

Towards a critique of the world order¹

Considerations regarding the bilateral relations between countries –
political, cultural and academic aspects

Part II

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Oikonomia or chrematistics?

The etymology of 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, 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, 2009, 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*, **Frustrări pe Wall Street: „Dintr-o dată toți au devenit traderi, nimeni nu mai e investitor!” Bursa a închis în scădere cu 1%, 2011**). When the economy detaches from

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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.

Illusion of risk handling

The new paradigm in economy, that affirmed a **management of risk**, was composed of three elements (that the after crisis economy still hasn't left behind):

“This purported new paradigm hinged, in large part, on three closely linked developments: the huge growth of derivatives; the decomposition and distribution of credit risk through securitisation; and the formidable combination of mathematics and computing power in risk management that had its roots in academic work of the mid-20th century. It blossomed in the 1990s at firms such as Bankers Trust and JPMorgan, which developed ‘value-at-risk’ (VAR), a way for banks to calculate how much they could expect to lose when things got really rough”. (*The Economist*, **The gods strike back**, 2010)

Thus, the essence of the new paradigm is **the illusion of handling risk**, given by the increase of derivatives, the **distribution of credit risk through securitization** and finally, by the **combination of mathematics with cyberspace** (computer's power to calculate risk).

Derivatives are a financial instrument directly connected to the reduction of credit risk. It assumes a transfer of predictability in the system, the risk being equally distributed. More precisely, a derivative represents “a security whose price is dependent upon or derived from one or more underlying assets. The derivative itself is merely a contract between two or more parties. Its value is determined by fluctuations in the underlying

asset”, the latter including bonds, commodities, currencies, interest rates and market indexes (*Investopedia.com*).

Derivatives are part of the securitization process, where investment banks, security insurance companies, rating agencies and government officials² joined forces in forging one very profitable business. The securitization process starts in the early 2000s with the ‘innovation’ of new financial instruments called derivatives. In this process, the credit buyer borrows money from the creditor who further sells the loan to investment banks. These banks buy different kinds of loans (commercial mortgage, real estate, car loans, etc.) and turn them into complex derivatives called collateralized debt obligations (CDOs). The CDOs are then sold to investors. Naturally, an important aspect is the profitability of these obligations and given that a proper understanding of them would require documentation of 30,000 pages (*The Economist, The gods strike back*, 2010), rating agencies take the responsibility of assessing the risk obligations. Of course, the rating process takes place at the request of investment banks which pay large sums for the evaluation of these so-called ‘financial products’. In this context, many of the bonds received the highest investment rate (AAA), enjoying widespread confidence of investors.

But what is this risk management and does it withhold the truth?

Each banking institution, when granting a loan, calculates the risk that the loan will no longer be returned and based on this risk it sets the interest rate. The calculation is done by a mathematical formula designed to give *precise* results. In essence, however, the issue of detail, of precise accuracy, leads to losing out of sight the overall perspective. And basically you can never be 100 percent accurate, with a margin of error in calculating risk. The problem here, explains Nassim Taleb, a well known author that criticizes risk models, is that unaccounted phenomenon (or ‘Black Swans’³) have major implications when they happen.

² The government officials are responsible for the de-regulation of the financial sector that allowed banks (Lehman Brothers, Goldman Sachs, Morgan Stanley, Merrill Lynch, etc), financial conglomerates like CitiGroup and JP Morgan, security insurance companies (like AIG) and rating agencies (Fitch, Standard and Poor’s and Moody’s) to grow at a very high rate.

³ They are unaccounted due to their improbable character, the chances of it happening is highly unlikely. A **Black Swan** “is an *outlier*, as it lies outside the realm of regular expectations, because nothing in the past can convincingly point to its possibility. Second, it carries an extreme impact. Third, in spite of its outlier status, human nature makes us concoct explanations for its occurrence *after* the fact, making it explainable and predictable” (Taleb, 2007, p. xvii).

Uncertainty can't be measured continues Taleb: “[...] almost all ‘social scientists’ who, for over a century, have operated under the false belief that their tools could measure uncertainty” (Taleb, 2007, p. xviii). Therefore, the new paradigm by which the whole economy functioned focuses has both a *rational* and *moral deficiency* – the economy is perceived and managed by the illusion of accuracy and not by its content of *truth* – the real economy where work produces goods (in companies). Worse however is that, at least apparently, the economic system has not adjusted itself after the financial crisis: “Stock markets have rebounded sharply. America’s, though still well off their peaks, are up to 50% overvalued on a historical basis” (*The Economist*, **Blocking out the Sirens' song**, 2010).

What should be done? The Cultural State

A solution to the present day crisis generated by the fracture between knowledge (of making money) and society (left without money by the system of distributing the money) is reshaping the role of culture in society and state. A century and a half old solution is the “cultural state” Romanian paradigm. According to it, people should integrate in society in regard to their level of competence in dealing with public concerns. Politics should accommodate reality according to its capacity of processing the academic knowledge at its disposal. The academic knowledge is oriented towards distributing the most valuable universal *understandings* in dealing with challenges of growth and development. At the same time, *academia* is to be concerned with the most ardent problems of the local communities. Economics and Politics then, using the knowledge provided by the Academia, are to move between the knowledge of the *universal* and *local* needs of societies. In fact, the paradigm of the cultural state recovers for good the *citizenship* idea of the French Revolution, the single known status of the modern individual not to be at odds with society, by which the state and society are *normally* integrated one another.

In Europe, there is an urgent need for reshaping the relationship between education-society and state at the following levels:

1. Market is not producing knowledge, it uses knowledge. Market is about producing material wealth. **It is not the Academia to follow the Market but Market to follow the institutionalized knowledge in order to acquire the material wealth.**

2. The Academia and the University are to be linked with the Market for the study of the working communities' needs. **Applied knowledge is to be linked with the common good through labour and not directly to satisfying self-interests of a financial nature.**
3. Weaker states are to be encouraged by wealthier societies to have wealthier societies on their own. **Social Wealth is to be regarded as a public good**, an ingredient for the European Stability and for a Common Europe. Projects should be granted in order to sustain the *national welfare* and serve certain group interests.
4. Students from weaker states of Europe should be encouraged to take part in programs to learn about the power of organizing matters, ethics and the social order of labour in the wealthier societies, all at the level of the university, enterprise and various state institutions. The logic of European Projects should be shifted from the ideology of United Europe towards revealing and understanding the logic of good administration at the level of state, society, enterprise and the individual. **Mobility and grants should focus on knowledge as a tool for social growth** both in theory and practice.

The Romanian-Swiss collaboration - a few considerations

The ongoing financial crisis was and still represents a generalized phenomenon that affected an entire set of states on the international level, Switzerland included⁴. Nevertheless, the initiative of the Swiss state to involve itself in a constant policy of cultural, social and economic development in the Eastern part of Europe has not faded away. The latest projected contribution had its basis on the Federal Law concerning the collaboration with Eastern European States and was publicly voted in November 26th 2006 by the Swiss citizens, an initiative approved afterwards by the Swiss parliament under the loan framework. In figures, since 2007, more than 1 billion Swiss Francs were directed towards

⁴ See past events (Jordan, Thomas J., 2008, **Auswirkungen der Finanzmarktkrise auf die Schweiz**, available at http://www.snb.ch/de/mmr/speeches/id/ref_20080428_tjn/source/ref_20080428_tjn.de.pdf) and future threats (*Reuters*, **SNB's Jordan: Worse euro crisis may hit Swiss: report**, June 19th 2011, available at <http://www.reuters.com/article/2011/06/19/us-swiss-snb-jordan-idUSTRE75I11420110619>)

funding the ten states that joined the EU in May 2004, and 257 million Swiss Francs for the later joined members Romania and Bulgaria⁵.

For the 2009-2014 timeframe, the implementation of the Swiss-Romanian cooperation programme destined to reduce economic and social disparities within the enlarged European area materialized with the signing of a Framework Agreement between the Swiss Federal Council and the Government of Romania. According to the document⁶, Switzerland agrees to grant 181 million CHF (Swiss Francs), a non-reimbursable contribution over a period of five years, that focuses on 4 major thematic groups: Security, stability and support for reforms, Environment and infrastructure, Promotion of the private sector, and Human and social development

Such an initiative comes on the background of important projects developed with Swiss financial support in Romania since early 1990⁷, when the Swiss National Science Foundation (SNSF) together with the Swiss Agency for Development and Cooperation (SDC) built the foundations of a scientific cooperation with Eastern European countries, a project known after 2000 as SCOPES - Scientific Cooperation between Eastern Europe and Switzerland. A sum of more than 33 million CHF⁸ was invested in something over 1,500 research projects and other initiatives only in the first phase of the project (2005-2008), the second one being envisaged throughout 2009-2012. Further, in 2003, the same Swiss institutions initiated along with the Romanian Ministry for Education and Research a Romanian-Swiss programme of collaboration in environmental sciences, known under the acronym of ESTROM—Environmental Science and Technology in Romania, which was finished at the end of 2008⁹.

⁵ *BURSA On Line*, **Romania to receive a non-reimbursable loan of up to 181 million Franks from Switzerland**, 8th September 2010.

⁶ **Framework Agreement between the Swiss Federal Council and the Government of Romania**, 2010

⁷ Giger, Walter, Nicolae Panin, **ESTROM—a Romanian-Swiss research programme**, *Environmental Science and Technology in Romania – ESTROM* available at <http://www.springerlink.com/content/eh503x3234q67146/>

⁸ Swiss National Science Foundation (SNSF), **Scientific co-operation with Eastern Europe. A Swiss contribution to the countries in transition**, March 2005 available at http://www.snf.ch/SiteCollectionDocuments/int_scopes.pdf

⁹ Panin, Nicolae, Walter Giger, **Romanian – Swiss Cooperative Research Programme, Environmental Science And Technology In Romania (Estrom)**, available at www.geocomar.ro/website/publicatii/Nr.14-2008/1.pdf

Another initiative that is intended to support the European enlargement is the decision of the Swiss Parliament to further finance a programme set on the reduction of economic and social disparities through the Scientific Exchange Programme between Switzerland and the new member states (Sciex-NMSch)¹⁰. Developed between 2009 and 2016 for a total amount of 44.973 million Swiss Francs, the programme addresses the research and academia dimensions, by helping graduate and postdoctoral students from Romania (in our case) to develop research projects, under the guidance of a mentor from Switzerland. The main objective of the programme „is to establish scientific partnerships, which will (1) Develop individual researchers’ capacities (human capital); (2) Foster scientific progress and innovation (scientific prospects); and (3) Establish or enhance networks between researchers (networking)”¹¹.

Weak states. The Swiss collaboration and the UNESCO Department

We mentioned above that wealthier states need to collaborate (to sustain) weaker states by promoting a healthier and a more affluent society. One of these collaborations is maintained through the UNESCO Chair in Bucharest. This department is materially and culturally sustained by the Swiss Confederation, meaning money given for the administrative tasks but also for organizing conferences and so on, and as well through the expertise and knowledge of professors from Fribourg University. The main objective of the UNESCO department is **the focus on the cultural component of life in Romania and Europe**, in general. For example, professor Hauser, director of UNESCO chair, has conducted researches on the cultural and religious life in Romania, in Eastern Europe, while still conducting a comparison with other Western societies. One other interesting study that could be mentioned is the preoccupation of Lilian Chiachir, academic assistant in the UNESCO department, for the religious freedom problematic. The research starts with Romania and Switzerland in the 16th century.

The UNESCO chair also offers a welcomed approach to the European dimension nowadays. The European Union is a vast project of economic, institutional and political

¹⁰ The Scientific Exchange Programme between Switzerland and the new member states (Sciex-NMSch) http://uefiscdi.gov.ro/userfiles/file/Acord%20Elvetia-Romania/Programme%20Document_burse.pdf

¹¹ The Scientific Exchange Programme between Switzerland and the new member states (Sciex-NMSch) http://uefiscdi.gov.ro/userfiles/file/Acord%20Elvetia-Romania/Programme%20Document_burse.pdf

'junction' between the peoples and states of Europe. But it also undertakes a cultural integration of its nations. The department of UNESCO sets to **offer a cultural understanding of the European integration process**, adding up to the more common taught perspectives of economic, institutional or political processes in the academic environment. In this manner, the European discourse is not only taken in material terms, but it also gives incentives of a knowledge based society, where cultural aspects (education, knowledge) may be given the front seat of nations collaboration.

One other very important pillar of Swiss collaboration with Romania is the education of students in matters of social ordering in wealthier societies. The students are the knowledge component of tomorrow's welfare. They are the purpose of the 'now' education process, but they represent the means of tomorrow's society, by being the frames of organizing social life, of helping society to rise. In short, they may become tomorrow's elites and a knowledge based elite is by far very important to the prosperity of a state. The UNESCO department reaches some of the most important issues of modern tertiary education. Its main focus resides with the master plan where it organizes programs of Intercultural Communication, Intercultural Management and Business Administration (MBA), but it also reaches to the PhD studies with professor Hauser as coordinator of PhD thesis.

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