

# IS, COULD BE OR WILL BE THERE GLOBALISATION ECONOMICS?

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## ABSTRACT

*In the globalising world economy the framework of neoclassical economics is more and more elusive. Such basics of neoclassical economics are being questioned - like the corporation personified by the rational decision maker, the idea that macro economy's only unit of analysis is the nation economy, and that the world economy is some sort of conglomerate of the nation economies -, which previously were thought to be unshakeable. Therefore the models built on these assumptions are more and more difficult to operationalise.*

*The assumption of institutional economics to focus on the analysis and comparison of real economic systems could prove useful for neoclassical economics. It could help in finding the existing entities of neoclassical modelling.*

*A neoclassical-neoinstitutional synthesis could contribute to the emergence of global economics, a discipline that not only helps in better understanding the world economy of today but can also support the formation of desperately important strategies concerning the future. The paper on the one hand sketches those global tendencies and problems, those questions left unanswered by science, which justify the emergence of global economics, and tries to identify the place of the new discipline within the system of economics on the other hand.*

## CONCEPTUALISATION

New paradigms do not appear unexpectedly in science or society. The number of those problems which cannot be answered properly within the framework of the existing consistent theories increases. No answers can be found to these problems which either help to eliminate existing inconsistencies in theories or provide better practical applications. The latter gains increased significance in social sciences where due to changes in society application of traditional, routine frameworks leads to results which are in no connection with reality. We experience more or less the same in today's economics. It worth therefore trying to collect those changes which increasingly tear apart the framework of the reigning economic theory. This attempt can also help the so called alternative economic theories to collate their assumptions with the wide variety of problems. In so doing the threats of one-sided conclusions derived from one or two problems picked out at random, or confused interpretations could be avoided as well.

Using this train of thought developed by Kuhn we start off by stating that the reconciliation of the neoclassical mainstream and the institutional economics cannot be regarded as accidental. The reconciliation does not mean that the two schools managed to persuade each other. Both sides realised in the 60ies the one-sidedness of their approach and its inability to provide adequate answers to problems. The problems relevant to our topic are as follows:

➤ certain non-intended effects of the behaviour of market actors, which are not included in their contracts,

and which influence the conditions of other actors. These effects influence the third party's ability to gain profits or resources, the conditions of management. The stakeholder theory provided by the institutional economics gave the chance for the neoclassical school to extend its line of thinking toward the externalities. Including the externalities in the neoclassical theory has definitely brought it closer to reality;

➤ but it did not solve the problem rooted in the fact that the economic growth described by the neoclassical model reached the limits of the ecological system that previously provided the conditions for its expansion. Global problems warned us that even the longest term resource calculations lead to resource waste;

➤ it cannot handle the diffusion into economy of new results of the technological revolution, which lead to global dimensions in the economic processes, and brought virtual reality into the real world, and in so doing it changed the framework used by classical-neoclassical economics;

➤ the neoclassical approach personalising the company is less and less capable of modelling the new processes of management. The division of stakeholders and shareholders meant the introduction of a new approach but it did not brought a breakthrough;

➤ the economic globalisation limits the traditional economic functions of the state described by the neoclassical (and monetarist) and by the Keynesian wing. Therefore it is questionable whether the national economy can be viewed as the basis of macroeconomic analysis, and as the aggregate of the microeconomic actors. The aggregate of the micro

economy (companies) is more and more the world economy. Multinational companies function in global conditions, and use global strategies to optimise their operation. International institutions founded before the formation of the global economy are unable to take over the functions previously held by the nation state – institutional economics can help in the mapping of the new economic environment, too.

## LEVELS OF PARADIGM CHANGE AND ITS CONSEQUENCES

Considering the above we can state that economics has tried to better understand reality, but neoclassical institutionalism did not bring a breakthrough, a general paradigm change. No general theory was found that explains well enough the new phenomena, which fundamentally change the economic relations, and the values lying behind them, and which at the end of the day are connected to the increasing acquisition of financial resources. It is now clear that this system of interests and values endangers the ecological system, which provides the frames of economic processes, and insures the conditions for economic growth.

It also worth mentioning that neoclassical institutionalism has been raising more and more problems, and analysing more and more phenomena of such kind, which previously were not included in its agenda. The new approaches can be captured in different methodological issues, most of which result from co-operations with other scientific areas. One of these new approaches is closely related to changes in the world economy. International economics and world economics form a part of economics, which is built on micro- and macroeconomics, by expanding its rules to the international scenes. Over the past two decades however such new disciplines appeared on the scene like regional economics, economics of integration and economics of the European Union, transitional economics, and globalisation economics (just to mention the most well known of them), which have all outgrown from certain issues of the classical world economics. These part-disciplines of certain part-disciplines signify the importance of regional and international aspects, and with it the possible direction of the evolution of economics.

The formal answer to the question raised in the paper's title therefore is yes. There is global economics, it is taught in universities, and there are researchers and research institutes that study globalisation and the economic aspects of globalisation (or some of them argue the relevance of them, which is part of every new discipline). The theory of science has more strict conditions. It is not enough if someone creates a new abstraction, and uses it as the name of a new discipline. Every discipline has certain criteria, like: special subject of analysis, special methodology, and new, well identifiable scientific result.

As far as the first criterion is concerned, it can be stated with high probability that despite all criticism and scepticism the world economy of today is not a simple continuation, extension of the past. The world economy is

at a new level, it is more, than the simple aggregate of national economies and their relations. The new level can be called the global one, which has its own characteristics, therefore it can be regarded as a separate subject of analysis. The scientific problems it is seeking an answer to cannot be answered within the classical world economics framework. However it is true that it is not independent from its world economic premises, as the process of globalisation can be defined within the framework of the world economy. The basis of the distinction is that only a part of the world economic processes are global. The globalisation economics will not take over the role of world economics, as, indeed, none of the new disciplines mentioned earlier will, as there will continue to exist non-global processes in the global economy. Most likely some sort of division of labour will form between the two, and they will not break away completely from each other.

It is not likely that methodologically there will be significant differences between world and globalisation economics. Probably system analysis, analogies and methods used to study regional problems will be the most popular tools.

Finally, there already are a few specific scientific results connected to the new challenges and phenomena mentioned above. We will try to present a few of these later on in the paper, together with the question marks formulated in connection with them.

Before finishing the train of thought about paradigm change, a distinction must be made between social and scientific paradigm (Pirages [1978]). There is a specific interrelation between the two. Science, due to its own evolution, or changes in its subject of analysis, often faces periods, when it is increasingly incapable of addressing certain situations and phenomena. This is the root of every paradigm change. The history of science, as Kuhn [1984] stated, is the history of paradigm changes.

Changing conditions cause social tension in society. These tension also contribute to the renewal of the scientific thought, they push it toward innovation. Scientific paradigm change on the other hand will lead to new social paradigm. The new results of science restructure the value system, and with it the behaviour of social actors.

The distinction is especially important in our case, as social paradigm change (in Pirages' words: the change of dominant social paradigm) induced by paradigm changes in economics has an effect on economic policy as well. Taking into account the global problems, the new phenomena of the global economic system and society, the socio-economic effects of them, and the increasing discrepancy between these effects and the adequate scientific knowledge concerning them, we can easily conclude that globalisation economics can be a 'curtain-raiser' for the scientific paradigm change which ultimately will force the social paradigm change. There are signs already indicating that new knowledge about globalisation have caused a slow change in social paradigms. Analysis of sustainable development for one, has changed our thinking about resources, and changes in values and attitudes has lead a willingness to decrease pollution and waste output.

## SOME OF THE GLOBAL CHALLENGES CONCERNING ECONOMICS

One may wonder: aren't the changes induced by globalisation, and their challenges to science overstated? Couldn't these problems be solved within the framework of neoclassical economics? If we think of the tensions caused by the global economy (paradoxically with the help of new technologies which lead to globalisation), and the inability of economics to help solving these tensions efficiently on the basis of old paradigms, we have to conclude that the current framework is insufficient. They do not insure an ecologically sustainable society which makes available a humane life for everyone, although this is the only way for mankind to survive.

Which are the premises of neoclassical economics 'boosted' with institutionalism, which should be substantially mapped, which form those weak points where theoretical knowledge is inadequate, therefore their application does not lead to definite socio-economic changes? The question is undoubtedly complex, as a result the answer is difficult, too. Many would try to find answers applying many different approaches, but it is likely that they will find the same answers concerning a few cardinal problems. We will make an attempt to give an answer imbedded into a wider social and historical context.

The separation of the state and the church was a great achievement of the Enlightenment, and it resulted that ethics also got separated from the power. This circumstance made the quick development of technology possible after all, which formed the basis of the market lead economic development. The development of markets and the growth in asset production, the long term growth has been lead by the economic efficiency and profitability requirements. Market mechanisms are not based on truth and ethics but on equality. The stronger side overcomes the weak in competition without any ethical worries.

The extension of local markets to regional and international levels is ultimately the result of this self-inducing process. In the neoclassical theory the freedom of markets, the free flow of goods and services, of capital and intellectual assets (of every marketable asset), and the lack of any restrictive authority is the most important condition of effectiveness and production growth. It is not surprising therefore that the liberal approach of neo-classicism postulates that the world economy must function as a 'global free-trade area', and the only task of global institutions is to get the nation states (which, according to them, are protectionists) to form a such zone. The so called Washington Treaty adopted by the UN in 1995 basically records this idea. This was the first occasion when economic globalisation was assessed from a political point of view. The treaty draws the picture of a 'brave new world', a world which will form as a result of globalisation – according to the economic elites of the developed countries. The only open question is that when will this prophecy will come trough.

Despite the above it is impossible not to notice that globalisation has not only brought good things, but it also excited increasing tensions in the world:

- > it increases the gap between wealthy and poor within a society, or among different regions of the world. As effective free market mechanisms proved in production and in the creation of wealth, their failure in distribution was just as big. Capitalism tends to polarise the society economically, but in global circumstances the process proves to be intolerable and therefore impossible to handle;
  - > facilitates the increased exploitation because of the relative immobility of labour;
  - > whilst in the developed world nation states are based on democratic principles, these states do not make every effort to create the same conditions on the international scene as well. They often follow their own interests when deciding on confronting or backing dictatorships;
  - > globalisation destroys traditional values, and carries the threat of homogenisation of cultures. The threat is even more serious, as the homogenisation process is dominated by certain American sub-cultures (eg.: MTV-culture, McWorld etc.);
  - > internationalises terrorism, mafia-economy, drug-taking, which carry the threat of demoralising the society;
  - > it destroys the environment and causes irreversible destructions;
  - > it increases unwanted public disobedience, helps the escalation of violence (paradoxically anti-globalisation groups play their part in it as well, when demonstrating more and more violently against globalisation). After the decline of communism the utopia of a perfect social order within the capitalist system has not come through, disturbances has steadied worldwide, civil wars are fairly common all over the world, the number of refugees reaches the millions;
  - > finally, the two international superinstitutions, the IMF and WTO, are unable to efficiently manage the global processes, and to carry out the functions left for them by the developed world.

These are perhaps the most critical phenomena which cry out for help towards economics. They also designate the questions, new theoretical problems, in the analysis of which the change of approach is most needed.

## THEORETICAL PROBLEMS TO BE SOLVED CONCERNING GLOBALISATION

In this final part of the paper we mention a few of those areas where economic struggle has already begun. By struggle we mean that the analysis is on its way, but it still remained within the traditional framework. We can only talk about part-results therefore, and there is still no evidence paradigm change in economics:

- > first of all we will discuss the neoclassical assumption that the limits of the economic actors are known. This assumption forms the basis of all optimisation processes be it within a static or a dynamic model. The actors co-operate with each other along these limits, they form the framework of their decision-making and action both in micro- and in macroeconomics. But in the global economy in many cases

these limits cannot be assumed as known. On the level of the corporations the strategic alliances and the networks are those two radical changes which reformat the economic thought. The time periods within the neoclassical theory create a different limits for the corporation (typically a multinational one), than those, relevant for the strategic term which characterises the global economy. This duality is further complicated by the networking processes taking place either inside the multinational companies, or between the multinationals and their 'halo'. The problem lies in both cases in the contradiction between the profitability assumptions on the one hand, and those strategic perspectives on the other hand, which are not directly linked to the profit. It seems unlikely that this contradiction can be unlocked within the neoclassical framework. (When a multinational company decides on the closing of a profitable affiliate because it does not fit into its long-term strategic plans, is a good example to this phenomenon.)

> on the level of states and governments the redistribution of regulatory functions causes the headache for economist. The changes are dual here, too. On the one hand the regulatory functions are weakened 'downward', by the intern processes of the micro-economic actors, by the multinational and national companies. The complexity of the problem is well characterised by the fact that the regulation of the two – every more often separated spheres of the economy, the real and the financial part – inside the firm, and their international flow not only is uncontrollable, but it is also unforeseeable. This has a negative effect on the national economy, the clearing away of which is always paid by the population. The top institutions of globalisation can only help in the 'fire-extinguishing' at most, they do not

have the tools to help in preventing the problems. Uncertainty, unpredictability, instability are elements of the system, which can endanger the society in a longer term. They can only be put away, if paradigm change is achieved. (We will again mention only one problem. We desperately lack knowledge about financial bubbles.)

> with the enforcement of the integration process within globalisation, some of the regulatory functions are moved upward. Whilst the liberals say that the state should return to a night-watch role, in reality it is its task to handle the problems of those, who were left behind in competition, to care with the lost and with those, who are unable to support themselves (eg. the unemployed). The transformation of the welfare state into the opportunity state is backed by the neoclassical idea that although every move of the state that limits the market and disturbs the private economy leads to inefficiency, yet it is still necessary for the normal operation of the society. This interpretation of state tasks is contrary to the pure neoclassical premises of utilitarianism, but it is clear that the global economy is unsustainable without a efficient, global-sized and financed social net.

Globalisation economics, the new discipline will undoubtedly not be able to answer all the cardinal questions of economic theory by itself. Probably it is not its task, either. But by studying an area of the economy which has great potentials for the future, can bring scientific results that help discovering the reality more completely, and by doing so, it can help the renewal of economics as well. It suggests to economic theory that the global economy run on neoclassical terms heads into its own disaster. In order to stop this, the ethical elements need to be restored to theory within the framework of a new synthesis.

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**OB DIE GLOBALISATION EINE ÖKONOMIE HAT,  
HABEN WIRD, HABEN KANN?**

*/Resümee/*

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In unserer globalisierenden Weltwirtschaft sind die Rahmen der Untersuchungen der neoklassische Ökonomie immer weniger greifbar. Die früher unerschütterlich gedachten Grundgedanken der neoklassische Ökonomie werden gefragt, wie die personifizierte Unternehmung durch einen rational Entscheider und dass die einzige Einheit der Makroökonomie die Volkswirtschaft ist und dass die Weltwirtschaft irgendein Konglomerat der Volkswirtschaften ist. Deshalb sind die Modelle, die unter anderen von den obenstehenden Grundgedanken abgeleitet werden, immer schwerer operationalisierbar.

Für die neoklassische Ökonomie kann die Auffassung der institutionalistischen Ökonomie nützlich sein, welche die Analysierung und Vergleich des existierend Wirtschaftsystems als Gegenstand der Forschung betrachtet. Damit kann diese Auffassung helfen die vorhandenen Entitäten der neoklassischen ökonomischen Modellierung zu finden.

Eine neoklassische-neoinstitutionalistische Synthese kann deshalb dazu beitragen, dass die globale Ökonomie neben (und teilweise statt deren) die heutige unter internationale Ökonomie beziehungsweise Weltökonomie Nahmen bekannte Disziplin zustande kommt, die nicht nur die bessere Erkennung der Weltwirtschaft ermöglicht, sondern auch bei der Ausbildung der zukünftige (brennend nötige) Strategien hilft.

Die Abhandlung stellt einerseits die durch die Wissenschaft offen gelassenen Fragen, die Welttendenzen und Problemen dar, die das Zustandekommen der globalen Ökonomie begründen, andererseits strebt sie nach der Bestimmung der Stelle dieser neue Disziplin in dem System der Wirtschaftswissenschaft.

**VAN-E, LESZ-E, LEHET-E A GLOBALIZÁCIÓNAK  
GAZDASÁGTANA?**

*Resümé*

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Gazdaságtudományi Intézet

Világgazdaságtani és Összehasonlító Gazdaságtani Tanszék

A globalizálódó világgazdaságban a neoklasszikus közgazdaságtan vizsgálódásának keretei egyre kevésbé „megfoghatók”. A neoklasszikus közgazdaságtan olyan korábban megingathatatlanak hitt alapvonásai kérdőjeleződnek meg, mint a racionális döntéshozó által „megszemélyesített” vállalat, az, hogy a makroökonomia kizárólagos egysége a nemzetgazdaság, és hogy a világgazdaság a nemzetgazdaságok valamilyen konglomerátuma. Ezért azok az modellek is egyre nehezebben operacionalizálhatók, amelyeket többek között e fenti alaptételekből vezetnek le.

A neoklasszikus közgazdaságtan számára hasznos lehet az institutionalista közgazdaságtannak az a felfogása, amely a va-

lóságos gazdasági rendszerek elemzését és összehasonlítását tekinteti kutatása tárgyának. Ezzel a neoklasszikus közgazdasági modellalkotás létező entitásait segíthet megtalálni.

Egy neoklasszikus-neoinstitutionalista szintézis ezért hozzájárulhat ahhoz, hogy a mai nemzetközi gazdaságtan, illetve világgazdaságtan néven ismert diszciplína mellett (és részben helyett) létrejöjjön a globális gazdaságtan, amely nemcsak a mai világgazdaság jobb megismerését teszi lehetővé, hanem a jövőre vonatkozó (égetően szükséges) stratégiák kialakítását is segíti.

A tanulmány egyrészt azokat a világtendenciákat és problémákat, a tudomány által nyitva hagyott kérdéseket vázolja, amelyek a globális gazdaságtan létrejötté indokolják, másrészt törekszik arra, hogy meghatározza ennek az új diszciplínának a helyét a közgazdaságtudomány rendszerében.