

## NEW ECONOMIC PERSPECTIVES

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### **Abstract**

The main purpose of this paper is to make an interdisciplinary analysis over the economic phenomenon by starting with its basic pillars and continue with its implication and connections to the other parts of social life.

The starting point of the current study is my strong belief in the necessity of rediscovering the true basis of the economic science. Lately, we had to deal with various problems like accentuation of inequalities, poverty, decline of educational system, incoherence of the monetary evolution, all culminating with the economic-financial depression in the latest years.

But all of the above represent only epiphenomenon, the upper side of a deeper cause that reveals a certain kind of spiritual decadence, a latent crisis of culture and civilization.

We have to remember and to (re)start believing that the real object for the economic knowledge is not wealth, but the absolute human being.

**Keywords:** economic paradigm, economic humanizing, rationality, speculative balloon, animal spirit, knowledge economy, intellectual capital

### **1. Introduction**

On a deeper analysis, the current crisis seems to be very similar with many others that have taken place before it – the same speculative balloon that cracked and brought the destruction with it.

Economists'view over the topic is fluctuating about the number and type of similarities between the still present crisis and the former ones. Eichengreen and O'Rourke (2009) claim that we are heading for a new global depression. Others consider that the present situation is still under control and very much different than Great Depression from 1930's (Romer, 2009).

Either way, the crisis brought back into the light older problems regarding the global disequilibrium.

Also, despite all the similarities, this current economic crisis surprised almost every key decision-maker. Regardless the more or less similarities with older crisis, we deal today with a new failure of the economic policies.

Economy must improve immediately by taking into account that the evolution process is not self-sufficient, but a result of cultural, spiritual and anthropological foundation. Economy remains a human science, interconnected with social, historical, moral and political dimensions, therefore, the economists must conserve and even develop their multidimensional approach.

Roubini said that it is a pity to wait a crisis (2010), meaning that we have to study the causes and the consequences of every context of this global situation.

Studying the reality of our current economic situation has become a top activity: even if there are more and more hand-picked economic advisors, new information processed by sophisticated programs that are reaching new records, the process of choosing the right economic policy and finding the economic equilibrium remains a problem.

Ideologically, the crisis also initiated a fervent debate regarding the liberal “invisible hand” of Adam Smith and the interventionism suggested by John Maynard Keynes in order to override a recession. The crisis generated a change of paradigm, proving that the capitalist system does not always have the capacity of self adjust, being predisposed to crises. This is the reason why, in some situation, the government should intervene in the economy by establishing regulations designed to sustain the financial and economic stability.

Our society feels the need to change and create a new economic system that should come as a “revolution” designed to resettle man in the center of creative process so that the human being become again a living being in the economic system.

The economy must be humanized!

## **2. The transition process**

We can't understand the future, without knowing and appreciating the past, which offers us a wide perspective.

Many of the doctrinaire approaches review the economic reality in its historical component, by putting the accent over the economic practice. The economists must return to history in order to probate the concepts so that they have the correspondence with reality as leading criteria.

The historical approach, even if reveals arguable perspectives and different disputes, also offers certain explanations to start with: the past explains the present and both explain the future. The past can be approached based on the present acquisition.

In the last decades, the economists succeeded in understanding when a market works well and when it starts to stop working so well, being, in general, a matter of incentive and motivation. According to this theory, economists made a list of possible market failures, caused by an incongruity between the social incentives and the private ones, monopoly, externalities and informational imperfections. But their recommendations were vicious and even more, they registered a failure regarding their basic obligation of issuing right predictions and prognosis.

Because of its fundamental role of analyzing the national economy process, the economic theory has become an autonomous science, among the social sciences.

Starting with the world economy free fall, also the beliefs of the economy science started to fall down. The modern economic theory, adherent of the market's freedom and globalization has promised prosperity for all. "The New Economy", with its extraordinary innovation should close the concept of economic cycle or at least should temperate the economic fluctuation, based on a better risk management. However, the new depression started in 2008 succeeded to annihilate these illusions (Stiglitz, 2010).

Lately, we can notice more and more the tendency to search for new criteria, new concepts and new values and to bring in again the ethical and the moral dimension in the economic analysis and interpretation as a way of decrypting the world.

There are economists that propose a set of values like justice, equity, tolerance, civic sense, the availability for dialog and compromise. These values depreciate and must be constantly renewed through their permanent restatement and update. (Rawls, 1993, p. 157)

Capra states that the values followed by a society determine her vision over the world, her religious institutions, her scientific and technological initiatives and also her politic and economic order. (2004, p.220-221)

This is the reason why studying the values has maximum importance for all the social sciences.

Even though considered axiomatic until now, we are being forced nowadays to reexamine conceptions and doctrines of the market freedom: the efficiency of the free and non restricted market, the possibility to correct in time the occasional mistakes, the supremacy of the low state, the need for the innovation process to not be enchained by different regulations, the independence of central banks and also their objective capacity of not being focused only on keeping a low of inflation.

Mainly caused by the crisis, but also by its unsolved past problems, the economic science will definitely change, and so will the economy.

As already stated, economics is a social science, having as a study object the way that people interact in order to produce goods and services. Their behavior is being studied and, therefore, must be described in a general pattern, taking into consideration, our answer position versus where they stand: rational/ irrational behavior.

The rationality approach is an important part of the economic theory. It has to be mentioned here that, economists, unlike rest of the people, usually refer to rationality as coherence.

Furthermore, the coherence matter has been tackled in a restrictive manner, this is the reason why it is hard to determine the correlation between what individuals do and what brings them happiness or the well feeling.

Researches from the last decades revealed that the individuals act coherent, but in particular ways that contrast with the ones preset by the standard model of rationality, which means that they are irrational in a predictably manner. Over the time, we learned that it is dangerous to explain the markets only based on standard economic theory. Dan Ariely (2009) claims the fact that the errors we all make are not casual, but a part of the human condition. And the judgment errors may combine in the market, producing a scenario, in which, similar to

an earthquake, nobody knows what happens. All of a sudden, in the crisis context, it seems that some people started to understand that the errors study at a small scale is not just a source of amusement. The world crisis created new opportunities for the behavioral economy and for those who are ready to learn and modify their way of thinking and acting.

The economists insisted for a long period of time on the important role of the expectations over the behavioral acts: the beliefs may influence the reality. It is true that among many domains, economists have built patterns with many equilibrium types, each one with its own auto validating expectations. For instance, if the market participants think that there will be a crash in the next period, they will perceive higher interests in order to compensate their losses; because of the higher interests, there will actually appear more crashes. But if they believe that there will not be any crashes in the near future, the interests will be lower, then, with lower interests, in fact there are actually fewer crashes.

Some economic models pretended, in an unreal manner, that the individuals are not just rational, but over rational. These models were supposed to use sophisticated statistics, gathering all the past data in order to make the best prediction for the future. Unfortunately, their prediction didn't manage to come very close to reality of the crisis. They didn't manage to see the growing speculative balloon, furthermore, not even after his crack, they didn't manage to see what's next for the economy. They have ignored, in an irrational way essential data and they become in an irrational way devoted to the idea that the markets are rational, that there are no speculative balloons and that the markets are efficient and they self adjust.

Another aspect of rationality is the basic principle of not remaining in the past. The individuals must always look to the future. From this point of view, the individuals are rational.

The economist does not presume that, by rationality, the individuals act by all means in a way that corresponds with what makes them happy.

The Americans affirm about themselves that they work hard for their families – but some of them work so much, that they don't have much time left for the family.

In their studies about happiness, the psychologists show that many of the individual choices and many of the changes from our economic structure might not contribute to the magnifying happiness feeling.

Happiness economics represents a new preoccupation that depends on a lot of other economic dimensions like utility, welfare, interaction between rational and non-rational, determining economic behavior, without excluding income as a mean of welfare, but only adjust it also with a measure of well-being.

A fairly happiness indicator should incorporate most of all aspects of human satisfaction, objective – such as income, status of employment, education and also subjective – such as surveys or different types of well being reports. The most important aspect is that the correlation between these factors and the happiness is not necessarily a cause-effect relation.

The individual purpose is to be happy and this is a fact starting with Aristotel who said that no matter what we want, we want that to make us happy.

They say that an imminent life experience force you to reevaluate your priorities and values. The global economy has just passed through such an experience. The crisis revealed not only the deficiency of a prevalent economic model, but also the deficiency of our society.

Too many people have taken advantage of others!

What can a society do so that their individuals can be happier? Richard Layard (2005) mentions 7 factors that have the greatest weight in the determination of people happiness: family relationships, financial situation, labor, the community and friends, the health, the personal freedom and personal values.

Others, like Diener, Seligman and Kahneman (2004) assert that the creation of national well-being accounts to complement national income accounts.

In Buddhist kingdom of Bhutan, a country from Himalaya, the king Jigme Singye Wangchuck enacted that the gross national happiness is more important for them than the gross national product because happiness can link to economic prosperity in the national developing process. It's true that some aspects, like spiritual values shouldn't necessary be measured. But, even without measuring, the focus on these values shows some ways of conducting the economy and the society that we should reflect on.

There are economists that are convinced that more and more countries will come to this conclusion. In the last decades we let ourselves go by the materialistic western culture in matter of happiness, but the constant develop of consumerism will eventually make us change our minds. The capacity of buying more won't make us happier. We should focus on other type of situation in order to receive our happiness: spending time with friends and family, practice our hobbies, do what we enjoy more.

Keynes used to say that investors may be best described as being motivated by the "animal spirits" – a spontaneous impulse of doing something rather than not doing anything, and not as a result of a weighted average of quantitative benefits multiplied by quantitative probabilities (1936).

The expression "animal spirits" comes from Latin since at least 2000 years, meaning the "the nervous fluid" that, with centuries ago, was believed to determine people to feel and move, similar to a "soul blood" – nowadays "psycho-emotional motivational factors". In a more common sense, the "animal spirit" refers to agility and animation, or different said, to the natural state of spirit of a healthy animal. In the economic context, Keynes was talking about the energy and vigor that determine man to take daring decisions and to invest time, money and labor in business enterprises. (Akerlof & Shiller, 2010, p. 23)

If this is the way things work and if we could modify the animal spirits of our times maybe we would succeed in saving the economy from a mental state of depression and move it into a hope one – and maybe even one of joy thinking that whatever was the worst it is already gone.

### **3. The need to change**

At the present moment, we all live a difficult moment and our attitude towards it should be one of judgment and reflection. What is important to be observed is the fact that, next to the financial deficiency that is very obvious for everybody, also a "moral deficiency" has been shown. Because when money is the supreme goal of the people's life, there are no limits for the tolerable behavior, which leads to the loss of trust.

The Chinese pictographs for the word crisis mean, in the same time, "danger" and "favorable occasion". So far, we have only seen the danger. Now it is the moment of truth, when we have to decide whether or not we are willing to take the opportunity to bring back the

equilibrium between the market and the state, between the individualism and community, between human and nature, between means and goals, between own interest and ethics. Now we have the opportunity to create a new financial system that should care about the things that people need and act in consequence, a new economic system that should generate new jobs where those who want to work get the professional satisfaction and a decent income and that should reduce, not enlarge the difference between rich and poor and moreover, to create a new society where any individual has the possibility to fulfill his aspirations and valorize his potential, where we'll be educated as citizen ready to live new ideals and common values of a community that treats the planet with the respect that it deserves. These are good and favorable opportunities, the real danger now consists in the risk of us not using them.

The new culture of the economic and social life has a basis of freedom and responsibility values, social community and human solidarity as a set of integrated values under the "freedom in responsibility".

The individual does not react mechanically, based on some physical or moral causes. He is active and creative autonomously.

One of the new healthy economic approaches is the **individualist paradigm** that considers the individuals as acting first of all as individuals, whereas the old holistic paradigm considers that the individuals' actions make sense only in relation to the social integrality in which they grow. The conflict between the two paradigms is a theoretical one, explicative and normative. From a normative point of view, we can affirm that the individualism deficiency consists in the fact that the individual cannot be the source for the collective rules, whereas the holism fails in trying to justify the rules only by the collectivities' point of view.

If we take happiness as an example, it has a meaning first of all at the individual level. A society cannot be happy and prosperous if its members are unhappy and poor.

The dominant doctrine in this moment at a global level has some essential concepts. First of all, it affirms the priority of the individual and society is based on an inter-individual economic transactions network which has a goal in interchanging the goods and services, skills and knowledge, including time as an economic fundamental resource, in order to maximize the profits and obtain the individual satisfaction. These inter-individual complex relations that harmonize and optimize each other represent the specific of the free market. The society should become a market society in order to assure the equity of chances, by encouraging the initiative and the free competitiveness between individuals. It is not guaranteed the right for labor, everybody has to prove his utility through his labor. The permanent training has an essential role. The state has to ensure the access to education for the social equity.

**The private corporation**, which is built to produce added value, is another element of the new political and economical orthodoxy, being in the same time the main beneficiary of the current rules of the economic games by conducting the transactions and reallocating the costs and profits at a global level. Then we have the capital, especially the financial one, all the economic system elements – people, goods and services – being appreciated by their contribution to the sustainability of the social capital. This is the moment when we can be witnesses to a process of economical and political reconstruction, to a redefining of the individual and collective identities. This strange era we live in, is characterized by the loss of sense and the necessity of a new society model, the knowledge society.

**Knowledge** becomes the main source of power, the basic criteria for the separation and classification of people. Unlike any other goods, knowledge has some irreducible characteristics. First of all, it has a public specificity – if it is not secret, it can be used by the entire community.

Second of all, from the moment it was released, knowledge is non-exclusive, which means that it can be distributed without being divided. The knowledge does not stop to belong to the one that holds it if that someone shared it with somebody else. Once knowledge has been released in public, one cannot exercise a private control over its usage, the regulations regard only the individual property rights.

Third of all, unlike any other goods, knowledge is an inexhaustible resource, meaning that it is not destroyed in time if it is not used, being endless consumable. The usage of a public knowledge by an economic agent does not assume its product especially for this agent. Therefore, the economic agents don't compete against themselves about knowledge that it has already been shared.

Another specific property of knowledge is its cumulative character, at least regarding its economic usages, meaning that the new knowledge comes along with those already existing, forming a research tradition in innovation that offers the authenticity.

Being understood as immaterial economic resources, knowledge is analyzed in different discipline and inter-discipline contexts. Therefore, epistemology is the science for analyzing the sources and forms of knowledge, an analysis of the scientific knowledge specific is made by the philosophy of science and, lately, the cognitive sciences propose a new research integrated over the different knowledge processes.

The main problem of the knowledge economy consists in analyzing the relation between the knowledge growth and the economic growth, a positive dependency that shows that it is efficient to spend more money for education and research because the future depends on the **intellectual capital** with its full potential.

The knowledge management represents only a part of the intellectual capital. The knowledge management involves deposit and transfer of knowledge, seen as an object, while the intellectual capital is potential future benefit. The intellectual capital implies growing the living organization. (Brown, Crainer, Dearlove & Rodrigues about Edvinsson, p.69)

The intellectual capital does not represent the value of employees' capital. It combines the human capital – mind, ability, perspective and potential with the structural capital – resources put across clients, processes, data base, brand and systems, transforming the knowledge and intangible goods into profit-making resources, by multiplying human capital with the structural one – an exponential effect obtained by the intellectual capital.

The human capital does not represent just knowledge. In order to reach its profound level, the knowledge dimension has to be correlated with the social capital – network and relations and emotional capital – the ability and the desire to act. (Brown, Crainer, Dearlove & Rodrigues about Ghoshal, p.78)

#### 4. Conclusions

The reflection in the economic life is a dynamic and complex process that demands the economic science adaptation to the problems generated by the evolution.

We have to admit that we need a new order to inaugurate on the fundamental virtues in which we must start to strongly believe: the primacy of the individual, the free market, the social justice, the private company, freedom and responsibility.

As I said before, the current crisis is not just an economic one, but a crisis of civilization and a crisis of conscience, therefore, the “New Age” must determine a fundamental change in our way of producing and consuming, in our way of living and in our way of thinking, in a self-conscious way based on a system of values, if we hope for a real change to come.

We need to have a new approach over the economic life, a fundamental change in our thinking, our perceptions, our values and our attitudes towards the decisions we make.

The new paradigm should be based on social responsibility and business ethics so that it can produce a sustainable economic growth. The new economy has to eliminate the excesses and to determine a state of equilibrium and moderation.

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