

# The Global Crisis: the Need for a New Economic Policy<sup>1</sup>

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## Abstract

*The economic crisis is forcing us to revise many of the tenets of neoclassical economic theory. Gradually, 'mainstream economics' is being fleshed out with several elements of economic heterodoxy. Hence, much more so than previously, economic theories are 'absorbing' the findings of other social sciences. Revision in the area of theory has hitherto had little impact on economic policy. Indeed, when something new appears, such as 'new industrial policy' for instance, it is usually an attempt to breathe life into old concepts that have been abandoned in practice. The aim of this paper is to consider the foundations of economic policy in the context of current theoretical research and current economic challenges.*

**Key words:** crisis, economic policy, public policy

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## Introduction

There is a common view that the current world economic crisis was caused by the excessive deregulation of global financial markets. Financial corporations created overly risky financial products and technologies, and the spread of these turned financial markets into casinos. Using speculative instruments, financial corporations began to engage in widescale speculation and made fortunes on the bull markets that resulted. This severed the link between economic activity in the real economy (production) and in the financial sphere (lending), a relationship that is fundamental to capitalism. The global capitalist economy became financialised and ‘divorced from reality’.

According to the advocates of financialisation, it is enough to introduce appropriate domestic and international regulation of financial institutions and markets for all the problems to disappear. Yet this claim appears naïve and unrealistic in light of what is happening and the actions being taken by the governments of the world’s strongest and most advanced economies. We should therefore take a deeper and more wide-ranging look at the causes of the current crisis.

The starting point of my argument is that on this occasion we are not dealing with a crisis in the capitalist economy but rather with a crisis of the capitalist system itself. That is why all the known and available (conventional) methods of crisis management are failing. Political decision-makers are reaching for unconventional methods, such as quantitative easing or the assumption of public control over private banks. In practice, therefore, they are abandoning the existing ideological assumptions of economic policy without formulating any new assumptions in their place. They are trying to prevent the crisis from spreading in order to avert economic collapse, and one must concede that to some degree they have been successful. However, all they have managed to do is to mitigate the short-term effects of the crisis rather than to overcome it as such. Furthermore, there is increasing unease about the long-term consequences of using unconventional measures at the domestic, international, and global levels. Such measures are unpredictable, and one must therefore accept that political economy, which is in principle supposed to be evidence-based, instrumentally objectified] and pragmatic (e.g., the inflation targeting policy of central banks), has become intuitive and *ad hoc*: it lacks a strategic basis.

Worse still, if we take into account the experiences of Japan, it appears that traditional economic policy has been ineffective not for a few years but for over two decades. One increasingly reads about the ‘Japanisation’ of Europe. It would be wrong

to assume that the Japanese authorities have got everything wrong in economic policy over the last twenty years. However, one should be alarmed by the fact that the ineffectiveness of economic policy in that country, and now in Europe, conceals a traditional approach to economic policy (even if some of the instruments it uses are ‘unconventional’) that is applied fairly mechanically and without sufficiently taking into account not only the economic but also the social and cultural context.

This paper will aim to show that economic policy – if it is to be effective – must be based on an accurate understanding of the social processes taking place in the economy. Otherwise, as Dani Rodrik writes, economic policy will be limited to mechanically applying various measures chosen from an ‘approved’ list in the hope that one of them will eventually work.

In my view, such measures are inadequate and will not rescue us from the current crisis. What is needed is a fundamental revision of economic doctrine and the creation of a new axiological and ideological basis for economic policy – one that draws from new economic theories, incorporates the findings of other social sciences, and that is based on new institutional solutions. This paper attempts to outline the field of necessary research.

## 1. The Three Basic Dimensions of Public Policy

Modern economic policy (as any public policy) must be pursued simultaneously across several timescales and several spatial scales. The institutions conducting economic policy must be able to identify the phenomena that occur in parallel on those scales and be able to respond accordingly. Certain phenomena that are important for the economy, such as huge financial flows, may happen in an instant, while others, such as climatic changes, may occur over millennia. Some phenomena occur locally, while others have a global impact.

It would seem, therefore, that economic policy must have at least five time horizons: current, short-term (2 to 8 quarters), medium-term (2 to 10 years), long-term (10 to 20 years – one generation), and very long-term (over 20 years – at least two generations). At the same time, economic policy must be conducted in several territorial dimensions: local, regional, national, cross-border, international, global, and extra-global (e.g., the problems associated with space exploration). If, on the basis of this assumption, one was to build a matrix (schematic) of economic policy and use it to identify economic phenomena, it is clear that no one (regardless of the

technical resources at their disposal) would be able to comprehend it. The challenge is not how to use this schematic to figure out everything that is happening, but rather to apply it to those problems that fall within the economic policy agenda. And this must result from a conscious choice – one that recognises what is really important for the development of a given economy.

The main difficulty in establishing what is important for an economy and relevant to public policy is that, in practice, we usually regard the definition of the problem to be the definition of the solution. As a result, we get things the wrong way round. The goal of a given action vanishes and is replaced by the means to achieving it.

Our point of departure should be that in the case of public policy (and economic policy), we are dealing with three types of questions: (1) why, what for?; (2) on what basis, based on what rules?; and (3) how?

These three key questions derive from different aspects of the social order and each is answered in a different mode using a different kind of knowledge. The first question, ‘why are we taking public action, what do we want to achieve?’ belongs to the axiological and normative order; it always involves identifying what is good and what is bad, what is socially beneficial and what is not. Eliminating such questions from the sphere of public policy does not mean that the issue of good vs bad disappears, but rather that decision-makers simply ignore it, thus relieving themselves of responsibility for the consequences of their actions. Alternatively, decision-makers decide on the overriding goal of an action arbitrarily and imperatively and fail to consider any arguments other than their own. The consequence of this is that, sooner or later, the action becomes self-serving, in other words, its purpose is to keep the decision-makers in power.

The second type of question, i.e., ‘what is the basis of our action, on what basis are we acting, based on what rules?’ belongs to the systemic order, which determines, among others, the procedures used by public authorities. This dimension of public policy may be described as the institutional order, which sets the framework within which public authorities operate, determining their competences and tasks. The institutional order (which includes the constitutional order) undoubtedly places certain constraints on the public authorities, reducing their arbitrariness and discretionary power (for instance, the constitutional injunction that public debt must not exceed 60% of GDP). But these are beneficial constraints, without which public authorities would have no democratic mandate and would not be regarded as legitimate in the eyes of the public. By releasing themselves from these constraints, public institutions certainly gain greater freedom. Ostensibly their power increases,

but in reality it weakens, for without public support and acceptance it becomes naked and impotent.

Finally, let us turn to questions concerning the instrumental dimension public policy, such as ‘how?’, ‘by what means’, and ‘using what kind of instruments?’. This is the operational level of public policy. Without descending to this level nothing can be achieved, yet if policy is reduced to the instrumental (technical) level it is destined to fail.

As I mentioned earlier, we need knowledge to answer these three types of questions. But at the same time this a different kind of knowledge; it is generated and acquired differently. When we descend to the operational level, we need professional and expert knowledge, practical knowledge, which is acquired through practical experience and research. In this instance, evidence-based policy is justified. Thanks to such knowledge we can choose the appropriate instruments (resources), calibrate them properly, and check whether they are effective. This is knowledge that can be systematically accumulated, and as a result public policy becomes more professional.

Actions concerning the institutional order are a different case. Here, a simple cause-and-effect relationship does not exist. Actions (rules) are subject to much greater uncertainty and their effects are manifested with a significant delay and are always governed by many uncontrollable factors (variables). The uncertainty of actions in the institutional order cannot be eliminated, since these actions cannot be separated from their context. By nature they are exploratory and experimental. Uncertainty can only be reduced. Such actions cause irreversible changes, and there can be no return to the starting state. A given institutional solution may produce different effects in different contexts. However, it always gives rise to some kinds of effects, and this implies a new situation. We are never able to plan for or predict those effects precisely. That is why these types of actions are usually undertaken when operational activities prove insufficiently effective or become increasingly ineffective. That is when we change procedures, rules and structures, in other words, when we change the institutional order. The ability to reduce the uncertainty of systemic changes may consist in, among others, the ability to assess its consequences (effects) and to modify the adopted solution.

However, in a situation where new institutional solutions are necessary and where the need for new rules enters the economic policy agenda, the question arises as to how we should direct this change. I should emphasise once again that this type of change is not immediately apparent. We do not have certain knowledge in this regard. Far from being full and universal, the knowledge is implied and partial – both in the objective sense (we know something, we suspect something, but there is much we

do not know) and in the subjective sense (each entity has its own approach, its own perspective, and its own way of seeing the problem). Even if it is possible to diagnose a problem jointly, there will be several, mutually-exclusive ways of solving it. And yet one has to choose a solution without being sure whether it is the best solution or even whether it will help to solve the problem. And even if it does, negative side effects may appear over time that will neutralise and outweigh the expected benefits. Due to the very logic of the system, it is not possible – in my view – to establish the criterion for choosing a new institutional solution from within. External input is required.

And this input must come from the axiological order, where substantive, rather than procedural rationality is key. It is only when we are able to define normatively the overriding goal of our actions, what we want to achieve, what we see as a value in itself, that we can decide which procedural rules we completely reject and which would be appropriate to achieving our goal. It should be noted that a completely different kind of knowledge is required in this case. It is knowledge born of human and historical experience and of people's belief in what is good and valuable. This type of knowledge is generated in a completely different way to instrumental knowledge.

Reference to the axiological order is also necessary when we assess the actions we have undertaken, when we assess whether and to what extent the means applied are contributing to the achievement of our goal, whether they are producing what we consider to be good and desirable. If we are able to carry out such an assessment, then public policy (including economic policy) is conducted in a mode that best serves social and economic development.

Once again, I wish to emphasise that to answer the three basic types of questions relating to public policy requires different kinds of knowledge generated in different modes. I understand 'mode of generating knowledge' to mean the social mechanism by which knowledge is created, disseminated, and used. On this definition, the difference in these modes also implies a diversity of actors and the roles they perform. Instrumental knowledge is basically expert and professional knowledge – it is created by people who specialise in a particular field and using that knowledge requires such specialisation. It is a knowledge that mainly circulates within a given professional group and between members of different professional groups. Decision-makers who wish to use that knowledge must be experts themselves and must be able to collaborate with experts.

Knowledge that relates to the systemic order is in part purely expert knowledge, especially as regards the relationship between particular institutional solutions and the possibility of applying particular instruments. On the other hand, it must take into account a much broader perspective of the whole area in which the given

decision-maker operates. In this case, the decision-maker plays a managerial (*de facto* – co-managerial) role and must possess more general knowledge that refers to a vision of reality (narrative) from which he derives his ideological beliefs. Such knowledge must span that which is instrumental and objective and that which is considered right, in other words, which is subjective and normative; it must be rooted in both the operational order and, to some extent, the axiological order. The use of such knowledge is not purely instrumental; it requires interaction – communication, persuasion, and cooperation. The notion of governance captures well the role of the decision-maker who operates within the systemic order and uses knowledge of that type. It also shows that, if he is to be effective, the decision-maker must know how to share his knowledge with similar actors. The development of systemic knowledge is not a process of accumulation but rather of intellectual meandering, in which knowledge is refined and modified in a process of endless reinterpretation. Knowledge of this kind cannot be applied directly; it results from interaction and its application is the effect of interaction.

As regards the axiological order, however, knowledge is generated by still other actors. They are the intellectual leaders of major social groups. Such knowledge is born of collective deliberation, imbued with axiological discourse, where different perspectives (narratives) of man and the world collide, and where different value systems and worldviews compete. Such knowledge exists only in so far as it is shared; its co-ownership implies co-identity; it lasts so long as the co-identity exists and is articulated in practice. A decision-maker who reaches for such knowledge and is able to use it becomes a *de facto* leader – a person who releases and channels social energies. Such knowledge could be termed ideology. And it should not be feared or avoided, provided that the exercise of public authority prevents it from being imposed or applied unilaterally. It operates in two ways. First, through the sharing of values, through the common recognition of what is good and what is bad. It therefore operates directly, but within the normative-moral order as a manifestation of ethical judgement. Second, through its impact on the adopted systemic solutions. It exerts this impact through systemic decision-makers, who are chosen by different means than intellectual leaders. These decision-makers must be autonomous in relation to ‘spiritual’ leaders, but under no circumstances may they be free of institutional constraints or public control.

## 2. Types of Social Actors and their Impact on the Social Reality

The distinction I make above in relation to public policy – i.e., three types of questions, three types of knowledge, and three types of decision-maker roles – I would like to place within the context of a broader theoretical discussion of agency.

Magali Orillard (1997) presents an important analysis of the conditions of agency. She believes that agents (individuals or groups) generally operate within complex multidimensional situations, which relates to their intentions, the availability of resources, and the conditions under which they act. What is important for a typology of agents in terms of the ‘rationality formulas’ they practise – and this is particularly important aspect of Orillard’s analysis – is not so much the situation in which the agent operates but the characteristics of agent itself, in other words, how it defines its goals and perceives its situation. She distinguishes three types of social actors: reactive, cognitive, and creative.

Reactive actors can build binary relations with one another (called first order alliance relations) according to the goals that they wish to defend, and they can join certain groups and unions according to the selected goals, the self-organising informational structure of the game and the possible aversions (ibidem: 59–60). Transferring this reasoning to the political level, one may say that corporate identification is a typical of reactive agents. They self-organise and act in accordance with *ad hoc*, immediately understood material interests. To defend these interests, they exert pressure on the agents of economic power (managers, owners, governments, etc.) (Hausner 1992: 62).

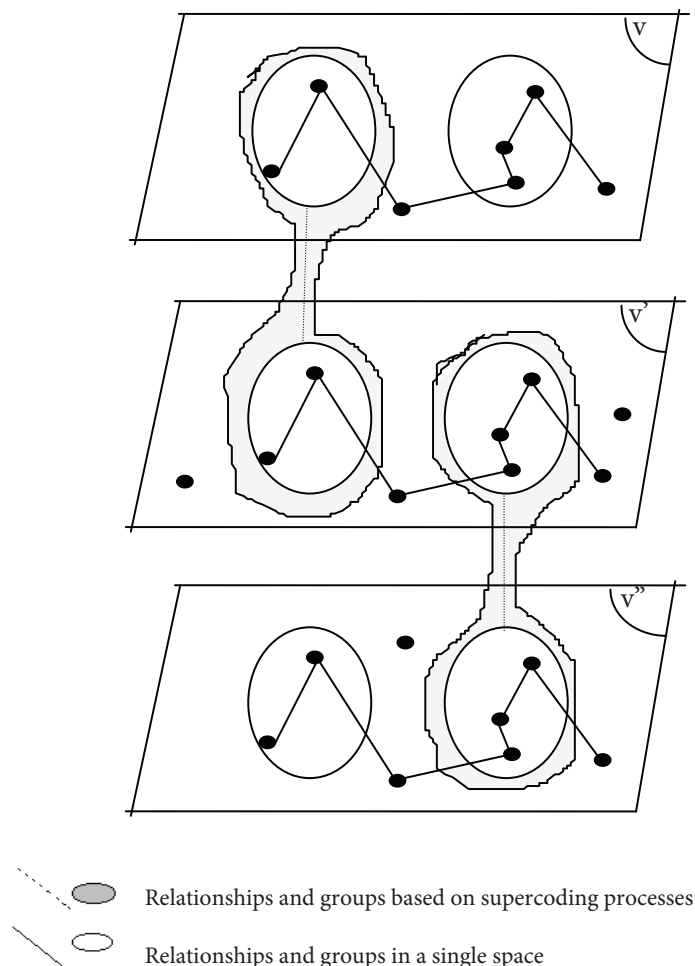
Cognitive actors take into account perceived motivations and can search for solutions in an heuristic way and attempt to achieve compromise. In the case of procedural rationality, the straightforward relationship between the needs and behaviours of the game’s participants is replaced by a process of communication and of building trust and cooperation, in which deliberation and perception are ever present (Sabel 1993: 92–93). In this way, second order alliance relations (cognitive networks) emerge. These allow the game’s participants to observe, leading them to redefine the situation and adjust their actions to this changing (redefined) situation. The game ceases to be a zero-sum game and becomes an open-sum game.

Orillard (ibidem) stresses that this is possible because the participants of cognitive networks use many semantic codes. At the same time, communication nodes are created within these networks that are responsible for the supercoding procedure



which enables communication between agents belonging to different semantic spheres.

**Figure 1. Cognitive Network and Self-Organization**



Source: Orillard 1997: 65.

Once again transferring this reasoning to the political level, one can say that cognitive agents gain political identification, that is to say, they are able to define the relationship between their own interests and the operation of the political system. Hence, they are able to identify their political interests with policies that ensure that their material interests are protected. They are also able to protect their political interests by influencing the agents of political power (parliament, president, government, political parties, local government) (Hausner 1992: 62).

In the case of creative agents – following the convention proposed by Orillard (*ibidem*) – we may speak here of third order alliance relations. These actors participate in the game but, while observing it, are able to reach compromise in order to change its rules. They are thus able to behave strategically and to generate systemic alternatives.

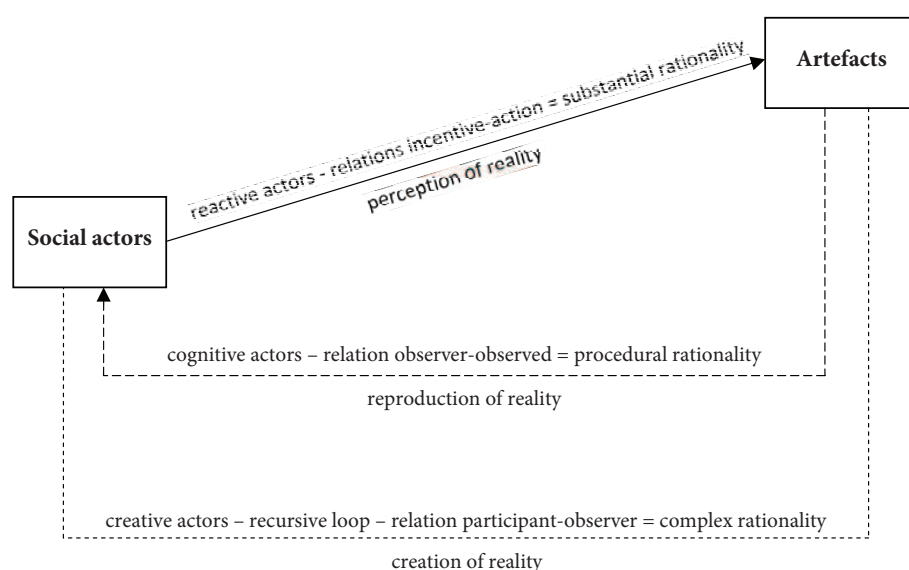
Creative actors organise themselves and cooperate with one another in a way that enables them to act strategically, in other words, to gain control of the apparatus of political power in order to implement their systemic project. Consequently, their actions both reproduce and transform the state (Hausner 1992: 62–63).

Thanks to creative actors, social complexity becomes in part (to a limited extent) managed and not just observed. However, this is not a quality which can be attributed to a specific agent who sees the social world from a perfect, God's-eye perspective (Fox & Miller 1995: 44). The home of this rationality is definitely not the state (Stark & Bruszt 1998: 42), nor is it embraced by any revolutionary social class or outstanding individual, as the supporters of various political ideologies believe with a stubbornness devoid of historical reflection. Recursive rationality emerges from the development (evolution) of coordination networks created by cognitive actors. Then the social system is at once reproduced and transformed – in response to structural risks and challenges.

What distinguishes creative agents from other agents is primarily that they are able to formulate their own vision of the social world (collective narratives), to communicate that vision to other agents, and to cooperate with them in order to make that vision a reality.

The figure below summarises my analysis of the rationality of various types of agents (actors) and their impact on the social reality.

**Figure 2. Typology of Agents and Social Reality**



Source: prepared by the author.

On this understanding, rationality is not just a category describing the behaviours of actors that are determined by their knowledge and identification; it is also a mechanism of social communication that leads to the dissemination of knowledge, its accumulation, and a change of identity resulting from the coordinated actions of various agents. It is also a category that is helpful in explaining the process by which groups, organisations, institutions and social orders are formed and dissolve; it is therefore essential in explaining their evolution. Among others, it helps explain why this type of evolution is neither fully programmed and constructed nor completely unplanned and spontaneous.

### 3. New Economic Policy

In this section of the paper I would like to address economic policy directly. Key to understanding the function of economic policy is the question: ‘what is the economy?’ How one conducts economic policy depends primarily on how one understands and conceptualises the economy. There are two possible extremes.

At one extreme are those for whom the economy is a system of objective interdependencies – a structure that can be steered by fine tuning the key parameters that regulate objectively understood economic relations. An economic policy-maker behaves like a doctor: he analyses the patient’s condition, finds out what’s wrong with him, and applies the appropriate treatment. Like the patient, the economy must be kept in a state of equilibrium. Those who, for instance, believe that the exchange rate determines competitiveness take this approach.

At the other extreme are those for whom the economy is a system of institutionalised behaviours and social reactions. The problem for the economic policy-maker is which behaviours to strengthen or trigger and which to weaken or eliminate. He does not influence the economy through its parameters but through its institutions. He solves problems, not equations. His aim is not to achieve equilibrium but to steer the development of the economy. Those who, for instance, believe that the level and profile of education determines competitiveness take this approach.

In both of these alternatives the economic policy-maker uses different tools and, more importantly, needs different partners to conduct his policy and encounters different opponents. In the first case, it is mainly market analysts and advocates of market orthodoxy in politics and in the media who are needed. Economic policy is

served by those who calculate and those who treat their calculations as certainties. Everyone else is, at best, resistant material for their actions.

In the second case, the economic policy-maker participates in an endless process of social reflection and communication, in which he acts as moderator. He cannot do much himself and needs organised partners. Whilst interacting with multiple partners, he must take special care to maintain the initiative and to propose his own agenda for compromise and action, which follows from the concept of development he has adopted and debated. He may ignore certain actors and even fight others, undermining their ability to act. But, above all, he must continually renew his cooperation with those partners who are ready to participate in the design of economic policy in its different aspects and to create development across various dimensions.

Our problems with economic policy start with how modern economics understands and interprets the economy. Mainstream economists have a simplified understanding of the institutional order and have completely abandoned from their sphere of interest the relationship between the economy and the axiological order.

The dominant free-market rhetoric undermines the idea that the market economy needs to be institutionally embedded and that it is neither universal nor eternal. It is also crucial to understand that this framework performs two functions: it blocks or hampers certain actions and at the same time enables others; it clearly favours certain actions and encourages them to be undertaken. On the one hand, there is the need to ensure collective security, which could be easily threatened if economic activity was actually freed of any constraints. No one challenges the idea, for instance, that food products brought onto the market should be subject to rigorous controls. According to this same principle, i.e., collective security, we should not eschew similar procedures in the case of financial products. If we were aware of this, we would not allow 'worthless' toxic securities to be issued. Just like structural engineering, financial engineering cannot remain outside public control.

On the other hand, there is a need for the institutional order to be conducive to economic efficiency and effectiveness at the micro level, but at the same time to create favourable conditions for social and economic development at the macro level. In this area, conflicts are unavoidable. A good and recent example of this is the issue of regulating intellectual property rights. Their regulation cannot be seen solely through the prism of microeconomics. Ignoring the macroeconomic aspect leads to colossal, negative long-term effects. This is evidenced by the consequences of patenting computer software. And these are consequences not only for economic development but also for culture and democracy.

Social and economic development implies fundamental structural change. And such change must entail modification of the economy's institutional framework. In economic policy, therefore, we are condemned to gradually modifying that framework so that it continues to support development under new structural conditions, in which the importance of various economic factors changes as does the mechanism which links them and produces surplus value. Development also means a change in the importance of various economic valorisation mechanisms and the emergence of new valorisation mechanisms that use existing economic resources and factors differently as well as using new resources and factors. This argument implies that in the capitalist economy there necessarily co-exist various economic valorisation mechanisms alongside the market mechanism. Therefore, aside from the dominant market segment there also exist other segments of the economy (for instance, the public and the social but also households), which must be able to use other mechanisms of valorisation and the creation of surplus value.

This entire reasoning only makes sense if economic decision-makers, including economic policy-makers, respect the existing rules or at least suffer the consequences if they fail to observe them. If official public rules are not observed, their place is soon taken by informal rules. This is because it is impossible to pursue any kind of economic activity if there is no way of enforcing obligations. Where public mechanisms to enforce rules (laws) are absent, private mechanisms begin to operate, as is shown by the role of the Mafia in the Italian economy or oligarchs in the Russian economy.

At the same time, the sense of this reasoning rests on the idea that the institutional order is not freely created by economic decision-makers, including economic policy-makers. One can and should debate whether the structure of the Eurozone is correct and whether it was set up at the right time. However, it is wrong to blame the current problems of the Eurozone on the architects of that structure whilst ignoring the fact that politicians blatantly violated the rules, for instance, by allowing Greece to join the Economic and Monetary Union. If it is permitted to blatantly violate rules or bend them to satisfy short-term needs, then it is impossible to demonstrate whether those rules are adequate or not. It is only by strictly observing rules that one can eventually identify their strengths and weaknesses and adjust them accordingly.

It is in this context that we should interpret the actions of Finance Minister Jacek Rostowski and the Polish government. There is a widespread view that the current problems with the budget stem from the fact that the prudential rules enshrined in the Public Finance Act were badly constructed. And for this reason we should suspend those rules during the economic slowdown and then replace them with an expenditure rule. In my view, this is a false argument. The prudence thresholds

were introduced in order to force economic policy-makers to pursue a careful, anti-cyclical fiscal policy. The thresholds are essentially there to protect the public finances against collapse, according to the principle of 'better safe than sorry'. They rest on the idea that at the top of the business cycle the government should reduce the ratio of public debt to GDP to a very safe level, to approximately 30% to 40% of GDP, thus generating a budget surplus. At the bottom of the business cycle the government can run a budget deficit and increase the public debt to 50% of GDP. If, however, this ratio is exceeded, then automatic adjustment mechanisms are triggered; manual steering initially becomes semi-automatic and then fully automatic. When set up in this way, these rules do not prevent the government from pursuing an active or even an expansive fiscal policy, but it can only do so when the public finances are in good shape and collective security is maintained. On the other hand, those same rules make it much more difficult or impossible for the government to pursue a fiscal policy which could put that security at risk.

I find the claim that the source of the problem is prudential rules and not bad policy to be intellectually dishonest. The problem was caused by the fact that both the governments of Jarosław Kaczyński and Donald Tusk conducted an expansive pro-cyclical fiscal policy when the economy was booming. Now that the negative consequences of that policy have appeared, the government wants to suspend the rules, arguing that it has no alternative. How differently, from the institutional perspective, is economic policy conducted in Germany!

The proposed new expenditure rule is constructed in such a way that it would not protect us, even to a minimal degree, against an irresponsible, completely discretionary fiscal policy. We are *de facto* removing all public institutional safeguards against the pursuit of an irresponsible fiscal policy. We shall be condemned to correcting such a policy through private safeguards only, in other words, through the operation of the financial markets, whose participants/decision-makers are solely guided by their own short-term interests. For as long as is possible, those participants/decision-makers will feed on the sick organism, forcing it to do their bidding until the moment comes when they decide to exit the game, rake in their profits, and cause a catastrophic socio-economic shock. Many financial market players are not fazed by the abandonment of open pension funds in Poland, and even support the move, because now they will be able to exert even more influence over the Minister of Finance. What is being eliminated is a buffer that weakens external upward pressure on bond yields.

Institutional rules can and should, of course, be modified, but in accordance with existing democratic procedures and in a way that creates a framework for public

policy, including economic policy. If, however, those rules are ignored, suspended, or simply repealed, then this undermines the basis for pursuing economic activity, mainly by destroying trust between economic entities and their trust towards the state. The flouting of institutional rules in the name of effective governance is the path towards the non-observance of contracts and obligations, which rest upon those rules. This also includes the obligations of citizens towards the state. The long-term consequence of this will inevitably be the weakness of the currency as the publicly-established medium of exchange. This medium operates primarily on the basis of an unwritten contract that is based on trust and mutual obligation.

It is essential that the freedom of economic decision-makers is restricted institutionally. To expect decision-makers to show self-restraint and responsibility is wishful thinking. This is evidenced by the track record of corporate social responsibility. It seems to me that corporate social responsibility only works to the extent that it is enforced from the outside.

By no means do I wish to deny the importance of that dimension of economic policy which takes place within the operational order and which consists in the use of instruments and parameters. The problem lies in how these are targeted. In this instance, the economic policy-maker primarily influences the current behaviour of market participants. The time horizon of the responses he wants to trigger is relatively short, although the responses usually have longer-lasting effects. He operates by triggering particular and specifically targeted impulses. He must adopt some kind of response model and adjusts the parameters of his actions to that model to a greater or lesser degree. He attributes the purpose of this dimension of economic policy to the fact that the market economy operates cyclically, through fluctuations in the business cycle. The business cycle includes both spontaneous processes of an oscillatory nature as well as automatic regulators. This is why interventions in this dimension of the market economy can be relatively effective, but they must also be prudent and sophisticated so as not to disturb the natural economic cycle without good reason. One such reason would be a major disturbance of the current equilibrium, principally the macroeconomic equilibrium, which could lead to a major economic downturn. I tend to the view that, within this dimension, economic policy is a policy of mitigating the business cycle; its main purpose is not just to stimulate the economy but also to weaken those fluctuations in the business cycle that disturb the economy's natural cyclical equilibrium and threaten the loss of self-steering. Therefore, I see the goal of economic policy in this dimension more as a negative goal – the prevention of certain states which can be parametrically defined. The positive aspect of this policy

lies in providing the economy with the necessary level of stability in the context of international openness and the globalisation of economic flows.

A good example of this type of policy is monetary policy. In this instance, as long as the policy is carried out in a conventional manner, the goal is to parametrically set a target as well as the acceptable range of deviation from that target, which should be interpreted as the justification for not undertaking corrective action, because if inflation remains within the acceptable range it means that the market mechanism is working properly. We are dealing here with a clear example of policy based on data. It is important to note, however, that it is inaction (non-intervention) which is more important here, provided that inflation remains within the prescribed range for the foreseeable period (in this case, a short period). This is, therefore, an example of 'evidence-based non-policy'. Thus, in the case of cyclical policy, the point is not to make unnecessary interventions; primarily to do no harm.

I have the impression that in the case of fiscal policy as well as other aspects of current (cyclical) policy, it would be possible to create public policy response algorithms similar to those used in monetary policy. As regards the risk of company bankruptcies, potential disruption of the labour market etc., work is ongoing to create a Rapid Response Instrument, whose purpose would be to eliminate discretion from the responses of the public authorities in this dimension and to determine admissible responses and instruments.

Of course, policy oriented towards stabilising the economy cannot be separated from its other dimensions and goals, in particular from structural policy, although in the latter case the goal and methods are different. Only by fulfilling its primary purpose – economic stability – can cyclical policy be conducive to achieving other economic policy goals, such as economic growth. If it is directly subordinated to other goals, then this usually undermines economic stability and prevents those other goals from being achieved in the medium term.

The difficulty of conducting economic policy in the operational dimension lies in the fact that it is not easy to distinguish cyclical phenomena – oscillations around natural points of equilibrium for a given economy – from processes of structural change, which cause those points of equilibrium to shift. Furthermore, to conduct cyclical policy successfully requires a high degree of expert knowledge and considerable skill. It also requires one more thing, which in parliamentary and cabinet-style political systems is difficult to achieve, namely, the separation of operational activities from political rivalry for power. What works relatively well in the case of monetary policy committees and independent central banks is difficult to



achieve in the case of fiscal policy and government structures, for instance. This is the reason behind the idea of creating national fiscal councils modelled on the example of monetary policy councils.

I remain convinced, however, that as far as good economic policy is concerned, its structural dimension is nowadays becoming more important than its cyclical dimension. To be effective in the structural dimension, economic policy must essentially proceed through the institutional rather than the operational order. This is because the goals of structural policy cannot be achieved using the stimulus-response model. Structural goals cannot be triggered directly. They result from far more complex relationships, including interactivity, in other words, a process which balances communication, interpretation, and reflective learning. This process changes the identities of economic actors, and only then can the desired and expected economic changes actually take place. These are developmental changes, not oscillations. Such changes bring the economy out of its cyclical equilibrium. They are not automatically reversible and they shift the natural point of cyclical equilibrium.

If economic policy omits to consider the institutional order, then it lacks a strategic basis and is not able to respond to structural challenges, even if it identifies those challenges correctly. It is, of course, possible to try to trigger structural changes by adjusting economic parameters alone, but in my view such an approach is condemned to fail. If we do not carry out the appropriate institutional (systemic) changes, then economic actors will adjust to the modified parameters passively and conservatively: they will try to make additional gains or minimise losses without fundamentally changing their behaviour. They will try to play a bit differently but according to the same rules. If we want the participants of a given social system truly to behave differently, to want something else and want it in a different way, then we must modify the institutional rules of that system. Structural changes in the way universities operate will not occur just because we increase or decrease their level of funding (although in Poland funding does need to increase substantially) or because we slightly modify the algorithm for awarding subsidies or the scoring criteria for journals. What are needed are institutional solutions that will change the relationship between the various stakeholder groups within the structure (organisation) that is the university.

Of course, the market mechanism itself leads to certain structural changes, but these changes are not necessarily beneficial for society, the economy, or the market itself. One example of this is competition which leads to monopolisation. Structural changes in the economy cannot be triggered without the market, but neither are they possible through the operation of the market alone. The market can itself produce

certain states of equilibrium that should be seen as unfavourable because they ossify existing economic structures. Such states of equilibrium are dysfunctional vis-à-vis development, leading to regression, stagnation, and the depletion of economic resources. One example of this is certain forms of the international division of labour that consolidate the anti-developmental dependence of weak national economies. In such cases, the structural changes necessary for development will not occur without state intervention, which should consist in, for instance, different institutional regulation of the rules of international trade.

However, for such new institutional rules to be established, it is necessary to reflect on what the economy is for, what we want to achieve by changing those rules, and what values we should refer to when designing them. In this instance, it is not sufficient to be exclusively focused on praxeological values, including economic effectiveness. The answer to the question of what the economy is for cannot be inferred solely from the economy or economics; it must be rooted in that which is non-economic, which is social, and must also refer to the findings of other social sciences, including anthropology, that is, unless someone insists on identifying economic effectiveness with societal benefit and economic (material) goods with the general good.

I am not proposing that we should organisationally divide economic policy into three distinct dimensions (instrumental, institutional, and teleological). The same institutions can be involved in each of these dimensions, or at least in two of them. One example of this is the gradual inclusion of macroprudential policy into the domain of central banks, which not only entails increasing the number of instruments at their disposal but also giving them more power to establish institutional rules. However, the central banks cannot do this independently. What is needed here is an effective mechanism to coordinate the actions of the institutions responsible for monetary policy, fiscal policy, and regulatory policy. However, the powers of the institutions comprising the systemic risk council must be explicitly granted by the legislature and not just presumed.

## 4. New Theory of Economic Goods

Generally, the view that economic policy has three fundamental dimensions (instrumental, institutional, and teleological) is not embraced by politicians. Why? I believe that it is because politicians are 'prisoners' of the electoral cycle and primarily

take decisions which are 'evaluated' in terms of whether they will help them hold on to power and which are the outcome of their electoral success. I am convinced that this is mainly due to the way they understand politics, and therefore the state, and by extension how they understand the economy.

As far as their understanding of the economy is concerned, what is key is that, following mainstream economics, politicians identify the economy with the market. They are thus mainly interested in the market and, depending on their own ideological convictions, are willing to intervene in it to a greater or lesser degree. As a consequence, they are wedded to the state-market dichotomy. The neo-liberal revolution has switched the focus towards the market. Nowadays, when we see what neo-liberals are proposing or openly advocating, we rub our eyes in disbelief. All those huge crisis management programmes and stimulus packages costing billions of dollars are a reversal of the tide. For economic resources and the power of the state are now being used to solve a crisis caused by the political and economic abdication of the state. This is clearly symptomatic of the kind of thinking that identifies politics with the state and the economy with the market.

These simplifications result, in my view, from the weakness of the theory of goods that dominates neoclassical economics. Economists and economic policy-makers often invoke a hugely oversimplified formula that merely distinguishes 'public goods' and 'market (private) goods'. Few of them attempt to go beyond this framework and recognise other types of goods.

The problem tackled by neoclassical economic theory is how to optimise the quantity of public goods. The formal solution to this problem is the rule according to which the sum of the marginal rates of substitution between a public good and a private good for two units must be equal to the marginal cost of provision of an additional unit of a public good. The theory also suggests two institutional mechanisms for applying this formula; one is voting and the other is imitation of the market allocation system.

It is easy to see that neither mechanism can be implemented in practice. It is impossible to create a voting system in which it would be possible to decide how the state provides various kinds of public goods in terms of the scale and proportions of such provision. It is equally impossible to create a computational algorithm that would imitate the behaviour of market participants. These are utopian ideas. The production of goods, even public goods, cannot be centrally controlled. In practice, however, the state can, through its policies, create appropriate institutional solutions that will determine the proportions in which various kinds of goods are produced.

This is one of the key functions of the modern state, and it falls within the domain of development policy.

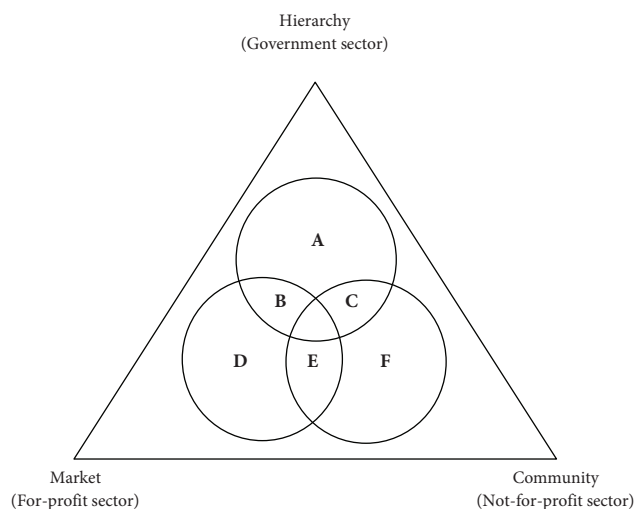
The neoclassical typology of goods is definitely too narrow. A more extensive typology is presented by Robert Picciotto (1999). The most important advantage of Picciotto's approach is that he integrates his proposed classification of goods with the notion of a three-sector society, in which, aside from the public and private spheres, there exists a civil (common) sphere. These three sectors of society perform three basic and complimentary roles. The public sector provides security, the private sector allows individuals to act, and the civil sector gives individuals empowerment. Hence, the three sectors are fundamentally oriented towards producing different kinds of goods. Picciotto thus proposes a classification of goods according to the formula: 'who produces them, for whom, and on what terms are they offered'.

This classification encompasses (see Figure 3):

- government goods – produced by the public sector for its own purposes; typical examples include the activities of the security services or fiscal authorities;
- public goods – produced by the public sector to satisfy the needs of citizens; typical examples include the activities of the police or public health services;
- toll goods – produced by different sectors and provided to everyone for a flat fee; typical examples include motorways and parking;
- private goods – typical market goods produced by the private sector for commercial reasons;
- common pool goods – produced by various kinds of communities for the benefit of their members;
- civil goods – produced by various sectors, but only for citizens entitled to use them.

This classification may be refined by adding components, for instance, by distinguishing the particular type of private good (e.g., ostentatious goods) or by including the scale of production – global, international, national, or regional (for this reason, the notion of 'global public goods' is increasingly used).

The advocates of the classical theory of goods accept that certain services should be public in character so that given redistribution goals can be achieved. For them, such services include education, health care, social security, and housing. Following Richard Musgrave (1938), the goods associated with such services are described as merit goods. In contrast to public goods, merit goods need not be financed from the budget, but as a desirable social goods they should be publicly supported, for instance, by being taxed less, subsidised, or exempted from taxation. For this reason they are available to every citizen, although they could be provided as a private goods. In the latter case, however, their consumption would be lower.

**Figure 3. Typology of Goods and Services**

	Type of good	Type of Institution	Examples
A	Government	State agencies	Justice, police
B	Toll	Public or regulated private corporations	Public utilities
C	Public	Hybrid corporations	Policy, rural roads
D	Market	Private corporations, farmers, and entrepreneurs	Industry, farming, many services
E	Civil	Non-governmental organizations, private voluntary organizations	Public advocacy, professional standards, civic action
F	Common pool	Local organizations, cooperatives	Natural resource management

Source: Picciotto 1999: 201.

In my view, the issue cannot be presented in this way. These types of services should only be provided by the public authorities to a limited extent. If the public authorities have a monopoly on such services, then this is an ineffective solution. A far more sensible solution is to allow those services to be offered by entities with different legal and ownership status. There is likewise no reason why the goods associated with such services should be financed entirely from the budget. On the contrary, the financing mechanisms should be varied and complex. Therefore, the public authorities should play a wide-ranging role in the provision of merit goods to different consumers. Certainly, the public authorities should ensure that such goods are actually available and of sufficiently high quality, but they should not be concerned with their provision. Instead, they should focus on creating the appropriate conditions to ensure that other entities are able to provide those goods and are interested in them, and that consumers can and want to take advantage of them. One

of the key components of this should be action on the part of the public authorities to ensure a diversity of mechanisms for goods provision and to give consumers (citizens) the possibility of choosing the best means to take advantage of those goods. Such mechanisms could include various forms of budgetary financing, public, private and mutual insurance, both mandatory and voluntary, private financing, as well as various kinds of hybrid solutions.

A system for the provision of goods in a given area should be structured in such a way as to give groups and individuals the greatest possible leeway in choosing and taking advantage of those goods. This includes allowing them to choose between various offers (the exit option) and giving them real influence over how the goods are offered and by whom (the voice option). Social institutions should thus enable citizens not only to be consumers of specific goods but also to be producers of those goods.

If we are to create modern, comprehensive systems of goods provision, we need to revise how we view the relationships between the main segments of economic activity, namely, households/families, businesses, the state, and associations/foundations. We also need to assume that, in the case of many goods, no organisational form of provision has a permanent absolute advantage. It would therefore seem sensible to allow rivalry among various organisational forms of provision as well as the formation of hybrid forms of organisation. This is the most effective way of ensuring the emergence of recombination and recomposition processes, which determine structural change and govern the adaptation of the development model. To adopt such an approach means, in practice, that systems for the provision of most goods must be mixed and open systems. And this is what is increasingly happening in highly-developed economies. From this thinking emerges the notion of 'welfare mix', whose advocates postulate the substitution of the traditional single-sector approach to social policy for a multi-sector approach, and a departure from the classical formula of the welfare state in favour of cooperation between the state, market, social organisations, local communities, and households in the area of social services.

The complexity of modern systems of goods provision lies not only in the fact that the providers of those goods assume diverse organisational forms but also that there are numerous sources and mechanisms of financing. It is not just that various goods can be financed from private, public or civic funds, but that these sources can also operate in parallel, and that for certain goods mixed financing mechanisms can sometimes be used, e.g. public-private (such as partial or flat-rate payment for access to medical services that are essentially publicly financed).

A feature of complex systems of goods provision is that the boundary between production and consumption – once very sharp – is slowly becoming blurred, which

is reflected in the increasingly popular notion of ‘prosumers’, in other words, people who both produce and consume, which particularly relates to symbolic goods and especially to cultural goods and information. With increasing frequency, consumers are buying not individual goods but access to integrated systems and utility packages. Nowadays, no one is surprised that a computer, mobile phone or decoder is offered for free or for a symbolic amount, provided that the consumer commits to a package of complementary services offered by the supplier. Indeed, this is a particular manifestation of another phenomenon typical of the modern economy, namely, the blurring of the boundary between production and services and between supply and demand. Modern systems of goods provision use complex production and service chains, and at the same time involve the consumer in the interactive creation of goods. Often, it is precisely the creation of networks of interaction between producers and consumers of goods that creates added value in the knowledge economy.

However, it should be emphasised that the formation of complex systems of goods provision, particularly as regards social services and socially desirable goods, is not possible if it is not accompanied by a broadening of the criteria for assessing (evaluating) those systems, including a revision of how we understand effectiveness and accountability. In particular, the criterion of effective use of resources should be supplemented by criteria relating to: respect for the views of stakeholders, real accountability on the part of goods’ providers vis-à-vis stakeholders, as well as education and social activism. The question here is whether the activity of goods’ providers effectively influences social self-knowledge and stimulates social innovation, and thus whether it is conducive to the permanent resolution of given social problems.

## Summary

What I am proposing is that the relationship between the production sphere and the financial sphere of the capitalist economy should be restored, not merely by revising the way the financial sphere operates, but also by fundamentally transforming the production sphere, in particular by developing the relationship between the market and other segments of economic activity and allowing other economic valorisation mechanisms to develop in parallel with the market valorisation mechanism.

Nowadays, fundamental civilizational change does not only mean that symbolic, intangible goods and services – including cultural goods and services – are accounting for an increasing share of production and consumption, but also that the

symbolic sphere is assuming the role hitherto performed by the material sphere in the mechanism of economic development. And this means that it is not just the economy that is changing – the state and society are too.

Market valorisation, which consists in the commodification of goods and services, can no longer be regarded as the supreme and unfettered mechanism for creating economic value. It is a mechanism that is necessary for economic development, but it cannot displace other mechanisms; if it does, economic collapse follows, and this is also true of economies in which the market valorisation mechanism is marginalised *par force*. Today, in light of the world economic crisis, it is clear that market valorisation will not be effective if we disallow other mechanisms that create added value and fail to widen the field for them.

Such mechanisms will only be generated if, in the sphere of economic activity, various organisational forms other than private and commercial companies emerge with increasing intensity. This includes the formation of hybrid forms of organisation. However, for various valorisation mechanisms to coexist in a given economy there must exist favourable systemic conditions, such as cultural education and a strong social economy segment.

The reason we do not embrace these new and alternative possibilities is principally because we like to stick to well-trodden paths and clichéd ways of thinking. For instance, the debate between the worlds of culture and economics, in which I have often participated of late, leads by force of habit to two extremes – either to the creative industries, i.e. commerce in its modern incarnation, or to the escape from commerce in favour of state patronage.

The neoliberal revolution has pushed the modern economy towards universal commodification and excessive, credit-driven consumption (credit-based consumerism). This trend must be reversed if the current crisis is to be overcome. Yet this will only be possible if, when taking advantage of cultural resources, we create a broad space within which the market, state, and civil society can interact, and if we give various entities the opportunity to establish and apply new and diverse methods for creating economic goods and valorisation mechanisms. Such methods should involve, among others, the partnership-based pooling of resources controlled by different kinds of organisations.

We should start from the simple observation that the economy is not identical with the market. Among other things, this is because the state, too, is necessarily an economic entity. And this is even true of a neo-liberal state. Even if the state were deprived of its ability to pursue economic activity directly, i.e., to be an owner and investor, and the public sector was thus eliminated from the economy, which is



impossible in practice and absurd in theory, then the state would still remain a huge economic entity for at least two reasons – purchasing (public procurement) and the redistributive functions of the budget. Even in countries governed by committed neo-liberals, the financial streams flowing through the state budget account for at least 30% of GDP, and in developed market economies this figure is usually much higher.

Since the state is necessarily a huge economic entity, it is impossible to separate it from the economy. The ‘either state or market’ argument therefore becomes nonsensical. And today we can clearly see the consequences of this. What we need to accept is that the state and the economy are complimentary and autonomous vis-à-vis one another. But then we also need to consider how to ensure effective cooperation between the state and the economy. In rejecting the idea of separation or division we must not go to the other extreme of some form of ‘symbiosis’, because in practice this would mean economic statism and the abolition of the market, and we know from history what this means, having learnt it to our own cost.

This does not mean, of course, that the relationship between the state and the economy no longer matters and can take any form. It is important to notice that the state is and must be an economic entity, in other words, a market participant, and also that it is and must be a political entity that regulates and establishes the market by virtue of being the legislator and enforcer of laws. In practice this means that in order to perform properly its external (political) functions vis-à-vis the economy, the state must deliberately limit its own direct economic activity. The more developed this activity and the more the state participates in the market, the less effective it will be as a regulator.

For this reason, non-orthodox advocates of the market economy generally believe that in the state-economy relationship it is important to find some sort of balance, some sort of happy medium. They use this argument in the belief that the state and market are the most important institutions regulating the behaviour of economic entities.

I do not agree with this view. The fundamental problem is that it is false to assume that permanent ‘systemic (institutional) equilibrium’ is achievable. Modern societies are characterised by constant change, which is why it is impossible to achieve permanent equilibrium. Every state of equilibrium is ephemeral, transitory. Therefore, the relationship between the state and the economy is necessarily variable. That the pendulum swings one way and then the next doesn’t solve the problem.

The solution to this dilemma, in other words, gaining the ability to create ‘relative equilibrium’, requires still other institutional mechanisms to be permitted and used. This means, however, that the state-economy relationship is necessarily variable to

some degree. And the role of the state consists not only in participating in the market, as well as regulating and establishing the market, but also in the ability to create and promote other mechanisms for coordinating collective (social) action that relate to human motives other than the desire for profit or domination. In this instance, the state becomes a kind of 'meta-regulator', whose function is to enable passage from one kind of institutional order to another, depending on the circumstances and on the nature of successive risks and challenges. This is especially difficult, since it relates to the state's unique ability to create institutional solutions and institutional change as a result of complex reflection on the effectiveness of existing coordination mechanisms, and it is not possible without public discourse and broad partnership. To this end, a space for social experimentation on the micro-social scale is necessary so that the usefulness of different solutions can be tested without the risk of entering onto the path of totalitarianism.

My argument corresponds to the views of David S. Landes regarding the wealth and poverty of nations. In his opinion, if the history of economic development has taught us anything, it is that everything is determined by culture (1998: 516). Landes adds, however, that 'culture does not operate in isolation' and often its activities are blocked by 'bad government'. His subsequent argument leads to the unambiguous conclusion that culture and 'good government', in other words, a government able to create a good institutional order, is a combination that determines the wealth or poverty of nations. Landes draws attention to the central importance of social learning mechanisms in the processes of development and the need to embed them in a culture of rationally conceived experimentation; '... the one lesson that emerges is the need to keep trying. No miracles. No perfection. No millennium. No apocalypse. We must cultivate a skeptical faith, avoid dogma, listen and watch well, try to clarify and define ends, the better to choose means' (1998: 524).

The current crisis clearly shows that theory requires a new synthesis of the 'economic theory of the state' and the 'political theory of economy'. Such a synthesis will only be possible when economists begin to make much broader use of the findings of other social sciences and biology (the theory of evolution). In doing so they will make economics less of a technical science and more of a social science, which is what it was at its inception, although this does not mean that economics should not value precise reasoning and argument. The result will be not so much a rejection of mainstream economics as a clear shift in another direction. The paradigm which is now called 'mainstream economics' was once creative and lively, but over time it has led us down an intellectual blind alley. It is high time to find a way out.

As far as the practical side is concerned, in other words, economic policy, we should be wary of the increasingly popular view that the crisis can be overcome by mechanical return to Keynesian-style state intervention and a wholesale rejection of the 'neoliberal revolution'. At best this could be an *ad hoc* remedy – pain relief rather than therapy. Markets are not perfect and never have been, and we will not make them perfect. But they are essential for development. Fundamental positive answers should be sought not in the state and market but in culture and society, which are not just institutions that mediate between the state and market. And if they fail to achieve the necessary level of self-organisation and autonomy, then neither the state nor the market will function well. Only by turning in that direction will new development possibilities emerge.

## Conclusion

The possibility of overcoming the current crisis is primarily linked to the need for a profound revision of mainstream economics, including a restoration of the importance of political economy, which in Poland we rejected wholesale when we abandoned its Marxist incarnation. This would open the way for a modern economic theory of the state. And, following on from this, we would have the chance to create a new economic policy doctrine and an appropriate institutional framework for it.

If it is to answer the three basic types of questions adequately (what for?, based on what rules?, how?), economic policy must link the actions of three types of decision-makers (experts, managers, leaders) operating in three different orders (operational, systemic, axiological) and possessing three types of social knowledge. In practice, the aim is not that all these aspects should be ideally matched to one another, because that is impossible. But of fundamental importance to the success of public policy is whether these components actually exist and whether they interact to a degree that is at least satisfactory; if they do not, then public policy will be destined to fail, for it will lead to undesirable consequences and not contribute to social and economic development.

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