

The US economy. A sociological analysis (part I)

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Abstract

The recent financial crisis showed how the world is systemically related especially when it comes to sharing faults. The recession started by the Lehman Brothers collapse hit the entire world depriving it of at least 12 trillion dollars (*The Guardian*, 2009). Is the current crisis part of a downturn of the economic knowledge? At first, it seems to be at least a ‘Black Swan’ – in Taleb’s words, a much appreciated analyst of risk models –, i.e. a special form of hasty knowledge related to risk. The crisis is thus a phenomenon that not only economically, but also culturally struck the entire world, demonstrating that uncertainty and predictability are as far as ever and that there is no real progress in the social-economic field.

The crisis is an opportunity and an emergency in the same time. The economics and the sociology of economics must be overhauled. We will try to sort out the discussion on this matter starting from the “moral economy” of classics such as Adam Smith.

Keywords: financial crisis, US economy, *oikonomia*, banking system, risk management

Introduction. United State’s geoeconomical arm

We consider that nowadays, when globalization is a term familiar to the most of us, an alternative argument to the present market interdependence is not necessary. However, we are obliged (methodologically) to argue the importance of the US in the world today and the impact of its actions upon the other (states). Even if many contemporary geopolitical or geoeconomical discourses see the United States as a global power that rapidly declines (in favour of BRIC countries or other important international actors – either the EU, Japan), it is very difficult to argue that the US is left powerless in the international field. Actually, it is still perceived as the hard core of nowadays world order. See for example, the opinion expressed by *Stratfor* CEO, George Friedman, in a very recent article:

“The United States remains the center of gravity of the international system. The sheer size of its economy (regardless of its growth rate) and the power of its military (regardless of its current problems) make the United States unique” (*Stratfor*, 20th September 2011).

And Friedman continues emphasizing that the world today does not have a more ‘significant’ leader than US president, nowadays Barack Obama:

“Even more important, no single leader of the world is as significant, for good or bad, as the American president. That makes the American presidency, in its broadest sense, a matter that cannot be ignored in studying the international system” (idem).

These facts could only mean one thing – the US still represents to the actual world order its terminus and starting points. It is **both the cultural artisan of paradigms as it is the main economic craftsman of its understandings**. We encounter here two important directions of further analysis – there are cultural foundations that lead our social actions as there are material ones which are more frequent and easier to notice in everyday interactions. Therefore, *a society is culturally oriented, while materially reflecting upon the understandings of life, money, society etc.*

Reaching Romania

Now let us see why we argue the US is both starting and terminus point of the contemporary world order. To simplify things, we will make the argument in relation to the Romanian state, the actual interest of the paper. It is rather easy to observe the leader-follower positions regarding US-Romania bilateral relations. To support this, we might make a simple comparison between Romania’s National Defense Strategy with the United States’ and we will see that at least *one third* of the perceived risks and threats are of American interest or inspiration: we refer to the expansion of the terrorist phenomenon that has made many victims but Romania is not one of them, to the proliferation of mass destruction armament by some states or non-state entities, or to the level of instability and insecurity in the Black Sea region¹ etc. In fact, one might argue that the Romanian National Strategy is composed of non-personalized risks and threats, like the education system’s inability to offer a competent and well prepared work force (we are not referring here to the MD’s that are constantly conquering the job openings in the West) or the systemic problems of the Romanian health domain. In fact, there is another threat to Romania’s capabilities of response – the Western societies are much more attractive for young Romanian professionals, the economic field remaining without highly trained and competent work force. But all this is happening whilst Romania is investing in their education, the state is actually paying for it while getting

¹See **Strategia Națională de Apărare**, Bucharest, 2010, p.13, available <http://www.presidency.ro/static/ordine/SNAp/SNAp.pdf> (last consulted October 2011).

nothing in return – i.e. a young and well prepared elite ready to face contemporary and future challenges.

As well, the follower status of Romania in relation to the United States is expressed through the IMF accord by which Romania contracted over 20 billion dollars under the name of national economic recovery, when it actually paid for salaries and retired pays (budgetary expenses). The government is basically waiting for the IMF to come with a strategy for next year's budget, while it could have conceived one (with national relevance) by itself. This is a major problem because the state is not only unable to manage itself, but is also lacking the **will** to do so. We know since Dimitrie Gusti clarified it, that the will is a decisive component of social reality by being the ferment of social action. The will is lying between the frames of social reality and its manifestations, thus reshaping the social landscape:

“The will is the only original power, relatively independent of the cosmic environment, it is the determining condition for the organization of society, is the fundamental element of society, because the will is the most basic social phenomenon, without which social life is inconceivable” (Gusti, 1968, vol. I, p. 228).

The understandings of economy

In rather recent understandings, economy is the science of production and distribution of utilities while the necessary resources are scarce (see Samuelson, 1992). This reveals, in fact, the basics of economics that displays two components – production and distribution of commodities. But with the myth of progress, the economic landscape has extended in such a manner that the real economy (meaning production and distribution) was outsourced by the financial sector. This was, and we think still is, the economy's problem that struck the world in 2008. Still, let us first see the founding definition of economy and its implications.

Etymologically, the word economy comes from the Greek term ‘*oikonomia*’ meaning a ‘household management’ that actually implies a ‘science’ of managing the household. Opposed to this, is the *chrematistics*, in Aristotle's view “the art of making money for the sake of money” (Vulcănescu, 2009, p.119). The contemporary economy that also suffered the 2008 financial crisis, is somehow opposing *oikonomia*, by transforming the money in the actual end of the economic production and changes. **Money** is a universal instrument of acquisition that implies no end but the continuous return to accumulation. Therefore, we start transforming everything into money and capitalizing everything. Thus, the effect of the money is that we become ways instead of ends:

„*The man* stops being a purpose in itself, as Kant wants, he becomes a way of production, a commodity. [...] *The morale* stops being a life organizer, but becomes *an instrument of*

ensuring the fulfillment of commercial obligations. Religion is no more a mean of redemption, but a way of stimulating productivity.” (Vulcănescu, p.71)

The Wall Street paradigm of thought is not highly in contrast with the above statements. **The society** is just a field of trading (fairly anything) in order to obtain personal success (read material success). Here is an opinion of an American analyst stating that “everyone has become a trader, no one invests anymore” [on the New York Stock Exchange] (*Ziarul Financiar*, 9th August 2011). When the economy detaches from the investment component we have a crisis of the economic ethos and of the trust in society as well. What is this ethos crisis? It is the mentality of the economic system. This mentality stated, with the neoliberal paradigm, that in the economy there shouldn't exist any outside market regulations. And for twenty years, the economy became only more and more de-regulated. But the 2008 phenomenon showed the inefficiency of this paradigm. The failure of self-regulation attested the ethos crisis.

As we will further see, the perception of money was heavily relating on new means of obtaining higher and safer profits, with the help of advanced computer technology and mathematics.

Oikonomia

Moral or modern capitalism, moral economy or *oikonomia* are concepts of founding a background to the economy with social actions as its core – meaning achieving an activity that is directed towards the direct management of community's resources.

The economic crisis throughout the history can be observed as effects of centering the economic actions outside the community's well being, moments in time when individuals were rather following their own private interests. It was this problem that both Smith and Hume tried to solve when they founded the liberal economic view, to give classical examples. They were concerned with **good and wrong**, perceiving man capable of ‘sin and error’ that are translated into economic life by avarice and greed. But they proposed *sympathy* and the *state* as factors capable of counterbalancing the above mentioned behavior problems:

„First, the problem of good and evil. Clearly, Hume and Smith viewed man as capable of ‘sin and error’, translated into avarice and greed in the life of the economy. They saw in man's need for social approval and sense of kinship with others a tempering force defined as ‘sympathy’; but they did not rely wholly on sympathy to hold avarice within civilized bounds. Nor, except over a narrow range—notably, in guaranteeing the sanctity of property—did they rely on the state. They viewed open competition as the most effective reconciling force.” (Rostow, 1990, p.18)

Clearly, sympathy derives from our need for community, while the state has the role of guaranteeing the right of property. Nevertheless, the major and decisive balancing force is the *open competition* that was a pivotal point in Smith's and Hume's economic theory². In the same manner, Walt Whitman Rostow reaffirmed the economic tradition as a constant preoccupation for the community's well being.

To the Economists of the Next Generation: in the hope that, without abandoning modern tools of analysis, they may bridge the chasm of 1870 and reestablish continuity with the humane, spacious, principled tradition of classical political economy." (Rostow, *op.cit*, p.v)

We see that the years in which Rostow elaborated his book were also marked by a fracture between economy and community, or at least that was Rostow's perception of things. The 'chasm of 1870' or the Great Depression is the event that the American economist refers to is a moment of disproportionate economics. The problem was generated by an increase of European trading with over-developed stocks on the market. At that time, the 'bubble' was represented by railroads, enterprises, steamship business and so on (the equivalent of the housing bubble in 2008 America and the same housing issue in nowadays China³). As consequence, the Stock Exchange in Vienna collapses, being unable to support its speculated growth – a phenomenon that history recalls as 'Black Friday' (9th May 1873). One of history's roles is represented by the ability to learn from previous mistakes – the speculated growth of stocks should have been a onetime history mistake, but the social landscape is continuously reshaping, thus leaving behind at least some of the past's memories. Rostow is setting an urgency sign to reshaping economic values and readjusting them to the 'humane, spacious, principled tradition of classical political economy' – that might be the Greek conceptualization of economy as *household management*.

As well, even if with a rather diminished international notoriety, Mircea Vulcănescu elaborated upon the ethos (meaning mentality) of the capitalist system in contrast with his term for *oikonomia* – 'medieval economy' (Vulcănescu, 2009). For the latter, the Romanian sociologist affirmed that economic life was occupying the second place on the existence scale:

²The economic theory of classical liberalism acknowledges the market as the primary factor of economic development, through the open competition between private interests, which open competition is guaranteed by the state. From this perspective that proposed a partial cession of state's interventions in economic business, the neoliberal economic paradigm sets the furthest step possible, pleading for the total non-intervention of states in economic ordering. In neoliberal paradigm, markets alone are able to adjust themselves to the next day challenges. A rather false argument given history, as we will further elaborate.

³For China housing bubble see Ken Miller, **What If the China Bubble Bursts?**, *Time*, October 2011.

“It is not a purpose man follows for himself, or a fabric of purposes and rational means that combine with each other, giving rise to differentiated forms and economic interests. It is only a part of a wider community life, of needs, of aspirations, feelings and ancestral knowledge [...]” (Vulcănescu, *op.cit*, pp.58-59).

The problem of modern economics is that it is transforming from economy of consumption into a sort of *entrepreneur economy* based on his reflexes and interests.

“It [modern economy] loses contact with its final social purpose: consumption, in favor of the immediate bouleversement of producer, an intermediary purpose: gaining” (idem, p.75).

In such a brief sentence Vulcănescu manages to elaborate on some current economic problems that a country such as Germany or, more visible, China is dealing with. It is the problem of the *internal market* that ensures the primary growing or ferment of the business, of the economic activity. The gaining is achieved by selling more, by selling to an extended range of consumers. This means that it is necessary to ‘conquer’ other national markets or to export the product, but once the external market manages by itself to ensure the company’s profit, the internal market starts to be neglected, thus depriving the ‘house’ of a means to manage itself. The internal market is formed of two components – on one hand, the workforce salaries that if they are ‘accordingly paid’⁴ sustain the edifice of the economic activity, on the other, the constant renewal of production (making more goods). A workforce that is accordingly paid has the power to buy and so it consumes, ensuring the producer’s further activity. Therefore, the internal market is in our opinion the primary objective of a producer. Of course, the internal market reaches a moment where it cannot further sustain production (one factor is *the law of diminishing utility* or another is *the paradox of value*⁵) and it then needs to extend to exterior markets. That was the entire saving plan of President Roosevelt after the Great Depression: he sustained the growing of production by first developing the internal power of consumption and then by reaching the external markets where it competed directly with Britain and Japan. Clearly, the administration needed to further operate with an element that ensured its **competitiveness**. So, it adopted a *monetary policy* that envisaged the lowering of American prices in order to reach the levels of Britain’s and Japan’s.

⁴Accordingly paid to the productivity of the manufactured goods and to the worker’s capacity of consuming what he helps produce. Note that a good of higher productivity is paid much more than a low productivity good. See for this example the argument of Mihail Manoilescu (1986) and specifically the comparison between agricultural and industrial revenue that can become so disproportionate, in times of crisis reaching a 1:10 scale (a worker in industry manufactures the amount of ten workers in agriculture).

⁵The law of diminishing utility states that “the amount of extra marginal utility declines as a person consumes more and more of a good” (Samuelson, 1992, p.84), while the paradox of value argues that “the more there is of a commodity, the less is the relative desirability of its last little unit” (idem, p.44).

If the above mentioned authors are rather ‘dated’ in arguments (Smith and Hume’s theories are of 18th century interest, while Vulcănescu’s stand for the first half of the 20th century and Rostow’s for the second), nowadays as well young economists are dealing with the apparently anti-social economy. To give an example, Tomas Sedlacek, a Yale degreed economist, is preoccupied with the *Economy of Good and Evil*, as his 2011 English published paper that considers nowadays economics has neglected ethics, as opposed to its claimed ancestor – classical economics. Sedlacek argues “[t]he issue of good and evil was dominant in the classical debates, yet today it is almost heretical to even talk about it” (Sedlacek, 2011, p.210). Therefore, the Czech economist considers ethics as ‘the key question of economics’:

“For us economists, I believe Smith’s legacy is that moral questions must be included in economics —that it is the key question of economics. To me, his most influential contribution to economics was ethical” (idem, p.210).

In our understanding, ethics is the major field of socializing the individual’s action, in this case the economic activity, making it humanly (socially) oriented. Ethics represents the etalon of *morale*, of socially admitted conduct. Philosophically, it is *the honest and good in a society*, the measure of ideal type action. Sociologically, as Durkheim put it, the morale stands for everything that keeps us together, the ferment of social cohesion. Removing the ethics from society as a whole or from economy is similar to an F4B or a P-12⁶ losing its bolts. As these planes used bolted aluminum tubing, losing the bolts would mean wind removing the plane’s exterior panels and thus, leaving a non-aerodynamic plane up in the sky. Disaster could not be any closer away. The metaphor suggest that things, relations, actions require necessary elements for fusing. That is the morale for a society, it keeps individuals together.

⁶P-12 and F4B are 1928 fighter biplanes produced by Boeing and delivered to the military. The difference of these planes is that it used bolted aluminum tubing as compared to earlier models that employed welded steel tubing (see <http://www.centennialofflight.gov/essay/Aerospace/boeing-early/Aero17.htm>, last visited October 2011).