy of the 80’s

The reforms which followed the Single European Act signed in 1986, taken together, marked such a change in the EU regional policy that can easily be called its first real turning point.

First of all, the addition of a new title headed ‘Economic and Social Cohesion’ to the EEC Treaty gave a treaty basis to the EU competences in its cohesion policy. Among others it conferred power on the Commission to approve project funding (a power that previously had been at the sole discretion of the member states).

Moreover, following stipulations embraced in the article 130 of the Act series of reforms known as the Delors Package, were introduced during 1988 and 1989. In particular, the structural funds resources available for the period 1989—1993 were doubled and for the first time the Commission drew up its own map of regions and cases eligible for financial assistance. Namely, five Objectives pointed out as the priorities to be touched by the regional policy instruments as well as sixteen Community Initiatives were chosen.

17 Objective 1: promoting the development and structural adjustment of regions whose development is lagging behind defined by GDP per capita of less than 75% of the EU average; Objective 2: converting regions seriously affected by industrial decline; Objective 3: combating long-term unemployment; Objective 4: facilitating the occupational
Out of five Objectives, the Objective 1 (Convergence), received the most attention of the EU followed by the concentration of the bulk of the EU’s resources.19 Namely, 64% of all the resources at the disposal of the European regional policy was assigned to the Objective 1 regions with over 86 million population (25% of the total EU), among them half of the total Spain population, 1/3 of the Italians and the whole population of Portugal, Greece and Ireland.20

Money, however, was believed to be only a part of the solution to the regional problems. The efficiency of the regional policy programmes was regarded not less important.

The 1988 reform included ERDF into the EU’s regional policy as its integral part. It also introduced a medium-term planning as well as better management and controlling of the costs of the projects supported by the European funds. As a result of such profound changes, that reflected determination of the European Commission to introduce powerful and effective regional policy of its own, the first coherent EU-level regional policy was put in motion 30 years after introducing initial instruments of European regional policy.21

Summing up, the 1988 reform significantly increased redistributive effect of the structural funds in favour of the less prosperous Member States and regions. According to the European Commission’s, during the financial programming period 1989—1993 the cohesion countries, i. e. Ireland, Greece, Portugal and Spain, together with other Objective 1 regions closed up the gap to the rest of the EU by nearly 3 p.p. only thanks to the structural policies absorbing 0.3% of the European Union’s GDP.

Moreover, the 1988 regional policy reform formed also a starting point for future reforms of the EU regional policy considered by the European Commission necessary.

7. Changes in the regional policy in the 90’s

Over the decade of 80’s disparities in GDP per capita between the member states narrowed, largely due to a catching up on the part of the cohesion countries. On the other hand, the regional income discrepancies between the regions of the EU remained largely unchanged over time: in the 25 best-off regions GDP per capita rose marginally from 140% of the Union average to 142% while in the 25 poorest regions it increased from 53% to 55% only. Although the poorest Objective 1 regions, as a group, improved slightly (from 64.6% to 67.2%) their average level of GDP per capita regional income disparities widened in all the member states.22 Such serious imbalances if not tackled accordingly could threaten political stability of the European Union.

Moreover, as the EU entered the path to the European Monetary Union (EMU), businesses and governments in weaker regions were expected to experience difficulties adjusting to tighter

19 Community Initiatives addressed specific problems of certain regions or sectors. For example, Interreg initiative supported cross-border cooperation between neighbouring regions, while Euroform, Now and Horizon funded projects in the field of vocational training and job creation. Sources: EU Cohesion Policy 1988–2008: op. cit., pp. 10–11.


20 Pietrzyk I, Polityka, op. cit., s. 103.


control (and centralization) of fiscal and monetary policies. Also the European Commission recognized that EMU would result in a negative regional imprint combined with some negative core-peripheral effects and hence, recommended the consecutive reforms of the regional policy.\(^\text{23}\)

In addition, the politicians of the EU were strongly supported by the economists of the divergence school who envisaged that the weaker, peripheral regions would benefit less from the Treaty on the European Union coming into force and a single currency, than stronger central regions and recommended that the EU should again compensate the losers from the integration process.\(^\text{24}\)

As a result of such a forecast, cohesion became one of the fundamental objectives of the Union in the 90’s. In particular, when it was made clear in the 1992 Maastricht Treaty that EMU was imminent, a new cohesion fund tailored for environmental and transport projects in four cohesion countries was set up. Although, this was not strictly a regional policy fund since it was designed to the poorest member states, namely Greece, Portugal, Spain and Ireland, however, these countries contained the majority of the most depressed regions and benefited accordingly. Having received this form of a "side-payment", the cohesion countries approved the further stage of EU integration.

The Maastricht Treaty also established the Committee of the Regions to promote both vertical (between the EU and regions) and horizontal (among sub-national entities) dialogues and activities.

On the other hand, the fourth enlargement in 1995 that brought Austria, Sweden and Finland into the EU triggered only a set of small amendments to the structural funds, the most notable of which being the designation of new type of regions to be eligible for financial assistance, i.e. regions with a very low population density.

Simultaneously, as a consequence of the next round of the Delors’ reforms, known as Delors II Package, several changes towards increase of the regional policy effectiveness were introduced. They embraced, among others, the concentration of the available resources on the given objectives.

The reforms touched also the budget causing new infusion of the new funds for the ERDF and the other structural funds in the budget period 1994—1999. The resources under the structural funds and Cohesion Fund were doubled again and reached the amount of 168 billion ECU, i.e. 1/3 of the then EU’s budget and 0,45% of the EU’s GDP. The change was impressive comparing to 16% of the EU’s budget reserved for the regional policy in 1988.\(^\text{25}\)

8. Changes in the European Union’s regional policy at the beginning of new century

The changes which shaped further the regional policy at the beginning of the new century were rooted in at least three essential developments.

Firstly, there was growing concern about the erosion of the EU’s competitive position in the world, compared, for example, to the USA. Starting from the mid 90’s of the XX century, politicians and economists kept emphasizing the urgent need for the European Union as a whole to maximize its potential in order to seize the opportunities offered by globalization. While


\(^{25}\) First Cohesion Report, op. cit., s.10.
globalization provided new opportunities for the member states and their regions, it also required adjustment to the structural changes taking place in the economies of the member states.

Against this background, the new development strategy known as The Lisbon Strategy was announced in 2000. It aimed at bolstering the competitive position of the EU regions in the world economy. Simultaneously the regional policy was pointed out as one of the instruments to reach its targets.

Also, the then regional policy seemed to hamper competitiveness of the entire Union (and proved to be very slow in bringing about regional convergence), there was an urgent need to adopt its priorities and scope to the new European Union targets in the global economy.

Thirdly, and most pressing was the looming of how to finance the enlargement of the countries of Eastern and Central Europe with all the regions eligible for Objective 1 status.

With increasing external challenges, the focus of the policy has shifted to supporting adaptations brought about by the global economy and integration of new members into the single market. The 2000—2006 budget for Cohesion Policy amounted to €213 billion for fifteen member states and additional allocation of €22 billion was provided for the new members for the period 2004—2006. Besides, the number of Objectives were reduced to three and the number of Community Initiatives to four. In addition, new funds for future members, namely ISPA (Instrument for Structural Policies for Pre-Accession) and SAPARD (Special Accession Programme for Agriculture and Rural Development) were created.

Moreover, following the endogenous growth school economists' suggestions that infrastructure should no more be treated as the key factor of economic growth, the EU politicians slowly shifted their priorities of financing from infrastructure to the new strategic factors such as R&D, innovations, education and science as well as maintenance of high level of employment.

Over the period 2000—2006, in Objectives 1 and 2 regions, the investments were concentrated in three areas though with different emphasis. Whereas in Objective 1 regions, the focus was on basic needs: infrastructure (particularly transport infrastructure) and human resources, investments in Objective 2 regions were concentrated more on ‘soft’ infrastructure, particularly on aid to SME’s and R&D. Funds of Objective 3 were dedicated in turn to develop human resources.

9. Lisbonization of cohesion policy

At the beginning of new century it became clear that despite of the supra-national EU regional policy and despite of overwhelming amount of resources being invested in the poorest regions, the regional policy instruments had neither reduced persistent imbalances in standards of living of the united Europe’s society nor had exerted any considerable impact on the competitiveness of the European Union in the global economy. The fourth and fifth enlargements bringing into

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27 The three remaining Objectives were: 1: promoting the development and structural adjustment of regions whose development is lagging behind; 2: supporting the economic and social conversion of areas facing structural difficulties, 3: supporting the adaptation and modernisation of policies and systems of education, training and employment. Community’s Initiatives that remained: Interreg III, Urban II, Equal, Leader+) Source: Panorama, no. 26, op. cit., pp. 19—20.

28 Huebner D., Reflection paper on future Cohesion Policy Informal Meeting of Ministers for Regional Policy, Mariánské Lázně—22—24 April, 2009.

the European Union twelve economically weak new members worsened substantially the regional discrepancies in GDP per head. As a result, in Europe of 27 countries, regional imbalances were far more extreme than in the US or Japan. In the EU, GDP per head in the richest region was 8 times greater than in the poorest region while in the US, the respective relation was 2.5 times only and in Japan even just two times. All the US states had GDP per head above the EU average and the Japanese ratio was 40 out of 47.29

The sheer magnitude of the disparity in regional incomes and infrastructure between the member states and regions seriously threatened the competitiveness of Europe in the world while competition from the new emerging economies, first of all China, India, Russia and Brazil were steadily growing up.

Against this background, the European Union’s Lisbon Strategy was re-launched in 2005 stressing the need for the European Union as a whole to maximise its potential to seize the opportunities offered by globalisation.

Simultaneously, Lisbon Strategy induced transformation of socially minded regional policy, which had been taking place for the previous 20 years, into a new model of globally minded regional policy.30 The focus of the regional policy has shifted to supporting adaptations brought about by the global economy and integration of the new members into the single market.

Lisbonization of cohesion policy, that marked its next turning point was clearly seen during the current multiannual financial framework. Namely, priorities were shifted to boost growth and jobs and its resources were highly concentrated on the poorest regions. However, top priority was given to higher level of innovation to help Europe’s businesses move up alongside the value chain, and, secondly, to increase the work productivity because these factors had been recognized as the main stimulators of better EU position on the world market. Namely, 24% of all the resources were to be spent on knowledge and innovation, while transport received 22%, environmental protection and risk prevention 19% and human resources 22%. Other interventions concerned the promotion of entrepreneurship, energy networks and efficiency, urban and rural regeneration, tourism, culture and strengthening the institutional capacity of public administrations.32 Moreover, this scheme of financial priorities were incorporated both in the EU’s regional policy as well as in the respective policies of the member states accordingly.

Moreover, the present regional policy strictly follows the newest theory of endogenous growth school's representatives assuming that a region itself should be an efficient actor on the global scene to enable sustainable and harmonized development of a united territory.33 Therefore, cohesion policy struggles no longer against rising regional discrepancies in the EU by pumping the external resources only in the machine of the less developed regional economies.35 On the other hand, the Lisbon Strategy explicitly supports the idea that a region itself should be an efficient actor on the global scene to enable sustainable and harmonized development of a united territory.33

29 Growing Regions, growing Europe, Fourth report on economic and social cohesion, European Union Regional Policy, Office for Official Publications of the European Communities, p. 5.
contrary, it is directed to mobilize territorial potential of all regions to create a knowledge based economy and knowledge based society.

As a result, all the European Union’s regions are at present covered by the cohesion policy instruments. Namely, among three priority objectives, Objective 1 concerns 84 regions in 17 member states and population of 170 million. Moreover, it embraces also another 16 regions with 16.4 million inhabitants on a phasing-out status. The table below shows that number of population under Objective 1 was rising in each consecutive enlargement.

<table>
<thead>
<tr>
<th>Financial framework</th>
<th>Number of Population</th>
<th>% of total population</th>
<th>Value of resources</th>
<th>% of total resources</th>
</tr>
</thead>
<tbody>
<tr>
<td>1989–1993</td>
<td>86.2</td>
<td>25.0</td>
<td>43.8</td>
<td>64.0</td>
</tr>
<tr>
<td>1994–1999</td>
<td>91.7</td>
<td>24.6</td>
<td>114.0</td>
<td>68.0</td>
</tr>
<tr>
<td>2000–2006</td>
<td>169.4</td>
<td>37.0</td>
<td>167.0</td>
<td>71.6</td>
</tr>
<tr>
<td>2007–2013</td>
<td>170.0</td>
<td>35.0</td>
<td>283.0</td>
<td>81.5</td>
</tr>
</tbody>
</table>

Source: Based on the data of the European Union's cohesion reports.

Convergence objective receives 81.5% of the total resources, while 21% of the poorest EU population living in the new member states receive 52% of all financial resources.

On the other hand, Objective 2, namely Regional Competitiveness and Employment which covers all other EU regions receives just under 16% of the total allocation.

Finally, 2.5% of the total resources support cross-border, transnational and interregional cooperation projects covered by the Objective 3, i.e. European Territorial Cooperation.

10. Forthcoming turning point in the European Union’s regional policy

The picture of Europe drawn in mid 2011 against the background of contemporary world shows that up to date achievements of cohesion policy are far from satisfactory. In particular, regional disparities in Europe are still huge and rising. While convergence is driven by a catching-up process as less developed EU regions grow faster than the highly developed ones, huge regional disparities in GDP per capita have widened in many member states. This is the case especially

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38 Huebner D., Reflection paper on future Cohesion Policy Informal Meeting of Ministers for Regional Policy, Mariánské Lázně—22—24 April, 2009.


39 Regions, where GDP per capita exceeded slightly the 75% threshold due to the statistical effect of enlargement.

40 Unia Europejska Polityka Regionalna, Rozwijające się Regiony, Rozwijająca się Europa, 4 Raport na temat Spójności Gospodarczej i Społecznej, maj 2007., s. XIV.
for the new ones, reflecting the relative concentration of growth in one or two regions, mainly the capital city region.

Moreover, the economic crisis that started in the United States in 2007 and swept over to Europe later wiped out easily years of economic and social progress and exposed structural weaknesses in many countries and regions regardless of their level of economic and social development. The crisis has left millions unemployed and brought a burden of debt that will last for many years. To mitigate the economic crisis effects on growth and employment most national governments as well as some regional authorities have introduced ad hoc stimulus packages with public investment as a major component. The legacy of the crisis, however, is a dramatic increase in government borrowing and debt resulting in strong pressure on public expenditure programmes and on public investment in particular. The crisis put further strain on the capacity of national and regional authorities to deliver public service. This will hamper any rise in the European Union’s competitiveness in the global economy and deepen further the existing regional imbalances.

The rapid worsening of economic and social living conditions in Europe have resulted in serious disappointment of large groups of societies with the EU members’ policies and in violent social protests against proposals of national budgets savings, mainly in Greece and Italy.

In the midst of this, in March 2010 the EU launched Europe 2020, an ambitious new strategy for long-term recovery. This development proposal built on lessons drawn from the earlier strategy, reflects important changes in economic and social background of today Europe and even more than the Lisbon Strategy, emphasises the need for innovation, employment and social inclusion and a care for green environment. There are three mutually reinforcing priorities pointed out as conditional to recovering from the economic crisis.

— smart growth meaning developing of economy based on knowledge and innovation;
— sustainable growth promoting a more resource efficient, greener and more competitive economy;
— inclusive growth which means growth fostering a high-employment economy delivering social and territorial cohesion.

However, history of the European Union’s development shows that any new challenges facing Europe had always been proceeded or followed by profound changes in Cohesion Policy. Therefore there is no surprise that soon after Europe 2020 had been published, transformation of present Cohesion Policy was announced as well. All planned changes stemmed from the new positioning of the cohesion policy against the background of the world in crisis. Namely, according to the European Commission, promoting overall harmonious development and addressing regional imbalances will be more relevant in the postcrisis period than ever. It was agreed, that under new economic and social circumstances, Cohesion Policy will be a key factor for economic and social recovery only provided it will fully support Europe 2020 and follow priorities of development indicated in this document.

Therefore, the present regional policy will undergo serious transformation in the next financial framework. The most important changes will touch its priorities. Firstly, the regional policy dual target, i.e. speeding up economic progress of the EU as a whole as well as speeding up regional convergence in GDP per capita, by mitigating concentration of production will no longer be carried out simultaneously. On the contrary, following the indications of the late Endogenous School’s economists as well as the World Bank experts who maintain that the growth processes follow their own principles and concentration of production causing regional imbalances are unavoidable and

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natural 43, the after-2013 policy will promote the growth poles and the growth promising sectors
of the united Europe supporting at the same time diffusion of wealth from the centres to the
peripheral areas.
Secondly, the after 2013 regional policy will embrace cohesion in three dimensions: economic,
social and territorial which has already found its place in Lisbon Treaty stipulations. This extension
of cohesion concept is triggered again by the assumption of endogenous school’s economists which
implies significance of spatially grounded and immobile factors of competitiveness such as health
and education, quality of business, traditional values, institutional tissues, etc. The World Bank 44
also puts strong emphasis on the significance of the spatial processes indicating several spatial
barriers to further social and economic development such as economies of agglomeration as
well as institutional and administrative constrains. Moreover, the current economic crisis proved
that one regional policy no longer fits all and more comprehensive and bottom-up measures
directed to the endogenous development are needed to reach sustainable and harmonious regional
growth. Territorial cohesion in addition to economic and social cohesion is therefore recognized as
a fundamental objective of regional development. This concept implies that territory matters and
all the EU’s policies should ex ante give more consideration to their territorial aspects.
Important changes will also influence the scope of Cohesion Policy. Although all member
states governments agree in general that the main objective of cohesion policy is the reduction
of economic and social disparities between the levels of development of European regions and
lagging regions must thus remain the focus of the Policy, yet their opinions differ as concerns
resources for the richer member states. Some politicians believe that resources should be available
only for the less developed regions, while the others state that the policy should cover the whole
territory of the EU. Considering that cohesion policy is not a simple mechanism of solidarity,
but also aims at fostering the endogenous development potential of the European regions, the
European Parliament also demands all regions to benefit from the Cohesion Policy. Accordingly, in
the next financial framework, the European Commission makes structural funds available again
for all regions, however under three different categories. All the European regions will be divided
into: convergence regions, competitiveness regions and transition regions. As the present regional
policy does not offer the regions any incentive to surpass the 75% threshold, in the next financial
framework those in transition will get stimulus to move out of the poorest category. Again, bulk
of its resources will be transferred to the less developed regions. Moreover, while currently, less
than half of the EU annual budget is directed at financing initiatives that support Europe 2020,
in future all the resources will be concentrated on a few areas only considered as crucial for
Europe’s global competitiveness and closely linked to the Europe 2020 strategy. In addition, their
management and controlling will be improved comparing to the current system. The need to make
the use of structural funds subject to more conditions is due to the extensive constraints affecting
the future European financial framework.
While working on EU budget the Commission had to balance its need of securing funding
for some of the new responsibilities given to the EU in the Lisbon Treaty and the fact that the
member states budgets are under strain.
As a result, on June 29, 2011, the European Commission announced its first budget proposal
for the 2014— 2020 45, proposing a 5% rise in the total spending to E971.5 billion, equivalent to 1%
of the EU gross national income. The Commission proposes to allocate E376 billion for spending
under cohesion policy instruments (2% more than in 2007—2013) which is to be divided as follows:
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• €162.6 billion for convergence regions;
• €88.9 billion for transition regions;
• €53.1 billion for competitiveness regions;
• €11.7 billion for territorial cooperation;
• €68.7 billion for the Cohesion Fund.

In particular, research and innovation is to receive €80 billion (an increase of 46% comparing to the current financial framework), €15.2 billion will be invested in education and vocational training (an increase by 68%). The overall amount also includes €40 billion and extra €10 billion from the Cohesion Fund for a new Connecting Europe Facility Fund aims to strengthen the integrity of the internal market.

While the Commission’s budget proposals have received strong support from the Committee of the Regions, proposal of separate infrastructure fund received mostly negative response from the net beneficiaries as well as the net payers. Firstly, the net beneficiaries, namely Central and East European member states are against such a proposal because, according to their opinion, it could divert money away from existing regional funding. In spite of the European Commission insisting that this special fund does not impact directly the allocations for the new member states, they are expected to fight for the continuation of generous funding under the EU’s regional policy in the next period. On the other hand, the net payers maintain that the Commission’s proposals could mean a loss of their influence over the EU’s funds in their areas, as transport and energy infrastructure are traditionally covered by the regional policies.

The European Commission’s budget proposal must now be approved unanimously by the EU’s governments to become a law, but at present the fight over the future of EU’s Cohesion Policy appears far from being over.

In particular, the economic crisis is exposing more clearly the internal divisions inside the Council between the net payers and the net beneficiaries of the EU budget. Even long before the issuing of the initial European Commission’s proposal, the leaders of the five net payers agreed in a joint letter sent to the Commission on a common position to ask for a freeze of the budget, arguing that “it is a matter of common sense when national budgets are at nil or diminishing”.

Soon after, the net beneficiaries, on the other hand, called for “an ambitious cohesion policy” with a share in the EU budget “of at least its present level”. Twelve signatories defend the EU budget, stressing the positive impact of Cohesion Policy budget in supporting the global competitiveness of the EU economy while securing the internal cohesion of the EU. They argue that while cohesion policy should be for all, it should remain focused on the less prosperous regions. Moreover, the politicians from the poorer member states, hand in hand with the European Commission, try to convince the others, that Cohesion Policy is a key stimulus for the future growth of the entire Union. On the one hand, the European Commission estimates in its recent “EU budget myths” document, the cumulative net effect on GDP growth will amount to 4% on average in the EU by 2020 and to 3,3% in the “older” EU-15 countries. On the other hand, Poland, in its “the EU budget’s added value” paper published recently as well, argues that for every euro spent on the Cohesion Policy in Poland, the EU-15 countries received a return of 36 eurocents in the form of additional exports of goods and services. For Germany, the return is estimated to be 72 eurocents as a result of “additional export contracts”.

Conclusion

Transformation of priorities and scope of regional policy planned for the next financial framework are of such an importance that it could be classified as the next turning point in the EU’s region policy. This time, however, the regional policy might allow further regional GDP per capita imbalances across the EU.

Firstly, Cohesion Policy in the next financial framework is to support key investment, particularly in R&D and innovation, in the most developed regions of the Union. Although these regions invest three times as high a share of GDP in R&D as the less developed regions do, they continue to lag behind their world competitors in terms of both public and private R&D expenditure. As a consequence, the explicit linkage of Cohesion Policy and Europe 2020 provides a real opportunity for promoting growth centres and their best advanced industries while neglecting less developed regions and favouring regional divergence.

Besides, this negative tendency in regional convergence will definitely be strengthen by the national policies of the member states themselves. The economic crisis on the one hand, and the new targets of Cohesion Policy announced for the new financial framework on the other, have induced transformations of national regional policies accordingly. National governments have implemented various regional development policies and while a few give priority to tackling regional disparities, others, Poland among them48, focus more on national competitiveness. As a result, not only European Union Cohesion Policy but also national regional policies will support the national growth poles with their own budget, therefore regional imbalances in GDP per capita are likely to rise, at least in a short period, i.e. definitely in the next financial framework.

In particular, the existing economic crisis has encouraged Member States to think in terms of “just retour” and formulating their negotiating position to either maximise their net receipts or minimise their net contribution to the budget.49 Moreover, the idea of re-nationalisation or repatriation of a part of the policy, or even all of the policy has become lately more popular.50 While searching for arguments that allow them to transfer less money to EU budget, the richer member states argue, that action at the EU level is not necessary to achieve the majority of the stated targets. The followers of this idea agree in general, that such aims could be achieved by coordination of national efforts and then choices made will be better matched to what is needed without the conditions and overheads applied by the European Commission.

In case the UE cohesion policy would ever be renationalized, differences in priorities, in financial resources and effectiveness of national regional policies will act as catalyst of economic and social imbalances between regions as well as between member states across the EU.

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1. Introduction

Texts describing break-through events are always risky if written from the time perspective of less than subsequent 100 years. The author of this article has decided to write it being fully aware that this text will contain his subjective point of view but it will also be written from the position of a witness actively participating in the events of 1989. The author also believes that the majority of accounts and synthetic articles have or will be written by persons living in a few big Polish cities; however, his text has been written from the perspective of a Polish provincial town.

2. The world and Poland of 1988 as viewed from Nowy Sącz

The more time has passed since 1988, the more often I encounter opinions and publications of people who claim that in 1988 they were convinced of the collapse of the whole communist block, in particular, of the socialist system in Poland. My memories of those times are different: I observed Gorbachev’s actions in the USSR with joy but, at the same time, I was aware of the strength of the basic structures of the secret police and the military, which acted as a kind of ‘backbone’ of the communist system in the USSR. We all knew of the presence of the Soviet Army troops stationed in the German Democratic Republic and of the Red Army garrisons located in the western and northern parts of Poland. Everybody was also aware that the societies of Western Europe, basking in the prosperity of the then welfare states, would not even lift a finger in a dramatic situation and their sympathy for those who lost would be expressed again in the form of shipments of food supplies and clothing. Apart from the USSR, we were surrounded by two other countries where the communist rule was much stricter than in Poland (namely East Germany and Czechoslovakia) and whose societies seemed to have resigned themselves to their fate, in particular due to the fact that their material situation and relative affluence was much higher than our Polish standards of living at that time. At that time, I personally had a feeling of “Polish loneliness” and of very meagre chances for a fast political and economic change. There was one (but distant) mythical friend of Poland, namely the USA, but only a madman would think that the USA would risk an all-out military conflict with the USSR to protect Polish interests. In the 1980s, when I was asked why I was so actively supporting the Solidarity movement against the political establishment of that time, I answered that I wanted my daughter, who was then
a teenager, to be able to live in free Poland one day (I meant it in the 20 or 30 years’ time). I could not even fathom that in a few years’ time the situation would change completely and that I would be among those who co-created the new political, social and economic system and that I would become one of its beneficiaries.

Moreover, in 1988 Solidarity as well as independent political circles were weak, having been attacked by the Polish secret police for years and enfeebled by a relatively large emigration of Solidarity activists. In truth, at those times, we had only one refuge: our Pope, John Paul II, and our Catholic Church. Polish society, tired of living in the economy of constant shortages, seemed to be unable to undertake any decisive fight for new Poland.

3. Poland—the critical piece of domino

Suddenly (in the historical perspective, the whole Round Table negotiations took only a blink of an eye), there was a breakthrough and a fully peaceful one to boot. The then officials of PZPR [Polish United Workers’ Party], realising how difficult the economic situation was and seeing no chance to implement fast economic recovery measures within the old system, made a decision to involve part of the political opposition, including Solidarity in ruling the country and to make it politically responsible for implementing reforms. We should emphasise that the process of the Polish economic transformation (from the centrally planned economy to free market economy) was initiated as early as in 1988, before the Round Table negotiations by the famous parliamentary Act on Economic Freedom authored by Minister M. Wilczek. The communists soon lost control over the transformation process: PZPR, until then a hegemonic leader, consenting to free elections to the Senate [the upper Parliament chamber], a failure of the national list of candidates in the general elections to the Seym [the lower Parliament chamber] on June 4, 1989, a sweeping victory of the candidates representing the Civic Committee in the Senate elections (with 99 out of 100 seats taken and much bigger number of votes achieved by them as compared to candidates from PZPR)—all resulted in a political breakthrough. Kiszczak, a candidate for Prime Minister designated by the old political system, failed to form the government. And when Jarosław Kaczyński managed to persuade the two parties—allies to the PZPR, i.e., ZSL- United People’s Party and SD—Democratic Party, to withdraw from the alliance, on August 12, 1989, a new government was sworn in headed by Tadeusz Mazowiecki, a representative of the Civic Committee, as Prime Minister. The new government was a result of a consensus i.e., the Ministry of Defence and the Interior Ministry were controlled by representatives of PZPR, but it was still a government of independent Poland. The leaders of the Soviet Union did not react in any way either to the results of the general elections of June 4, 1989 or to the fact that the government was taken over by the Opposition (that was how the creation of T. Mazowiecki’s government was interpreted worldwide.)

The events taking place in Poland in 1989 were observed and analysed with special attention by the societies of the socialist block. Undoubtedly, both the lack of reaction of the Soviet Union and the Polish communists’ giving up the power and creating free market economy provided an important signal for the societies of the communist block states, in particular those under the strong regime of the secret police (i.e., East Germany, Czechoslovakia, Bulgaria and Romania). It turned out that they did not have to fear the external forces’ intervention by the Red Army, and the power system of the communist parties might be abolished without bloodshed. We can say that during the subsequent months, the communist system fell apart. One cannot escape an association with domino pieces arranged standing upright in a line—it is enough to push one of them in the right direction and the meticulously arranged line of dominoes will collapse. The Polish example
both influenced the public opinion and weakened the determination of the leaders of particular communist parties and their secret police to defend the old system (since it became obvious that in case of social upheavals they would not get any military support from the Soviet Union). I do not represent a Polish-centred approach, surely, the communist system would have collapsed anyway without the changes initiated in Poland since it proved to be completely ineffective when implemented by the USSR and the European countries of the socialist block. I believe, however, that this process of disintegration could have taken a minimum of a few years (or if it had been modified the way Communist China was the socialist block could last until today.) It is pointless to speculate on alternative versions of history, what matters are historical facts and these speak for themselves. The massive bloodless revolution that encompassed nearly the whole world was initiated in Poland in a few months of 1989; or one can also say that it had been prepared by the extraordinary events starting from 1978—1980 (i.e., the election of Karol Wojtyła to become the Pope in 1978 and the creation of NSZZ Solidarność in 1980).

4. 1989—a “point of discontinuity” in Poland’s contemporary history

In the 20th century, Poland became independent thanks to extraordinary, or even unbelievable events. After the World War 1, resulting from the destructive war waged among the countries which had occupied Poland and as a result of the October Revolution in Russia, there appeared some kind of ‘state vacuum’ from which Poles took advantage perfectly.

Another unusual moment came in 1989 and 1990. Undoubtedly, a crucial role in the events in Poland was played by the consistent policy of the American government, personified for Poles by the figure of President Ronald Reagan, which led to the economic breakdown of the Soviet Union and, consequently, to the collapse of the USSR. Establishing the OPEC’s policy of fixing oil prices at a very low level (with oil prices at approx. $16.50–18.50/barrel in 1989) as well as the Star Wars programme turned out to be lethal for the USSR. No wonder that political leaders of the Soviet Union considered the events in Poland to be of marginal importance in comparison with the global challenges facing the USSR. We might only speculate on what the geo-political situation of the world would be like today if the oil prices had reached $70 per barrel (not to mention $100/barrel) in 1988—1990 while it is estimated that in Russian conditions, when taking into account the costs of extraction, amortisation and necessary new investments, profits appear with the oil price exceeding $40/barrel.

We must also postulate that this incredibly advantageous situation for Poland continued for another dozen years. It is hard to imagine that the European Union would have agreed to Poland’s accession if the crisis of public finance in a few EU countries had started ten years ago.

The sudden and unexpected change in the political situation, in particular in Central and Eastern Europe, caught everybody, not only us, Poles, by surprise. It can be clearly seen from the perspective of the twenty years. In my opinion, the thesis that the Russian secret police had planned the collapse of the Soviet Union cannot be defended in particular of we analyse the period of President Yeltsin’s rule and the long-term crisis of Russian economy.

There remains an open question whether we, Poles, have used properly this unexpected opportunity to regain our country’s statehood. When comparing the Poland of 2011 to the Poland of 1989 we can say proudly that Poland has made a great technological and civilisational leap including an increase in the standards of living of the majority of Polish people. Of course, today one can easily pinpoint many areas and particular solutions which could have been more effective. But it was we, the Poles, who were the first to embark on the path from the Socialist economy
and politics to democracy and free market economy and we could not follow any good examples and practices developed by others.
Most of us will probably agree that the fall of the Soviet Union could be seen as an important turning point in modern history. One has however to note that the notion of turning point is a very subjective one. There are no clear-cut criteria which would allow to recognize an even or set of events as a historical turning-point. One could argue for a definition putting emphasis on moments implying multi-dimensional change on a wide scale. However all those aspects of a the turning point definition remain subjective and arbitrary. One could thus, instead of looking for “objective” criteria, reflect on the subjective perceptions of historical events which are widely considered as historical turning points. These moments are declared “turning points” since they allow us to systematize our thinking about past and present. The way we define them is also an important point of reference for moral judgements on social, political and cultural systems. Of importance is also the way we explain the nature of particular turning points, their causes, consequences or catalytic factors. Let me show how this subjective nature of historical turning points can be exemplified on the case of the fall of the Soviet Union.

1. The fall of the Soviet Union and its uses

Let me point out that views on the reasons of the fall of the Soviet Union are numerous, often contradictory and may be classified in several dimensions. First let me point out to the dimension of scale of these explanation. On one hand we have a number of interpretations looking at the Soviet history in a long-term (or long-duree perspective). On the other hand are classical situational, non-historical interpretations. Let me recall here some of the long-term interpretations. Thus some see the fall of the Soviet Union as a delayed fall of the last giant empire of the world. In such context a general logic of history assuming non-sustainable character of empires in the modern and in particular post-modern world is used. The “general logic” of history which supposedly brought the fall of the Soviet Empire is however seen in different ways. Some see it central mechanism in the process of globalization, others in the growth of the power of United States over the turn on the 20th century. Other see these long term processes as rather internal. Thus some see the roots of the decline of the Soviet Empire in the period of 1960s. This when the so called stagnation of “zastoy” has it roots with coming to power of Leonid Brezhnev. Some see the Brezhnev rule as damaging for the Empire because of the lack of mobility in elites, others
because of weakening of the impulses for generation of innovations and new technologies and gradual orientation towards imitation of Western patterns. For others the turning point could be seen in the moment of the suppression of the Prague Spring. The importance of these events in the symbolical dimension may appear as crucial from today’s point of view. Although in Moscow only a handful of liberal intelligentsia members staged a protest really in the Red Square, the impact of these events on the liberal elites in Europe, both Central and Western seems critical. This was the moment when Soviet Union and its communist ideology started loosing grounds among the intellectual elites. Over the 1970s major part of the intelligentsia in several parts of the Soviet Empire turned themselves from communism and Moscow to Western style liberalism, ideals of civic society or human rights. This was the time when the Soviet Empire started to lose its domination in the ideological dimension which resulted in gradual de-legitimization of Moscow’s rule in several provinces of the Empire and its global status in general. One could note in this context, that the suppression of the 1956 Hungarian uprising did not have a similar ideological effect, which may point of to a very ambiguous nature of the process which started in late 1960s. The Prague Spring may have triggered the above mentioned consequences in the ideological sphere, but the mechanism behind the process may have been more complex and broader, for example relating to the changing relations in the word system, given quite different nature of reaction to event of comparable character. In fact the Hungarian uprising and Soviet intervention were much bloodier; but still their global effect was smaller than the intervention in Czechoslovakia.

On the other hand we deal with numerous situational, short-term or even individualistic interpretations of the fall of the Soviet Union. In this context the names of Mikhail Gorbachev and Boris Yeltsin come to mind. Assessment of the degree of their personal role in the process of the dissolution of the Soviet Union seems quite important from the point of view of the question concerning possibilities of theorizing the sources and meaning of that event. It seems largely unclear to what extent the Soviet leaders were driven by their individual, highly subjective and unpredictable interests, and to what extent their decisions reflected the interests of larger interests groups, possibly also related to divisions inside the society. This question seems particularly relevant in the case of Boris Yeltsin. As argued by several analysts, his support for the plan of dissolution of the Soviet Union which lead to the famous Belovezhskaya Pushcha agreement was, first of all, fuelled by his personal ambitions and conflicts with other leaders of the Communist Party leadership. Without him and his involvement in the coup, it is often argued that the Soviet Union could have probably existed much longer. At the same time the personal ambitions of Yeltsin met with similar aspirations of heads of other Soviet republics and what was previously unimaginable become reality overnight: 15 new states emerged in place of the Soviet Empire. Interestingly, in Russia itself, it is mainly Mikhail Gorbachev on whom the bulk of the guilt for the dissolution of the Union is put by the majority of his compatriots. However, even if we insist that Gorbachev’s intentions were in fact contrary to this general vector, as he was quite clearly trying to save both Communism and the Empire, one would not be able to prove that it was, specifically, the unintentional actions of Gorbachev which started the process of the dissolution of the Soviet Union.

The secrecy of the Soviet system which continues throughout the present day makes systematic analysis of political process in the region even harder and more prone to pure speculations. Quite often what we are confronted with are decisions and events which obviously emerged from discussions and conflicts among the leadership of the state, most probably among several internal interests groups. The course of these disputes and even the logic of cleavages in the relevant bodies, however, was and continues to be largely unknown. A more recent example of such inexplicable phenomenon is the appointment of Vladimir Putin to the position of president of the
Russian Federation. The logic of this process remains absolutely unclear even as his second terms approaches its end.

Thus, while voices making fun of Sovietologists who were unable to predict the fall of the Soviet Union are many, we have to realize that even if this was indeed a big failure of academia, were are in fact not much wiser than we were 20 years ago. Stephen Kotkin (Kotkin 2001) reminds us that the fact that the Soviet leadership did not try to avert the fall of the Empire by military means can not be considered self-evident. On the other hand there are those such as Gavril Popov, the former mayor of Moscow, who argue that Soviet leaders had plans for evacuation and conversion of capitals in case of the fall of Communism ready since the times of Lenin. As he maintains, the Communist leadership started the process of transfer of capital and education of children in the West even before the official beginning of perestroika. Thus, in his view, the whole process of the dissolution of the Empire and transformation of power in the region, even if not fully controlled, was expected in the Kremlin and measures to accommodate to it were taken early on. The same debate continues in the former Soviet satellites. In Poland, for example, where the interpretation of the Communist period past is the key political issue, two oppositional views of the fall of Communism continue to be defended by the main political camps in the country. On one hand, we have those for whom the fall of communism in Poland was the effect of an arbitrary decision of communist leaders in Moscow and Warsaw. As it is argued, mostly by the Polish left, they had means to sustain the system and defend it by force for many years to come. Therefore, their decision to hand power over to the opposition in 1989 should be applauded and seen as extremely courageous and progressive. On the other hand, those located in the right side of the political spectrum see the fall of Communism as both inevitable and expected by Moscow itself. In their view, the Communist leaders had no other option but to quit and they have been preparing for this move for a long time. The later they would decide to do it, the higher the price for transformation of their capitals they would pay. The above mentioned controversy may be framed in the theoretical language as difference in assignment of agency: one one hand it is mainly located inside the Soviet camp, in hands of the communists apparatchiks who more or less controlled the process of the fall of the Empires and adapted its dynamics to their interests. On the other hand we have a vision of agency located in external forces, which can be even interpreted as devoid of any coordinating actors.

Even this diversity of interpretations presented above seems to confirm that meanings we assign to the fall of the Soviet Union as a crucial turning point in the modern history are equally subjective and may be see and strongly related not only to ideological views of their authors but also to uses they are making of them. This is because depending of the way we imagine the sources and nature of the fall of the Soviet Union we are able to legitimize images much wider visions of the world order and nature of its dynamics. Let me illustrate this mechanism with several other examples.

2. What was the predominate nature of the process which led to the collapse of Communism: economic, cultural or political?

Among the numerous disputes regarding the sources of the fall of Communism one could single out the debate which could be framed in the classic theoretical model of the types of capital proposed by the famous French sociologist Pierre Bourdieu. As he proposed, we can distinguish three fundamental forms of capital: economic, cultural and social, an important form of which is political capital. Consequently, the interpretations of the fall of Communism could be divided into
economic, cultural and political bases. These would refer to models defining the crucial processes leading to disintegration of the system in the fields of economy, culture and politics.

The economically oriented theory of communism seeks the primary sources of its collapse in its economic inefficiency. This view of the crisis of Communism as an economic crisis has several versions. They can emphasize either intrinsic contradictions of the communist economic model or seek the main reasons of its failure in the way of its “implementation”: inefficient planning systems, inadequate work culture, poor management, lack of reasonable accountancy and incentive systems, isolation from sources of innovation etc. On the other hand, economically based theories of the fall of Communism may simply ignore the ideological aspects of the economic regime looking instead at the objective indicators of economic development, both internal and external. Emphasis on particular sectors of the economy may differ too in such case. Thus, for some it can be inefficient agriculture which is to blame primarily for sustaining the constant food shortage, one of the key elements of popular discontent. For others the key factor might be the lack of mass consumer goods and the weakness of light industry. Some analysts concentrate on the dependency and backwardness of the Soviet Union in the sphere of high technologies. For others the crucial reason for the collapse of the system should be seen its reliance on exportation of primary resources or the over development of heavy industry and the military sector. Some argue that it was simply the overburden of the Soviet economy with the costs of the war in Afghanistan which was to blame. Finding any objective method of reconciliation of these explanations seems unimaginable. But again we can note that each of the above mentioned interpretations may serve a wider goal of legitimizing certain world-views. Thus for some the fall of the Soviet Union confirmed the death of central planning. For others it could confirm their critical views on excessive military spendings. For others the economic crisis of the Soviet Union may be seen as an effect of the pressure of the dominating capitalist economies which exerted in effect of strong political and ideological motives. In such reading the fall of the Soviet Empire would not necessarily imply inefficiency of the communist economics but rather the aggressive character of the main capitalist actors.

For culture-oriented analysts of Communism, its collapse was caused first of all by national tensions. Not only was the increasing unrest of the subordinated nations of the Soviet Union and the Soviet block an obvious centrifugal force, but also Russian nationalism itself appeared to feel increasingly uncomfortable with the confines of the Soviet system. Incidentally, this could also be seen as a factor in making Yeltsin’s moves towards Russia’s independence popular among voters. Another cultural aspect of the collapse of the Soviet Union was the growing influence of Western culture which was considerably weakening the previous coherence of the system and elevating popular expectations regarding standards in all spheres of life. This factor, in case we recognize it relevance, can be however also seen in quite different ways. On once hand it can be read as an aspect of weakness of the Soviet culture, or the version of the Russian culture on which the the Soviet culture has relied. On the other hand we can see the same process as a the proof of an unprecedented rise of the power of the Western, in particular American culture, which dominated the the ubiquitous popular culture of the period of globalization. The rise of the self-confidence of the representatives of the smaller cultures of the Soviet Union, in particular those located in more Western parts of the country (first of all of the Baltic countries, but also others) could be also interpreted as an aspect of the rise of the widely defined Western culture, status of which has has been strengthening in the second part of the 20century. Consequently, smaller national and even regional cultures, which were able to define themselves as more Western than even their formal hegemonic cultures (as Soviet or Russian culture) were able to confront them now with quite effective ways (Melegh, 2006).
Finally, the politically-oriented analysts insist that the collapse of the system was primarily based on its political inefficiency and its injustice. Both the economic and cultural crises could be seen as effects of the basic political tensions inherent in the very nature of the system. It was not only undemocratic but also largely inflexible and authoritarian in its character. The Soviet machine was not only incompatible with the Western standards of democracy but simply unable to accommodate and coordinate the complex networks of conflicting political demands which could no longer be forcefully muted as in the Stalinist period. This inability to fulfil raising political ambitions of national and other social groups, address their political claims, even to manipulate them as in the older times, could be seen as another fundamental source of the collapse of the system. It can be however also read in different ways. For some it may be seen as a proof as the unsustainability of communist system. For others can at least testify the weakness of its Soviet version as the Chinese case may used to argue about possible ways of adapting of the communist system of rule to contemporary global context.

Thus, as we can see depending on the perspective we assume the contemporary meanings of the fall of the Communism can be very different. Thus, they can be viewed first of all as a great economics lesson. Such a lesson would, however, according to anti-Communists teach us about the intrinsic contradictions of Communism as such. For others it would be just another proof of the Russian inability to build and independently manage a modern economic system, a version of which the communist experiment could be probably considered. It could be also seen as simply another proof of the utopian character of a large scale autarkic projects. Second, the fall of Communism could be primarily seen as the fall of the great Soviet Empire, for some another incarnation of the Russian Empire. The force of the smaller nations, Western cultural influences and the crisis of the traditional model of empire may be seen as key sources of this great transformation. The fall of communism would be, in such a case, seen both as a result of a wave of national revolutions and the effect of globalization. At the same time it would be an effect of the evolution of the forms of power and dominance in the modern word. Third, the fall of the Soviet Union could be seen as a political revolution. Democratization is of course the key word in this case. Others would however see the same processes in less idealistic ways and look for the sources of their dynamics in such mechanisms as evolution of political elites in the countries of the Soviet block, in particular rise of the technocrats, growing strength of security-services-related elites, emergence of some forms of middle classes or the persistence of the intelligentsia. Interestingly for some the fall of the Soviet Union will be seen as the triumph of the intelligentsia, for others it is the moment of its final fall or at least fundamental crisis.

3. Where to locate the main sources of the fall of the Empire: in its heartland, on the periphery or outside of its borders?

Another dimension of the search for the sources of the fall of Communism could be identified as having a geographical character. In this dimension the competition between different visions of the disintegration of the system is no lesser than that in the field divided by three fundamental types of capital presented above. Incidentally, in this case three main options could be distinguished as well. Namely the sources of the crucial, lethal impacts to Soviet project could be seen on one hand as originating from its core, that is in the Soviet Union as such with its coordinating centre in Moscow and on the other in its peripheries, or even outside its realm. Thus, we could distinguish two separate debates: one on the importance of tensions in the “inner” and “outer” empire and the other on the role that external and internal factors played in its dissolution.
Interestingly, those seeing the sources of the fall of the system in the Soviet Union itself may see them both as active, intentional decisions of Moscow, which, as they would argue, to a large extent expected and planned the transformation of the empire. Or they could see them in the loss of any ability not only to influence the political and economic reality but to even give coherent directives.

Representatives of satellite states of the former Soviet Union tend to assign the crucial role in the process of overthrowing of the old system to their own region. A good example of such outlook is a view presented by Polish historian Andrzej Nowak, who saw the fall of the Soviet Union as an effect of an alliance of its peripheral elites with the internal opposition in the centre. Interestingly, Nowak, argued that a very similar process could be identified as a mechanism behind the fall of the Russian Empire and the Bolshevik Revolution (Nowak, 2008). One can note however that in the same time for those emphasizing the role of the periphery, the outer empire, the key areas may be located in different places. For some the internal Soviet peripheries such as Tran-Caucasus (Armenia, Azerbaijan and Georgia) or the Baltic Republics (Estonia, Latvia and Lithuania) could be seen as the main sources of instability in the system. Others will argue about the crucial role of the outer empire. Poland, with its unrest of 1970, 1980, Solidarity movement and the round table talks is often presented as the key actor in the process of disintegration of the Empire. Others look at events related to the fall of the Berlin Wall or even some other places. In general we the above mentioned tendency to emphasize the role of own regions by particular authors is also visible on lower levels of territorial organization. Germans will tend to assign greater role to fall of the Berlin wall, while Poles will usually assign the key role in the process to the Polish strikes of 1980. In Poland itself representatives of the region of Pommerania will tend to give most of the credits for overthrowing communism to the workers of the Gdansk shipyard. Others will tend to see the key forces of the Polish anti-Communist opposition in other locations and periods.

Finally there is a whole stream of discourse arguing about the crucial role of the external factors and actors which have exerted presumably crucial blow to the Soviet Empire. A number of theories emphasizing the role of the United States and in particular of president Ronald Reagan and his coordinated policy of challenging the Soviet Union in the fields of armaments, high technologies, at the same time trying to lower the world prices of petrol, a key source of capital inflow for Moscow may be mentioned. Peter Schweizer’s book “Victory” (Schweizer 1994) is the classic of the genre in case. It elevates the role of the CIA and other secret institutions to the top of the lists of factors leading to the dissolution of the Soviet Union. Others focus on American support for the Afghan rebels and the subsequent collapse of the last Soviet colonial expedition. Sill, some observers emphasize rather the role of Pope John Paul II, and his effort in mobilizing anti-Communist forces both within the Soviet Union and globally. Interestingly, this debate continues also in the context of the contemporary events in the post-Soviet space. The dispute over the roots of the so called “revolutions” in Georgia and Ukraine is a perfect example in case. For some the external, in particular the American factor was the crucial force shaping these events. For others, these were mainly internal processes, in which the role of international forces was secondary and should not be overestimated.

The question of geographical location as a key source of communist collapse is also crucial from the point of view of defining our understanding of this historical event. When placing emphasis on the internal sources of the breakdown, especially looking for its roots in Moscow’s own inefficiency, we would define the fall of Communism as an effect of the internal dynamics of the system, for some self-controlled, for others absolutely uncontrolled, and at the same time largely unpredictable. In any case, one could define it as some form of revolution within the Soviet Empire. For those considering rather external sources of the crisis of the system as fundamental,
especially for those seeing the intentional action directed against Communism and the Soviet Union as key factor of its collapse, what happened was not a revolution but simply a victory over the Empire followed by its partition. Such view could be related to traditional geopolitical school of analysis of world history as a contest between states, empires and other entities aspiring to hegemony. It usually implies rejection of more ideological interpretations assigning the fall of the Soviet Union deeper meanings relating to changes in the nature of global system, its dominating values or modes of organization.

4. Was the Soviet Empire Communist, Socialist or none of them?

The final dilemma which I would like to discuss in this place concerns the ideological interpretation of the role Soviet Union and its fall. It is related to the question of whether the countries of the Soviet block were in fact communist or were rather socialist? Consequentially, should we refer to them today as post-communist or rather post-socialist? These issues are in turn related to the major question namely what collapsed in the late 1980s? Was it socialism, communism or the last great empire? The answer to this question is of course used as an important argument in debates on the global future, in particular status and potential of communism and socialism.

Interestingly, when we look at the conventions of the past, some of the countries of the Soviet block were officially called “socialist” republics, others were called “people’s” republics, and some, like Eastern Germany, were simply “democratic” republics. Yet, none was formally labelled as “communist”. The situation was different however in the case of names of the ruling parties. Many of them were indeed called “communist” like the Communist Party of the Soviet Union or the Communist Party of Czechoslovakia. Nevertheless others were called “socialist”. For example the Hungarian Socialist Workers Party or the German Socialist Party of Unity. In other cases, like in Poland the ruling party was labelled simply as “workers party”. Its full name was the Polish United Workers Party (PZPR). At the same time the relationship between the notions of “socialism” and “communism” was explained in different ways in different countries and in different periods. The classical approach in the Soviet Union was to present communism as the future, final and ideal stage of the development of Soviet society. The actual system was usually referred to as “socialism” which was in other words considered as a transitory, imperfect phase between capitalism and communism.

As it seems therefore, one of the main reasons for using the label of “socialist” rather then “communist” in the Soviet context was an attempt to present all sorts of weaknesses of state and society as transitory. They were supposed to disappear after the empire would reach the phase of “communism”. In such context “communism” was supposed to be something better than “socialism”. In many other contexts however the situation was opposite. It used to be and is often still assumed that “socialism” is something better (more civilized, European, democratic etc.) than “communism” with which all the more totalitarian and “barbaric” forms of the Soviet-type societies were associated. The fact that the notion of “communism” was, for many reasons, deeply unpopular in many parts of Soviet-controlled Europe forced the ruling parties to avoid the term. While communism and Marxism-Leninism were the official doctrines of all the ruling parties of the Soviet block, in many countries the notion of “communism” was so deeply discredited that it was often simply avoided in the official discourse. In Poland, which is a good example of such a situation, words including “communism”, “Bolshevik” or “Soviet” had such a deep negative
connotation that since the first days of the Soviet-imposed government in Poland they have been most often replaced by more neutral synonyms. The word “communist” was, at least in the last decades of “People's Republic of Poland” used only in internal party discourse.

Today the debate regarding the proper usage of the word “socialism” continues. Most of the transformed formerly ruling parties, with the notable exception of the Communist Party of the Russian Federation, prefer to use “socialists” and “social-democratic” labels. This allows them to retain some of the old “left” identity and at the same time present themselves as “modern”, democratic, Western-style parties of the left. This is of course criticized by their opponents. The main arguments against the right of the post-communist parties to use socialist/social-democratic labels are the views that neither the social model advanced by them in the Soviet period, nor their policies after the fall of the Soviet system could justify the use of the “socialist” label. This is evident in particular in countries where the former ruling parties retained their unity and strong influence, such as Poland, Hungary or Lithuania. When coming to power in the post-1989 period, they appeared to be highly de-ideologized and had often implemented liberal policies which could hardly be called socialist or even leftist.

The above presented dispute can be seen as another open debate concerning the interpretation of the fall of the Soviet Union. On the one hand it is seen as the fall of communism, by which the specific Russian ideological system is understood. On the other hand, when it is identified with the fall of socialism, a much more general defeat of the socialist project is implied. In both cases the event is seen as the blow to the widely understood left and was indeed often used to legitimize the neo-liberal policies introduced both in the countries of the former Soviet block as well as in the global scale. However, it would be difficult to establish clearly nature of casualty in the above mentioned processes. On one hand the fall of the Soviet Union very clearly reinforced the neo-liberal hegemony, both in the symbolic, material and geographical terms. On the other hand the fall and earlier delegitimitzation of the system was strongly influenced by the global rise of neo-liberal hegemony which started much earlier in the Western world. There is also an interesting dispute whether this general trend implies final exhaustion of the socialist and communist ideas or should be rather seen as a temporal deviation in the global system which will sooner or later end with a new realignment similar to what Polanyi earlier called “the great transformation” (Polanyi 1944).

There is, however, a third reading of the fall of the Soviet Union which does not have to identify its fall with the failure of the socialist project. It is a vision of the Soviet Union as the last traditional colonial empire (e.g. Korek, 2007). Its fall, in this light, is seen rather as the final act in the demise of the colonial system in the world. As such, the colonial and post-colonial perspective on the Soviet and post-Soviet space may be used to for legitimization of several other perspectives in particular those critical of Russia. However, their discussion would require a separate full length article.

**Bibliography**


Part IV:
The Field of the Debate Revisited
KRZYSZTOF SZCZERSKI

AS IT WAS IN THE DAYS OF NOAH
Some words on the phenomenon of historical turning points

Looking at the course of world history, we are trying to give it some meaning, circumscribe the different periods, describe points of reference and discover the sequence of events and their relationships. In other words, we try to make sense of what happened before in order to apply it to contemporary times. In that way we are building, also for our own use, particularly when it relates to our individual lives, a sort of network of meaningful events. They represent—one on the one hand—a positive resource of memory, namely that to which we refer, we memorize and pass them to future generations, on the other hand—they serve as kind of warning signals, buoys on a stormy ocean of time, to protect us against recurrence of those bad events.

Such networks are also an inalienable part of the identity, understanding of oneself and the world around us. The memory is therefore double-faced like the theatre masks—it forms our consciousness in the affirmative manner (positive identity) and in the negative way (warning experiences).

This action is characteristic both for each individual, as well as for social groups. They gain the particular weight for communities tided by the national bonds. National history and history of the state, regarded as institution in hands of political community, are not only one of the building blocks of social structures, which are the decisive element of the formation of such political communities, but also acquire a mythical and symbolic significance. They create certain philosophy of history, which is of particular importance in the crucial moments, both great triumphs and sour disasters.

This making sense of the facts—writing the History—is the distinguishing feature of human beings which marks us out from the whole cosmos, which after all is also touched by the passage of time. As John Paul II wrote, “historical identity of man is expressed it a characteristic capacity to objectify history. Man is not only the subject of a current of events, he not only works and acts in a certain way as an individual and as member of the group, but he has the ability to reflect on his history and to objectify it, describing the events and their mutual relations”¹.

Therefore, for us, human beings, passage of time is not only an objective process that takes place outside our consciousness. The time creates for us a history², in which the memory is carved out and with which we can break out from the unbearable sense of temporariness and start to feel rooted in greater sense. This awareness of being a part of infinitely wide network

¹ Jan Pawe³ II, Pamiêæ i to¿samoœæ, Kraków 2005, s. 78
² see: K. Zamorski, Dzwiena rzeczywistoœæ. Wprowadzenie do ontologii historii, Kraków 2008
significant facts creates a sense of connectedness, also as regards time, which means we are with relation to past and future generations.

From the political point of view, a conviction of a non-accidental nature of the existence of individuals and communities, but of their long duration in history, is of exceptional importance for bearing the responsibility for the fate of community subjected to certain political power. Sense of history forms the traditional ethical dimension of politics and should be understood both as one of the main political virtues as well as one of the two fundamental limitations of power (the other is personal liberty). It may only be appreciated if we be able to recognize the limitations of power not only through the formal categories and rules of criminal law but also by moral obligations. Under that assumption we can agree that it is difficult to imagine a higher dimension of moral obligation seen as an ethical concern that the formula used in the Polish constitution from 1935 saying that the President of the Second Republic is responsible for the fate of the nation "before God and History"—the two highest instances.

These observations are essential if we apply them to a discussion about turning points in history, the points that might be termed as a fundamental reconfiguration of history. In those rare moments, the network of history does not in fact break, but rather completely changes the meanings given to individual facts. Milestones in the history are the moments when previous senses cease to describe the current reality and, in their place, new ones appear. The history begins to be “written from scratch.” The sense of responsibility in those moments of determination of the new meaning of the facts is particularly difficult and requires an understanding of the nature of the breakthrough that happens and discovering its sources and role in history.

In my opinion, one of the most poignant and compelling images of landmark moments in history can be found in the Bible. This is a description of the world just before the Deluge, which ended the times of the first generations of humans on the Earth and was a new beginning of History. This is not about the same course of events, which we know from Genesis, but their interpretation presented by Christ when he announced the future and final end of time: “For in the days before the flood, people were eating and drinking, marrying and giving in marriage, up to the day Noah entered the ark and they did not understand until the flood came and took them all away”.

What is so unusual in this picture, are the two planes in which the events take place. It is a daily thread of the history network, which focuses people’s attention, where human systems and social organisation operates, where “everyday life goes on” and individual stories happen. But in parallel, as if in addition to this basic strand, there is already a new beginning, a new thread of history network. This is so poignant—the history is not happening singularly, intervals are not periods, which are adjoining each other, which means: the one end is the beginning of the next. History is happening multilaterally. Noah had been building his ark for a long time, choosing the animals that were with him to get there, preparing for the moment, which maybe he did not fully understand what it was to be. Noah lived among everyday people, but belonged to another network of historical meaning than they did. Crowd around him was part of history, which end was coming and was not totally aware of it. But Noah was not ordered to do his preparations in secret; it was rather people around him who “did not understand”. Those last days before the flood, and in the words of Christ also the last day before the final end, were (and will be) a fascinating moment of coexistence of two orders in one interval of time and space: the upcoming turning point and the old institutions and human behaviours of a long duration unconscious of their end to come. And this is so fascinating in human history—when many live in one of the historical strand, next to them the other may be formed, which at some point takes

3 Mathew, 24:38–39
over dominance and nullify the existing order. Hence, every decisive moment starts much earlier than his place in history.

For this reason, it is difficult to describe acts by the simple chronology of subsequent events, and for historians, especially culture, “the basic task is to identify the multiple competing threads (...) [historians] do not reproduce this or another simple libretto. Their job is to play complex scores—with all the cacophony of sounds and with the entire unique message encoded in it.” It is therefore important to focus attention on specific moments in history and writing their story, be aware that the turning points come much earlier than its recorded in chronological order. On the other hand, it is also significant that the systems of long duration (political, social and cultural) perform their functions until the very end. Sometimes, when we are dealing with events less clear cut-off than the Deluge, which simply physically annihilated all the institutions of the old order to the ground, these systems have the ability to survive the crucial moment (turning point) and try to take on an adaptive strategy, which would allow them to maintain a strategic resource in spite of losing its dominant position.

I am not a historian but a political scientist, so my perception on the events I would like to comment from the above presented perspective—the turning points of 1989 and 2009, is done from a viewpoint of political science. This standpoint concentrates on primarily looking at them as the examples of systemic imbalance, analyzing the forces of inertia in a work of a system, path dependence and the durability of the system.

From the standpoint of continuity of political institutions, it is worth noting that the "political and social institutions with which we deal with, never, even in periods of profound social revolution, were not invented entirely de novo (this applies even to the institution of a 'revolution', which may be seen as one of the modern practices of society which is most self-conscious of its historicity)".

This remarkable ability to reconstitute the institutional system is a separate political science research topic, which is dealt particularly by a historical institutionalism, introducing concepts such as "institutional embedding") or "path dependence'. These ideas indicate how much legroom in new orders and its consequences deal with the residue of the old regulations. This is particularly interesting precisely in the moments of the entire, it would seem, systemic reconfiguration, during which, however—again, with the exception of total kind of disasters like the flood—individuals and social groups always try to commence their adaptive strategies leading to attempts to find safe place in the new network history.

Provide fascinating examples are both: the fate of the Roman patrician families in the fifth and sixth centuries, the Polish aristocratic families after the partition of Poland, or the landowners after World War II. With all the loss of the world, which functioned, in part, they've managed to move over the history of its own identity, creating their own separate strand of history, privately, and some joined in the main network of history and recognized its dominance.

The times to which the analysis in this volume refer to, so in the year 1989, one may also observe many examples of this type of the strategy of reconstitution by the individuals and groups—positive when found as new opportunities like those arising from the end of the Cold War, for example, and the collapse of the Soviet bloc, and negative when used as the knowledge, contacts and assets bringing competitive advantage of the old order to secure their status in the new era.

It can therefore be said that the turning point is a complex phenomenon, because it means the moment when one thread (network history) takes precedence over the other, giving a new order of history. Lateral strand and its system of institutions, whose role was hitherto marginal,

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or it existed only virtually, absorb the main network and begins to dominate. Matters, which have been on the sidelines now stand as a new order and create new points of reference. Thus, turning points appear to us as flashes of history, as Braudel once put it, a symbolic acknowledgment of the reconfiguration of the history network.

This concept of the turning points refers, of course, to the assumption of structural and processual perspective of the social meaning of history and the theory of multilateral and multi-level existence of history.

The essence of political change is therefore not only a breakthrough, but the process of change, also in the social perception of reality. Therefore, "to determine whether there was a significant change, you need to show transformation of the fundamental structure of an object or situation over time. In the case of human societies to establish to what extent and in what respects the system is changed, is to demonstrate the degree of modification taking place in the period around its fundamental institutions. Determination of change is always associated with an indication of where the solids can be measured in one sequence modification. Even today's speedy world retains continuity with the past".

When we look at the turning point of the year 1989, the two "historical slides" appear to be particularly important from the point of view discussed here.

First, it is worth remembering that even when the stream of political changes in Poland had already been launched with the "Round Table" and in consequence with the first partially free elections, the network of criminal history of the oppressive totalitarian communist system operated in accordance with its logic of a very long time. As for the last direct victims of the secret service apparatus of the communist system in Poland are considered the priests: Fr. Stanislaw Suchowolec, Fr. Stefan Niedzielak who were murdered in January 1989 and Fr. Sylwester Zych murdered as late as in July 1989. Apparatus of repression ruled by the generals Jaruzelski and Kiszczak smeared its hands with blood to the last day of its official actions. They "did not understand". This is a dramatic expression of how multilateralism in Polish history looked just on the turning point of new times.

The second major feature of 1989 breakthrough in the network of history is a gradual rebuilding of the geopolitical map of the world, and because "the history of Europe, is the history of its borders" this development seemed to be of particular importance for the Old Continent. The year 1989 marked the beginning of drawing maps anew, creating new countries, but also emerging division, which organizes the current history of the continent—the division of the free world of open communities and world in which is it state political power that sets the rules and scope for individual and collective actions.

In this vein, today we are dealing with tug-of-war between the forces of politics—this division line between two orders (liberal democracy and state autocracy) keeps moving on the map of Europe and in this sense, the turning point of 1989 has not "ended up the history", as it was once declared as an evidence of the final victory of free world. On the contrary, it has just opened a new strand of the historical network, even here at the heartland of Europe.

These two examples illustrate the main thesis—a decisive moment in history is always entangled in the context of multilateralism and it does not finally lead simply to the disappearance of one thread and its replacement with another, but it sometimes just changes the order of the threads.

We should always seek a "Noah", who builds his ark while the others "do not understand". And finally we need to know that not every turning point is as decisive as the Flood which clearly

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6 see: A. Giddens, *Sociology* Karen Birdsall 2001
7 see: K. Pomian, *Europa i jej narody*, Gdańsk 2004
annulated the ancient history, but look for the residues of the history of ancient institutions in a new strand, institutions that triggered the reconstitution strategies.

The turning points do not begin when they happen. The old system does not disappear when it no longer exists.
ANNA GĄSIOR-NIEMIEC

TURNING POINTS IN THE CONTEXT OF BRAUDELIAN LONGUE DURÉE

Introduction

The following paper aims at putting the ongoing discussion of turning points in the current world’s history in the context of longue durée (long duration). It is claimed in the paper that the methodological conception of long duration, devised by Fernand Braudel, one of the greatest and most imaginative European historians/social scientists of the twentieth century, provides a much needed background to all discussions focused on the issue of turning points. This is especially the case if the latter are meant to constitute those radical ruptures in the historical development of societies/civilizations, following which the most fundamental structures of the societies/civilizations are replaced with new ones (governed by entirely different logics) or otherwise—these great social wholes disintegrate and altogether disappear.

It needs to be noted at the start that, even though historical par excellence, Braudel’s research was never concerned with the “dead” past (compare for example his conception of “operative history” in Braudel 1971h). His methodological precepts always strove to force the analyst to follow historical developments back, forth and sideways rather than to concentrate simply on “square facts” from long ago. Braudel’s global, historical-geographical-sociological analyses (histoire totale) were as much intended as tools to know the past, as they were intended as tools to interpret the present and to think of the future. His analyses always leave[s] the door open to engage with the future. The future is not completely open or completely determined. As he argues, at any moment in time a range of alternatives are opening while another range of alternatives are closing. The dynamics of these processes are highly dependent upon their history. Their longue durée, their path dependencies, can tell us about their [current and future] dynamics (Garcera, Fumaz, nd: 8).

As presented in more detail in the remaining parts of the paper, according to Braudel, it is only against the (substantial) background and in the (methodological) context of the longue durée, that is in the framework of long-lasting, almost unchanging deep structures of the material and social world that real turning points—meaning points at which existing trajectories of societal development are altogether discontinued or at least radically bifurcated — may be adequately identified, weighted and interpreted. In his own words, “a mass of facts do not make history”; “[f]acts seem so often to weigh equally in the eyes of their contemporaries, whereas truly great
events that build up foundations of the future, make so little noise [...] that their presence is only rarely guessed” (Braudel 1971b: 50; Braudel 1971d: 118–119).

This is so, because, according to Braudel, human history unfolds simultaneously at many, quite different levels and speeds. Therefore, even most serious rifts that may appear at some of its “shallower” and “hastier-proceeding” levels do not necessarily bring about a breakthrough or an interruption in the more entrenched patterns and developments that lay “deeper” and proceed at a slower pace. But the reverse is also true: some initially minute, imperceptible shifts in ordinary rhythms of everyday life and sideway movements in social structures or economic systems as well as very slowly but relentlessly changing patterns of material culture or, conversely, stagnating mechanisms that used to propel collective cognitive/intellectual/imaginative efforts can push societies/civilizations to their points of no return (or points of regeneration).

Turning points and civilizations

It is then what is happening in those deeper-level and slower proceeding structures, patterns, mechanisms and fundamental developments that seems to be decisive when one looks for signs of change in overall trajectories of the greatest social wholes such as civilizations. As put in one of the methodological papers by Braudel, the “[lesson of history [...] is a warning against [concentrating on current] events: do not think only in terms of court durée, do not believe that those actors are the most important that make most noise, for there are also other actors, who are inclined to remain silent [...]” (Braudel 1971b: 65). On the one hand even most dramatic (both positive and negative) current affairs frequently turn out to be inconsequential eruptions producing a lot of smoke that blinds the observer who may then lose sight of perhaps less effervescent but nonetheless more consequential signs of change discernible in conjectural or secular trends. On the other hand, it is, however, always wise to judge such events against those cyclical/secular trends for sometimes, indeed, they provide evidence of some deeper running movements that are about to affect the fate of a society or even that of a civilization (ibid.: 50).

Civilizations are what Braudel sees as true building blocks of the global world. In a paper where he argued for merits of studies focused on civilizations, asking famously: “The question that we are to tackle here might sound rather surprising: can the history of civilizations [...] enrich our knowledge about the present and hence about the future—for we can only understand today in relation to tomorrow?” (Braudel 1971f: 252), he also stated:

*It is then our primary conviction to believe in heterogeneity, in a diversity of the world’s civilizations, in their will to life and endurance of their personalities. And this means that we should place in the foreground of our research into the present a study of those long ago acquired reflexes, of attitudes that are not so elastic, of permanent habits and deeply rooted inclinations that may only be explained by this slow history, very old and little conscious [...]* (Braudel 1971f: 303).

To put it simply, Braudel defines civilizations as great, complex and encompassing systems which are deeply rooted in their spatial environments and which, despite their porous boundaries and internal differentiation, are nonetheless clearly discernible from other such systems in the world (Braudel 1971f; see also Kurliński 2011; Gąsior-Niemiec 2011). Civilizational systems display features such as long duration, a great deal of structural inertia, amazing resilience to the ravages of time and a surprising potential for internal permutations. In Braudel’s words:
Civilizations are characterized by long, inexhaustible duration, during which they constantly adapt to their fate. In terms of longevity, they are above any other domains of collective life, they live longer than any other of them. In space, they transcend boundaries of particular societies (which in this way get immersed in a world much broader than themselves and receive from that world, although not always being aware of this, certain particular impulses), and they do the same in time exceeding their temporal boundaries [...] owing to which they acquire surprising heritages and legacies that might be totally incomprehensible for anyone who is satisfied with observing and studying their “present” in its narrowest sense. In other words, civilizations can survive and live through political, social, economic and even ideological earthquakes (which they themselves often secretly and sometimes with a great force direct). The French revolution does not constitute a complete caesura in the history of the French civilization, just as the revolution of 1917 does not constitute a complete caesura in the history of Russian civilization [...] (Braudel 1971f: 302).

A civilization as an object of investigation is then “a unified, but spatially and temporally complex historical whole and the focus of analysis is the formation and reformation of relations through diverse spatial-temporal scales” (Tomich 2008: 6). Civilizations ultimately differ by being contained in their unique geographical spaces, by being based on their unique social-material cultures, by being structured by their unique social, economic, religious and political institutions, and by being driven by their unique sets of values, affective patterns and cognitive tools. Those differences last for the whole lifetimes of civilizations in spite of many and frequent inter-civilizational borrowings, impositions and internal innovations and permutations alike. Such borrowings, impositions, innovations and permutations as a rule remain relatively superficial factors when compared to the deepest foundations of civilizations and they do not fundamentally change their operative logics or developmental trajectories (Braudel 1971f).

However, this usual rule may be broken when there appears a factor (a set of factors)—borrowed, imposed or invented—that manages to deeply affect the very logic of the civilization concerned. As a result, with its foundations shaken, the trajectory of such a civilization bifurcates or the civilization dies out. Within the Braudelian framework only such momentous factors could be classified as turning points. As already pointed out, rather frequently those turning points happen to result from cumulative series of change that might initially be quite inconspicuous and/or appear as trivial and relatively inconsequential. Therefore often, albeit not necessarily, such incipient changes may be distant from the effervescence of front stage events, “big” decisions taken by “big” men in the spotlight of high politics and all-alarming newspaper headlines. Countervailing famous Treitschke’s words “People make their history”, Braudel used to say: “No, in an equal measure it is history that makes people and shapes their fate—that anonymous history, deep and often silent [...] (Braudel 1971a: 28).

In order to make his concept of civilizations and the method of analyzing their trajectories more approachable by other social scientists, Braudel indicated that they might be most usefully grasped analytically in their two fundamental apparels: as (broadly conceived) cultural civilizations and as (more narrowly conceived) economic civilizations. To exemplify this (simplified) distinction, one could point out to Europe (or in a more encompassing manner, the West) as a broad cultural civilization, whereas Europe-born capitalism would constitute an economic civilization (Braudel 1971d: 119–124; Braudel 1971c, g). In this vein, according to his analyses, the European mercantile capitalism was one such separate economic civilization in the European history, which blossomed from around 1450 until around 1750. Then affected by a number of factors, industrial revolution and democratic revolutions included, this economic civilization crossed its turning point, after which
it was replaced by another European economic civilization—this of global industrial capitalism lasting until now (ibid.).

As Braudel’s most famous disciple Immanuel Wallerstein has indicated for some time now (Wallerstein 2001; 2004), with the turbulent turn of the XX and XXI century, we have most probably entered now the end phase of this latter economic civilization as well. As stated in his *The End of the World As We Know It*

The first half of the XXI century will be, as I see it, much more difficult, more turbulent, even though more open-ended than anything we know from the XX century. I argue so basing on three premises [...]. The first of them states that historical systems, as all systems, have limited life-spans. They have their beginnings, long periods of growth and in the end, losing their state of balance and nearing a juncture of diverging paths, they collapse. The second premise has it that at those points of bifurcation, two conditions occur: small inputs produce big outputs (as opposed to the period of normal system development [...] and the results of such bifurcations are by nature undetermined. The third premise says that the modern world system, being a historical system, is entering its final crisis and that it is unlikely to continue to exist in 50 years from now. However, since the result is uncertain, we do not know whether the emergent system (systems) will be better or worse than the one in which we have been living. What we know for sure is that the period of transition will be an era of terrible problems since the stakes in changes are so high, outcomes so uncertain and the ability of small inputs to make an impact on the outcomes is so big (Wallerstein 2004: 272.)

The ultimate validity of predictions such as that of Wallerstein’s on the fate of Euro-Atlantic global capitalism may of course be only fully verified by future developments, although recent years seem to have vindicated his stance more than enough. Also, not everyone needs to be inclined to follow the ideological and critical thrust inherent in this author’s research. Nonetheless, it is hard to ignore his overall message of the incoming fundamental, structural and cultural crisis of the Euro-Atlantic civilization, a message that has stemmed from meticulously conducted longitudinal interdisciplinary studies modeled on Braudel’s methodology. Therefore, in order not to turn out a mere plaything of history, constant efforts should certainly be mounted to identify and analyze potential turning points (and their consequences) which the global industrial capitalism—or even the whole Euro-Atlantic civilization—may have already passed or will shortly have passed.

However, to repeat, all such discussions are only meaningful if they manage to distance themselves from the excessive noise and myopia produced by constant eruptions of ever more tabloidized current affairs. In other words, what Braudel called the history of events (*histoire événementielle*) needs to be harnessed in a more broadly designed analysis searching for historical

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1 One of Braudel’s observations on earlier forms, crises and collapses of Europe-born capitalism seems particularly striking at the turn of the XX and XXI centuries which is a period of recurrent economic crises largely caused by financial speculations and an overgrowth of banking functions in the global capitalist system. For instance, when tracing the cycles of birth, growth and collapse of the great Italian early capitalist city-states such as Genoa or Venice, he noted that in the final phases of their development they drastically reduced and ultimately gave up practically all of their own economic functions with the exception of burgeoning banking functions and trade in money, *inter alia* allowing for an “abnormal overgrowth of credit” (Braudel 1971c, d; 1992b). Do not those observations sound a bit like *memento mori* nowadays?

2 For technical reasons, all quotes from Wallerstein (2004) and Braudel (1971a-h) have been translated into English from their Polish editions by the author.
turning points. Far from being neglected\(^3\), this type of history must necessarily be related both to not so immediate but usually more important history of cycles/conjunctures (*histoire conjoncturelle*) and, finally, to the decisive course of the history involving most durable structures, i.e. to the history of long duration (*histoire structurelle*).

**Events, cycles and structures**

True to his *Annales* milieu, both in his analytical (e.g. Braudel 1992a, b) and methodological writings (e.g. Braudel 1971), Fernand Braudel insisted that to get to the gist of the historical continuity/discontinuity problem and to solve the mystery of the rise and fall of economic systems and civilizations, one has to pursue research that is at the same time **global** and **multi-dimensional** (ibid.). By global research he meant interdisciplinary analyses that simultaneously take account of all of the major spheres of societal life (political, economic, social and cultural) and trace in parallel developments thereof without privileging any of the spheres. As he wrote in one of his many papers that advocated the need to pursue such interdisciplinary historical research:

> For a historian, as much as for an economist, time is measure. When a sociologist claims that structures unceasingly undergo destruction in order to reconstruct themselves, we are willing to accept this explanation, which is fully confirmed by the historical domain. But we would want to learn [...] the exact duration of those movements, both positive and negative. Social structures need to be captured also in time, through time, in order for us to see them situated in their own temporal frameworks and even more so vis-à-vis movements of their neighbouring structures. What the historian is most interested in is the points of intersection of such movements, their mutual impacts and their points of rupture [...] (Braudel 1971d: 173).

Obviously, such analyses were to transcend not only the artificial borders between the different social science disciplines but also ephemeral (and sometimes equally “artificial”) political borders with which space is constantly peppered. Rather, such global analyses should follow wherever flows, linkages and connections may take the researcher (e.g. Braudel 1971d; Braudel 1992a, b).\(^4\)

By multi-dimensional (pluri-temporal) research he meant analyses that trace historical developments (and especially their ruptures) unfolding at different paces and differentially affecting different levels (strata) of societies and civilizations. Of the many historical times, he thought it most meaningful to focus on the short time of events (*histoire événementielle*); the medium time of cycles and inter-cycles (*histoire conjoncturelle*) and the long time of structures and systems (*histoire structurelle*) (Braudel 1971; see also Gąsior-Niemiec 2010). Importantly, the

\(^3\) “Outside of plural time, the event -blinds us with clouds of smoke-. But within the plurality of social time, it finds its place, if only a limited one (Braudel 1995: II, 901 as quoted in Tomich 2008: 7).

\(^4\) This is already visible in his first great work dedicated to the Mediterranean world entitled *La Méditerranée et le monde méditerranéen à l’époque de Philippe II* (Braudel 1949). As noted by Garcera and Fumez (nd), who argue for Braudel’s honorary title of the first “mobilities” theorist *avant la lettre*, “[s]etting the general context of Mediterranean life is the object of the first and second parts of his book. Throughout nine hundred pages the rich texture of Mediterranean life in the 16th century slowly unfolds to the reader. And the picture that emerges is one of a complex and lively network of travel and trade routes. Writing about the Mediterranean as a human unit, Braudel defined this sea as -the sum of its routes, land routes and sea routes, routes along the rivers and routes along the coasts. An immense network of regular and causal connections, the life giving blood stream of the Mediterranean region-. This network of trade and travel routes constitutes the -framework for the general life of the sea-, the -infrastructure of all coherent history-” (Braudel 1995: 281) (nd: 4).
true key to the present and future developments was to be found in the second and third of those temporal dimensions rather than the first one.\textsuperscript{5} However, while initially analytically separable, these three basic historical times finally needed to be put together. Their so far separate courses had to be mapped out, juxtaposed, compared and closely scrutinized in order to discern those moments in history when the curves visible in the three time-scales coincide, changes start to sip/trickle down/ rise up from one time-level to another, beginning to affect and reinforce one another to finally produce a result that ultimately will prove to be a major (or, indeed, final) rupture in the overall developmental trajectory of the analyzed social whole.

In an attempt to make his methodological stance more approachable to other social scientists, Braudel even set out to outline framework research programmes for economists and sociologists, whose tight collaboration with historians he saw as vital. It is worthwhile and instructive to include here four rather lengthy quotations taken, respectively, from his papers on “History and sociology” (Braudel 1971d) and “History and an enquiry into the present” (Braudel 1971h) where he fills out his conceptions of plural historical times with quite specific instructions for a “sociology of historical change”, as we might put it. This is what he envisages as the sociologists’ tasks:

A sociology of the event stratum of history would investigate those rapid mechanisms, constantly at work and nervous that daily register the world’s history in the making, a history that to a large degree is a play of appearances, in which one event follows another in a constant succession, one calls on another, and in which great people are thought to be powerful orchestrators [...] (Braudel 1971d: 167).

Already François Simiand sketched [...] an outline of a sociology of the conjectural time in accordance with the flows and ebbs of material life. Whether the period of blooming (phase A) and improvements related to it, sustain (at least in some parts) or do not sustain the so far existing social games and structures? And how, together with phase B, the time of ebbing, material life (but not only material life, naturally) time after time reconstructs its structures, seeks some other possibilities for a state of balance, finds them out, and mobilizes, or at least lets freely out, the forces of human ingenuity [...] The cyclical history of conjectures cannot, however, reach its fullness, unless economic conjectures are supplemented with an enquiry into social conjectures and other such situations which go in parallel to the forms of contraction and expansion. An effective sociology may be born out of [interest in such] intersections of different but parallel conjectures [...] (Braudel 1971d: 168).

On the plain of long duration it would not suffice to say that history and sociology meet being mutually supportive: as a matter of fact they are then one and the same. The long duration involves an unceasing and indefatigable endurance of structures and complexes of structures. For the historian, a structure not only is a kind of architecture, a compound of components, but above all a certain permanency in itself, lasting often over the ages (time is structure). It continues to proceed slowly across immense stretches of time without any damage. And even if, during

\textsuperscript{5} This is most clearly demonstrated by the evolution of the way in which he conceptualized and prepared his doctoral dissertation. Initially it was to focus in a traditional manner on the politics and policies of King Philip II of Spain. However, ultimately in order to fully account for his hero deeds and choices, Braudel ended up with sketching a grand panoramic tableau of the Mediterranean civilization, filled with minutiae that, cumulatively, over ages had co-constituted the most important set of opportunities and obstacles available for King Philip II of Spain during his lifetime in the XVI century (compare Braudel 1949).
its very long journey, it does suffer some injuries, it manages to renovate itself continuing its slow movement all the time. And it recovers. However, ultimately its fundamental features start to undergo a very slow degeneration [...] (Braudel 1971d: 169).

_Their endurance is amazing. The changeability of history, sensational events, and vicissitudes of economic cycles, collapsing wage and price curves are not able to undermine the structures of the social system—and we do not really know why not. And then, some day, as if a grain of sand got inside a machine, everything starts to fail and collapse_ (Braudel 1971h: 338–339).

It should be clear by now that the Braudelian approach constituted a novel and demanding challenge not only to historical research, but also to all other social sciences interested in the problematic of social continuity/discontinuity. (Unfortunately, it has remained so until today). As neatly summarized by Garcera and Fumaz,

> _By the time Braudel wrote the Mediterranean, history as much of social science was positivist, even one might say «Newtonian». [...] Historians conceived social phenomena as atomic in nature. The atoms were historical facts. Lucien Febvre, one of the fathers of the Annales School, wrote in a review of a book «dusty old fashioned atomism, a naïve respect for ‘facts’, for the tiny fact, for the collection of tiny facts which are thought to exist in themselves». Besides this focus on facts there was also an attempt to unveil eternal laws of social life very much in the way the physical world was assumed to be ruled by eternal universal laws. Braudel developed a critique of «episodic history» (histoire événementielle) and the very long duration (universal laws) with his elaboration of the longue durée. [...] [He spoke] of a multiplicity of social times, of temporalities that interweave and co-constitute each other: [...]_ (Garcera, Fumaz nd: 6–7).

It is worth recalling that this approach matured in a most exceptional scientific milieu of the first half of the XX century and beyond—the milieu of eminent scholars associated with the so called Annales school _(_Annales d'Histoire Économique et Sociale_), founded in 1929 in Strasbourg by Marc Bloch and Lucien Febvre (see e.g. Geremek, Kula 1971; Kochanowicz 1992). A group of brilliant, innovative historians collaborated within this milieu on a daily basis with sociologists, geographers, ethnologists, and, to their regret, only to a lesser degree with economists, to produce works that not only strove to reconstruct pieces of the past _histoire totale_, but also works that could contribute to a better understanding of the present and future developments in the world’s history.\(^6\)

### Longue durée

As much as fruitful and important, Braudel’s conception of the _longue durée_ seems also to have been most difficult to clearly define and explicate outside of the realm of its actual practice — such as evidenced by Braudel’s historical works or works by other Annales scholars and by

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\(^6\) Among those collaborators suffices it to mention the names of such renowned sociologists as Marcel Mauss, Maurice Halbwachs, Georges Gurvitch, and François Simiand. It is also worth emphasizing that of the older generation of non-historian scholars, the Annales milieu had specially appreciated the sociologist Emile Durkheim, the political economist Karl Marx and the geographer Vidal de La Blache.
their followers worldwide. The following apologetic quotation, taken from a paper by one of the scholars associated with the famous American Fernad Braudel Centre in Bingamton, NY, amply illustrates the great difficulty in trying to define the conception of Braudelian long duration *in abstracto*:

*Within his conception of plural temporalities Braudel emphasizes the importance of the longue durée. Although Braudel is elaborating a concept of structural time (that is historical temporalities beyond direct human or social intervention), we need to stress here that he is not proposing a structuralism. The longue durée is not a structure in the sociological sense of the word, that is a fixed attribute of the social system (as in Parsons’ sociology or Althusser’s Marxism). Nor is Braudel’s historical account a “grand narrative”. Rather, the longue durée is a historical relation that allows an open and experimental approach to the theoretical reconstruction of long-term, large-scale world historical change (Tomich 2008: 2).*

In general, it could perhaps be helpful to separate analytically Braudelian *long durée* into its “substantial” and “methodological” dimension. If the former is concerned, the *longue durée* refers to very slowly moving historical time that is typical of all those phenomena and processes that tie the human beings the closest to the nature and to their material and then social environments (ibid.). This is why Braudel’s historical analyses are at their “deep” strata so meticulous about the reconstruction of minutiae of physical geographical characteristics, natural resources, all kinds of material conditions, technological patterns and processes (including transportation, housing, organization of production and work), before they delve into rich details of human demographics, bodily features and gestures, family structures, and a host of other features, patterns and mechanisms of everyday life.

Such broadly conceived “environmental history”, a “history of material life” (cf. Tomich 2008) and a “social history” (Braudel 1971g) constitute the most fundamental and most inert strata of the multi-level history of human societies and civilizations. To use Braudel’s phrases, in its “substantial” version, his *long durée* covers “history’s slowest processes”, “the slow rhythms, the almost immobile framework which constitutes the theatre of history [that] constantly coexist with violent disruptions—wars, famines, plagues, natural disasters—bringing to an end centuries old routes and paths of change and opening up new horizons, this “almost imperceptible, almost motionless framework” within which all historical cycles and events take place (Braudel 1995; Garcera, Fumaz nd: 7).

In a more pragmatic manner, those most enduring structures include, *inter alia*, demographic patterns, transportation and trade routes, systems of production, dietary patterns, family structures, myths, customs/habits, institutions etc. Notably, as Braudel stated so many times, those deep structures include “boundaries of spiritual life” as well, whereas “frames of thought are also prisoners of long duration” (Braudel 1971b: 55).

In turn, in its methodological dimension, Braudel’s conception of long duration is intimately linked to his project of *histoire totale* (Tomich 2008: 6; see also Kochanowicz 1992). Methodologically, “[i]t permits him to specify phenomena in time and space and to establish the relations between them. [It] allows him to construct the diverse temporalities that make up his concept of plural time—*longue durée*, *conjoncture*, and event, or better *courte durée*—as a relational whole” (Tomich 2008: 6). It lets him investigate jointly, without being chaotic or incomprehensible, trends and developments and ruptures that occur at the three broad levels: 1) at the level of very slow movements in spatial-geographical environment and material culture; 2) at the level of still slowly changing but decidedly “hastier” forms of collective life, collective fates and population movements;
and 3) at the level of “rapid” and “flashy” events, politics, people (see Geremek, Kula 1971; compare also Gąsior-Niemiec 2010).

In other words, to sum up its methodological function, “[t]he longue durée forms a comprehensive social and analytical unit that enables Braudel to construct categories or objects of inquiry through their relation to one another in this shared analytical and practical field. In this flexible, dynamic, and open approach, objects of inquiry are understood not as things with properties, but as ensembles of changing relations forming configurations that are constantly adapting to one another and to the world around them through definite historical processes (Annales 1989: 1319, as quoted in Tomich 2008: 4).

By means of conclusion

As stated by one of Braudel’s most eminent disciples, Immanuel Wallerstein, “we must begin to do research on the historical choices that are before us in the future. If we believe that all historical systems come to an end, the one in which we are living will also do so. And if we believe that the secular trends of the existing system have brought it into the zone of systemic crisis or «transition», then it is more than time that we begin to engage in utopistics—not utopianism, but utopistics. Utopistics is the science of utopian utopias, that is the attempt to clarify the real historical alternatives that are before us when a historical system enters into its crisis phase, and to assess at that moment of extreme fluctuations the pluses and minuses of alternative strategies (Wallerstein 2001: 197). It is in this context, provided by the Braudelian conception of the longue durée, that the enquiries into the world’s history’s turning points in general and the turning points looming at present over the Euro-Atlantic civilization need to be pursued.

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ROMAN GALAR

ON SOME POTENTIAL TIPPING POINTS OF 21ST CENTURY

It starts to be generally recognized that the present economic turmoil might result in a qualitative change of some essential aspects of normality, which the Modern Western World got used to take for granted. In response to Professor Kuklinski initiative, ten plausible and at the same time peaceful tipping scenarios are sketched—without any pretences to make this list comprehensive, disjunctive or well ordered.

1. The mainstream of history suddenly switches from West to East. The West might be unable to move out of the limbo of apathy and selfishness due to the greed, irresponsibility and virtualization of its superannuated consumer masses. At the same time much younger and dynamic East might take its chance to settle historical grievances and regain the world leadership.

2. The brutal swap of elites. The prolonged lowering of living standards and the widespread disillusionment with the future prospects might result in an explosion of public rage. This would be directed toward political, economical and media gurus that have been building their position on peddling irresponsible optimism. At the same time, genies of intolerance might be released from the bottles of concealment, sealed by political correctness. Frustrated masses might be prone to look for the causes of their frustration in the spheres held closed, so far, by the post-cultural taboos. This might lead to a number of conspiracy theories and paranoid reactions. The rebellion might be very destructive, as there are no recognized alternative elites that could control its development.

3. Generational conflict and the fall of the welfare state. The young, assumed to work and pay for the rich social entitlements of the older, get a much worse social deal (e.g. employment less accessible, less stable but longer). The ones expected to take care are being refused care. It is only logical to assume that they will respond in kind, declining to pay social taxes put on them in disregard with “no taxation without representation” rule. At best, they will take care of their own parents. This might suddenly reevaluate the role of family with dramatic consequences for the present mores.

4. Decomposition of unions build for the “permanently improving weather”. The economic crash will be followed by the period calling for limitations and mutual sacrifices. For at least two generations consumers were conditioned to disregard communal values and to mind only their own business. They supported all kinds of unions, as long as they found them directly profitable. It seems highly improbable that people with such mindset would accept deprivations necessary to go through the crisis. They would be inclined to follow the “everybody for
himself path”. In effect, the political and business empires might fall and fragmentation might return. The cost of restoring the once disbanded pre-union structures might be great indeed.

5. Crisis of competences. Public education provided as social entitlement, cynical sale of “certificates” by private enterprises, brainwashing performed by media in the interest of politics and commerce—they all result in erosion of the socially crucial qualifications. First of all, there is a growing deficit of professional abilities necessary to uphold and develop the techno-sphere of modernity. More generally, it involves also cultural abilities to grasp the general picture of the human world and to map one’s own doings on a wider, communal plane. Instead, there is an increasing dedication to replace living intelligence with procedures. The price in terms of the lost adaptive powers might be immense and contribute to the fall of Western civilization.

6. The collapse of the financial sector. The banking sector comes to the end of possibility to bury the ruins of financial pyramids in the subsequent financial pyramids (as it buried the dotcoms bubble in the real estate bubble). Its intellectual capital, i.e. the difference between the market value and the book value, turns out to be negative. The general public refuses to cover the difference, ending the phenomenon of a market system with the communist kernel—where the business responsibility stops. In response to hyperinflation some global Balerowicz erases all savings and eradicates the Himalaya of money without coverage. The currency monopoly of the West gets broken and the new, truly global system emerges. Introduction of world currency leads to re-evaluation of world economies. It raises the status of production dramatically and depreciates many services, especially financial ones. The collapse of the banking sector would bring great shocks but it could also start the revival of the real economy.

7. Rapid activation of “limits to growth”. The famous Limits to Growth book, get derided as, at the very beginning of the 21st century, no traces of the predicted growth catastrophes were visible. This is suddenly changing as the number of prospective consumer is growing fourfold and the West keeps not longer it’s privileged position resulting from technological supremacy. The global spread of consumer values puts unbearable pressure on natural resources. This would lead, in a peaceful scenario, to a kind of the equal access agreement. At the present level of technology, it might mean only that the poor will get richer and the rich will get poorer. Such developments would destroy the moral fabric of the modern societies.

8. Regress of globalization and renaissance of local communities. The breakdown of the world’s financial system brings global crisis of confidence and paralyzes the global trade. Local communities have to go back to their roots and to concentrate on resources available in their vicinity. The crisis releases the better side of human nature. Empathy, cooperation, resourcefulness become main factors of renewal. Local industry and local agriculture rise again, making use of the available smart technologies. Smaller cities revive in their role of the local centers of production and services. Segmentation leads to increased diversity that correlates well with innovativeness. Careers of the people become smaller in scale and also more authentic due to limitations of localities. At the same time, the total amount of available career opportunities grows immensely and so is the general level of satisfaction with life.

9. Emergence of the leisure culture. Impossibility of the sustainable growth switches attention to the sustainable permanence. The word “enough” becomes a core of a quite comfortable civilization, where free time becomes the most desired commodity. Work sharing is a norm. Modern technologies allow to work less than twenty hours a week to provide for all sensible needs (i.e. anthropological standard). The remaining time is a space of opportunity to deepen

one’s own personality, to enjoy one’s own family, to follow one’s own passions and to develop one’s own social network. In an environment free from competitive hysteries, culture and creativity rebound.

10. Innovativeness returns unexpectedly. Some white knight, e.g. an invention resulting in cheap and inexhaustible energy sources, might still save the consumer civilization. In such a case all these fantastic rat races of our days might continue into the far away future. And to the ultimate decline of humanity, perhaps.

The above speculations concern the possible tipping points of near or not so near future. But it is also possible that the main tipping point of our times has already occurred. If it is so, I would bet on the 1970s, when the brave culture of experimentation gave lead to the cowardly culture of procedures. The first has brought two centuries of rapid progress. The second leads us, through the turmoil that is hard to imagine, into the new era of stagnation.

Wroclaw, 2011–09–26
In 1985 Boulding wrote "when we cross over into a new region of time, ...the immediate past is a poor guide to the future, and we need to look for corresponding episodes in the more distant past" [1]. Long-wave theories can serve as example here. Long waves of innovation contain turning points, both on the upward swing and the downward swing, a matter of rise and fall (see Marchetti’s version which resembles Kondratiev cycles [2]). But the experiences of the past may be radically different from expectations for the future. It seems easier to reconstruct past cycles than to construct future ones. First of all, there is no such thing as an objective historical fact. It needs to be constructed, too which requires a theory. Theories are nets: only he who casts will catch (Novalis as quoted by Popper [3]). This also holds for turning points of the past (by the way, some still doubt whether Kondratiev cycles really exist).

Ideally, a theory that explains the emergence of turning points could serve to predict future turning points. But his is to overestimate our ability to predict. Highly improbable events take place. Black swans, as Taleb [4] has baptized them, occur. They can be either negative or positive. The financial crisis may be considered as a negative black swan (although insiders may claim that the crisis has been predictable instead of being highly improbable. Innovation –on the other hand—is a positive black swan. That technological innovations or rather the underlying inventions often come as a surprise, is corroborated by research on serendipity [5]. Three of the most important new technologies of today—the computer, the Internet, and the laser—result from inadvertent discoveries.

Are there lessons to be learned from long waves of innovation for turning points in general? A general lesson is that major uncertainties are involved with regard to:

— The what? That is the content. Is it political, social, economic or environmental of nature?
— The why? That is the explanation of turning points.
— The when? This questions concerns the time horizon of the next turning point.
— The where? Will turning points occur worldwide, or just in some countries, regions or cities?

How to manage the uncertainties involved? This may include scenario building.

How can a city or region cope with these uncertainties, that is to say the (external) threats or opportunities resulting from potential turning points [6]? Can regions be relatively autonomous with regard to globalization, a question raised by Kuklinski.

At the end of the day—in order to avoid just future babble — one should follow the model of how a fox works his way forward in the darkness of the future. It is informed by the past, it is revealing about the present, and it survey and array of futures... It offers hopeful visions of what could be; it warns against dangers that also could be. It explores our values by asking us what we want to happen and what we don’t. And it goes no further. It raises issues, questions
and choices, and it suggests possibilities and probabilities. But it does not peddle certainties, and it does not predict [7].

Notes

[3] Popper has chosen the Novalis quotation as motto for his book The logic of scientific discovery (1959, Hutchinson of London).
TOWARDS A NEW CONCEPTUAL FRAMEWORK FOR TURNING POINTS ANALYSIS

In 2010 I have outlined the following definition of a turning points as a “the deep and rapid transformation of the global scene creating new structures and new driving forces including the destruction of old path dependencies and the emergence of new trajectories in the development process”. There are five elements in this definition:

- Rapid transformation
- New structures
- New driving forces
- Destruction of old path dependencies
- Emerging of new trajectories

In the rich content of the contributions of the volume “The turning points of world’s history” we find a network of empirical and methodological studies testing some elements of this definition in an implicit or explicit way.

My paper “Why turning points?” is trying to open six paradigmatic perspectives, six contexts of the interpretation of the phenomenon of turning points emerging in different domains and environment of time and space.

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This empirical background is an inspiration for approaches leading to a new conceptual framework for the turning points analysis. This new approach can be seen in the paper of K. Szczerski. As it was in the days of Noah. Some words on the phenomenon of historical turning points. The Noah metaphor is an inducement to see the turning points phenomenon in a new framework of historical experiences presenting two valid methodological observations:

1. Even the most dramatic turning points are taking place not outside but inside the processes of long duration.
2. A turning point is really not a point but a processes of “historical reconfiguration”. We have to analyze not only “the turning points”, but the sometimes long processes of historical reconfiguration taking place before and after the turning points.

* * *

1 Compare the paper of Anna Gąsior-Niemiec in this volume.
The Noah metaphor in the interpretation of K. Szczerbski can be incorporated into the innovative analysis of turning points in the context of Braudelian Longue Durée. From turning point view the paper of Anna Gąsior-Niemiec may be seen as an important comment.

The enigma of the XXI century is explored in the short brilliant note of R. Galar. This note is an inducement to analyze the mutual interrelations of two concepts turning point and tipping point. May be we could suggest an interpretation that a sequence of tipping points is leading to a turning point. This is however an open question analyzed already in II volume of Reupus².

The paper of L. Emmerij published in this volume is an inducement to outline a triple interpretation of the turning point phenomenon.

Primo—the ex-post interpretation is relatively easy to discover the turning points in the historical experience. But even in this case different perceptions of the past create a background for different evaluations of the scale and locations of turning point in the long duration of the vast field of history. In our volume we find valid examples of the dilemmas related to the interpretation of the historical turning points.

Secundo—the hinc and nunc interpretation of the turning points. It is difficult to answer the question if the humanity of the XXI century is aware that hinc et nunc we are in the middle of one of the greatest turning of the global history—the reconfiguration of the global scene, the reconfiguration of global elite, the reconfiguration of global order including the emerging new hierarchy in the geopolitical power.

This hinc et nunc interpretation of the turning point is a fascinating field to test our knowledge, imagination and moral and intellectual courage.

Unfortunately this dramatic or even tragic situation is not inducing the grand global actors to drop the business as usual attitude and find Alexandrian solution cutting the Gordian knots created by the long term paralysis of strategic thinking in all dimensions of human experiences.

Tertio—the ex-ante interpretation of turning points is a mission maybe outside the limits of our knowledge and imagination. But we must develop our visions of the future including the visions of the turning points as defined in this paper. We should be not afraid to enter the kingdom of utopian thinking which is sometimes the only way out from the mental prison of our conventional thinking demonstrated by the experiences of the past. In the new conceptual framework we must find trajectories integrating wisdom, imagination courage and utopia.

This short paper “Towards a new conceptual framework for turning points analysis” is a suggestion to consider the design and implementation of a new research programme seeing the fascinating phenomenon of turning points as trans disciplinary field of theoretical,

methodological empirical and prospective studies. We hope that the volume Turning points of world history well be a step leading in this direction\textsuperscript{3}.

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ANTONI KUKLIŃSKI

THE LAST POSTSCRIPTUM
OF THE REUPUS SERIES

Farewell to Arms

The experiences of the years 2004–2012 have created and developed the seven volumes of the Reupus Series as an intellectual and pragmatic venture trying to explore a network of paradigmatic questions related to the past and to the future of Europe—seen in the perspective of global change—the greatest change in human history of the last 500 years.

We have created an valid and comprehensive document of our time which as we hope will have a permanent value in the field of diagnostic and prospective thinking related to the interpretation of Europe as a cultural, social, economic and political phenomenon.

The Reupus Series can be seen now as an innovative Research and Publication Programme—designed, developed and implemented in the years 2004–2012. We can apply in this case the classical methodology of Programme Evaluation.

The climate and the framework conditions for the development of Reupus were created by WSB-NLU in Nowy Sącz as a demonstration that a regional academic center in Poland is able to enter the grand scene of Eurodiagnosis and Eurofuturology.

* * *

The regional Polish initiative was supported by an invisible college of 70 eminent personalities representing the European, American and Asian academic community.

In our Farewell to Arms we would like to express the words of deep appreciation and gratitude to the members of the invisible college for individual and in multiple cases consecutive contributions to the volumes of Reupus published in the years 2004—2012.

In the judgment of history—the quality of these contributions will be the final test of the real or illusive quality of Reupus.

* * *

The contributions of the invisible college and the WSB-NLU would not be effective without the publication grants allocated to the individual volumes of Reupus by several outstanding institutions and first of all by the Ministry of Science and Higher Education and by the National Bank of Poland (Volume 7).
We are convinced that these grants were fully documented by the quality of the consecutive volumes of Reupus.

* * *

We hope also that the duties of the editors of Reupus were performed well in a spirit of innovative and persistent intellectual and managerial efforts. It was not especially easy to go along the trajectory leading from the concept to the physical shape of each volume. Reupus was not supported by a Research grant. No honoraria were allocated to the authors of Reupus.

* * *

Writing a farewell note is always expressing some emotions of sorrow—that a given phenomenon is crossing the line separating the future and the past. The Reupus Series is now a historical fact of a closed chapter of a certain type of academic and editorial experience. But we have an consolation derived from the wisdom of ancient Rome—Non omnis moriar.

The chapter of the creation of the new consecutive volumes of Reupus is definitely closed.

But we are opening a new chapter of the interpretation of the rich and comprehensive content of these seven volumes.

To support these lines of prospective thinking each copy of volume 7 is supplemented by the CD-Rom incorporating the content of the whole Reupus Series and the content of the three volumes published under the auspices of the Polish Association for the Club of Rome. These 3 volumes are important for the proactive interpretation of the Reupus Series. In this way we have a small library of 10 volumes—asking the fundamental questions of our times.

We may be inclined to explore—in the spirit of “non omnis moriar”—and in the spirit of “vivant sequentes” the following paradigmatic questions which may use the content of the 10 volumes as an input into a new Research Program and new Publications.

Let us mention only five paradigmatic questions of this type¹:

1. Europe—the strategic choices
2. The strategic partnership of regions and corporations
3. The Atlantic Community—The Titanic of the XXI century?
4. The great turning points in world history
5. The reconfiguration of the global scene of the XXI century

This is only a sample—an inspiration—to take some ideas “hidden” in the 10 volumes—and explore the validity of these ideas for the next stages of our diagnostic and prospective thinking. In this context the invisible college may continue its expanded existence—in a new more powerful institutional framework where the leading roles are allocated to the younger dynamic generations.

The old incarnation of the Reupus Series is closed—the new incarnation of Reupus will as I hope emerge in the near future.

* * *

Closing this last pessimistic and at the same time optimistic Postscriptum I would like to express my of deep gratitude to Krzysztof Pawłowski, the inique Rector of WSB-NLU in Nowy Sącz, who was the founder of Reupus and an important factor of the development of Reupus in the years 2004–2012.

¹ These five paradigmatic questions can be an inspiration to prepare and publish a new volume in a new institutional framework of the invisible college.

We might consider the following tittle of the proposed new volume: “Europe—global scene. Long durations—turning points”.
According to my judgment Reupus is an internationally visible achievement of the WSB-NLU in Nowy Sącz.

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