



Faculty of Economics, University of Niš, 16 October 2015

International Scientific Conference

**CHALLENGES IN BUSINESS AND ECONOMICS:
GROWTH, COMPETITIVENESS AND INNOVATIONS**

GLOBAL DEVELOPMENT CHALLENGES AND ECONOMIC PARADIGM PROBLEM

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Abstract: *Generally speaking, globalization denotes spreading of the western practices; it indicates the relationship between general awareness and organization of the social life in the whole world. Globalization crisis is actually global economic crisis and global society crisis which can be assessed as the hardest financial and economic crisis since 1929. It is the crisis of concepts and theories, as well as the responsibility for the weakness of economics in search of new opinions and solutions. Neoclassical economic concept, as a basic theory of globalization crisis is seriously undermined. The return of Keynesian economics is a metaphor, and neokeynesianism is not completely truthful, but this concept assumes that the existing paradigms should be reassessed. In addition, it emphasizes the importance of macroeconomic role of the national state and the regulative and control mechanisms “for everybody’s prosperity”.*

Keywords: *Neoclassical economic concept, globalization crisis, new concepts and methods.*

1. Introduction

Globalization has encouraged the expansion of capital around the globe. The last quarter of the last century was marked by a remarkable economic growth. The global economy has been doubling every ten years. In recent centuries, the most developed countries not only had the richest population, but also the smallest population. The two most typical models of the western global capitalist development are the American and the German model. The crisis of globalization and development models can also be seen as a crisis of economic theory, which we want to clearly elaborate on in this paper.

2. American Capitalism

The USA is an imperial power and a military leader, the country of innovation, nano technology, and good universities, but lately it is recognizable by its immigration

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UDC 005.44:338.124.4

policies and dysfunctional politics. The news is that the USA has to hold on to legitimacy, cooperate with the new global powers and think "asymmetrically" because they no longer have the only major market in the world.

The global crisis born in the heart of global capitalism expands through the arteries of the financial system, and in the non-Western world it leads to the redistribution of the industrial, financial, educational, and cultural power in the "post-American world", in which it is not only about the decline of American power, but about the rise of "all the others" (Zakarija, F. 2009)

In the non-European cultures, globalization is equated with the americanization, the "global americanism". This is only partially true. John Gray claims argumentatively that America is a "divided society" in which the "political economy of the free market", neoliberalism and the "moral economy" of bourgeois civilization had split up, probably "forever".

The big picture of the American capitalism was very realistically described by J. Stiglitz. He problematizes the underlying economic values of American capitalism. The fall in confidence, mistakes in the political system, the crisis of democracy - that were made visible by the economic crisis, showed the dysfunction and inequality within the system. He points out the polarization and division of American society which is greater than the stratification of the European society. It has primarily become an economic issue. At a meaningful question - is there any hope?, Stiglitz's reply is: more efficient, more dynamic and better society is not a communitarian community with equal opportunities, but a society that creates more equal opportunities. (Stiglitz, J. 2009)

Neuralgic points of American crisis, which, through the financial system spilled over to Europe, affected by their own crisis of the Union, are the financial sector, central banking, global financial institutions, the problems of regulation and control, credit policy and offshore banking. Paradoxically, while the US labour productivity increases, the incomes of majority are decreasing. Globalisation changes the traditional societies, causing cultural changes in them. Namely, the brands of many products are global, products of the companies are identical in the global supply. It is obvious that globalization intensifies the world trade, the world capital market is universal, the return on equity is being equalized, the speculative transactions on the foreign exchange markets are rapidly growing as well as the trading in financial derivatives. Speculative world economy and rapid development of financial markets break the real economy sector, instead of encouraging it. This is evidenced by recent financial and economic crisis. These two sectors have different ways of functioning and they are not only related by causation, but also by the system of interaction between them and feedback. The deep connection between the financial and the real sector is reflected only and clearly in the crisis and financial collapse.

Multinational companies prefer the countries whose labour markets, taxation and regulation regimes are favourable. They control the national governments by means of promises of direct investments, and the threats of withdrawal and removing the real, economic and social content from the national economy and social institutions, thus breaking the system of regulation and social welfare of sovereign states. In the monetary sphere the relations are not regulated, the international monetary regime is characterized by the regime of floating currencies. The financial crisis corresponds to the abolition of the convertibility of dollar in the 1970s, which resulted in a lost of "natural" relationship

Global Development Challenges and Economic Paradigm Problem

between the real economy and the financial sphere, which allowed for the uncontrolled growth of the banking sector and the uncontrolled development of financial derivatives. The financial sector expanded compared to the sector of the real economy. This was also caused by the policy of low interest rates by the US FED, which caused the expansion of loans. This further led to financial and banking crisis. The crisis of the mortgage market directly caused the financial and then economic crisis on a global scale.

The Anglo-Saxon capitalism, which leads the world in the field of financial markets, especially the capital markets, and in contrast to continental European, it has a powerful experience of individualism and economic freedom, inequalities in income, education and health. With these features, supported by technologies of globalization and technological innovations, the Anglo-Saxon global capitalism unleashed the most uncontrollable economic forces together with unfettered market competition. This system encourages the creative process of destruction and devastation, and requires companies to produce innovations and knowledge, sovereign states are restricted in controlling their resources, and the citizens are restricted in preventing economic risks.

Globalization destroys the welfare state and social democracy. Policies of introduction of deregulated labour market and reduction of social assistance are defensive. Tax competition among the developed countries reduces public finances and derogates the welfare state, and global capital markets make it unsustainable. The welfare state, especially in Europe, is based on social democracy and closed economy. However, it is exposed to neo-liberalism, so it cannot withstand neither the full employment nor egalitarian tax policy. It is highly emphasized in the transition economies of the Western Balkans, due to the inherited regime of acquired social rights. Globalisation also undermines the balance between private interests and the public welfare, problematizes the maintenance of law and order, national defence and environmental protection. Capital, companies and people, as the sources of income in the world economy are very mobile and move to low-tax regimes. As a result, agreed coercion does not act as a payment instrument for the public goods. Particularly significant is the global problem of mass unemployment, then, the economic life does not pursue economic balance, and the choice between stability and price is questionable.

3. German Development Model

The logic of globalization is contradictory and absurd, and also the steady economic growth over the long term is questionable. The only certainty is an uneven development and the possibility of losing the starting positions and benefits. German economist Wolfgang Sachs, in "The Development Dictionary", argues that "the only thing worse than the failure of this experiment of global mass development would be its success", only the owners and managers will benefit, and the rest of us will be stranded until the tide slowly floods us. (Mander, J. 2003, p. 9)

The globalization of the EU economy and industrialization of Asia have significantly contributed to the destruction of the German social market that has kept collective wage bargaining and a high level of job security. So on the global level, things are developing on a worse premise: "bad capitalism drives out better capitalism". German capitalism has proven to be more effective and more resistant even in times of crisis because it is shaped by the spirit of liberal democratic political culture. The local community and democratic state have the same goal - to strengthen social cohesion and economic efficiency. The German reunification,

the creation of the European Union and moving German companies to Czech Republic and Poland weakened the German social system and development model. Additional difficulties are enormous spendings for the recovery of the former East Germany and its economic and social integration. The question is whether German capitalism will be able to survive, being a complex system of mutual ownership, participation and adaptation, exposed to ruthless influences of American neo-liberalism and the free market. Germany's economy is not resistant to the debt crisis in the eurozone. No matter how the German model is superior, it is still hard to believe that it will be an economic model for others in Europe. In fact, given the economic and cultural diversity of European countries, the German capitalism can hardly be a generally accepted model of development of the European Union. It is shown by the tensions and misunderstandings in the European Union about the ways of solving the crisis in the eurozone, where Germany has the most influential voice.

One of the political responses to globalization is a cosmopolitan sovereign state. However, it is unclear how cosmopolitan sovereignty can take into account the accelerated global interdependence, to develop cooperative sovereignty of states and their peacefulness. (Beck, U. 2004, p.136) In the coming globalization, competent governments and strong cultures of prosperous countries with great population, such as China, India, Brazil have certain chances of success. They just need good programs to defend themselves against fragmentation and strengthen their own cohesion and sovereignty.

The driving force and the foundation of globalization are free, under-regulated markets, but they are not liberal markets in as Smith describes them, they are not rigid and cannot regulate themselves. On the contrary, they are very wavering and prone to speculation and, what is extremely important to point out - they require active management. Although global markets are moved by expectations of the actors and their interactions, they cannot regulate themselves. Simply, we should always bear in mind that the global and regional financial markets do not tend towards balance but bridging. Thus, global financial institutions have been deregulated and the world economy as a system of free markets is very unstable. It is a polyvalent logic of globalization. Instability ends in crisis, instability and ambivalence are the ways of globalization.

The enormous growth of the banking sector, particularly the non-bank banks, and the expansion of trading in financial derivatives suggest a breakdown of the neoliberal system. Despite all the anarchy and lack of control, globalization requires rehabilitation of modern constitutional state which could at least control the means of war, environmental protection, sustainable economic and social growth and especially the safety of citizens. It is a defeat of globalism and the return of the national state, but also the creation of a mixed system, because, as Stiglic said, globalization is here "to stay."

The danger to the German model of development, and especially for the social program comes mainly from the Anglo-Saxon neoliberalism, but also from the developments in the European Union. It is evident that the USA imposes economic civilization to mankind and thus produce unsolvable conflicts between states, encouraging latent conflicts in the world for the territory, borders and resources.

The risk of terrorism is visible and real, and there is a clear danger of nuclear terrorism. Bad consequences for liberal democracy are immeasurable, especially on American soil. Globalization is a "rapid uncontrolled flow" that is unstoppable, especially in the technical - technological sense, where evil of new technology is inseparable from the

Global Development Challenges and Economic Paradigm Problem

benefits it brings. Global market competition and technological innovation produced an anarchic economy, which do not correspond still no legitimate world politics, nor built democratic institutions of the world.

In a critique of globalization we should not forget some undoubtedly good things as the property of mankind. The benefits of globalization are, without doubt, dissemination and distribution of knowledge, democratic culture and democratic values. But it does not promote human freedom as a fundamental value. Free unrestricted market and free entrepreneurship are not only the space of new freedom but also a liberation of anarchic market forces from social and political control, which leads to the "new slavery", debts and neocolonialism.

Theorists of globalization, such as Soros, Stigliz, John Gray and Krugman, agree that global world markets do not represent a "natural state". They are modelled on the paradigm of Anglo-Saxon markets as the process of destruction of traditional industries and the emergence of new global ones, but also the destruction of liberal democratic institutions without adequate replacement.

Global capitalism is destroying social cohesion and liberal democracy. However, democracy and free market are not, by definition, partners, they are also competitors, so human demand for a free, democratic and open society and a more just and sensitive globalization - seem to be utopian. Global capitalism does not favour a free and stable democracy, but a wavering policy of economic uncertainty. The contradiction between social democracy, the welfare state and global markets for now seems to be irreconcilable. The research shows that non-Western capitalists, especially Asian, do not receive Western values even in times of crisis. World global match takes place at a worse premise, liberal capitalism is destroyed by global capitalism.

John Gray notes that the Western Balkans are still suffering the consequences of "ethnic nationalism and conflicts", which indicates that not even a united Europe has completely exhausted "its potential to create disorder". The global capitalist system is very susceptible to financial capital which is distributed by a gigantic circulatory system, through which the capital is being sucked into the financial markets and on the periphery using loans, portfolio investments, through multinational corporations. (Soros, G. 1998 p.40) So, as well as liberal democracy, the German economic and social model of development are in serious danger by the emerging neoliberalism and Anglo-Saxon capitalism. However, the economic crisis opens an opportunity; it does not necessarily lead to destruction, but a new beginning.

4. New Concepts and Tools

Fridrich A. Hayek asked a question and set a moral dilemma. "If we are to succeed in the great struggle of ideas that is under way, we must first of all know what we believe." (Hayek, A.F. 1998 p. 10). In the constitution of liberty, the identification of liberty with wealth, though they are different things, is still legitimate. If we agree on the constitution of liberty we will understand the power of coercion, the creative power of a free civilization, the idea of free and unrestricted markets. There are two traditions in the theory of freedom, both important for the theoretical elaboration of the nature of global capitalism. One of them is French rationalist thought and tradition of enlightenment that seeks for the state and the organization. The other is the English empiricist tradition that understands the spontaneous emergence of institutions. These theoretical concepts in the economy of

globalization will be manifested as an emphasis on the influence of the state and public authorities in the economy and as the Anglo-Saxon capitalism of free and unrestricted markets. The third concept is the American concept of constitutional freedom and the Bill of Rights, which corresponds to the American capitalism. Without understanding these traditions it is difficult to understand the ideas of liberalism and neo-liberalism, market freedom, the absolutization of the market - "the market is everything", and a globalization which has a crucial idea of neo-liberalism and unrestricted free markets.

Hayek reminds us of the key liberal ideas, individual freedom, market economy, the rule of law and freedom of choice, which should be kept in focus at all time. And it is in order not to forget the cancelling and restriction of political and economic freedoms in the crisis that results in state interventionism, without which the Western civilization would lose not only a compass, but also the foundation. Especially because Hayek stresses the importance of the rule of law, legal certainty and a legal state, without which the idea of freedom leads to anarchy. Hayek as a thinker of liberal capitalism, apparently cannot give an answer to the contradictions of global capitalism without Keynes, but in spite of anarchy and unrestricted global markets - the basic ideas of a market economy and freedom cannot be suppressed into oblivion. When the crisis weakens, the Western civilization returns to its origins. The solution is based on these foundations, rather than outside them.

In the crisis, the validity and legitimacy of economic theory is reviewed in order to explain globalization and offer solutions. There is no scientific consensus on the nature of globalization, the need for deregulation of international financial markets, and the reintroduction of legislation and the nature of economic growth, equitable and sustainable development, good managerial approach, and then, world trade and global competition. The initial enthusiasm has weakened, the key theoretical issues and problems of post globalization are open for review.

The global crisis and/or a crisis of globalization imposed the review of old truths and capabilities for new insights and new economic conceptualization. So, although the ideas of Keynes are more pronounced in the interpretation and criticism of globalization and crisis, Hayek must not be forgotten in the constitution of liberty.

The crisis of the functioning of the system revealed not only the weakness of past economic concepts regarding the diagnosis and treatment, but also the lack of new thinking and alternatives. The concepts of privatization in the countries in transition are obvious examples of theoretical deception and bad hasty decisions with devastating consequences for these countries. Therefore, it is not only meaningful, but also necessary to ask - is there a valid response, which is theoretically acceptable to explain the crisis, is there a solution for a risky global society?

Are there regulatory ideas, valid concepts, and theoretical categories that can explain the nature and dialectics of globalization? When looking at the current state of the economy, financial and economic crisis, there are two important, seemingly contradictory macroeconomic views:

- a) view of the New Classics, and
- b) view of the New Keynesians.

These views differ primarily in how they think the fundamental economic theory can be applied to the current situation. Robert Faldman called the representatives of classical economics "freshwater", and the New Keynesians "saltwater".

Global Development Challenges and Economic Paradigm Problem

The New Classics consider the models of general balance of complete markets and symmetrical information to be very objective approximation of reality. Their views are based on rational behaviour of the subjects and rational expectations, which means that they assume that people have rational expectations.

The New Keynesians, on the other hand, insist on useful empirical researches; they perceive the theoretical importance of incomplete markets, asymmetric information and imperfect competition. So, the macro regulation is necessary because with regulation "anyone can do better". The New Keynesians are more interested in politics and the distinction between long and short term (business cycle). The most influential New Classics mention three related assumptions which they use to explain the modern economy, and the global crisis, which is also a crisis of globalization. (Skidelsky, R. 2011 p. 11)

These assumptions are:

- a) the hypothesis of rational expectations;
- b) real business cycle theory, and
- c) theory of efficient financial markets.

The theory of real expectations excludes the state interference in market processes. It is even voluntary and a choice of free time. The state must not affect the secondary private preferences. It is the subject of rational expectations. This concept implies the existence of precise knowledge of future events.

The basis of this assumption is the following:

- a) the expected value of the variable, prices of securities or a house is equal to the value that is predicted by the forecasting model plus a random error which measures the ignorance and incompetence;
- b) rational individuals use all available information in forming their expectations;
- c) the model of the economy used by individuals when they perform the forecast is correct.

The problem is how the individuals know they have the right model. The answer is in the economic Darwinism, which says that the weaker models that provide forecasts refuted by events - disappear. Robert Lucas, one of the major representatives of this school, emphasized the fictitious character of this model. The question is what are the conditions of knowledge needed to make the markets perfectly efficient, because the efficiency is also the normative goal of the economy. An additional problem is that in a world of strong and rational expectations all resources are always fully employed, and there is no involuntary unemployment, which is empirically denied all the time.

The rational expectations theory is the combination of rational efforts of the enlightenment with the belief in the wisdom of the people of "American democracy." This concept is based on the thesis that the American consumer is sovereign, but the markets are the choice of millions of individuals who follow their own interest and should know more and better than the government. The rational expectations theory is based on the theory of large numbers, which means if the group is larger there is a greater possibility that an average choice is optimal. So, there is no way for governments to improve the wisdom of the people. The basis of this concept is not a perfect competition, but perfect information.

The second assumption is the real business cycle theory. Business cycles are not the consequence of a temporary deviation from the optimal level of production, but fluctuations in the level of potential output. Recessions and periods of high economic growth are the response to changes in the real economic environment. The changes may include a number of factors such as: oil prices, regulation, climate conditions.

The third assumption is the theory of efficient financial market. In this concept, by definition, there is no uncertainty, so the question is why are the financial markets needed when there is no risk. However, this theory recognizes that there is a problem, changing the request for knowledge. In fact, what is known is not what will certainly happen, but the risk that this will happen, and that risk is measurable or it should be measurable. Therefore, the uncertain is what is known, in the economic science it is relevant, provided that the risk of uncertainty can be measured. According to this theory the prices of financial instruments, stocks, bonds represent the best estimate of the risk associated with the ownership of this type of property, of course taking into account the available public and private information. However, this presupposes that the different financial instruments in relation to their risk provide different rates of return.

The conditions for theoretical validity of this concept are:

- a) market prices are reliable indicators of rationally estimated economic value;
- b) the development of the loans on the basis of securities improved both financial stability and allocative efficiency;
- c) it is possible to derive risk characteristics of financial markets by means of mathematical analysis;
- d) market discipline can be used as an effective means of limiting the harmful risk-taking, and
- e) financial innovation is useful because the market competition would cleanse all the innovations without added value.

New Classics believe that the markets correct themselves (self-regulation) by the market discipline, not regulation and supervision. Responsibility for risk management is at the highest level of management. Ergo, it is best to protect the clients if the markets remain free and transparent.

According to this concept, all banking risk management models are based on the theory of efficient financial markets and they determine the probability range in which future events occur. The range of uncertainty in terms of future yield is measured by standard deviation. The basic hypothesis at the basis of these banking models is the distribution of risks covered by the Gaussian bell curve. The standard view expressed by this curve is the normal distribution where the average value is the most common value. This means that diversification reduces risk. So, if we hold many types of property, the risks specific to each type tend to cancel each other because they are disconnected. However, the existing standard models ignored the possibility of correlation or inertia in the movement of risks that are typical in a stage of rapid growth or the financial and economic collapse. Empirical data show that the risks in 2008 which had 10% of probability turned into risks of 90% probability or more, "all at the same time" (black swans). (Taleb, N.N. 2010 p. 248).

Actuarial models have shown their limits and inadequacy because they cannot be applied to products which cannot be insured. Thus, models of life insurance cover the risks that are measurable, because they are based on an updated statistics of life expectancy.

Global Development Challenges and Economic Paradigm Problem

However, these models are not appropriate for every type of risk: credit risk, liquidity risk, legal risk, market risk, regulation risk, political risk. It is difficult to determine the probability of the future direction of Chinese economic policy or policy in general. The normal distribution ignores the possibility of extreme events (black swans). Actually, the fundamental error is in the belief that the economy is a natural science and in the belief in strict determinism. So, dialectic and reflective thinking should be considered. Forecast models are based on the Gaussian curve ignore the dramatic disruptions in the economy, the induction and the role of black swans.

In the economy rare and extreme events are important, and the Gaussian curve does not recognize major deviations and cannot manage them, but it still leaves us with the belief that we have mastered the uncertainty. Hence the astonishment caused by extreme events, when the risk of 10% of probability becomes the risk of one hundred percent probability.

In the period of crisis the pattern of behaviour of a flock is evident (the stock market and banking panicking are an obvious example), the forecast models do not work and they are not useful because prices can rise too high or stay too low for a long time, and people persist in their incomplete beliefs. Simply, the future cannot be reduced to the statistical probabilities that are based on the past.

Thus, at the time of Reagan - Thatcher revolution, as Skidelsky observed it, there was a trend to hold the consumer prices stable, while macroeconomic stability was left to the monetary policy. Care for loans, banking, asset prices and financial stability was depreciated, so economic sanctions were the logical consequence. It is important to emphasize the general deregulation of the past twenty years in the United States based on the revocation of Glass - Steagall Act, which allowed the banks to evaluate and accept their own risk assessment in the conditions in which the financial derivatives market remained unregulated.

The American economic doctrine emphasizes the importance of spending (demand) in order to come out of recession. That is where the benevolent attitude of the state towards the controlling financial institutions comes from, also regarding the provision of mortgage loans and collaterals.

New Classic economists found themselves in an awkward situation in the attempt to explain the crisis. Namely, if the markets are efficient they cannot make mistakes, so the crisis has to be the result of political mistakes. Thus, monetary authorities excessively produce money, leading to a cash-bubble and burst. But if people have rational expectations they should not be deluded by the illusion of money. Neither the New Keynesians can properly explain the crisis. They accept rational expectations, but believe that the markets can make mistakes. The information is imperfect, as shown by the financial system, because it could not perform the function of efficient capital allocation and risk management. (Stiglitz. J. 2002 p. 90). Analysis of the views of the two prevailing concepts, the New Classics and the New Keynesians shows that we are still far from the synthesis and solution to problems.

3. Conclusion

Globalization destroys the welfare state and social democracy. Policies of introduction of deregulated labour market and reduction of social assistance are defensive. Tax competition among the developed countries reduces public finances and derogates the welfare state, and global capital markets make it unsustainable. The welfare state,

especially in Europe, is based on social democracy and closed economy. However, it is exposed to neo-liberalism, so it cannot withstand neither the full employment nor egalitarian tax policy. In the crisis, the validity and legitimacy of economic theory is reviewed in order to explain globalization and offer solutions. There is no scientific consensus on the nature of globalization, the need for deregulation of international financial markets, and the reintroduction of legislation and the nature of economic growth, equitable and sustainable development, good managerial approach, and then, world trade and global competition. The initial enthusiasm has weakened, the key theoretical issues and problems of post globalization are open for review.

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GLOBALNI IZAZOVI RAZVOJA I PROBLEM EKONOMSKE PARADIGME

Rezime: Globalizacija je, u najopštijem smislu, širenje zapadnih praksi, odnosa svijesti i organizacije društvenog života po cijelom svijetu. Kriza globalizacije je kriza globalne ekonomije i globalnog rizičnog društva koja se očituje kao najteža finansijska i ekonomska kriza od 1929. godine. To je i kriza koncepta, teorije, ali i odgovornost na nemoć ekonomske nauke u potrazi za novim mišljenjem i rješenjima. Neoklasični ekonomski koncept, kao bazna teorija globalizacije u krizi je u ozbiljnoj defanzivi. Povratak Kejnzu je metafora, ni neokejnziizam nije puna istina, ali ovaj koncept sugerira preispitivanje postojeće paradigme, i naglašava veći značaj makroekonomske uloge nacionalne države, te bolje regulacije i kontrole, "da bi svima bilo bolje".

Keywords: neoklasični ekonomski koncept, kriza globalizacije, novi koncepti i alati.