

**International Economics****The Remoralization of Capitalism**Tiberiu Brăilean<sup>1</sup>, Aurelian-Petruș Plopeanu<sup>2</sup>

**Abstract:** Nor the capitalism nor the communism prove to be the ideal systems. The second has imploded, while the first is transformed under the impact of the strong forces of globalization, crisis, technology, demography and ongoing ideas. It is looking for some kind of *mixtum compositum*, which often prove just pure illusions. The crisis is proving to be a structural one, even a systemic one, not as cyclical as it was thought. The deepest wound of the current hyper-capitalism comes from its desecration and demoralization, reaching to some excessive consumption behaviors, speculation, virtualization, financialization, merchantability, alienation, manipulation etc. The background solution may come, in our opinion, only from a system's remoralization and re-enchantment, even though Hayek once said that the markets are amoral.

**Keywords:** market; state; neoliberalism; crisis; globalization

**JEL Classification:** F63; G01; P19

**1. Introduction**

Those who idealized the market believe in a savage illusion; those who idealized the state believe in a something more systematic illusion. However, both are extreme situations, the reality being the “holy middle way”, it is about a mixed illusion. Often, an extreme liberalization leads to nationalization and vice versa. In fact, these things seem to recur in a cyclic way, a sinusoidal one. The economic agents behave like the shadows in Plato's cave, taking a closed system as a true reality. This is better seen on the financial markets, where some individuals are investing other people's money and sometimes their errors giving rise to some fortunes that have nothing to do with our idea of “reality”.

If God gave all the people everything they need to live, with the only condition – not always compulsory - to work, and even George Bataille, in “The Accursed

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Share: an Essay on General Economy”, considered that earth receives and generates an excess energy, economically exploited, then how is it that most people of the 21st century live in abject poverty, while the spiraling debts soared in a stunning way? Is it possible that someone stole our reality? Is it possible we did not even live in the best of all possible worlds?

## **2. Between Two Illusions**

After he wrote his biography, *The Age of Turbulence: Adventures in a New World* (2008), the well-known “guru” and ex-former chairman of the Federal Reserve System, Alan Greenspan, almost wept at the last hearing in front of Congress, stating that neither he doesn’t know which one is the reality, after he pushed the world economy into virtual for almost thirty years. In the same direction, the current chairman of the Federal Reserve, Ben Bernanke, spent in 2009 hundreds of millions of dollars from taxpayer money for banks and bankrupt firms. He said “Those who doubt that there is much connection between the economy of the 1930s and the supercharged, information-age economy of the twenty-first century are invited to look at the current economic headlines - about high unemployment, failing banks, volatile financial markets, currency crises, and even deflation. The issues rose by the Depression, and its lessons, are still relevant today.” (Bernanke, 2000, p. 7) If so, then we may ask too: what did economics teach about, if it is said to be a science, in the last 80 years?

The 1970s energy crises which stroke the major industrial economies around the world discredited Keynesianism which victoriously emerged after the Great Depression. The extent of deficits, the rampant inflation and a discouraging private supply were the fatal effects. The current crisis discredits the dogmatic and excessive neoliberal economic way of thinking. Whom should we believe? It requires reinventing the economics as a science, because, in the current formula, it was discredited, the economists often reproduced the oracular and sibylline speech, even when they seem to understand something of what is happening. The illusory world of markets and governments is where the fallible human beings act based on outdated theories, on some vaguely perceived trends and “information overload” (Alvin Toffler) or infobesity, in a state of “radical uncertainty” (George Soros), taking decisions that sometimes, by mistake, could be successfully. However, it is less than the forecasters do this every day.

Today, science behaves like the medieval Inquisition, very dogmatic and dull. The financial engineering and the speculative fervor brought the Western financial system in a state of collapse. Again, the Greeks are headed, but, at least, they have some islands they could sell. What science is this one that can cause such a destruction and intergenerational inequity?

The dominant positive neoclassical economics, formalized as a natural science, emerged in the late nineteenth century thanks to the efforts of a mining engineer from Cambridge, William Stanley Jevons and of a mathematician's son in search of equilibrium, Leon Walras, helped by the Italian Vilfredo Pareto, who goes beyond in search of the economic optimum. Some utopias... Little bit later, Alfred Marshall wanted to introduce the differential calculus not only in economics, but also in sociology and biology, but why not in philosophy?

But major economists like David Hume, John Stuart Mill and John Maynard Keynes were very skeptical about the scientific claims of the mathematical economics with its methods and hypothesis. The last of them considered that mathematical physics, in its application in social and economic studies, hasn't fulfilled the academic promise nor as a science or knowledge, nor as a field of study. Keynes said that in every moment we are faced with different issues related to organic unity, uniform discrete distribution, discontinuity - the whole conglomerate does not equal the sum of its containing parts, the quantitative comparisons deceive us very often and seem very catchy, the small changes produce large and important effects, the assumptions of a uniform and homogeneous continuum are not confirmed. (Skidelski, 2003, p. 460). Unfortunately, the developed and applied models by the followers of these great economists prove that they haven't been well enough understood.

Even if the basic equations of physics change from time to time, do you realize what happens to the principles of economics? In the latter case, the basic relations are highly variable and can change the long-term projections in some really great uncertainty reasoning. In the neoclassical orthodoxy, the non-numerical factors, such as the inventions, the labor strikes, the natural disasters, the information asymmetries, the currency fluctuations and the financial crises play no specific role in the scenario. Moreover, today's powerful computers have allowed the construction of some more complex models, but very rigid mechanistic ones, which claim to explain and decide all economic system, a true *deus in machina*. But the markets refuse to follow the linear curves provided in these models. Reality refuses to submit to science, so it must be changed.

### **3. The Hypercapitalism**

The civilization to which we belong increasingly doubts itself. It seems capitalism no longer provide an ideal framework for economic growth and development. Some even proclaim an explosion from inside. Indeed, the crisis of the global capitalism we are going through is merely the opposite of the expected economic growth. And it is not only an economic crisi, but also a political, social, moral one, a deep crisis, a crisis of our fundamental values. The Western civilization has reached its limits?

This crisis is one of the hyper-capitalism raged since 1980, mainly through the financial channels and by an excessive liberalization of the world economy. A genuine cult of the market was applied throughout the human existence, excessively enriching the rich people, while the resources of the poor ones were depleted, full of hope for a hyper-consumption behaviour based on endlessly rolling financial credits of the middle class, which, in the meantime, has been thinned until extinction. The crisis from 2008 suddenly woke us up to reality and has removed our “hyper-dreams”. It just reveals the impoverishment of the middle class we were talking about, the essential pillar of any solid democracy, invited to pass once to the cashier to refinance the whole economic and financial system.

In its fall, the hyper-capitalism also involves the democracy with its values that are privatized, emptying them by all meaning. Or, if the democracy needs the capitalism, the latter doesn't necessarily need the democracy in order to survive. And other regimes are eager to take the forefront on the world's stage. What will happen then with the democracy? What will happen with Christianity after the loss of hegemony of the Western civilization, for the hyper-capitalism has already produced a diversion of the Christian civilization values. If we want to save the democracy, the economy, the politics, to reinvent the capitalism's ethos, if we want to save our planet's ecosystem just to survive today and tomorrow, we need to urgently respond to one fundamental question: what we believe in?

The hyper-capitalism is merely a diversion of the democratic capitalism, as it was constituted in the modern era, a diversion into the financial flows in detriment of the real economy and the society itself. The hyper-capitalism's problem is not just that it is unfair, the real problem is that it is unstable. Following Schumpeter, we know that the crises are part of the history of capitalism, they are inevitable, cyclical, destructive for the short-term values, but fertile for important innovations, for new technologies developed and disseminated by the entrepreneurs which allow the exit from the crisis' epicenter and launch a new phase of economic expansion. However, the latest crises after the 1980s have nothing to do with the so-named “creative destruction”. Considering the economy an appendix subordinated to the rule of money, forcing at any price certain and consistent financial returns, aggressing the middle class, hyper-capitalism has destroyed its own ecosystem. It's like we pull a flower to grow faster and faster, but we will end up by breaking it.

Of course, all the damages are paid by the taxpayers, ordinary people indebted for life. The bailouts in several countries will not be able to restart the complex machine. And then it is possible that many states will go bankrupt, and the world economy will enter in the Ice Age. Who will manage all these processes and phenomena? It may sound apocalyptic, but that is a true possibility that may occur some day when we all will be surprised, a real “black swan”, in terms of Nassim Nicholas Taleb. Today, everyone requires more interventionism and more governmental actions. The state is invoked and called to solve all the deep

fundamental problems. But what kind of state, what kind of policy would be suitable? We need new ideas. In any case, a predatory oligarchy of public goods, a soulless state-machine will not be the right answer and panacea.

The crisis we are experiencing is not just a capitalism's crisis, but of the whole existing order. The economic system needs more than a reform of its financial system. The crisis requires us refounding the whole ecosystem of our civilization. It brings to the forefront important anthropological, moral, political and institutional issues: What is a man? On what ethical basis do we fund our relationships with each other? What is a common good? What institutions could guarantee us a true justice? We need to bring back to light and readapt the core values and beliefs.

The economy is just a subregion of our existence, no doubt very useful, but isn't able to impose its random scientific models as true beliefs. The economic machine has no soul. Today, it is the time of change, because after this crisis, nothing will be as it was. Capitalism, at least as we have known before, has lost its "sacred fire". The capitalist civilization has been evacuated its ethos from the inside. A child or a civilization that no longer dream slowly die and the capitalism remained with only one dream: the personal enrichment.

In "Capitalism, Socialism and Democracy", Joseph Schumpeter proposed an understanding of the "socio-psychological superstructure" of capitalism. He described the most glaring symptom of the capitalism's sclerosis; he called it an obsolescence of the entrepreneurial function. In schumpeterian analysis, the latter one was a veritable *deus ex machina*, removed in the rentiers' profits, in the recent times of capitalism. We can quote some significant lines: "A more or less stationary state would ensue. Capitalism, being essentially an evolutionary process, would become atrophic. There would be nothing left for entrepreneurs to do. They would find themselves in much the same situation as generals would in a society perfectly sure of permanent peace. Profits and along with profits the rate of interest would converge toward zero. The bourgeois strata that live on profits and interest would tend to disappear. The management of industry and trade would become a matter of current administration, and the personnel would unavoidably acquire the characteristics of a bureaucracy. Socialism of a very sober type would almost automatically come into being. Human energy would turn away from business. Other than economic pursuits would attract the brains and provide the adventure." (Schumpeter, 2006, p. 131)

Another symptom of these times is the behavior of the stock exchange, which became a mediocre substitute for the Holy Grail. In general, it seems to us that Schumpeter's analysis captures very well the hyper-capitalism's deficiencies and excesses, the state of capitalism in which we live and which has been adopted as a kind of religion in the last thirty years, as well as its possible collapse.

#### 4. The Remoralization of Capitalism

The full economic crisis, it is much debated about the “moralization of capitalism”. It can understand from this that the capitalist system is or has become immoral, but not in intrinsic and structural way, which means it can still be saved. Only its excesses should therefore be called into question. Others argue that, on the contrary, capitalism, by its own architecture, is immoral by definition, so it needs to be changed. Hayek believed that only one intentional individual behavior could be described as moral or immoral, not an entire social system. This leads the Austrian author to consider absurd the concept of “social justice”, a concept which he can’t give a precise meaning and it cannot be understood rationally. Hayek said: “we might not know what is “socially just” yet know quite well what is “socially unjust”; and by persistently eliminating 'social injustice' whenever we encounter it, gradually approach “social justice”. This, however, does not provide a way out of the basic difficulty. There can be no test by which we can discover what is “socially unjust” because there is no subject by which such an injustice can be committed, and there are no rules of individual conduct the observance of which in the market order would secure to the individuals and groups the position which as such (as distinguished from the procedure by which it is determined) would appear just to us. It does not belong to the category of error but to that of nonsense, like the term “a moral stone”.” (Hayek, 1982, p. 78)

Therefore, the socialist elites, using the redistribution of income and means of production on behalf of the “social justice”, consider that a social system would be an impersonal reality and not an anthropomorphic one. According to Hayek's way of thinking, in this case, the economy and the capitalist system would be amoral. The same phrase is found recently in the book of Andre Comte-Sponville, *Le capitalisme est-il moral?* In the midst of the social life, the author distinguishes several types of order: the technical and the scientific order, the legal and the political order, the moral and the ethical order. In this case, the economy is placed in the first category, the one of the technical and the scientific order, so morally neutral. This contributes to the ideological justification of capitalism and to any form of cynicism that we see before our eyes. (Comte-Sponville, 2009, pp. 13, 53.)

The science and the technology, and hence the economy, are just rational means, the morality being able to intervene possibly in the way they are used. However, in our opinion, the economy is about a social approach, both in theory and in practice, while the social organization is a fundamental component to define an economic system. The economy is not equal with means, it is also about the goals like the profit or the economic welfare, elements which may be interpreted in moral sense. The political economy doesn't study technologies. Moreover, the economy is not an objective reality which exists independently of the individuals' involvement and which is subject to the inexorable laws. Such a possible drift we called it

“economism”. It poses economics a core value which subordinates all others elements and subtracts it from the political control. (Brăilean, 2001, p. 37)

It's understandable we don't share such an argument. The economy is a human activity that takes place in a socially and politically setting, conceived and organized by human action, and where the subjectivity and the relativity are very present. At all the levels, the economy's rules are established by the people and may, therefore, be judged in a moral manner and, eventually, modified. The history and the social practice offer enough examples in this direction. The economic science is not a natural one, but social. In this regard, Albert O. Hirschman wrote that morality has its place in the center of our work, in the case that the researchers in the social sciences have to be alive from a moral point of view. (Hirschman, 1984, p. 109) The moral concerns should be internalized by default and consciously by all social sciences. Not to say that Marx considered economics the most moral of all sciences.

It remains to be seen just what kind of morality it may be applied to the field of economics. Of course, we are curious in one which is interested in its virtues and vices, in fact for the whole social system, and thus for political and social features and institutions. However, the Declaration of the Rights of Man and of the Citizen of 1789, as well as the American Declaration of Independence of 1776, somehow stops at the gates of the economic approach. Or, they should be extended to the economic field, if we want to have a moral economy and politics too.

When we are asking “what kind of morality?”, the best answer is found in Immanuel Kant who refers to the common moral sense, the universal criterion which requires to respect the other one, not to turn it just into a useful tool and to appreciate its autonomy. Beyond any metaphysical or religious reasons, the moral criterion simply requires us to give up any political dominance, social oppression and economic exploitation.

In this spirit, to moralize the capitalism may prove difficult, if not impossible, because it is immoral by definition, as long as it is put in the service of a minority which dominates from political, social and economic aspects, while the majority of population records a lack of autonomy and is employed in different circumstances.

In political and social terms, the democracy and the human rights partially solve the problem from the economic point of view, but the moralization of capitalism can't be else than suppressing it, but it's extremely difficult to consider if we have something better to put in place.

## 5. The Capitalism's Pendulum

The current crisis is not cyclical, but structural and systemic. An almost religious trust in Alan Greenspan made the “bubble” to expand to unreasonable rates, while turning off for some time the cyclical movement of the capitalism's pendulum. Moreover, Alan Greenspan acknowledged the defeat. In Congress, he said in October 2008 that “Those of us who have looked to the self-interest of lending institutions to protect shareholders' equity (myself especially) are in a state of shocked disbelief.”<sup>1</sup>

The bankers' greed was just an epiphenomenon, but who guarantees us that the regulators are genius and they can't sink us into a deeper crisis? It is a fact that these “bubbles”, even though not in a so high degree, are a natural symptom of the capitalism and the free market economy.

Nouriel Roubini believes that such shocks are not bizarre phenomena, but natural and inevitable features of such a system. In a recent book called *Crisis Economics*, Nouriel Roubini and Stephen Mihm wrote: “That's the recent crisis in a nutshell, but it could be the story of almost any financial crisis. Contrary to conventional wisdom, crises are not black swans but white swans: the elements of boom and bust are remarkably predictable. Look into the recent past, and you can find dozens of financial crises. Further back in time, before the Great Depression, many more lurk in the historical record. Some of them hit single nations; others reverberated across countries and continents, wreaking havoc on a global scale. Yet most are forgotten today, dismissed as relics of a less enlightened era.” (Roubini & Mihm, 2010, p. 19)

When the tide goes in one direction, it is irrational and counterproductive to grab the opposite trend. The wave will collapse at some point, but everyone attempts to catch a boat and increase the profits. As Keynes once said, the market could remain irrational far longer time than someone could be solvent.<sup>2</sup>

You may think logically and go bankrupt and vice versa; it may seem the markets are unpredictable, don't obey the formal logic, but rather the chaos theory or game theory. The main quality of knowledge is to intuit and interpret the signals that may burst the “bubbles”. The logic of the financial markets is a blind one.

Therefore, the crisis wasn't born by a pilot's error, it wasn't a human one, but the systemic problems, instead of being controlled, have been speculated for the

<sup>1</sup> Andrew Clark, Jill Treanor, *Greenspan – I was wrong about the economy. Sort of*, The Guardian, 24 October 2008, <http://www.guardian.co.uk/business/2008/oct/24/economics-creditcrunch-federal-reserve-greenspan>.

<sup>2</sup> Colin Read, *For John Maynard Keynes, Economic Theory Was a Sideline*, 2 November 2012, <http://www.bloomberg.com/news/2012-11-02/for-john-maynard-keynes-economic-theory-was-a-sideline.html>.



benefit of the gamblers, as shown by Michael Lewis in *The Big Short*, where he describes complicated madness subprime loans and financial products, fabulous stories about greed and stupidity. (Lewis, 2010, pp. 7-24)

Many countries helped with public aids to save the banks and/or big companies, and now are pressed by the burden of large deficits and debts. The current issue is how we save these states? In the first place, the European ones most affected like Greece, Cyprus, Portugal or Spain. The European Commission has imposed a package of drastic measures to reduce the deficits. If these steps are not complied with, and even the head of the European Commission has warned, it is probable that “if they do not carry out these austerity packages, these countries could virtually disappear in the way that we know them as democracies. They've got no choice, this is it.” (Groves, 2010)<sup>1</sup> How many dictatorships were brought by the crisis of 1929-1933? In addition, it is emphasized the fact that euro is threatened with extinction. There are apocalyptic visions of European democracies' collapse under the burden of public debts.

The presence of strong etatist economies, where the only growth engine is indebtedness, has a negative effect towards the free entrepreneurial adventure and incentives, or what James Buchanan warns about killing the goose that laid the golden eggs. The irony is that the strongest economies have the highest debts, in this regard; the top is started with America. In this direction, the model of debt-based growth seems to have come to an end. Today, the sovereign debt of countries of the world escalated 51.000 billion dollars<sup>2</sup>, approximately 50% more than in 2007.

According to the OECD, very soon, the public debt of the first 30 economic powers of the world will double in comparison with the 1990s levels. Japan will hold the record with 200% of its GDP. The sages of the financial market from around the world already see another crisis on the horizon, a public debt crisis. It is possible we sit (in)voluntarily on a powder keg...

## 6. Conclusion

This protracted crisis will erode the power of Uncle Sam, and the world will become multipolar. To ensure the security of the global public goods, America will increasingly depend on its allies, which now are neglected, and will have to face the challenges of the new emerging powers. China, for instance, tends to become from a continental power a maritime one in the Pacific. Also, China, followed by India, have developed significant anti-satellite capabilities, which have major

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<sup>1</sup> <http://www.dailymail.co.uk/news/article-1286480/EU-chief-warns-democracy-disappear-Greece-Spain-Portugal.html>.

<sup>2</sup> [http://www.economist.com/content/global\\_debt\\_clock](http://www.economist.com/content/global_debt_clock).

implications for the balance of the concerned areas, for the regional geopolitics, for the growth of new types of conflicts and alliances that will come. Other challenges come from the Arctic zone, where 5-6 global powers flock in exploiting the resources under the melting ice.

The current international system's architecture is based on an open access to the global economy, which depends on the stability of the global public goods: oceans, seas, outer space, cyberspace, air and others. Who will ensure free access to guarantee a healthy international system in order to facilitate the trade and the fluent movement of the values? For now, the only power that can do this is the U.S.A. The rules that govern the international behavior and the relations between the countries have to be extended to the virtual space and outer space, while the maritim one is pretty well regulated. Unfortunately, the potential impact in all these areas is even greater as the great powers are more dependent on energy imports.

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