

MAJOR MISUNDERSTANDINGS IN ECONOMIC CRISES, IN THE LIGHT OF KNOWLEDGE SOCIETY

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Present study reviews certain main pro-active approaches and connections. Searching for root concepts, a number of current views on causes of today's crisis are selected. They are viewed through the criterion of their effects in practice, in a heterodox approach which is a critique of standard economic routine. Connections are made with the intellectual core of the knowledge society, in the context of the required interdisciplinary character of the scientific act. Requests for the economic analysis result: the economists should judge by a broader horizon. Practical conclusions also ensue, being generally applicable to the crisis management at macroeconomic and microeconomic level.

Keywords: economic crises, growth, intellectual factor, knowledge society

Cod JEL lucrare: E20, O40, Q01

1. Introduction

Two main mistakes (chapters 2 and 3) have to be coped with, as trying to understand present day's crisis and cope with its effects or act towards solutions to crisis generated troubles. We present a selection from the ideas issued in our research on the matter, inside the abstract and the key words, consistent with the requested dimensions of the text, focussing here on few main conclusions.

2. Production and service

Materialist misunderstanding may be called the *classical* one or *Marxist*, because it is materialism-bound. Common sense says that *production-proper* is a strong sure thing, as opposed to *immaterial activities*, which are impalpable and, therefore, considered uncertain. Such approach implies a defining preconceived neat superiority of industry as against the other lucrative sectors (especially services) in terms of productivity expectable increase. But we may not have the preconceived idea that services (like scientific research and education services, for example) would be less *productive* than industry, for the reason that they are the *producers* (generators) of the technical-scientific progress itself and ensure the staff for the accomplishment of the technical-scientific progress. Even if, as a rule, industry endorses the grater part of the profit that technical progress produces, nevertheless, research and education have the main *role, sine-qua-non* in generating general progress, despite of their less-than-in-industry income and gain. A big service (done to society or to one singular client) is none the less for being cheaper or pro bono, i.e. without payment *on the market* in the benefit of the person who serves (being so only in the formal "technical" recording). If it is cheap (sold on little money) or pro bono, it "produces" little income or little (or no) profit to the supplier, therefore it is considered (by the business man and by the economists) of little importance; even if it makes a *large* service to the customer! On the contrary, it is all the greater and *humane*¹⁸⁴. Modern intellect-intensive services bring a specific contribution to development; they allow diminishing compulsions and growth re-launch. Intellectual services should not be perceived only as job creation sectors: they create the

¹⁸⁴ Al. Jivan, "Services and Servicity", *Services World Forum Bulletin*, no. 3-4 (July-December 1993), 16-24.

main value-added, even if not wholly recorded in the accounts of their performers. Such activities have a fundamental role and essential functions for the whole of the economy: they allow it to get a superior level performance. But services need no more demonstration of utility beyond the *market test*. Moreover, many services are much more useful than certain most material productions, considering and respecting complex analysis and utility assessment criteria and taking into account multiple approaches: such as individualistic, societal, planetary. The relation of the tertiary sector with technical progress, here including the capacity of services to absorb technical progress and to increase productivity is settled for quite a while, most pertinently proven, despite of the preconceived idea of higher productivity of industry vs. services. The problem is in the lack of qualitative judgements and therefore the profound causality and the “external” effects of economic acts is often ignored. But they are *not the services that generated the nowadays crisis*. The causes of the negative effects of the economic activity over human society in general can belong with industry sector too. A revision and correction of industrialism is necessary and should be *structural* and also in terms of *economic policy*.

3. Supply and Demand

Setting up priorities between demand and supply is the *second* big misunderstanding. This dilemma is the translation, into the field of economic policies, of some different approaches concerning the role of demand and supply in the market. It consists in the two opposite alternatives: the neo-liberalist one and the Keynesian one.

In the Keynesian approach, when the demand is considered to have priority, there is the *Keynesian* variant. It sets hierarchies between demand and supply, giving priority to consumption in the business circle. Most anti-crisis policies would stimulate economy by stimulating demand; and action taken is to such effect. In the Keynesian approach – so much boasted at the present day crisis – in order for production to rebound, i.e. in order to beat the crisis, *more consumption* is requested; to stimulate consumption for maintaining it at high levels is seen as vital for all type enterprisers, as a prerequisite of any supply, increase thereof re-launching production.

The question issued is here: *which consumption?* Any consumption may have good effects for the short-term run, i.e. it will bring in a certain amount of income for a certain number of producers, thus favouring certain types of production. So the role of stimulating production raises the question: which production, then? Activities will be enhanced that lead to or contributed to social economic welfare and to Mother Nature’s redemption? Or is it production that profits to some enterprisers, while side effects – if we rigorously consider the entire result - thereof make the investment all for the worse-off, thus generating consuming, rather than true investing? Dope and bomb demand can boost production, same as bread and butter. But in terms of preference, consumption should be favoured that does not prove detrimental, in the long run, for the overall environment, for constructive goals. Unfortunately, in fact, the egoistic decisions of the enterprisers do not always for constructive goals: the market fails in such targets. Therefore economic actors should have not only temporally limited selfish interests. Responsibilities can be only set at societal level: economic policies of co-interested actors and adequate regulation, for coercing them.

On the other side, in the traditional approach, coming from the classics and kept and developed by neo-classics, the logic of the economic action (and also in the economics thinking) starts with supply. That is, *in order to beat the crisis saving is necessary*: savings allow each person to cope with price rises and the hard times an economic crisis is. Also, at the level of the macroeconomic system, savings allow for the investment novel technology takes, or research, or advertising (here seen as immaterial investment); any renewal aimed at re-launching economic activity takes investment.

But the question issued is: *which investment?* Is it stimulating consumption (like advertising is) and investment in consuming capacities? It may profit to a number of enterprisers, apt to thus

produce more; yet such action will also result not just in *less planetary raw materials*; but also in new *destructions* thereof (see inbuilt decay, dispensability, the concept of produce a-new rather than mend... costs being recorded *per supplier*, not *overall, global*, for the whole systems and planet). Or, rather, is it true investment, in the long run *globally constructive*, in the *recovery of the planet*, in *socially balancing*, and other organising goals, generally having anti-entropic effects? In the traditional (classical) economic model, technical progress tends to be distinctly shown versus *labour* and *capital* factors, or to be included in *capital*. Profit and interest are usually seen as varying with capital amount, economic growth is generated by material investment, which is about quantitative growth of tools, machines, money and other forms of capital employment for production which generates quantitative growth of production. But we must remember that the economic growth can be generated not just by such economic activity spreading, but better by growing returns. We emphasize that, despite of the standard approach, productivity and the quality of being lucrative are given by innovation, information, knowledge, science, brains, including the results of human capital formation and education. Therefore, growth is varying with inter-relational growth and with intellectual factor. Therefore, under the circumstances of a knowledge based economy, a more adequate presentation should take into account that labour and capital as well, have a *qualitative* component part, besides the quantitative one. Thus, two types of economic factors, differing from the orthodox ones, could be outlined, in a manner proper for the *XXIst* century: the *intellectual* factor and the *material* one, represented, the first one, by information, innovation, invention, knowledge, science, intellect, idea, initiative, enterprising spirit, know-how etc., and the second one, consisting in the material component parts of capital and the pure energetic, physical aspects of labour.

The essential idea of the liberalist way out of the crisis is the individual effort: for research and renewing, for finding solutions and generating progress, including implementation thereof, new production capacities etc.; saving (by avoiding and reducing individual consume) and investment can be seen like its sources, even from Ricardo's view. The bourgeois spirit, which existed before the consumption stage of the market economy, would actually economize, rather than consume: this was the condition for any enterprising, for any economic project, this was the thinking of Ricardo himself. Emphasising demand is beneficial to satisfying *real* needs, but creating an artificial demand, by paid digging-and-filling-up of holes (à la Keynes), or other such like palliative economic policies, is nonsense, even if generating short-term demand: it proves detrimental to the money system, to the economic system in general. Emphasising supply is not a bad thing in itself, i.e. just because it can find itself with no demand, in Keynesian terms (contradicting classical optimism of the Say's law).

This is criticisable, because a serious solution will not intemperately and unlimitedly pedal on emphasise supply: production can be destructive, if it produces bombs or dope, for instance. Thus, just like consumption, *investment* and *production* are also not all constructive and absolutely beneficial (over a large space and time span). In the same manner, consumption in itself should not be blamed for irreversible transformations, if manifested in answering real needs (like bread, cheese and wine - that cannot be put under question). It is destructive, though, if purposefully meant for increased production (like dig up holes and fill them up, à la Keynes; or throw away things, instead of mending them; or change fashion, in order to drop old clothes; or artificially create and stimulate "needs", like sex-change surgery, lifting, dope etc.): which fill a perverted market, with *artificial needs*, going contrary to *natural* market run. Of the above, there results that, today, saving should be understood in the widest sense of the term.

4. Concluding answers

The issue is: *what effects* do consumption and investment have? Not only the effects on the short-term run matters, but mainly the effects on the long run matter. Otherwise we deal in surface effects, i.e. sham actions, tools and methods involved.

Consumption should therefore be stimulated *only of non-destructive goods, environmental friendly and low-cost*. Such approach is valid for crisis-time and beyond. At all times, and acutely at crisis times, we should *save*; not for economizing sake, but mainly *for (i) diminishing destructive costs*; destructive costs are way out of line in our consumption society, even if accepted by the hedonistic speculative *homo-oeconomicus* spirit.). And we also should *save* for *(ii) long-term run investment* (so: not for any type investment).

Quite like about industry and services, there ensues that investment, on the one hand, and consumption, on the other, are not antagonistic: we simply must to change the analysis criterion; as both consumption and investment – always correlated – may produce effects, and those effects are the matter to be studied in detail; their nature is the fundamental criterion: are they constructive or rather consuming?

In the field economic activity and in the usual economic analysis as well, we are in the presence of the *narrow scope analysis fallacy*: targeting the *self-benefit here-and-now*, regardless of what may befall to *others elsewhere*, maybe in the future. In the logic of open economies, the main stay is in the environment of the individual person or entity. The reasoning underlying this fallacy is that the national, world-wide, planetary ensemble will somehow, some day take care of the side effects.

The trouble with the approaches that we discussed so far is the very analysis and perception criteria, based on which oppositions are assumed, regarding their auspicious causing role (or not) in crisis.

The *material* should not be preached over the *immaterial*, and *immaterial* must not be blamed; going back to industrialization is not advisable where it is already done, and industry and palpable goods should not replace services; services must not be reduced to a minimum. Neither is industry, per se, to be blamed *in corpore*, declaring services preferable and denying industrialization (especially where industrialization is poor; deindustrialization effects in Romania could teach everybody and every developing country a lesson).

Supply is not to be discouraged, encouraging demand (as in Keynes obsession with employment, employment meaning incomes, even if generating no value-added), with famous inflation effects (accepted, as per Philips' curve, or unaccepted, as per the neo-liberal thought). *Demand* is not to be discouraged, either.

Analysis *criterion* should be a different one, i.e. how the crisis should be viewed. Potential complex effects, variously analyzed (at individual, local and global level), including target-attainment must be pointed out and should become the main criterion; which means considering, besides the entrepreneur's income, "external" effects, covering *all* costs. Unfortunately, the analysis scientists make in economics often goes not deeper than the businessmen's approach and perception (the understanding being muck like that of the actors in economy). Scientists in other branches (philosophy, sociology, geography, politics etc.) can sometimes have wider horizon and, therefore, better understanding than economists. Economists would be all the better for a broader horizon: besides financial effects (*economic, generally*), other (that are not) could be considered by economic analyses, especially active on the long term run *over economy itself* (e.g. education); research can only be cross-sciences, in knowledge economy: *scientific* research must be inter- and multi-disciplinary. The criterion should be more rigorously set, based on target (desired), as well as unwanted (ignored by the individualist enterpriser) *ground* effects on the short, medium and long term run. Thus biased (i.e. considering the mix of implications), we can understand/clarify a number of aspects, facets and nuances that are affected by preconceived ideas, by routine and by ignorance.

For instance, like a first set of conclusions of our analysis, we can find that *immaterial economy* can be pure speculation, gaining on the poor sanctioned by the free market (being under the

coercion of the market¹⁸⁵), and that credits may have no cover validation (such as, quite topical of late, in the context of global financial crisis). The conclusion is that part of the services can be crisis-encouraging. Such statement will not hold true for services *in general*, but for only *specific services*, which are apt to generate inflation; e.g. such services that do not have constructive, lasting *general* results. Certain of them can be positive on the short term run, i.e. for some individuals, not for all the people, not for the most of the saviours, i.e. not for those who grant, by economizing, the banking funds over which (private) banks are supposed to have the expertise to manager. But such economizers are now, during the crisis, also in sufferance. Consequently services can generate crises: *not because immaterial*; but just if they are destructive or merely speculative, i.e. non-creative, just transferring assets from certain entities in the advantage of other entities; or exploiting, i.e. absorbing alien income, for the short-term run benefit of a few, and detrimental for their environment. Concerning the *material economy*, we may as well find out that some material products are in fact gain at the expense of other individuals, or of Mother Nature: there do exist immaterial speculative activities, but also, there are industries, of the most material nature, which are destroying rather than constructive, equally destructive on the medium and long term run, i.e. when activity oriented in a consuming way) The fact that they are material does in no way grant them a *merely* advantageous nature (an “anti-crisis” character, in the meaning of present study).

Another set of conclusions concerns the fact that we can similarly prove consumption and supply able to generate crises, like it was shown previously.

Economic activities do not generate crises depending on whether they are material or immaterial; nor depending on some assumed priority in some far-fetched hierarchy between demand and supply; but depending of their aims, of the manner of accomplishing goals and, therefore, of overall complex effects thereof (i.e. actual complex and general effects). Effects and implications on the whole, and not truncated, should be considered, even if usually just some parts, shares or sides of such effects are seen, depending of convenience, conventions or self interest. So the criterion is the *constructive vs. non-constructive* nature of the concerned activity: it can be more or less investing, it can be more or less consuming - or even destructive.

6. Ending Remarks

The European concept of *knowledge society* implies an interdisciplinary vision, including the care for the social problem, for the planetary environment and such like, among which moral-institutional aspects are also important and also the inter-generational share of the planet. The interaction in economy and in society is made mainly by information and knowledge exchange among the elements of the system and with the context of the system. The economy is not limiting itself anymore to the immediate material needs of the individual. The vital requests being better accomplished, other needs (more subtle, more human, more intellectual and more spiritual than the previous ones) come out. The scientific and technological supply must go a step further, outrunning the necessities of material sectors, the growing of intellectual potential should bring the restructuring and the development of this new economy - based on knowledge.

In opposition with the classical *productivity*, we advanced and promote *servicity*, meaning social-economic efficiency and the priority of constructive qualitative aspects of agents' activity (as from the own merit of the economic actor), in an adaptation to our days of Manoilescu's conceptions on competitiveness and international trade. Remaining (lasting) in the thinking schemes inherited from the industrial revolution period, means loosing from analysis important correlations that could allow outrunning certain limits and contradictions of the world economy.

¹⁸⁵ Jivan A. Determinants and Compulsions in Setting Priorities at Macroeconomic and Microeconomic Level, Proceedings of International Symposium “Economics and Management of transformation”, Timisoara, Romania, May 11, 2002, University of the West, Timisoara, p. 539-554)

Therefore, the intellectual resource should not be squandered by selling as simply *labour* (factor *L*) or by migration in the rich countries; intellects should be kept and valorised in the benefit of the own country that generated them, as the most precious capital: such is the most important economic policy mainly for the undeveloped or developing countries.

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