

## The crisis and its consequences for society and economic theory

By Stefan VOSS <sup>†</sup>

**Abstract.** The Financial Crisis (2007-09; FC) has shown that the assumptions of the neoliberal paradigm are not sufficient. The FC has also led to a Moral Crisis (MC). Ethical standards in business are deteriorating. Institutions and authorities have significantly lost its reputation due to the FC and right-wing populism has gained political influence worldwide. This political agenda will disappear due to its own contradictions. This paper will also show, that the crisis is a crisis of theory. Economic as science is stagnating since several decades, because of its institutionalization in economic journals and in the academic environment which is conserving old methods and thinking styles. Economic theories of today are not appropriate for the solution of the actual problems. Progress in economic theory is urgently needed, because the prevailing paradigm does not solve the problems of income inequality, high unemployment levels and the destruction of the ecological sphere. The doctrine of permanent economic growth as well as austerity measures have to be scrutinized. The constantly rising pressure of unsolved problems in economics resp. economic theory must lead to a change of the current paradigm.

**Keywords.** Financial crisis, Neoliberal theory, GDP-growth, Austerity, Moral crisis.

**JEL.** A10, G01, H12, K42, Z10.

### 1. Introduction

“Nineteenth-century civilization has collapsed” (Polanyi, 1944). With these words starts Karl Polanyi’s famous book “The Great Transformation”. Today we could modify this sentence as follows: “The twentieth-century economic paradigm of neo-liberalism has failed.”

Ten years after the financial crisis 2007-09 (FC) the main problems still remain unresolved. During the crisis central banks functioned as 'lenders of last resorts' and provided banks and partially even non-banks with sufficient liquidity in order to avoid a global financial collapse. 'Liquidity preference' in the Keynesian sense was lost as an important part of the economic process in the leading economic theories.

Davidson (2015) explains: “We live in an economy with an irrevocable past and an uncertain future... Accordingly, the capitalist system has developed the institution of legal money contracts that are used to organize all market production and exchange transactions. Accordingly, there is a precautionary liquidity motive ... to protect against any unforeseen cash flow problems... In most orthodox equilibrium analysis, it is presumed decision makers know the future or, at least, have rational expectations about the future that provide actuarial correct knowledge about the future”

Mainstream economists believed markets could regulate the necessary liquidity by itself, which was a complete error. The FC emerged, because a high volume of subprime home loans were transferred to financial packages labeled with an AAA-Rating and dealt as liquid assets. When the house of cards collapsed, liquidity ran

<sup>†</sup> Public-Service Union ver.di, Bavaria, Germany.

☎. 0049 89 361 09 566

✉. stevoss@posteo.de

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out of the financial system and central banks as a 'lender of last resort' had to intervene.

The current result is long enduring low or negative interest rates. Among others, housing price bubbles in Germany and other parts of the world have become the next major problem (Deutsche Bundesbank, 2016 and Sverige Riksbank, 2016). In addition Zombie firms and banks can only exist on the foundation of very low interest rates.

Even though the world economy could recover, high unemployment rates in many countries, especially related to young people in southern Europe and many other economic problems like the imbalances in the euro-era are still not resolved.

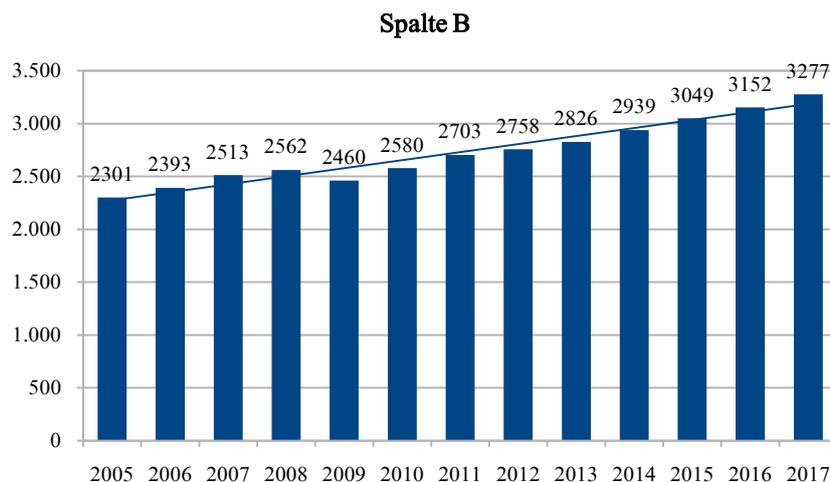
Strong growing populations in developing countries, no job perspectives for young people there, and wars in the Near East led to a refugee crisis in Europe to an extent which has never existed before. The rise of right-wing populist parties, the Brexit and the election of Donald Trump as US-President clearly show us that the world has changed dramatically within a few years.

While the FC has shown that the neoliberal paradigm of 'self-regulating markets' went to the dogs, heterodox economists seem to have lost access. Instead of a recovery of Keynesian or any other heterodox perspectives, nationalistic reflexes dominate the political developments worldwide. These developments are not new, but its political impacts have increased dramatically.

Already in the 90s Jörg Haider, the right-wing Austrian populist leader, had given out the parole "Österreich zuerst!" (Austria first!, 1992). Today, Donald Trump calls the same parole: "USA first!". So, not the idea has changed, but the impact has increased dramatically over decades from a very small European state to the biggest economy of the world. While critiques from the US often spoke about the 'Haiderization' of Austria, we now face the 'Trumpization' of the USA.

## 2. The deteriorating middle class

The FC has only shown the severe deficits of the world economic system and its defunct issues related to wealth distribution, income distribution, financial markets, risk management and unemployment. While the upper-classes finally benefited from the FC, the middle classes determined or feel to be endangered to lose their social status. The lower classes were the biggest losers of the FC and their chances for improving their situation are very low. They also feel competition against refugees, which flew to European countries.

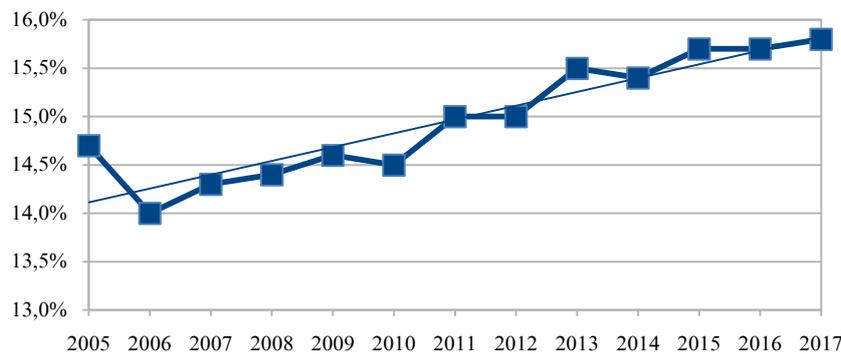


**Graph 1.** GDP of Germany from 2005 until 2017 in EUR bn

Source: Deutsche Bundesbank, 2018

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**Graph 2.** *Development of the “at-risk-of-poverty-rate” in Germany*

Source: Statistisches Bundesamt, 2018

While the GDP rose from 2,301 EUR bn in 2005 to 3,277 EUR bn in 2017 (+42 percent), the “at-risk-of-poverty-rate” rose from 14.7 percent to 15.7 percent (see Graph 2) simultaneously (EU statistics, 2018). This is a new record-high since the reunification of Germany.

The official unemployment rate in Germany is at 3.4% (August, 2018) or at least around 2.276m people.

Not included in the official unemployment statistic is the number of people, who only receive a basic income (Hartz IV) which amounts to around 6m and around 7.67m people live in precarious working conditions. With an average income of 450 euros per month they live in poverty even though they are employed (Focus-Magazin, 2018).

Also a broad share of the middle class feels uncomfortable about future perspectives. Putting all facts together we can come to the conclusion that these developments are the result of a neoliberal policy in Germany, because in the beginning of the century social standards in Germany (Hartz-IV-Reforms) were cut significantly. These reforms had no positive effect on employment, because only the number of unemployed decreased due to the change of statistical methods and a broad part of society works in the low-wages-sector (working poor).

### 2.1. The undermining of the neoliberal paradigm

Rising income inequality and a much higher concentration of private wealth, reduced social standards, an increasing risk to lose a job and to fall into poverty undermine the legitimacy of the neoliberal paradigm.

Some parts of it have already been eradicated after the FC. The new regulations of financial institutions for example (Basel III) cannot be classified as 'neoliberal', because these rules eliminate the power of markets significantly.

F.A. Hayek, the main architect of neoliberalism, postulated complete free-trade between countries and the full mobility of labor force, freedom of travel and migration, free choice of occupation (Hayek, 2008[1944]).

Meanwhile these parts of neoliberalism disappear and the opposite is demanded by Donald Trump and all other right-wing populist parties.

The new crisis is a moral crisis (MC) as a follow-up of the FC. It is a MC due to a lack of theory and helpless politicians. The result is a fall back to old and overdone theories represented by populists such as Donald Trump who can offer the illusion of a trouble shooter to a broader public, which is in despair.

There are numerous economic theories which try to explain the crises of capitalism in different ways and offer solutions, which might be right or wrong, but most of these theories have neglected the sociological and psychological influence to the mass. These aspects only play noorjust a minor role in most economic

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theories. In democratic societies these outcomes have to be considered, because they have a major impact on elections and policy.

The current political and economic developments show us that economics is not just a technical problem, viewed as a case of modeling an economic theory (Plickert, 2008). Sociological and psychological aspects are widely ignored.

For an economist the main task has to be to get the whole picture of society and social-psychological developments. Therefore, political and sociological aspects must be included into a complete theory.

### 2.2. The change in 2017

The FC is a milestone of economic and social history. The actual political developments worldwide (Brexit, the election of Donald Trump as US-President, the election of Jair Bolsonaro) show us a disruption in history.

Surveys like the Edelman Report maintain the clear evidence for this assumption: “The Edelman Trust Barometer (2017) finds that two-thirds of the countries we survey are now 'distrusters' (under 50 percent trust in the mainstream institutions of business, government, media and NGOs to do what is right), up from just over half in 2016. This is a profound crisis in trust that has its origins in the Great Recession of 2008. The aftershocks from the stunning meltdown of the global economy are still being felt today, with consequences yet unknown... As trust in institutions erodes, the basic assumptions of fairness, shared values... are no longer taken for granted. We observe deep disillusion on both the left and the right, who share opposition to globalization, innovation, deregulation, and multinational institutions. There is growing despair about the future, a lack of confidence in the possibility of a better life for one's family” (Edelman, 2017).

The Edelman Trust Barometer shows that only 15 percent of the general population believe that the present system is working, while 53 percent do not and 32 percent are uncertain. Edelman concludes: “The lack of societal and institutional safeguards provides fertile ground for populist movements fueled by fear... Countries that combine a lack of faith in the system with deep social fears, such as France, Italy, South Africa, the United States, and Mexico are electing or moving towards populist candidates” (Edelman, 2017). In Edelman's report (An implosion of trust), a total downturn of all aspects of social life is globally and empirically shown. Edelman reports:

“The growing storm of distrust is powerful and unpredictable. Trust in institutions has evaporated to such an extent that falsehood can be misconstrued as fact, strength as intelligence, and self-interest as social compact. This has been a slow-motion meltdown, an angry delayed recognition of permanent decline in economic and social status by those who have not kept pace with globalization and dramatic technological change. Iffaith in the system continues to fall, rising populist movements could wreak unimaginable havoc, with resurgent nationalism and divisive rhetoric moving to dangerous policies” (Edelman, 2017).

Edelman does not stand alone with his analysis. A survey conducted by PricewaterhouseCoopers (PwC) shows similar results. The main difference of the survey of PwC compared to Edelman is that PwC interviewed 1.379 top managers in 79 countries while Edelman examined the opinions of the total population.

According to this survey 44% of all interviewed managers, among other topics, doubt that the gap between rich and poor could be closed, 69% believe it is harder for business to sustain trust in the digital age, and 82% see uncertain economic growth as a major threat (PwC, 2017).

So, the MC has not hit the common people alone but also the leadership worldwide has serious concerns regarding to solve economic and social problems in the future. What we can see is that the FC did not have an economic impact only, but it also emerged severe social impacts. In a political sense, the future has become more uncertain and unpredictable.

The crux is that the leading paradigms of economics have their roots from the beginning of the last century. However, the beginning of the 21st century has

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created new problems which are not included in the old economic thinking of the past. For example, the artificial low interest rates over a long period of several years has never appeared in history. The economic system of today has entered a “nowhere-land” where nobody has ever been before.

### 3. The downturn of Keynesianism and the rise of Monetarism

After WW II Keynesian policy partially became the leading paradigm worldwide. In Germany, the ordo-liberal wing led by Ludwig Erhard was prevailing.

The 'Wirtschaftswunder' of Germany with high growth rates during the 50s and 60s supported Erhard's policy which ran into difficulties around 1967 when the first recession after the war interrupted the success of this model.

The change to a social democratic government in Germany led also to a change to a Keynesian oriented policy conducted by finance minister Karl Schiller. Schiller's idea of 'Globalsteuerung' which could be translated to 'global management' or 'overall control' was to co-ordinate the economic development with parts of the government, the employers and the unions.

However, Schiller's policy did last for a little more than a year only. Controversies regarding wage-policy and deficit-spending were the main reasons for Schiller's retirement. Helmut Schmidt as German chancellor, who was a former student of Schiller, tried to carry on a Keynesian orientated policy. In the 70s economists had to fight against a new phenomenon, the so-called 'Stagflation'. It seemed that Keynes's remedy did not work anymore. Deficit-spending just resulted into higher inflation rates and the effect of stimulating the economy seemed not to be a sufficient policy. Unemployment rates began to increase and policymakers were forced to search for alternatives.

This was the opportunity for Milton Friedman and the Chicago School for implementing a new paradigm. The new era could be initiated by the new governments in the USA and the UK. In the beginning of the 80s 'Monetarism' introduced by Milton Friedman became the leading paradigm with Prime Minister Margaret Thatcher and US-President Ronald Reagan as meaningful policymakers worldwide. The target of their policy was a return to free markets, a minimal state, free trade and downsizing social welfare according to Hayek's ideas published in his book 'The Road to Serfdom' (2008[1944]).

The first challenge of this new policy was to get inflation under control. The Federal Reserve Bank increased interest rates to high double-digit levels. A contraction of the world economy and countless bankruptcies were the first consequences of this policy. In the result still increasing high unemployment rates were the further outcome. This 'shock-therapy' led to a recovery beginning in 1983. While inflation came under control and the worldeconomy began to recover, unemployment rates remained at relatively high levels globally. Therefore, mainstream introduced the idea of a 'natural unemployment rate'.

According to this thesis unemployment was defined as a natural phenomenon, because some people always have to search for a new job, some firms have to be closed and other firms were founded. In this sense unemployment was a normal fluctuation in a dynamic market society. Further reasons for more unemployment were 'sticky wages' and a less 'liberalized' labor market according to the neoliberal interpretations. The problem of unemployment still proceeded when a Keynesian policy was deleted. Neoliberalism could not hold its promises. The simple trick was to characterize unemployment in a different way, while in the end the problem still persisted and increased.

In the beginning of the 80s in Germany for example the number of unemployed surpassed the level of one million people. A shock wave went through the country. Nowadays, media report about 'full employment' when the number of unemployed falls down below 2.6m.

The solution for every problem under this new policy was simply to define problems differently to enforce more markets, to reduce the function of the state

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and the power of labor unions. The growing number of think tanks, which delivered the 'right ideas' for policymakers, and journalists as 'second-hand dealers' intensified the propaganda for the neoliberal paradigm.

The FC 2007-09 showed that the idea of self-regulating markets did not work. However, the neoliberal paradigm did not disappear completely, even though for example the 'Financial Instability Hypothesis (FIH)' according to the heterodox economist Hyman P. Minsky gained currency.

Only corrections in the regulation of the financial sector were made (Basel III accord), but in general the neoliberal paradigm did not disappear. The main reason for this development was that the heterodox scene of economists was wrecked, paralyzed and powerless. In addition, heterodox economists are diversified and individualistic.

Mainstream media did not pay much attention to alternative ideas, because they are mostly identified as 'suspicious'. The heterodox economists of today are marginalized in the same the way as the neoliberal economists were not meaningful after WW II.

### 3.1. The forgotten society

An import consequence of the implementation of the neoliberal paradigm was that the idea of a society was completely eclipsed or as Margaret Thatcher once said: "There is no such thing as society" (Woman's Own, 1987).

There were only a few economists like Rüstow, Roepke or E. F. Schumacher who connected economic theory with society, but in general economics became an 'objective science' disconnected from sociological or political aspects. It is an irony of history that for a wide range of left-wing and heterodox economists society did not play a major role in their ideas.

Economics became reduced to a subject dealing with monetary policy, wage-policy, regulation of markets etc. Creating platonic models of the economy is the topic of current economic theory. The most important part of economics, 'society', was more or less lost in this area.

### 3.2. The missing part: Property entails obligations

A substantial part of a capitalistic society is the institution of 'private property', but the definition of it was generally neglected. Does 'private property' mean everyone can do with his property what he wants to do or has the fungibility of 'private property' to be restricted? This question has been completely eliminated.

Only technical terms like 'effective demand', 'taxation' and 'redistribution of wealth' dominated the academic field. The interaction and meaning between society and 'private property' is mostly not a theme in economic theories.

German Basic Law of the Federal Republic of Germany, Article 14.2 says: "Property entails obligations. Its use shall serve the public good."

It seems that many economists have forgotten the meaning of these two sentences. The fungibility of property is restricted in the use for the owner to serve for the public good.

In addition, the Basic Law of Germany does not say anything about the economic system that should be established. The Basic Law of Germany does also not say that a free-market society would be the granter for freedom.

In the sense of this law freedom stands above the system and not under the system as Hayek proposes. China is a good example for a totalitarian state which also has set its policy on free markets and capitalism. China shows the evidence that Hayek's theory is false. Hayek used the totalitarian government of Pinochet in Chile to implement the ideas of a 'free-market society', which was a self-contradiction in this case.

Article 15 proceeds: "Land natural resources and means of production may for the purpose of socialization to be transferred to public ownership or other forms of public enterprise..."

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According to German Basic Law the use of property is not restricted only to serve for public good, it also can be socialized when private interests undermine the public good.

These basic principles are usually not included in mainstream economic theory even the impact of these rules determine the limitations of the use of property.

For Keynes private property of capital has just the function of a 'marginal-efficiency' of output, for Marx capital cannot be defined without the expropriation of labor and for the neoliberal theorists 'private property' has no restrictions for the owner. For Adam Smith the 'invisible hand' in a competitive market environment corrects the egoistic behavior of individuals to the good of society. It is questionable in how far any of these theories might cover the complete reality.

### 3.3. The monetizing of all social relations

The meaning of money in society has increased significantly in the modern world. Due to the transformation to a neoliberal society nearly all our social relations have become monetized. Education, health care, politics, science, culture, security and many other non-monetary goods have turned to commodities priced on markets. Even private relations and the foundation of a family is economically reduced. Neoliberalism has become an invisible power intruding and controlling all parts of our life and in the end it wants to tell us the fairy tale that 'every man is the architect of his own fortune'.

### 3.4. The endgame of neoliberalism: Right-wing populism

After Brexit and the election of Donald Trump as US-President the political left, whatever it could mean, is on a partial downturn, while right-wing populists are gaining currency worldwide.

However, the actual development is no surprise, because the political left has mainly an academic background and is not linked to the working class in general. Only the belief to understand the society and to have the ability to build up a fairer world does not mean to have the access to the disadvantaged mass of people.

The mass generally has not a profound theory in terms of society or economics, but it has a fine tuned seismograph for social injustice.

Political powers mainly promote neoliberal ideas regarding labor markets, public health care, pension schemes and education. The New Right denies the effects of climate change, but it promotes nuclear power and intends to abolish regenerative energies.

While the left appears unable to abolish the neoliberal paradigm, the role of the New Right is an irony. It has taken over some fragmentary neoliberal principles for a nationalistic policy. However, nationalism conflicts with free-trade, free-move of capital, labor and free migration. Protectionism conflicts with neoliberal ideas.

The actual development is not a recovery of neoliberalism led by the New Right but the beginning of its deconstruction. The New Right at least will fail due to its own contradictions.

## 4. The most significant problems of this century

1. Climate change
2. A rapidly expanding world population
3. Resources are expected to run short.
4. Digitization and automation
5. A high concentration of income and wealth while the gap between the poor and the rich is rising
6. Persistent high levels of unemployment
6. A downturn of moral standards worldwide ('Madoff-Economy')
7. A strong growing industrial military complex
8. A global refugee crisis

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According to an investigation of the World Wildlife Fund (2016) the world economy already has exceeded its systemic limits. In 2012, it consumed the capacity of 1.6 earths.

### 4.1. Neoliberalism excludes society, responsibility and ethics

Neoliberalism excludes the responsibility for decisions made today which might harm future generations, because a decentralized decision-making cannot know any responsibilities. Neo-liberalism is blind for any type of personal or political responsibility for future events, it just has transferred all responsibilities to the markets. In the belief of neoliberalism only decentralized decisions in free-markets can show the solutions.

According to Hayek, knowledge is fragmented and can only be co-ordinated in free market processes. If no one has the complete knowledge and everyone only has fragments of knowledge, nobody can be made responsible for the whole thing. That makes markets to a 'deus-ex-machina' in which personal responsibility of human actions is eliminated. Not persons but markets take the responsibility for any outcome. Economic ethics is simply a neuter, a topic that does not exist. In the result neoliberalism excludes ethics, responsibility and society as well. The only dominating and regulating power is the market.

It would be naive to believe that all major challenges of our future could be solved by free-markets as a self-regulating institution and without interventions. If free-markets would be self-regulating, mankind would have not exceeded its systemic limits. In addition, the reason for the development of totalitarian states is not the reduction or abolishment of free markets, as Hayek proclaims, but the emergence of crises. In times of crises free societies tend to reduce their liberty rights and become more autocratic.

The current neoliberal framework has no real answers to the challenges for this century. Responsibility means to find new solutions which have to be developed. The most significant heterodox theories or alternative economic approaches had its origins in the beginning of the last century or before. In these times the challenges of today had not been visible so seriously and therefore economic theories or alternative approaches are generally lagging behind the actual developments.

Especially, the inclusion of 'society' to economic theory is a missing part in many economic theories. Even mankind globally has already exceeded its limitations of this planet, 'economic growth' is still a leading paradigm in most heterodox approaches, too.

To develop new approaches means to raise questions which mainstream theories do not consider and to get off the beaten track of ideas.

History will judge, whether the rise of neoliberalism has been a progress or a major setback for aspects like full employment, social justice and environmental protection. Propaganda, stereotype media and palliative interventions cannot be the answers to these questions.

After the wall fell in Berlin in 1990, Hayek called his victory and Fukuyama (1992) declared 'The end of history'. However, the world of today looks very different from these proclamations.

### 4.2. Hegemony or just a Hubris?

It is not easy to classify the role of neoliberalism. In Marxian terms neoliberalism is the hegemony usually defined according Gramsci's (1991-2002) writings. Gramsci's interpretation cannot fulfill this role completely, because neoliberalism misses a clear definition of itself. The concepts of neoliberalism conflict in various important parts of its theory.

There are contrary theories related to money theory, competition theory, patent protection, interventions, inheritance rights and the role of the state. The standpoints vary significantly and we can take in conclusion that neoliberalism is not a consistent and coherent theory. It should be defined as a narrative to justify

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the current economic situation and to preserve the interests of the class which is in power.

It is a characteristic of neoliberalism that its principles lose its validity in circumstances when these principles become defunct. In case of the euro the Maastricht-Criteria have been canceled, although these criteria were implemented as a 'sine-qua-non'- condition for this currency. The Federal Reserve Bank rescued the insurer AIG, even though it had no legitimacy to transfer fiat money to a non-bank. The list of illegal unilateral actions could be widely extended at this point. The top device of all important decision makers today is 'to bumble through'. In the end the 'normative power of the de facto situation' will always win. In conclusion neoliberalism could be classified as a mixture of hegemony and mystification, but in the last consequence it appears to be a 'hubris'.

The FC was unforeseeable for the establishment. This crisis crushed down the meaning of authorities. Measures which had been taken were just improvisations in which decision-makers had no clue, because their theories were based on wrong assumptions and had no real solutions.

To speak about a hegemony would be an exaggeration in this case. A hegemony has the expertise to keep control on society, but at this moment the institutions began to lose control.

### 5. The crisis is also a crisis of theory

The follow-up problems of the FC are still prevailing. The FC has mutated to a MC which has infected the societies worldwide. The distrust in institutions has deepened significantly and real political solutions are not on the horizon.

Behind this crisis stands a crisis of economic theory. Heterodox approaches of economic theory were unable to replace the old paradigm due to the fact that these schools are fragmented and partially paralyzed.

#### 5.1. Economics is a very conservative subjects in science

Economic theory is stagnating and lagging behind the actual developments. Since the 30s and 40s of the last century only little progress has been made. The old paradigms like Say's theorem, equilibrium theory, efficiency of markets etc. are still dominating.

The reason for this development is the system of science today. A professional career in economics (in the sense of reaching significant positions) is only possible when an economist has published several articles in highly ranked journals. These journals are the gatekeepers for careers in this system. The referees decide which article will be published and which will be discarded. The powerful positions of these referees conserves economic theory. This is the reason why economic theory had such a poor development within the last few decades. The key for success in the academic field is to become a member of a quotation-cartel. Journals are defeating plagiarism, but some journals connive at quotation cartels. Such "ethical standards" have to be abolished in order to reconstruct the freedom of science (Heckman, & Moktan, 2018).

In other words: A new Schumpeter or a new Keynes in our times would have no chance to become a significant economist, because their ideas were too unique, too creative and set breakthroughs in economic theory. These individuals would be discarded in our times, because they very likely would fail the process of "double-blind-peer-reviews" of economic journals.

#### 5.2. Is economic theory on the path to nowhere?

The current economic schools of thinking reveal that they have no real answers to the problems of today. These schools are more or less like a straitjacket of thinking. The term "re-thinking economics" is not a trend-setting term, because all what has been thought in economic theory until today has been chewed through

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already and a “re-thinking” of the old ideas is not aseismic shift for the problems of today.

George Soros founded the “Institute of New Economic Thinking” in reaction to the FC, which comes closer to the point, because a “new thinking” is really needed. However, the results of this institute after more than ten years of research are not very substantial. It only shows that even institutes which are equipped with high amounts of funds and intellectual capacities cannot guarantee creativity and progress. The institute may have given additional amounts of income to scientists, but the results are sobering.

### **6. The myth of permanent growth has conquered economic theory**

The first paradigm which has to be attacked is the myth of permanent GDP-growth. It is clear that a permanent growth of GDP forever is impossible, because we only have one planet with limited resources, but the mainstream is telling us that we urgently would need permanent GDP-growth.

In the first step we have to realize that such a policy is simply impossible and we have to adjust economic theory to this fact. This critique is not new and was developed, among others, by the Club of Rome. The predictions of this club failed, because in the meantime new volumes of resources were explored on this planet to an amount which was not predictable before, but that does not mean that we will never face the problems of limited resources sooner or later. Currently, the upcoming shortage of resources is only postponed but not abandoned.

It is a fact that the world economy of constant growth of today must be transformed to a global stable economy. The worldwide income inequality must be diminished and trade has to be changed to a real “fair trade”.

The fact that permanent GDP-growth is impossible does not mean that no country needs growth. There are many countries in this world which urgently need growth to achieve a living standard which can guarantee an acceptable living standard in terms of health care, nutrition and education. The rich countries give them financial support, but this money often flows into wrong channels and the WTO-rules are not helpful for these countries. For example cheap agricultural products are flooding the markets in Africa with the result that the domestic agriculture collapsed in many countries.

The IMF and the EU-Commission still promote austerity policies with the effect that economies in southern Europe are contracting and high unemployment rates, especially related to the youth, is a reality.

### **7. Conclusion**

The FC was not a temporary problem of the neoliberal paradigm. It has shown that this paradigm is build on wrong assumptions and leads to unintended consequences which are still not resolved. It has lead to a MC world-wide. Nationalistic reflexes are the first response to this development, which should pass by in a medium-term period of time, because the suggested solutions of this new political movement cannot deliver real solutions due to it is inconsistencies and incoherence. The crisis is also a crisis of economic theory, which is stagnating since the mid of the last century. The reasons for this stagnation are – among others – the current institutions of the academic field. The procedures of economic research (publish or perish) and the dominance of five economic journals serve for the conservation of defunct mainstream theories. However, the pressure of problems is increasing and the current policies of austerity and free-market procedures are defunct. What we would need is a transformation of the current globalized system. Karl Polanyi for example developed such a theory in his book “The Great Transformation” published already in 1944 and today it seems that Polanyi was around 100 years ahead of his time.

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Rising income-inequality, concentration of global wealth, moral hazards, the ecological crisis, climate change, a global refugee crisis etc. are the results of a globalized neoliberal policy, which is coming to an end. Substantial new developments in economic theory are still very rare, but the demand and the necessity of it will emerge due to a constantly rising pressure of problems which are still unresolved.

### Notes

“Österreich zuerst!” was an Austrian referendum initiated by the Austrian party FPÖ from January, 25th until February, 1st. The target was to limit and oppress foreigners living in Austria. It only achieved a quote of 7.5%.

The “at-risk-of-poverty-rate” is defined as the proportion of persons whose equivalent income is 60% below the median equivalent income of the population in private households.

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