

TWO FALLACIES IN APPROCHING THE CURRENT CRISIS

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***Abstract:** Present study aims to reveal a few of the main perceptions and assumptions concerning economic activity, with implications in the nowadays' crisis.*

The most important current anti-crisis views on causes of the crisis are synthesized and critically reviewed. Methodologically, their interpretation is made by the effects in practice, alleging a wide interdisciplinary approach, consistent with the requirements of the European concept of knowledge society. Thus, ideas are brought in the economic analysis in a heterodox approach, trying to go beyond certain standard economic routines and into modelling. The model comes from an approach on the material-immaterial difference and has an answer to the dilemma consumption vs. economizing.

There result prerequisites for economic analysis, as well as conclusions in a pro-active approach of the matter, which are generally applicable to the crisis management at macroeconomic level, but with implications at the level of individual economic agent, too.

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***JEL Classification:** E20, O14, O49, Q01*

Two main fallacies have to be coped with, as trying to understand present day's crisis and cope with its effects or, generally speaking, act towards solutions to crisis generated troubles.

1. MATERIALIST FALLACY: CLASSICAL, OR MARXIST, I.E.

MATERIALISM-BOUND

Two approaches are there, based on sectorial technological variance: “technical progress and innovation in industry lead to a continuous productivity

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growth in this economic sector”¹⁴. Common sense says that *production-proper*¹⁵ is a strong sure thing, as opposed to *services*, which being immaterial, are impalpable, uncertain: they “slip through our fingers” (when the approach is materialistic). Such approach implies a defining preconceived neat superiority of industry as against the other lucrative sectors (especially services) in terms of productivity expectable increase.

Some feel safer with “palpable” production than with the impalpable economy; understandably, much like earth takes reasoning to prove round: but direct perception of *face images* must give way to theory and abstract thoroughgoing knowledge, begot and settled from books of science, from the philosophy of things, not from the “school of life”. And, were we to take common sense for our guide, research should be done: 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 (though not *immediately* or instinctively perceptible) 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. It is only in the accountancy books of *business* that the place of such services may be less important than the place industry takes; but not so in the genuine essential generation of things; accountancy and “barrel” statistical data do not immediately and obligatorily reveal the issue or the real causality of facts; and this place and role of services is less important than that of industry (of material production) also in the understanding of the economists who cannot go above the *businessmen’s* reasoning: their usual angle of approach, their (sometimes) level of analysis, their data source of data (i.e. the accountants’ books).¹⁶

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” recording¹⁷). **On the contrary**, it is all the greater and *humane*. In this regard, see the concept we call

¹⁴ As an example, we quoted from Jaime Gil Aluja, *Enducing/Challenging Sustentable Social Progress*, *Timișoara Journal of Economics*, nr. 5, 2009.

¹⁵ See the theory we developed in Al. Jivan, *Economics of tertiary sector* (in Romanian), Sedona Eds., Timișoara, 1998, chapter 2.2., stating that material products are also services, by the agency of the market: performance targeting the customers (who want to benefit from it); their production, as an economic market activity, is essentially just for *servicing* a custom.

¹⁶ See our further remarks on the matter (chapter 4).

¹⁷ 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!

*servicity*¹⁸: effective *intrinsic* productivity, generative of *general* and *absolute plusses*, is one thing; *computed* productivity, generating palpable *concrete plus* to the concerned individual, therefore *relatively* to a specific economic agent¹⁹, is a totally different thing; computation is here done by *businessman* method, i.e. based on market returns: which does not equate with what the producer **gives to and for** the environment (in terms of space and time), but what the producer **takes** (cashes in) and appropriates *from* his environment, on the account of others and of the future generations.

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 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*²⁰. Moreover, we even emphasize that many services are much more useful than certain most material productions²¹, considering and respecting complex analysis and utility assessment criteria and taking into account multiple approaches: such as individualistic, societal, planetary...

Present study does not set it as its goal to examine in detail *the relation of the tertiary sector with technical progress*, here including the capacity of services to absorb technical progress and to increase productivity: we think such issue settled for quite a while, most pertinently proven by Jaques De Bandt, Jean Gadrey and such like scholars; here we may also quote our contributions, in *Modern Services – a Challenge for Economic Theory and Practice* (Jivan, Al. 1996 - in Romanian) and *Intellectual Tertiary Economics* (Jivan, Al., 1995 - in Romanian); so methodical, rigorous demonstrations exist, on hundred of pages, bringing detailed and unquestionable arguments, without the scope of present study. Such issue has been clarified despite of the preconceived idea of higher productivity of industry vs. services, that viscerally persists with the man in the street; it is disconcerting when

¹⁸ We firstly advanced this indicator at IXth *International Seminar on the Service Economy*, PROGRES (Programme of Research in the Economics of Services), A.S.E.C., Geneva, September 6/7, 1993, in “Services and Servicity”, *Services World Forum Bulletin*, no. 3-4 (Jully-December 1993), 16-24; the concept was later developed in other papers and books. If (standard) **productivity** couches the efficiency of the economic activity recorded by the producer *for himself*, **servicity** takes into account (in the large sense) *the whole* output, or just (in the broader sense) the efficiency for his *neighbourhood*.

¹⁹ With no concern with the rest of the world, with the ensemble.

²⁰ ... assessing that they are demanded, supplied and sold out.

²¹ *Infra*: see illustration cases mentioned further on, chapter 3.

such idea is manifested by indisputable scientists; not engineers, more materialistic by job description, but even economists²².

So let it be said and emphasized²³: it is not the services that generated the crisis. Approaching the issue from the point of view of *the economic effects of the service activities*, suppose (*i*) my elderly neighbour takes my children to school, as I put in long hours with my job; in return of which, on my way home I pay his telephone and electricity bills, buy his bread and, on Saturdays, I tutor his grandson in mathematics as I tutor my daughter; which means that we work and service customers, meeting their needs and consuming physical and intellectual energy and knowledge. In such cases, economy will work beneficially and at low costs.

Such servicing means a *win-win* situation: increased *needs satisfaction*, i.e. higher living standards, including the case when such reciprocal services are trade (onerous) services, generating money charges and instrumented by money. At aggregate economy scale, useful performances are mutual, mostly, one way or another, at least by the mediation of the generalized market (see here our synthesis on **the market as global servicing**, in our *Economics of tertiary sector* we mentioned in the beginning of present study).

Synthesizing the example from the field of services (*i*), on the short term run effects will be positive (as in orders fulfilled, employment...); as they will also be on the medium and long term run (satisfying people's needs without destruction to the natural environment and to third persons, and at minimal costs²⁴).

Suppose now, on the other hand (*ii*), that my neighbour manufactures anti-personal bombs and mines; also, suppose I manufacture and offer (supply) to my neighbour, peach marmalade: made not out of peaches and sugar, but out of jelly, synthetic aromas, artificial pigment and chemical preserver (in order to elude the economic law of *natural perishables*²⁵); so I manufacture for selling, in my money-

²² ... who, we think, should operate economic theory syntheses, as resulting from economic actual practice; but outrun the level of image and forms and go deeper in understanding causal and conditioning correlations and phenomenon generally speaking; thus, by abstracting, to understand reality in a widely comprehensive meaning. Unfortunately, most economists do not rise much above the level of computed figures they enter, which they read as they see the sun go round the Earth. The problem is in the lack of qualitative judgements and therefore they ignore the profound causality and the "external" effects of economic acts, under the trendy approach in economics that calls itself "positivist", supposed to only file facts, non-judgemental and dispassionate, or else fact would give way to ideology, they say; what we say is that *accounting* only is not enough for assessment; facts need interpretation, based on quality principles (moral here included). Else understanding is truncated and meaning is not truly revealed.

²³ This is one of the major ideas stated in this paper.

²⁴ I notice here how the intellectual resource is the only one not diminishing but growing by consumption. In this matter please see Al. Jivan, *Intellectual Tertiary Economics* (in Romanian), Mirton Eds., 1995

²⁵ ... one of the main determinants on the market *natural* mechanisms of price and of trade policy setting; which, however, infringement thereof is not perceived as *unnatural*, by the brave free-exchange champions. Moreover, they will take effects of such infringement as *natural* results of market inexorable mechanisms, while such infringement prevention regulations will be denounced as stops against *natural, free, market* run. Developments on the matter in Al. Jivan, "Particular and

benefit and in contempt for the health of the “beneficiary” of my work - especially for the beneficiary of the peach marmalade production²⁶. Then, as in the first exemplified case, both of us (as *individual* suppliers with clients) *will work* (having jobs and clients, i.e. a market/outlet) and probably some of our *individual* consumption lusts and needs will be satisfied. But *on an overall scale*, case (*ii*) is no longer similar to case (*i*), i.e. effects of case (*ii*) are different or even opposed comparatively to case (*i*): our health, both as individuals and as human species, will be impaired (in time, if not on the spot), because of the chemicals; as also will be impaired the health of the soil, of the plants and of the animals²⁷; and we will be maimed by explosions, we, our business partners and non-guilty third parties; or we might even develop terminal cancers or blow-up dead. Economy will work at high oxygen (and other raw materials) consumption; in generation of noxes in the environment (*E*'s are harmful for the life, much like gas and residues from explosives). The overall result will be consumption plus destruction, much of it for the long term run.

Briefly considering the example in the field of material production (*ii*), there will not be unemployment for the moment, like in the first case, while food and war orders will be fulfilled – so the market can book positive effects. However, over the medium and the long term run, effects will be negative. Such bad effects may be hidden, mitigated and even solved, in natural ways, i.e. absorbed by the environment based on the open economy principle²⁸. However they will add up in time; and burst out (periodically) when no longer contained.

Therefore, the causes of the negative effects of the economic activity over human society in general can belong with industry sector too²⁹: the comparison of the two intuitive illustrations of types of economic activities above procures ample evidence that it is completely fallacious to charge (accuse) services *in corpore* (as opposed to industry) with generating the crisis; at least not the scientific research services, education services, consultancy services, health services, informatics services, tele-communications services, transport services and not the social care services, the environment protection services, or the Mother Nature's preserving and

Ethical Questions in Liberalizing Eastern European Economies”, in *Proceedings of the 14th IGWT Symposium Focusing New Century: Commodity – Trade – Environment*, Volume II, Part II Trade, IGWT, CSCS, 25th-29th August 2004 August 2004, Beijing, China, China Agriculture Press, pp. 675-688

²⁶ As it massively happens in foods industry meant for huge “fodder” human consumption, the suppliers freely changing the tastes and aromas of stuff sold food, after primary sensors' impulses and using the voice of promotion.

²⁷ All the environment will be affected.

²⁸ Ricardo himself saw the solving of the stationary state (that he discovered to come for industrializing England in its), by international trade: i.e. on the account of its environment.

²⁹ Not *only* and not *mainly* with services.

repairing/recovery services³⁰; not the shoe-polishing services, the driving services, the courier services, the barber services and so on. The role of banking and financial services, of the services working only on the money field may be put under question: it is they who rule the economy and the world. Knowing that, their responsibilities are quite huge, nationwide and, mostly, worldwide. But it would be a mistake to blame all the services (as a whole), because of their immateriality. Analysis must be made for any specific case, in specified space/time conditions. To conclude with: thinking that services may have generated the crisis sounds way too '960s.

Yet “speaking again about «*industrial policy*»”³¹ seems to me quite acceptable, but subject to considering the points that we make at a variance: we do not mean a “come-back”³² of industry (because such a meaning sends to, and identifies with, original industrialism³³), but a *revision*! Such re-examination and correction of industrialism, that we *assert needed* as of now³⁴, should be *structural* and also in terms of *economic policy*. And it should touch on both industry and general material production on the one hand, plus services on the other, as immaterial economy.

So it is that, paradoxical as it may seem, we agree with Aluja’s statement, quoting: “highly industrialized countries have a much more favourable trade balance than countries where industrialization has been too soon given up on, regardless of the market size and the sectorial specialization degree”³⁵. We are at variance with him as, reading the statement, we differently connote the *industrialization* issue³⁶, not particularly pedalling on the trade balance question: we do not necessarily have in mind powerful (*industrialized*³⁷) countries, which have externalized their industries (starting with the most polluting, energy-intensive, raw-materials intensive and labour-intensive). The overall industry of those countries has been a long time back mature and able to generate new industry (*top*) branches; *apt to consistently sustain modern services development*; owning world top priorities, i.e. managing world economy, to the benefit of respective industrialized nations, starting with (and working by) the interest of the companies that went global (because their national markets became too mature).

We do not have in mind such developed countries; what we have in mind is countries *which have not yet* reached high development status (being even weakly

³⁰ ... actually only snippets of *mother nature* are surviving, like “nooks” and oases, because all the environment was invaded by the man, with his industrialization.

³¹ J.G. Aluja, *idem*.

³² ... as says same author, implying (the suggestion is blatant) *industry* rather than *services*.

³³ ... which would be more, and worse, than a simple return in the past.

³⁴ See also *infra* chapter 5 (conclusions).

³⁵ J. G. Aluja, *idem*.

³⁶ Here the argument might build up in Manoilescu’s terms, beyond scope of present study.

³⁷ ... i.e. *already* industrialized.

developed): i.e. post 1989 Romania, that *literally gave up all industrialization*, even regressing, close to giving up *industry* altogether, as an economic sector, with terrible effects on the long run term, not yet clearly³⁸ perceived, actually seen as sluggish post-December economic “remake”. The implications are far reaching, in terms of time and of social-economic connections, in the unprecedented decay of Romanian education system and of agriculture³⁹ and our *totally* imports-based economy, wholly dependent on foreign production of even most basic commodities. The effects are implicit and clearly visible in Romanian living, culture and civilization standards – not enough studied in the economics literature. Although circumstantial in title (i.e. pointing to these years world crisis), Marius Băcescu and Dionysius Fota’s original and brave⁴⁰ *The Economic Crisis in Romania’s 2009* (in Romanian)⁴¹ elaborates a pertinent analysis of the roots of the actual state of Romanian economy and minutely details the post-1989 Romania’s crisis.

2. DEMAND-BEFORE-SUPPLY FALLACY.

THIS MISTAKE MAY BE CALLED *KEYNESIAN*

A dilemma is strongly invoked at crises times: the dilemma **consumption** (Keynesian way out of the crisis) vs. **saving** and investment (the essential idea of the liberalist way out of the crisis, i.e. by the enterpriser’s efforts for research, renewing, for generating progress, including implementation thereof, new production capacities etc.); I emphasize that this second way currently also implies - and should imply more than that - *immaterial* investment, scientific research first and foremost, as in technical and economic, not just marketing research and market promotion⁴².

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. Most anti-crisis policies would stimulate economy by stimulating demand; and action taken is to such effect.⁴³ But common sense says that, rather than increase consumption (i.e. diminishing savings), much better economize. 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. Keynesian eulogy for consumption may look from this view angle, downright perverse! On the

³⁸ Such effects may go unnoticed; or only partially felt; or miss read; time will take its toll about it.

³⁹ Other causes might be mentioned here, outside the industry (and services) bound.

⁴⁰ ... dropping all juncture inhibitions related to the world economy dominant and heightening admiration for the authors’ non-conformism and for their constructive attitude that stays outside of certain politico-ideological actual trend.

⁴¹ Editura Universitară, București, 2009.

⁴² Such remark is emphasized as it is recurrent to present study.

⁴³ In the same manner of setting hierarchies between demand and supply, the exactly reverse approach exists too.

other hand, 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 optimist Jean Baptiste Say). But a serious solution will not intemperately and unlimitedly pedal on emphasise supply: production can be destructive, if it produces bombs or dope, for instance⁴⁴. 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, even tobacco 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, as we develop by modelling in chapter 3.

That is, *in order to beat the crisis **saving** is necessary (i)*: 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 (A) 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)⁴⁵.

Or, rather, is it (B) 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?

On the other hand, at least in 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 (ii); to stimulate consumption for maintaining it at

⁴⁴ Like we exemplified at chapter 1.

⁴⁵ See also the example with manufacturing guns and dope.

high levels is seen as vital for all type enterprisers, as a prerequisite of any supply, increase thereof re-launching production.

Similarly, the question issued is: **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 (A) lead to or contributed to social economic welfare and to Mother Nature's redemption? Or is it production that (B) 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.⁴⁶

So the issue is: **what effects** do the respective consumption and investments 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, I say, valid for crisis-time and beyond. At all times, and acutely at crisis times, we should *save*; not for economizing sake, but *for (i) diminishing destructive costs⁴⁷*; and for *(ii) long-term run investment* (so: not for any type investment).

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?

3. SYNTHESIS BEFORE MODELLING

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

⁴⁶ ... generally, for constructive goals. Unfortunately, in fact, the egoistic decisions of the enterprisers do not always for constructive goals. Therefore economic actors should have not only temporally limited selfish interests. Responsibilities can be only set societally: economic policies of co-interested actors and adequate regulation, for coercing them.

⁴⁷ Destructive costs are way out of line in our consumption society, even if accepted by the hedonistic speculative *homo-oeconomicus* spirit.

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)⁴⁸.

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 neoliberal 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*⁴⁹ costs. Unfortunately, as already said, 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 market⁵⁰ and that credits may have no cover validation (such as, quite topical of

⁴⁸ It seems the countries in the „BRIC” group learned it.

⁴⁹ ... as far as we can see them coming and point them out. Industrial revolution started out by cutting trees, which was hardly, at that time, seen as destructive action; it was perceived as constructive, rather, producing new farming land plus useful raw material. The problem is that, even *today*, as we know lots better, woods still go at inexcusable rates and by technology able to effect disaster in no time, and some pretend that it is favourable action, because *the market* says so (the same way it was saying in 1600-1700) and because stopping this destruction would be "interventionist" (therefore *bad*). Such logic works – even if it is framed in the business logic - as (in understatement) impertinent, cynical and malefic, to we the people, to our children and to Mother Earth herself.

⁵⁰ Being under the coercion of the market (in this matter, please see our papers "Determinants and Compulsions in Setting Priorities at Macroeconomic and Microeconomic Level" and "Correlations of Demand Marginals to Subsistence", the Volume of International Symposium *Economics And*

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* results⁵¹. Some 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 – see rankings in the economic model analysis at chapter 4) 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 (please see chapter 2; we do not further detail that issue).

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)⁵².

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.

Management of Transformation, Timișoara, Romania, May 11, 2002, University of the West, Timișoara, Faculty of Economic Sciences, pp. 539-554).

⁵¹ ... the general complex resulting from the effects of enterpriser’s economic action (for self and “external”, for others, for society, for the planet); for the moment, on the short-term run, on the medium, long and very long.

⁵² 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.

4. ECONOMIC ACTION IN A NEW MODEL

There results from the first four chapters that, 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 effects⁵³; like you open the window to let the cigarettes smoke out, on the logic (still valid⁵⁴) that Mother Nature will annihilate noxes, produce oxygen also etc.: basically (conceptually) **presuming alien effort**, or rather alien take-over of environmental costs. If the invisible hand is also presumed to be around (*naturally* acting-in for general welfare), no worry and no care (i.e. no responsibility) - except for *self, here and now* interests - troubles our sleep.

A synthesis based on the logic of the opposition between constructive (investing) and destructive (consuming) nature of our activity (production, consumption and investment included) in their complex correlation will result into a revealing model.

This is why *public investment* looks like a way out of a crisis: common sense, instinct, but logic too, tell us that public investment stand a *better chance*⁵⁵ to prove *investing* rather than *consuming*, as, unfortunately, is *private investment*: which is, by its very nature, run on the principle of large quick short term profit⁵⁶. Each economic entity targets the gain, and not necessarily meeting needs or solving problems of society, of Mather Nature or of the global future: such aims are taken into account if and only if they are perceived like bringing private profit; but any other ways by which some appropriation can be realized are considered.

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

⁵³ Generated “external” problems.

⁵⁴ There is no telling for how long: you may wish to get your cigarette smoke out of the room, yet get down with the noxes from traffic, from garbage stink, from some rubber factory (may be one recently relocated from a developed country to save labour costs and environment taxes).

⁵⁵ Fraud cases exempted, also embezzlement, corruption in favour of certain *private* individuals or interest groups; where the same behaviour applies: destructive, consuming, exploiting, consistent with the relaxed, careless, indolent, and irresponsible; approach like under an “open” system.

⁵⁶ ... *almost* immediately. Of course, we have to take into account the main amendments made by neo-liberalism to this approach.

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 *I*-factor.

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 economic factors, differing from the orthodox ones, could be outlines, in a manner proper for the *XXIst* century⁵⁷:

- the *material* factor, represented by the material component parts of capital and the pure energetic, physical aspects of labour;
- the *intellectual* factor (information, innovation, invention, knowledge, science, enterprising spirit, know-how).

We call “factor *I*” the above most important immaterial component, part of the economic life of mankind: it is about intellect, idea, initiative, information, innovation etc. It means much more than the sum of human capital, data-banks, scientific and spiritual immaterial heritage of mankind and research as a whole. The “*I*” resource tends not only to continuously complete and enlarge the potential of the usual material resources $M(K, L)$, but also to reduce the quantities of such resources, up to partial substitution: more quality often means less quantity.

Qualitative growth itself – as shown in our further approach on the issue - can happen not only by material investment, like in traditional models (i.e. by extending activity), but merely by growing effects (production, profit etc.) thanks to productivity gains given by determinant factor *I*⁵⁸. Productivity growth is usually seen as a function of factor *K* (capital), but in fact it depends on novelty, knowledge etc. and, in a long run, mostly on true and creative innovations (factor *I*). We must add that, even if they produce effects (un-expectantly large, at times), the surface innovations (connected only with juncture, fashion and such like) act only over the short run and maybe reversible: they are not genuinely constructing, but rather consuming.

⁵⁷ Here we use part of our later research in the matter. Parts of it or connected to it are also developed in other papers and books of ours, after specializing in service economy. Please see in this matter mainly our book *Economics of the Intellectual Tertiary* (in Romanian), Eds. Mirton, Timișoara, 1995 and „Performance in a different view: an indicator of ethical performance”, in the volume **4-ème Colloque sur le Gouvernement d’entreprise: Performance et Problemes d’Etique**, Faculté Warocqué, Centre de Recherche Warocqué, HEC Montréal, Chaire de Gouvernance et Juricomptabilité, Mons, Belgique, 9-10 mai 2005.

⁵⁸ Al. Jivan, “Aspects of Modelling Productivity and Knowledge Based Growth in the European Extended Society”, paper in the proceedings of the *International Conference Economic Growth and E.U. Extension Process*, Bucharest, May 16-17 2008, The Academy of Economic Sciences Bucharest, Faculty of Cybernetics, Statistics and Economic Informatics.

The European concept of *knowledge society* includes the care for the social problem, for the planetary environment and such like, among which moral-institutional aspects are also important. Knowledge society implies an opened minded view and an interdisciplinary vision, which are superior to the narrow economic approach. Economic growth should pass to a superior structure and manner of business: by superior constructive-investing criteria and not purely exploiting-consuming at all levels (individual, organisational, national).

In the light of the previous remarks, the total growth (see the theoretically principle form in the relation no. 1) should be understood discriminatively as *quantitative*, mainly consuming (relation no. 2) and *qualitative*, mainly investing (relation no. 3) *growth*:

$$G_T = \frac{Inv}{\Delta U_t} \cdot \frac{\Delta U_t}{CU} \quad (1),$$

$$G_M = \frac{Inv_M}{\pi} \cdot \frac{\pi \cdot \Delta W}{M} \quad (2),$$

$$G_I = \frac{Inv_I}{S_\sigma} \cdot \frac{S_\sigma \cdot \Delta I}{I} \quad (3),$$

where, *Inv* means the total investment;
Inv_M – material investment;
Inv_I – qualitative investment;
 π – the profit or gain in income (recorded in the performer’s accountancy);
 S_σ – the influence (global effect) of servicity⁵⁹;
CU – the existing useful environment;
M – material resources (land, rough materials, tools, machines, money and other capital resources; labour and other kinds of energy employed);
I – intellectual resources;
 ΔU_t – the gain in utility.

Any productivity growth (Δw) can be induced if we have:

- (i) growth of *M*-resources, which brought for growing scale;
- (ii) amplifying *I*-resource which turned to good account in production.

This (productive) consumption of factor *I* requires to grow its “production” (developing intellectual services): qualitative growth (founded on *I*-resource) presupposes and generates *I* (the growth of *I*).

What results from the above economic model is that only novelty and innovation are the real plus of utility and surplus of values.

⁵⁹ See our concept of servicity, already invoked.

We consider scientific contributions, discovering new scientific ideas, restructuring and renovation (including the issue of new economic branches), achieving new qualities and performances to be the most important tool for development; "*I*" resource plays the decisive role.

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. This flux is vital for the good functioning, creating conditions for diminishing the uncertainty area and in the purpose of taking quality choices and decisions. Information got a ruling role. 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: superior needs get more importance that they had previously. Production and consume are replaced with "functioning" and with the creation of utility.

The elaborated information (*I* resource) should be found in all the sectors of the economy (including in the production of material substances and products) and it should be enough for covering all it takes for such activities. This resource is requested for realising and keeping a functional equilibrium of the economy, viz. a state in which economy is capable to accomplish as many functions as possible for itself and for the society in general (to have enough potentials). The scientific and technological supply must go a step further, outrunning the necessities of material sectors: it must meet the (present) needs of information and answer to and for the future. The intellectual contribution must award the renovation which anticipates and creates new needs - and, maybe, their answer. The growing of intellectual potential brings, by a multiplying response, the emerging of new branches, the restructuring and the development of the whole economy, the growing of the capabilities of all economic sectors – with synergic benefits.

In the long run, the intellectual investment is a part of the offer (supplies). Therefore, we may write:

$$Y = Y_M + Y_I, \quad (4)$$

where, Y_M are the income (returns) from material productive consumption, from activities concerning the material productivity and material consumption growth;
 Y_I - returns from the *pure* investment, from intellectual development (growth) and productive use of *I*-resource. By "pure" investment I mean *constructive*. We should not mean only *money-making*, because it can be destructive: see pollution-making, guns-making, dope-making etc.

We make distinction between (i) the immaterial investment that is the basis for the development of the economy and of the mankind in general – as in the case

of investment in scientific research (beginning with the fundamental one) and in formation (education and teaching) -, on the one hand, and (ii) the investment that contributes to growing the profits of a number of corporate bodies (as in the cases of redistributing markets by important expenditures in brand image), to stimulating consumption generally (commercial publicity and advertising, for instance) or, even to production stimulation; among these latter ones, there are also researches which target exclusively mercantile interests (most often on a short run): such researches are not interested in the long run needs of mankind – like saving ecological equilibriums and such like (ignoring such needs, as bringing no immediate mercantile profits for the actor in question; even if immense "immaterial" benefits are brought for humanity; they even encroach them upon). We note that on the same criterion the material investment could be structured; but in the case of the immaterial investments, the differences look like being more evident than in the case of the material ones.

The two separated attitudes are the *investing approach* of human existence (i) and the *consuming approach* of human existence (ii) – the future preparing, in the general interest on the long term, on one hand and, in opposition with it, the simple stimulation of consumption, in the private short run interest, on the other hand. Only the most elevated and educated human individuals and the highest developed (civilized) human societies can achieve the constructive behaviour, attitude and approach of their existence. The others remain at lower levels (consistent rather with mainly destructive acts).

These above mentioned categories of incomes (4) are used for new (material) consumptions and usual (material) activities, and also for superior activities:

$$Y_M + Y_I = C + I_M + I, \quad (5)$$

- where, C are consumptions (in the concerned period);
 I_M - ordinary investment: expenses today for more consumption tomorrow or next year;
 I - pure investment (for intellectual services): expenses today for knowledge, namely in the purpose of better rationing next year (and much better after years), for creating the future. It may have far future returns; but it may have just immaterial gains, *human* filling and coming true: the immaterial investment and the gain from it cannot be quantitatively measured, but they maybe much more than money.

The intellect-intensive activities are the pure investment of a nation and of mankind: all material activities - including the Physiocrats' agriculture and all the primary sector, including the Smith's manufacturing industry and all the secondary sector - are only transforming and manipulating the existing matter and energy; and this matter and energy cannot be grown or increased (accordingly to the universal

principles of natural sciences); meanwhile high-level services are the very creators as they are actually creating something; they are generating *the New* (knowledge), new besides the already existing world: the most intellect-intensive services or those that give the ideas and the new ideas are those which conceive the better, the superior.

This investment-kind feature of the intellectual services means that the achievements in the future of such services (if they are enough responsible concerning the future, the mankind and the planet as well as the individuals and the present day) are bigger than the expenses required in the beginning:

$$Y_I \geq I \quad (6)$$

If we note the index 0 for the past, 1 for the present and 2 for the future, we can (more explicitly) rewrite formulas no. (6) and (5):

$$Y_{I_1} \geq I_0 \quad (6')$$

$$Y_{M_1} + Y_{I_1} = C_1 + I_{M_1} + I_1. \quad (5')$$

So we can see that from formulas nos. (5) and (6) it results that:

$$Y_M \leq C + I_M \quad (7)$$

The relation is *equal* (=) when the investment in the high-level intellectual activities is stagnant; the relation is *less* (<) in the normal case. This is increasing the feeling that *I* means “unproductive” expenses, which are affecting consumption and (material) investment (such was the appearance for a long time, and industrialist economists still have such an approach). But this correlation is valid *only over the short run term* because, by keeping *I* on the same level, *C* and *Y_M* will see more and more diminishing returns; therefore the relation no. (7) is generally speaking, *less* (<).

This (the *less* case) expresses the stagnation, the crises, the unemployment and poverty (for certain economic actors) etc.

The standard (usual) schemes concern just *Y_M* and its correlation with *C* and *I_M*. Growing *Y_M* is “given from out-side” (*I* standing for “unproductive” expenses, and technology coming by the simple *time passing*). By making no difference between *I* and *I_M*, the macroeconomic (Keynesian) equilibrium formula is hiding that a share of *Y* is, in fact, *Y_I*, and that is why incomes can equal expenses. This usual formula is hiding that *Y_M cannot cover all the material ordinary expenses* (consumption and material investment): the “technical-scientific revolution” is required as an “outsider” (external to the economy).

5. BRIEF CONCLUSIONS

In many cases, a plus cannot be accomplished *in the present*, without causing a minus *in the future*. Therefore, a superior outlook upon the final (compensated) results of the efforts and effects is necessary (a total, universal and humanistic one – not a selfish and a narrow-mercantile one). The “larger” efficiency we mean is not narrowed (limited) by some unique (economic) criteria, but concerns the best for the person, for the society, for the world, balanced between the present and the future. The gain in productivity and the growth of efficiency in general represent values as long as they are justified in a wider meaning than the one dictated by the producer’s interests only.

In our perceptions, economics should make the difference⁶⁰ between using and seizing the environment (benefiting on it, by your action and position) on one hand, and serving the environment (making it to benefit from your own work and behaviour) on the other hand. The first case is usually called “to produce” (productivity), pretending that just the *own* qualities, skills and abilities of the economic agent are valorised, in a strictly individual simplifying approach: the role of the external factors is ignored and the whole effect is ascribed (from the factorial and causative point of view) to the enterpriser who is appropriating, assimilating, who is profiting; and the whole effect is almost not at all⁶¹ ascribed to the factors got from the environment that are serving the benefiting agent, not to the actors and to the Mother Nature’s components, that are mainly or really and effectively causative or determinant. That is why a more-proper-than-the-standard way of considering productivity should be set up in the knowledge society. The perception and modelling of the productivity concept itself gains new angles of approach which are relevant for actual knowledge society. A new appreciation of effort could be useful, taking into consideration mainly two aspects: what any entrepreneur *takes from* the environment and what he *gives away* (besides productivity, considered as accomplishment *for him*). This dichotomy is the essence of the new approach we developed.

In opposition with the classical *productivity*, we advanced and promote the notion of *servicity*: a sort of social-economic efficiency. The qualitative aspects (constructive contribution) of agents’ activity (as from the own merit of the economic actor) were assumed as the basis for the economic model in the chapter 4.

An inter-national specialization in activities actually founded on knowledge (“brains”) could be translated to less dependence on Mother Nature’s wealth; this is the better chance for development and for protecting the planet against destruction.

⁶⁰ That is why we reproached economists they have the very same approach as the businessmen.

⁶¹ At least as “costs” for raw materials, for labour, for services etc. – all “paid” by the enterpriser. The relative character of prices also must be noticed.

When a well developed industry exists, services gain the main role in modern development; and when such an industry does not exist at the adequate level, the intellectual services, knowledge generally speaking, can bring their contribution to building industry and economy in general; but intellectual services can exist and function as well in the benefit of the nation that perform them: they could develop like top braches of the economy, 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. Therefore, the intellectual resource should not be squandered by selling as simply *labour* (factor *L*) or by migration in other 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.

To end with, we emphasize that little enough is said about the constructive (investing) economic activities, called *immaterial investment* (exception, maybe, for advertising⁶²), especially because they are immaterial: moreover, at crisis time, the *government cuts down mainly education and research funds*⁶³, as it currently happens in Romania, after 1989 (we still persist in a generalized economic crisis)⁶⁴. Such political choice is caused by the simplistic judgment based on the short-term run economic effects⁶⁵ (economizing on wages), instead of on the long-term run effects (generally societal, economic included). The outcome is generations spiralling down in terms of intellect, i.e. nation-wide, long-term non-quality, increased criminality, a.s.o.: a diminishing of average standard of social life, in terms of culture, civilization and humanity (i.e. diminishing human quality generally speaking). Such reckless behaviour can cause the decay of any nation, as a system.

⁶² ... expenditures which go up at crisis times.

⁶³ We will evoke here, as sore effects of the prolonged Romanian economy crisis (i.e. post-1989, not the crisis in the '80s, with different causes), the educational experiments our children underwent; their result: the decay is obvious in the comparatively (to 1989) lower standards our teaching and education touches these days.

⁶⁴ The excellent arguments of Fota & Băcescu should be reminded.

⁶⁵ We just incriminated this kind of approaches, even if – and especially because - they are usual.