

# THE UNDOING OF THE LIBERAL ECONOMIC ORDER AND ITS RESILIENCE

Petre ROMAN<sup>1</sup>

<sup>1</sup>Prof., PhD, Politehnica University of Bucharest, Romania  
 Coresponding author: Petre Roman; e-mail: proman@clubmadrid.org

## 1. THE LIBERAL CIVILIZATION UNDER GROWING UNCERTAINTY

We are at a decisive moment in history. We are confronted with a *regressive uncertainty*: the more we know, the more uncertainty grows. A system suddenly hit by unpredictable events is moving away from equilibrium. Institutions which brought stability in the past are ill-suited today; once a system has crossed some threshold, every new impulse tends to shift it further from the old equilibrium. This is the usual reaction to uncertainties. We proceed to the evaluation of the post-turbulent situation but that doesn't change the effects. In fact, modern societies are more concerned with how to handle risks than the distribution of power and wealth. A lot of unplanned results of processes developed in modern societies backfire and change becomes the norm itself. We witness a process of dissolving norms and changing power structures.

The multilateralist approach and its institutions exist precisely to adapt the world and prevent critical thresholds or the spiralling down which could severely damage it and eventually lead to profound disorder. We have to cope with the shocks and blows and help us to defend economic freedom and eventually reconstruct the traditional liberal economic order. We have to bet on the long haul. For now, the reconstruction is a forecast not a reality. The relevant questions are more important, as well as the way we communicate them. Being confronted with a potential crisis of dissolution of the global institutions, the answer could be to reverse the present mantra: not the individuals through the society, but the society through the individuals. This could be a mantra of the renewal of liberalism.

The scope of mathematics is whether or not you feel you get a satisfactory picture of the problems. Liberals are not necessarily mathematicians, but we believe that freedom is the key to get that satisfactory picture. The relevant questions are more important, as well as the way we communicate them. We need adaptation decisions. We must develop an alternative to the present decline of multilateralism, having permanently clear in our minds that cooperation is the essence of civilization. But cooperation and knowledgeable politics stretch themselves to the point where nowadays neither the world, nor our intelligence can find a real foothold, preventing extremely negative or plainly horrendous situations in the world. John F. Kennedy still guides us: "*If we cannot end our differences, at least we can help make the world safe for diversity...and direct attention to our common interests.*" How do these common interests reveal to each other and become the springboard of cooperation? For instance, global or regional cooperation presupposes, today as yesterday, networking. It is the most difficult and yet most efficient way of achieving results. Difficult because it demands confidence. Efficient because networks (politically) free us from oppressive tendencies. Liberal views consider networks as emancipatory. Nationalistic views regard them as threats.

Multilateralism is not the result of one decision; it is a process which seemed natural in the wake of world globalization. Today we would like it to be a decision in terms of the lack of something better. The institutions that steer the economy must be remade for today's strange new world. In a letter of the great scholar Nicolaus Olahus to Erasmus, three centuries ago, in 1634,

he warned: *"We can't hope at nothing good for the things which started in a bad way."* (SIMION, 2022). If there is a law of unintended consequences, I would say it is that, on the existing unpredictability, rooted in the very nature of things, consequences may seed confusion across the global economy and politics. There isn't a calamity just around the corner; there is a new way we have not yet identified. It is surely there, maybe not where we expected it to be or think it ought to be. We live within a multitude of troubles and conflicts in a world which lacks predictability. A global economic recession is looming right now. Nowadays we better understand that perpetual growth could not be the only possible norm. And, we also understand that economic phenomena are closely related to people's expectations. This is a fundamental point. Nicholas Georgescu-Roegen, the first economist to theoretically establish the direct relationship between the law of entropy and the economic process and as a consequence the absolute priority to switch from depleting the earth's resources to the full use of the solar energy, stressed that:

*"the true economic process is not a material flow of waste, but an immaterial flux: the enjoyment of life"* and that: *"the complete data of any economic problem must also include cultural propensities (of the people)";* and also *"if we deny the people's capacity for empathy, then our exercise doesn't have any meaning"* (GEORGESCU - ROEGEN, 1971). Within a continuously changing and permanently uncertain world, neither calculation of profit in some companies, nor the difference between total income and total costs represents a reliable incentive. Moreover, in his remarkable book *"The Economic Way of Thinking"* (HEYNE, 1987), Paul Heyne comes three times to the role of uncertainty:

- *"Profit, as well as loss, is the consequence of uncertainty";*
- *"...the crucial role that uncertainty plays in causing recessions and thereby conclude that recessions can be cured with remedies that are more likely to aggravate the disease";*
- *"The problems that inflation creates are caused almost entirely by uncertainty".*

More recently (May, 2022), in a paper published by the Federal Reserve Department of

USA, some economists do not see their task as very rewarding: *"Our understanding of how economy works - as well as our ability to predict the effects of shocks and policy actions - is no better than it was in the 1960s"* (THE ECONOMIST, 2022).

When unpredictable events, calling them surprises, are more negative in number and depth than the pleasant ones, people are prone to disappointments that erode confidence and open the way to economic failures. The liberal virtuous circle of *economic freedom/growing prosperity/more effective policies/less arbitrary restrictions on economic freedom* is now moving worldwide into a vicious circle resulting in lack of opportunities, first and foremost for the young people.

The way of thinking and the decisions that have configured a system or an organization, assuring the stability it benefits from, in the moment when a shock or a perturbing event occurs will now display its validity or, on the contrary, its weakness. Do we follow a robust routine or, rather, a precarious inertia? Is the system a resilient one? Such moments will show whether the structure and planned trajectory are sustainable or whether their success is only apparent. Permanently facing the increasing pressure of complexity and of uncertainty, viewed as natural consequences of the exponential acceleration of technological progress, as well as of instantaneous and global communication, resilience becomes an essential quality, making the difference between confused expectations and well-grounded hope.

Basically, resilience helps us master both the still unsolved and, most probably, unsolvable strains present in the system. The difficulty lies in differentiating the unnecessary changes from the inevitable selection required by an unpredictable circumstance. To be able to assume the unavoidable risks of uncertainty, always "on the watch," resilience is useful, regardless of the perturbation or shock that confronts us. Nature includes in its very intimacy a combination of unpredictability and resilience (ROMAN, 2021). It is also worth mentioning in this respect a certain contrariety between resilience and change, namely: while resilience withstands any unexpected and naturally unwelcome change, it does not withstand any change. People accept or even plan a change, when necessary. Resilience involves the capacity

to “bounce back,” to return to the former safety and, even more, to become stronger than prior to the disturbance produced. But today, economic and technological processes race ahead with little multilateral guidance. Resilient systems do not avoid risks; indeed, risk-taking produces economic progress. Multilateral economic institutions and regimes can help national governments and private participants withstand blows and adapt. They can forecast developments, encourage cooperation, provide buffers, recommend redundancies, mobilize resources, offer expertise and continuous learning, encourage negotiations, and help manage conflicts. But they adapt incrementally and need the support of their member governments. Multilateral institutions should now extend their economic and development missions to encompass transnational challenges in partnership with specialized UN agencies for health, environment, migration and refugees, and food and agriculture. They also can contribute to the economic, governance, and legal foundations for security in states and regions torn by conflict.

There is or should be the power of (political) behaviour to order a disorderly world. The global system is not self-correcting: it requires concerted political action. We need an affirmative vision beyond the divisions. Yesterday’s unrealistic goals can become today’s imperative.

## **2. THE ECONOMIC FREEDOM AND THE PESSIMISTIC MOOD OF TODAY**

We believe in the value of individual freedom, the value of talented, innovative, creative and resilient people, the rule of law and the necessary attitudes to limit excessive state interference. Paraphrasing the famous art critic David Hickey who embraced beauty “as a visual weapon for changing the minds,” (EARNEST, 2022) I would say that freedom is the most powerful immaterial weapon for changing the world.

*“While it has been continuously demonstrated that economic freedom is absolutely crucial for improving the standard of living of millions of ordinary people, it is precisely this freedom and private partnership of productive assets that are attacked again and again,”* clearly stated Leszek Balcerowicz in 2014.

The conceptual clarity is of great analytical and political value. It is about how individuals can obtain their income and how they spend this income. There is also the freedom of productive actions, i.e. institutions regulating labour and property rights. And there is the freedom of contract. Nothing fundamentally changed the stubborn equation of economics: free initiative and creativity and innovation are the foundations of sustainable growth, nowadays decisively including the climate change factor. Any true industrial revolution is strong enough not only to destroy the old equilibrium, but also to open the gates to new dynamics of transformation. Let’s take one of the most striking examples. When China started the *open-up* reform in 1978, it was a poor country, sometimes even ravaged by hunger, if not famine. China largely opened the doors to Western investment and technology. Only 40 years later we witnessed a miracle: 740 million people were pulled out of poverty. The wages of hundreds of millions rose sharply and Chinese workers enjoyed an authentic improvement of their standard of living. For example, in 2000 China’s average annual income per person, which is also a good indicator of the wage costs facing a Western company, was 3% of that of America. Today it is about 17%. In the meantime, Americans enjoyed very affordable prices for their preferred products imported from China. Who benefited more, China or the West, is a question with no clear-cut answer. The simplest is both. On one hand, the technology transfer operated by the Western companies to China eventually transformed radically the real fabric of the Chinese industry, from obsolete and deeply inefficient to a level capable of competing successfully on the trade international stage. On the other hand, the cheap labour force which made a great number of Western firms very rich, inevitably had the consequence that the working-age population of those Chinese who received apprenticeship directly in the factories emerging from the China-West partnership, never attained high or even medium-school education level. All in all, the whole process of China’s modernization speaks for itself about the merits of liberalism and the economic model based on investment under free initiative. So much so acknowledging the fact that China was, and continues to be ruled by the

communist party. Moreover, it is a fact that China's leadership, understanding the imperatives of development, decided to invest the increasing flow of income from the industrial Western firms operating in China in huge spendings for infrastructure. The glue that holds financial order together is made of capitalism's ability to guarantee global prosperity. And that glue continues to be the American economy strongly intertwined with the Chinese economy. But the surge of the animosity between the two countries, the emergence of a new, ideologically rooted, Cold War, could reach a dangerous critical threshold, a threshold behaviour, beyond which something radically different and negative might occur. But the non-China shift benefits other countries, like Vietnam or Mexico or even Europe; it is a trend of diversification today and as a result the world economy could become less vulnerable to shocks. China should understand that such a movement is simply the sole impact of economic freedom which played so great in favour of the miraculous economic growth of China in the four decades from 1980 to 2020. Liberalism was the fundamental shape of globalism.

Reliance on market forces has yielded enormous benefits, making energy more affordable and accessible, increasing economic efficiency by enabling competitive pricing. Nowadays we use much less energy per GDP unit than only three decades ago. But today politically motivated decisions generated disruptions: the Russian invasion of Ukraine, disregarding the inevitable consequences of intermittent sources of solar and wind power, coming too late to the conclusion that there is no possible transition to zero-carbon emissions without significant contribution from the nuclear power are the more recent ones. Vladimir Putin's stance, reflecting his deep disdain for the international rules of conduct, is testing the limits of the liberal global order. Indeed, why would Putin stop acting as he does? Oil and gas prices are moving relative to everything else, prompting in many ways an unprecedented inflation. The war came and superposed its effects on the existing tension generated by the trillions of dollars or euros injected in US and EU economies during the pandemic. Mountains of debt are actually

absorbed by one factor only: inflation. The failure to predict future changes in the value of money is now obvious. We see that the various arbitrary measures taken by governments in order to redistribute the available resources and the painful efforts by people to protect themselves against losses in the value of their income are not capable of stopping the mounting level of public resentment.

Right now, we see a dangerous volatility of the energy markets. Prices will only go higher if security rather than efficiency comes first at the centre of the global efforts to curb inflation. The dominant direction of the world continues to be economic growth. We are increasingly interested, I would say passionately, to figure out what's the next big product, the engine of the global economy, after the car. Well, it could be...the car. The electric vehicle. Right now, the market capitalisation of TESLA is roughly as much as the next nine biggest carmakers combined. *"The most important thing is that we vertically integrate. Henry Ford ... was right,"* said Ford's current boss. This is the permanent liberal ground, made of economic freedom and market forces. This is not to say and acknowledge that there are limits in the intimacy of liberal capitalism. Indeed, the costs of growth are growing alarmingly. We see that commodification and convention still prevail over genuine freedom. Ecological indicators on the health of the planet continue to worsen. We are approaching the safe limits for many of the planet boundaries. And economic growth need not to conflict with ecological stability. In the words of Albert Camus: *"We choose the lucid action, the generosity of man who knows; the world is and will continue to be our first and last love."*

We experience the deep intuition that individual achievements should coexist with social freedom. We need recognition from others as a condition for being ourselves. The condition is not money, but fairness.

### **3. THE LIBERAL UNIVERSALISM AND THE ROLE OF NATION-STATES**

---

We have always lived in a complex world; it was a coherent one when states and leaders everywhere adopted and observed institutional

agreements and norms. Today, such a coherence is lost. People resent the steamroller of the financial unchecked power and that of the multinationals. People know that so often there is no fair and balanced competition. People know that the global drive is too much in the hands of some big entities. From these stems the extraordinary revival of the national dignity sentiment. And I quote one of the leading liberal scholars of our time, Francis Fukuyama, who stated, in April this year, that: *“Liberalism would be in trouble if people saw it as nothing more than a mechanism for peacefully managing diversity, without a broader sense of national purpose. That is why it is all the more important for liberals not to give up on the idea of the nation. They should recognize that in truth, nothing makes the universalism of liberalism incompatible with a world of nation-states.”* (FUKUYAMA, 2022) The ultimate power, in other words, continues to be the province of nation-states, which means that the control of power at this level remains critical. Liberal societies have had several hundred years of experience learning how to constrain power at a national level through the rule-of-law and legislative institutions and how to balance power so that its use reflects general interests.

The nation-state is therefore unlikely to disappear as the crucial actor in global politics. Ukraine has resisted Russia tenaciously precisely because its citizens are loyal to the idea of an independent, liberal and democratic Ukraine and do not want to live in a corrupt dictatorship imposed from abroad. Why is Russia under Putin restoring the imperial ambition of the tsarist and soviet times? It seems that Russian leaders are incapable of trusting the virtues of liberal economy. Where China succeeded greatly, the Soviet Union failed dramatically. An incredibly high 39% of the federal budget of Russia today comes from the oil and gas exports. Russian technology, excepting the nuclear and military one, is non-existent on the global arena. In the meantime, the offshore wealth of the richest Russian oligarchs is worth more than three times the net foreign currency reserve of the Russian state. What could Ukraine expect from Russian occupation if not backwardness and corruption? The bonds of corruption that kept Ukraine tied to Russia are by now broken.

That is why it is all the more important for liberals not to give up on the idea of nation. They should recognize that in truth, nothing makes the universalism of liberalism incompatible with a world of nation-states. People should enjoy freedom, not only as individuals. They want the community they belong to to be free as well. Michael Ignatieff expressed without any ambiguity his conviction:

*“It is not doctrines that console us in the end, but people: their example, their singularity, their courage and steadfastness...people [who] show us what it means to go on, to keep going, despite everything”* (IGNATIEFF, 2021).

On the present foundation of the liberal political philosophy there is a liberal civilization, there is liberal universalism. Never, in time or space, should we be cluelessly clueless, i.e. having no idea that we have no idea. There is liberal thinking; there are liberal concepts.

Sometimes we simply forget to come to know ourselves. While we have the courage to acknowledge our weaknesses it is also very important to know our strengths.

*Vive la liberté!* shows exactly that freedom has to render individuals visible.

## References

- EARNEST, J. (2022) *A Proliferation of beauties*. Available from: <https://www.nybooks.com/articles/2022/06/23/a-proliferation-of-beauties-dave-hickey/> [July 2, 2022].
- FUKUYAMA, F. (2022) *A Country of Their Own-Liberalism Needs the Nation*. Available from: <https://www.foreignaffairs.com/articles/ukraine/2022-04-01/francis-fukuyama-liberalism-country> [July 10, 2022].
- GEORGESCU – ROEGER, N. (1971) *The Entropy Law and the Economic Process*, Cambridge: Cambridge University Press, Mass.
- HEYNE, P. (1987) *The Economic Way of Thinking*, New York: MacMillan Publishing Company.
- IGNATIEFF, M. (2021) *On Consolation: Finding Solace in Dark Times*. New York: Metropolitan books.
- ROMAN, P. (2021) The Unpredictable Critical Threshold in COVID-19 Pandemic and Climate Change, *International Journal of Environmental Monitoring and Analysis*. 9(4): 104-108
- SIMION, E. (2022) Nicolaus Olahus (1493-1568). *Critical Notebooks* [in Romanian]. 3-4:22.
- THE ECONOMIST (2022) Why inflation looks likely to stay above the pre-pandemic norm. Available from: <https://www.economist.com/finance-and-economics/2022/06/26/why-inflation-looks-likely-to-stay-above-the-pre-pandemic-norm> [July 8, 2022].