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The Third Way

A possible economic government to overcome the economic crisis

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Abstract

The present economic theories have not been able to prove their sustainability over time, which entitles us to propose a new approach: a free market, yet regulated by public institutions. At the basis of the free market lie a series of rules, sometimes even customs which assure its unperturbed movement. The complete lack of rules is an arbitrariness which leads to disorder and chaos. In this economic context, "the invisible hand" seems incapable to regulate itself naturally, because people are not always rational in their choices, but more guided by "animal spirits". The solution that we plead for and that should be considered as an efficient management is a social neoinstitutional economy (SNE) which turns the state into an "organizer" of the whole system of rules, an independent institution from the governmental power, but still capable of organizing the mechanisms of the market as a direct result of the human actions. Personal freedoms become essential for the outcome of the progress. We may only overcome the economic crisis if we change our vision upon economy and consider the SNE a necessity, not an alternative.

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1. Introduction

The theory that we propose has as starting point the disassembling of other theories: (1) the guilt for generating the crisis in 2008 belongs to the free market, namely to the "invisible hand"; (2) the wish of enrichment is the cause of the crisis; (3) the state's intervention is the solution for coming out of the crisis.

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The Austrian School (Menger, Rothbart, Mises, Hayek, Kirzner, De Soto and others) emphasize the importance of human action, the perception of the system of purposes and means, as a dynamic process, while the neoclassic paradigm (Coase, Friedman, Becker, Samuelson, Stignitz, and others) underline the rationality and the importance of the decision of the economic mechanism. As it always happens, the exaggerations are non-productive. Our research begins from the hypothesis that a historic incursion in the theory and the economic reality emphasizes some aspects which could be hardly contradicted: neoliberalism, guilty of serving the crisis, through the prefix "neo" sends us to another kind of liberalism, by considering "the original liberalism" too radical, and as such the theory of the 40s of some groups of German liberals, followers of the "social market economy" would have a meaning, it would be a statement without a theoretic coverage (Rallo, 2011); the statements, such as "wild capitalism", "market fundamentalism", "liberal economy", suggest a sideslip from the principles of the capitalist market economy and as a logical consequence, some corrections would be necessary; the reality does not confirm that the dimension of the public administration (thus the intervention of the state) would be reduced; the state keeps a continuous increase of the weight in economy, an example being the statistics of the public expenditure. If the greed of the people is the cause of the crisis, we should accept that the crisis has increased in the past decades. This growth would be in contrast with the evolution of the human specie, it is hard to assume a moral involution of the individuals (nothing confirms that virtue opposed to avarice would have regressed, only if we refer to the vices and the errors of the ones who have the power); between individuals and collectivity, there are no studies to confirm a rise of the contradictions in the past decades.

Usually, the individuals "aligned" to some artificial stimuli, which were created due to people's interest or incompetence, by the politicians of some private or governmental institutions (the "unlimited" credit and the low rates of the interest are just two examples); the financial institutions (the banks) were not dealt with from the perspective of the institution of bankruptcy but on the contrary, they were saved because of the money of the contributors and the examples could go on.

The approach that we propose starts from the premise that the bankruptcy, the loyal competition, the respect of the social contract, the liquidity and the solvability in financing and so on, are ingredients of the mechanism of the free market, even if in some cases their institutionalizing imply the regulation of some public institutions. In the same way as the judiciary functions independently, autonomously, from the legislative power, but based on some regulations, the free market must function independently, autonomously, from the state, but based on some regulations. There is no free market without rules. Where there are no rules, chaos and disorder appear.

Otherwise, there is no other field of activity, neither technical nor biologic systems, where these elements or rules are absent. But when they are absent, the functioning of the system is disturbed. Statements, such as that through regulations the state disturbs the functioning of the free market are true only in the case when they are arbitrary. As cases like these are not few, they give meaning to these opinions. But this does not mean that the market in its meaning of an entity does not need rules, on the contrary, the lack of rules would be arbitrary. We ask ourselves the following question: What would these regulations be? Who should establish them? The answer is not hard to give, if we "look" at the way in which the mechanism of the free market functions. Reading things about the crisis in a different way than before, we would observe that the market generates rules or elements by itself. But it acts post-factum by corrections. A company which is not submitted to the exigencies of competition will reduce its activity or can even go bankruptcy. The rule that on the market the relation quality- price is the one which "dictates" the transactional relations is implied. This belongs to the market and functions due to the individual interest of the actors in the market. But for the functioning of this rule to not be disturbed we need the antimonopoly "ingredient". This rule has appeared as a necessity of the market, not as a wish of "one's" regulation. Here we have an interpretation: if a public institution transforms this rule into a law, does it mean that it is an intervention of the state in the mechanism of the free market or just consent of the necessity required by the market? From our point of view, the non-regulation of this necessity would be an intervention in the functioning of the economic system. We can take the example of a bank which does not estimate the relation between its own capital and the loan capital correctly. This bank would have problems with the liquidities and by losing the faith of the depositors would get into difficulty. The rule that the relation between the two types of capital must be 0/1, or 50/1 results from the game of free market and not from the governmental offices. The