

The Reconstruction of Economics

“I do not feel compelled to believe that the same God who has endowed us with judgment, reason and intellect had intended for us to forego their use.”

Galileo Galilei

The greatest challenges to formalization and calculus in Economics appear when determinism is put to doubt. It should not necessarily be the elimination of the hypothesis of determinism, but of something akin to our capacity of understanding and explaining: the identification of causes and the evaluation of effects. There is also one seldom visited area: determining the correlations between causes, on the one side, and effects, on the other.

The mechanical manner of perceiving the functions of Economics remains though the greatest epistemic handicap, and it resides in a completely inadequate simplification of the vision: the plane linear representation. Economics endured as a form of Euclidian, bidimensional geometrics.

The fundamental economic function describes a curve on a plane, with real number values, either positive or negative. Economics manuals illustrate the behavior of functions within Cartesian axes. The trends develop either in the positive perimeter (win), or in the negative perimeter (loss).

It must be noted that the positive and negative have sense in the economic function only for operations of addition or subtraction. Progressions in Economics are mathematical additionalities (uniformly increasing or decreasing series). Geometrical increases, exponential increases etc., for instance, are relegated to the domain of multipliers. Most often these are considered statistical constants, with a corrective role. What happens from cause to effect outside the behavior of classical variables (and cannot be described through another quantifiable variable) pertains to the competence of the multipliers.

It is well known that in the production functions applicable to endogenous economic growth the most constant effects do not pertain to the variables used – labor and capital (in various forms). The effects of technological progress are calculated distributively with statistical coefficients.

Empirical research has shown that the theory of economic growth has never managed relevancy on the basis of a simple factorial model (with two factors). The growth differentials are, beginning especially with the second half of the last century, favorable to exogenous factor according to the rules of classical economic theory.

The aspects of inconsistency bear an importance which is easily and fatally overlooked, for the credibility of the theory. Making the technical progress endogenous rather suggests insufficiencies in the direction of instrumenting economic growth, and the ascertainment that there are also other important factors which explain the dimension of the growth – such as geography, traditions, culture etc. – constitutes an implicit plea in favor of the theoretical preeminence of the concept of economic development. But also for the epistemic urgency of the reconstruction of the functions of Economics, inserting into them multiple variables.

But the most unsatisfying aspect of the main functions of Economics (the production function, the market function and the monetary function) is related to the fact that in reality the territory of rationality represented by the intersection of the curves described by the functions is much reduced when compared to the cumulated area. Surely, it is admitted that the functions describe plane curves, usually circles, although these could be of the Mandelbrot type, on an Argand plane. Either way the intersection of the three curves describes in all representations the zone of rationality, while the intersections of either two of them illustrate excesses, which we often consider to be economic performance.

For instance, the intersection described together by: the production function and the market function is the perimeter of rent-seeking; the market function and the monetary function – the perimeter of financial intermediation, monetary function and production function – is the perimeter of credit. The areas of non-intersection represent: on the surface of the production function – self-consumption; on the surface of the market function – the black market; on the surface of the monetary function – fictitious money.

The mediated values belong to the area of triple intersection where the economic laws competition and rational calculation are valid. The performances – in a profit sense – are met in the dual-interference areas.

The equilibrium has the sense of a trend only in the perimeter common to the three areas (computable, provable). Though the growth of the common area described is the result of the defining behaviors of disequilibrium. This one is in line with the propensity of systems of functioning only close to – and not in – equilibrium.

If these hypotheses describe reality, it means that Economics must change its fundamentals, the basic vision being either way the one built on the assumption of general equilibrium and rational behaviors.

After all, focusing on the concept of favorable disequilibrium seems more adequate for the understanding of economic functions; the concept describing the state in which a system is capable of maintaining its performance in conditions of progressive change. The trends of calculating performance on the frontiers of the common areas become rationalizable in the spectrum of the favorable disequilibrium.

Economics redraws its rationality alignments always at the limit, even though, in fact, there can only be a radical reconstruction of the idea of performance so long as the functions of the economy are put into the context of the natural environment.

The suggestion, which seemed exaggerate, that the economists are guilty for the economy's irrational-type counter-performances looks like it has to be taken seriously.

Challenging the basic hypotheses of Economics is inevitably necessary.

Marin Dinu

Contents

The Security of the Dynamic Systems	
■ Sergiu Medar, Adrieian Pârlog	3
Substantiating the Incurred but not Reported Reserve	
■ Georgeta Vintilă, Daniel Armeanu	19
On the Dynamic Relationships between the Non-profit and Public Providers of Welfare Services in European Union	
■ DomeNico Raguseo, Helena Kuvíková	25
Reconfiguring the Financial Markets	
■ Ion Bucur	39
The Play Element and Marketing Policies	
■ Elena Enache, Ionel Tălpău	49
Analysis over Critical Issues of Implementation or Non-implementation of the ABC Method in Romania	
■ Constantin Anghelache, Sorinel Căpușneanu, Cristian-Marian Barbu	57

Note: The authors are responsible for the content of their articles and for obtaining necessary permissions.

Text revision:

Gabriela Ochiană

Computerized drawing up:

Nicoleta Bobocea

Cover:

Alexandru Ion

Subscriptions distribution:

Mircea Dinu Tel./Fax: 021/210.73.10; 021/210.63.07
021/210.63.08

Data base indexation:

Research Papers in Economics (RePEc)

<http://www.ideas.repec.org>

Directory of Open Access Journals (DOAJ)

<http://www.doaj.org>

EBSCO Publishing

<http://www.ebscohost.com>

CNCSIS categoria B+

www.economieteoreticasiaplicata.ro; www.ectap.ro
Reception of texts: economia.ta@edeconomica.com