

Preface: a few words about the book

Every non-fiction book is the result of an author's curiosity about the world around him or her. This rule also applies to me and to this book. But the book was also born out of irritation: an irritation of somebody who does not believe in the truth of the herd, stressing over and over again the same – often wrong or irrelevant – interpretations supporting doubtful or downright false theses. The economic futures of the West – as an issue – is a case of such herd thinking from my analytical perspective.

It is obvious to everybody nowadays that the Western world is going through an extremely difficult period. But agreement stops at this point. The dominant thinking of the punditocracy about causes may be, roughly, summarized as follows.

Global challenges affect the West. For example, anti-globalists threaten the established international economic order. Why the West should be the most threatened the pundits do not explain, in spite of the rather obvious fact that the improbable breakdown of the free international trade and investment regime would hit poor countries much more strongly than the West. Another threat, that of exhaustion of mineral resources, also affects everybody. The only threat that might affect the West much more than the rest is the 'struggle against global warming'. And for one reason only: the rest of the world has not lost its sense of proportion and is unwilling to join the crusade against something akin to a chimera.

Another interesting feature of the thinking about the West's problems is the emergence of the leaders-to-be, that is future global economic powers. The countries of the BRIC group (Brazil, Russia, India and China) have been anointed by pundits as future leaders of the global economy, with China in the lead. These views are being repeated again and again and projections are made of the number of years until BRIC countries achieve dominance in the global economy. And yet the 'inevitability' of a change in global leadership has about as much probability as projections of the height of a grown-up man on the basis of his growth rate from birth until the end of his first year.

Somehow, few analysts stop to consider that Russia has already been a global power – even a superpower – and failed. They do not notice serious weaknesses that each BRIC global economic power-to-be is facing at

present and will face in the foreseeable future. The decline in the number of young workers in China does not require such serious studies as, for example, the role of foreign trade in economic growth or other issues. It is enough to look at the demographic projections or studies. Each BRIC country faces its own problems that may – and often will – affect its economic growth. Besides, all of them face the very difficult passage from an industrial to post-industrial, mainly human-capital-based, service economy. Such a transition will require not only changes in the level of economic freedom – rather low in all BRIC countries – but also changes in the level of civic and, probably, political freedom.

As for the problems of the West, the near consensus of the politicians, pundits and the general public is that greedy bankers caused the financial crisis, which states and their governments have been trying to solve at great cost to their societies. And many capitalism-haters (USA-haters, globalization-haters, multinational-companies-haters – you name it) add that capitalism failed and must be either reined in by the strong hand of the state or superseded, perhaps even by the ‘Beijing Consensus’ (by the way, is some Westerners’ hatred of Western economic institutions a sufficient condition for accepting the semi-totalitarian reality of the present Chinese system?).

The dominant set of opinions about the Western economies and their problems is in my view mistaken. In this book I try to look differently at the main present and future developments of Western and global issues. To be more precise, by future developments I mean the present and the immediately forthcoming decades, the 2011–30 period.

In Part I of this book I look at the global challenges and find them spurious or irrelevant. Anti-globalizers – the funny children of Marx and Coca-Cola – are, fortunately, irrelevant to the development and evolution of global and Western economies. Their influence is nil. Next, there is no threat to the human race – not only to the West – from the much-touted exhaustion of mineral resources. There is no limit to the supply of fuels and industrial minerals, and they will be available in increasing quantities in the foreseeable future. And global warming is as irrelevant a threat as any singled out so far; the only threat to the West comes from fighting against that man-made monster, whose existence, just like the existence of the Loch Ness monster, has been increasingly challenged by science. In Part II, devoted to future global economic powers, I try to weigh their strengths and weaknesses and emerge with a measured opinion of their differentiated prospects: from the least attractive in the case of Russia to the most attractive in the case of India. The leader-to-be anointed by the herd is somewhere in between. Besides, their advances are a welcome addition to global product and to global trade. But these advances are

not sufficient to dislodge the USA and Europe from their position of pre-eminence; strenuous efforts of the West itself are needed to transform their economies into exemplary cases of long-term decline.

Part III of the book deals with the West itself. But I look at its problems from a somewhat different, longer-term perspective. First, I direct attention to the long story of increasing ratios of public expenditure relative to GDP, which have been correlated, with a lag, with decreases in economic growth rates. The pattern has existed since the late 1960s: GDP growth rates were declining in the West from one decade to the next. Then I identify a second burden, often debated in public, but without recognizing the linkages to the economic growth patterns indicated above. This burden is pensions' component of the welfare state, and more generally public expenditures. I point out why it was possible to keep the welfare state going for quite some time in spite of its rather obvious destabilizing characteristics.

In two following chapters of Part III I try to 'disaggregate' future developments. First, I look at probable different futures of major European countries and, next, at the USA but from a slightly changed perspective. My main subject of interest is what has often been called 'US exceptionalism'. And in spite of the mess made by politicians in the past decade or more, I still find some encouraging signs of that exceptionalism, which may help to make the USA's future more promising than that of Europe.

Finally, in the closing chapter of Part III, I present the non-economic consequences of the welfare behemoth as the most important determinant of the West's decline. There is no such thing as a free lunch, as Milton Friedman used to say. For the increasing material benefits of the welfare state, its beneficiaries are paid in terms of declining psychic stability and resultant 'learned helplessness', with concomitant manifestations of decreasing initiative, passivity and emotional disturbance (including aggression and destruction). Outcomes have, again, been visible over decades, for example in increasing levels of criminal behavior (not only in recent riots!). Moreover, the inability to find predictable patterns between efforts and results due to welfare state expansion has created a mass of economic illiterates, that is, 'The Indignant' demonstrating recently on European streets.

The main problem of the West is the recognition that welfare as the people know it can no longer be maintained and requires quantitative cuts and qualitative changes. Without that it will be impossible to stem, first, the decline in economic growth rates and, next, absolute declines. In my view, the USA seems to be more able to cope not so much with a new reality, but rather with a long-awaited reality.

The scenarios that follow in the postscript differentiate probable economic futures in accordance with different envisaged intra-Western developments. All the rest is of secondary importance.

