FROM “PRE-ECONOMICS” TO THE DEVELOPED INFORMATIONAL ECONOMY – A SCIENTIFIC REVIEW

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Abstract

During the 5000 years of economic evolution (considering the oldest textbooks available today) that produced an organic evolution and economic entanglement, but which led in our days at a turning point for the global economy. Why choose to present the economic spark from the beginning of the first recorded writings? Because we deal with the big picture – a framework that represents “life” and the economy that isn’t loaded with the evolution of ethics, moral and informational, the initial picture shows the purity of the early civilization, naked by the actual’ modernist add-ons.

This research paper is an overview of the main ideas that molded the actual economic life by creating a bridge between the “pre-economy” period when trade was based on thievery or unvalued exchange till the development of today’s economic science, that has as defining point Adam Smith and his view on economic development through the its power engine – self interest and the human being.

Keywords: human development, business cycle, utility, enlightenment, consumption, self-interest

Introduction

It represents a more efficient approach from the whole perspective on the evolution of economic idea through the fact that the individual, the rational being, the subatomic indivisible unit of the economic engine has now a more complicated path than in the beginning.

The first economic sense was recorded from the development of the Epic of Gilgamesh that certifies the first transformational socio-economic (r)evolution. The gained experience from the feelings had with his acquired friend, Enkidu, a creature that evolves to what a rational being represents that marks Gilgamesh to transform from a tyrant obsessed of building a surrounding wall for the Uruk city (Bagdad) into the protector and patron of its population.

Some observed truths in early and simple times we can observe that they are still valid, but which are underlined in our days through the abstraction of common sense, that evolves for future generations as possible “sayings from our grandfathers” that aren’t

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valid in today’s reality. As a difference between then and now we can observe the fact that today everything is measured through a quantitative model and with a relatively stake for the qualitative analysis, while then the exemplification through stories and tales. The word “myth” in Greek is synonymous with the word “story”, but a myth is a story with moral.

1. The Epic of Gilgamesh – the story on human development

By the simple appearance of questions on quality of life we had the first record on questions linked to the economic science. Probably that was the spark that enlightened the creation of the Epic of Gilgamesh, an epic that represented each rational being and its evolution. Through the resulted teachings we can find some them to encourage the transformation of humans into robots, here having as a standalone purpose labor, but sometimes it can transform itself into a wall in human evolution (Pink Floyd, “Another Brick in the Wall”). Sometimes economists have the habit to neglect humanity from the equation, sometimes leveling human with efficiency, although both go hand in hand in the last five millennia, the human being suppressed by the tyrant forces from the recorded beginnings.

Gilgamesh’s drama which represents the liberation and the distancing from the wild nature represents the first proof of cultural development. Gilgamesh had as his goal to build a wall surrounding the city led by him to separate the city from the wild nature, creating this way the first human culture. Practically, this idea represented the continuous human search for full satisfaction and the desire to evolve more and more, even on the expense of human nature. These feelings are found in our days, 5000 years from their first recording, creating along a sentiment of futility.

The idea of dissatisfaction is blurred by the friendship between Gilgamesh and Enkidu. If the idea of friendship would be analyzed we’ll have to deal with inefficiency from the economic perspective, because friendship can’t be quantified, only the fake one, “on interest”, but we have to consider “the emotional load” as an accelerator of the efficiency of economic production and social welfare. In this epic we can observe the first fight against the system, the expedition against gods, the awakening from naïvety and teamwork, through the friendship with Ekindu. Camaraderie created and creates efficiency, 5000 years ago at hunting and today at the workplace, but friendship is the one that eludes the economic contract, because it’s created for giving one to each other, in the sense of life and death, not for profit or for personal gain.

The relation between Gilgamesh and Enkidu is recreated by Keynes through the idea of “animal spirits” that evolves from its primordial state to the actual “complex animal”, even if in the end Enkidu dies, he survives at a complex level through the evolved being of Gilgamesh.

The idea of evolutionary conservation is given by the built around the city, city that started to show the first signs of specialization and wealth accumulation and the first step to the idea of nature as long term supplier of resources that creates the high dependence between the individual and other members of the society, instead of releasing them.
Practically, the dependence has an absolute given value and always has the same influence on man, but the shift between nature and society and their influence on the human being is given by it in different weights, depending on human evolution.

Another question appears: the human nature versus the nature, is the man turned to evil if he is taken from his natural state and transformed by the city pressure, but if we believe that man is evil in his primordial state does he need a ruler to decide for him; but if we think the opposite, that man is good in his primordial state results that he must be set free and under soft regulation, the first manifestation of the laissez-faire principle. To this is added the idea of the “invisible hand of the market” that appears from Gilgamesh’s time, the wild evil transformed into good for the growth of the entire society and to underline the idea of utilitarianism through the refusal of Gilgamesh to stain himself by accepting Siduri’s offer, 4500 years before the concept was invented.

The epic of Gilgamesh ends in the same point where it starts, because it is built as a “bildungs roman”, a cyclical story that show the futility of the length of history and the fact that we are only small entities in the scale of evolution.

While Uruk City was in the middle of economic development and social shifting, the Jewish civilization was going in full throttle to the creation of economics before the Antiquity era emerged and created the philosophical economy.

2. Jewish civilization – the evolution of utility and socio-economic principles

Another component of the economic development before the concept was even named was the idea of utility and principle found in the Jewish thought on the development of market democracy. They underlined from early beginnings the idea of respecting the law and private property, but in the same time they established the first safety net for social disparities. Jewish concept on wealth is deployed as a flow state, not as a steady state, that is why today the biggest real estate companies are Jewish because they see buildings as flow factors not as fixed factors, and we can add the fact they could be characterized as the first people that stressed the idea of property management. The Old Testament is the first that underlines the idea of progress and linear perception of time in the economic manner. The Torah shows the fact that creates a business gap between how Jewish’ civilization sees business life and how Christians see it: they search for Heaven on Earth while the Christian’ Heaven is out there, but nowhere to be found during life on Earth.

Seen from the utilitarian vantage point good versus evil can be described from the Hebrew thoughts as a relation created between outgoing factors (good/evil deeds), expectations and incoming factors (good/evil rewards).

A perspective that shows us the idea of social understanding is the principle of Sabbath rest – we are not here only to work and that there are moments in life we are not allowed to maximize productivity.

On the Sabbath – year of rest, we can cite Book of Leviticus:
“When you enter the land I am going to give you, the land itself must observe a Sabbath to the Lord. For six years sow your fields, and for six years prune your vineyards and gather their crops. But in the seventh year the land is to have a Sabbath of rest, a Sabbath to the Lord. Do not sow your fields or prune your vineyards. Do not reap what grows of itself or harvest the grapes of your untended vines. The land is to have a year of rest.” (Leviticus 25:2-5).

At every forty nine years there was a year of forgiveness when land is given to their original owners, and that year is called the jubilee year, debts are forgiven and slaves were set free. We can see this year as an antimonopoly and social measures to stop the convergence toward to asset accumulation, and if it creates a monopoly you have power concentration as well. The jubilee year solved the problem of generational indebtedness. In the Sumerian Code of Hammurabi the same rules were applied but it was the oldest society to allow interest and instruments of forgiveness at the same time (Fergusson, 2008, 30).

Another interesting component found in the Old Testament is that the harvest was Lord’s miracle and a percentage should be given back. Ten percent was handed over to the temple by Israelites, and at every three years they gave it to the Levite, orphan and the widow and the stranger. (Deuteronomy 26:12-15)

The above presented facts represent the first manifestations of wealth redistribution to the poor, the first concept of economic regulation, especially based on social improvement and the shaping of an economic national entity. “Since the community has an obligation to provide food, shelter and basic economic goods for the needy, it has a moral right and duty to tax its members for this purpose. In line with this duty, it may have to regulate markets, prices and competition, to protect the interests of its weakest members.” (Tamari, 2003, 52) This way the idea of charity, donations and the creation of a social network was for the first time shifted into reality. The first economic textbook was the Holy Bible because of its sayings and stories that cumulate in socio-ethical teachings.

2.1. The Bible – first economic textbook

Europe and North America has as leading religion Christianity and for this our economic and social ideas are derived from it, but the economy has a social fabric more than a religious one. The Old and New Testaments could be considered as the first economics manuals. Mark Twain said that Adam and Eve should have been told that the snake was forbidden to eat not the apple from the Tree of Knowledge because this is the nature of human behavior what is restricted is interesting until it is consumed. Adam and Eve committed the “sin of consumption” – the original sin. The parables of Jesus are based on economic language and even Christianity has as core idea redemption. To redeem represents to purchase a slave and set him free, a similar fact with to forgiveness of sins, but in Greek sin means debt, so we can oversee the fact the basic nature of Christianity is to forgive the debts of others. If we’ll put ourselves with this knowledge in today’s economic development and think on the line from “Heavenly Father”, “Forgive us our sins” as meaning “cancel our debts”, similar with the complaints of American banks in 2008 and Greece in 2010 and 2011. From the idea of forgiving a debt/sin results the fact
that being good is in vain, but for those who are good Heaven is their payment in antithesis with the Hebrew view on the fact the Heaven is on Earth.

3. Mandeville and his influence on Scottish Enlightenment

Bernard Mandeville, the philosopher-medicine of the 17th century, who greatly influenced Adam Smith and other important Scottish Enlightenment representatives, contributed deeply to the theory of laissez-faire but also to the development of concepts like the balance of trade, the role of government but also unintended consequences.

Although the above mentioned concept of unintended consequences can be also related to Adam Smith and Scottish Enlightenment it was only in the twentieth century that Robert Merton, a sociologist made it famous in "The Unanticipated Consequences of Purposive Social Action", 1936.

For short, the theory of unintended consequences states that for every problem you solve, you create another one.

For Mandeville the core of economic system was urban, luxury consumption:

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“The Root of Evil, Avarice,
That damn’d ill-natur’d baneful vice,
Was Slave to Prodigality,
That Noble Sin; whilst Luxury
Employ’d a Million of the Poor,
And odious Pride a Million more:
Envy it self, and Vanity,
Were Ministers of Industry”
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Thus, people worked very hard to gather resources, referred as “avarice” in order to spend with no measure, sometimes overwhelming possibilities, and this is referred as “prodigality” and from here the equilibrium of placing resources in circulation again. Rich people spend, poor people work.

Starting from a remark of Charles Devenant, Mandeville combined passions and natural resources and endowments, policy and growth, in a full picture. Although people are either inclined towards prodigality or avarice: “if anything ever draws ’em from what they are naturally propense to, it must be a Change in their Circumstances or their Fortunes”, circumstances that are: “Fruitfulness and Product of the Country, the Number of Inhabitants, and the Taxes they are to bear”. And he continues: “Would you render a Society of Men strong and powerful, you must touch their Passions” (Mandeville 1929, vol. I, 184), suggesting that people can be manipulated in changing moods and dispositions by the help of “good management” and laws.

Pointing out differences between England and Dutch, Mandeville came up with a theory of commercial development, where the key elements were the commercial policy and the ability of governments to deal with people’s passions.
These ideas might have influenced Alexander Gerschenkron, who in 1962 stated that the evolution of a backward country would differ radically from the evolution of an advanced economy, directly proportional to the degree of backwardness. He pointed at speed, industrial scale, the importance of banks but he also emphasized the importance of an ideology, and principles to convince people that evolution and improvement will happen.

Thus the Industrial Revolution and its 19th and 20th century programs find their point of inspiration in Mandeville’s work.

The idea of the force of using motivation, namely vices, natural passions in the materialization of economic utility was acquired by economic classics –and here we mention the famous concept of the 'invisible hand', coined by Adam Smith,- and was developed and transmitted up to present, by supporting the idea that capitalism and market economy relies implicitly on the effectiveness of particular interest and selfishness of others. 'Vices' of Bernard Mandeville's view can be likened to the 'virtues' global corporate capitalism supported by representatives beyond the power of their own governments and borders, the speculators of capital markets, supporters of the 'speculative bubbles' phenomenon, those who think that by force and blackmail can ensure expansion of democracy and freedom of movement and expression, those who are simply imitators of Western cultural and behavioral values.

4. Towards a modern economy-Adam Smith

The majority of economic analysts consider that modern economics begins with Adam Smith for varied reasons. Smith’s most important contributions were elaborated between 1750 and 1790.

For many, “The Wealth of Nations” published in 1776 places Smith as the leading figure of economic thought, influencing 19th century exponents as David Ricardo and Karl Marx, and also 20th century John Maynard Keynes or Milton Friedman. The importance of this books comes from the fact that its appearance was the explicit moment when economics became a separate science, apart from moral philosophy and theology. The 20th century positivists find in Smith’s work a value-free science, based on the rational self-interested manner humans behave.

Adam Smith acknowledged the importance of a free-trade economic system and the importance of production. Production and productivity as well as labor, were crucial for a growing economy. In Smith’s ideal, free trade society, average persons could start businesses, free from government intervention, and consumers would purchase from these producers at a price determined by the laws of supply and demand.

The most important aspect of Smith’s economic theory in The Wealth of Nations was the Invisible Hand. Smith suggested that each person is guided in decision making by an invisible hand. The invisible hand leads to beneficial decisions for us and the economy.

Smith realized in a mercantile society the need for a more efficient and considered that capitalism was the most logical, lucrative, and moral political and economic system, that
allowed people to own property, to spend and earn according to anyone’s wish. These and a productively behavior result in the natural market functions of the free market economy. Competition, which regulates free market economy results in fair prices favoring the most efficient producers and consumers.

4.1. The Stoics versus the Hedonists – to be or not to be moral

In “The Theory of Moral Sentiments”, Adam Smith describes the moral teachings from Ancient Greece by dividing them into two competing schools: the Stoics and the Hedonists, having as their main dispute the payment for doing good, does good deeds carry a counter value or the good given is correlated with the offered good.

4.1.1. The Stoics

Economic calculus was irrelevant on the subject of good, because there aren’t any similarities between good and utility (which could be calculated). Some good deeds are paid back in pleasure (increased utility), others not at all, but the doer of the deed shouldn’t always follow obtaining any material results for his action, if he is an individual with morality. The result of his deed should be decided by Fate, and the satisfaction of doing a good deed in an ethical way creates for him the maximum satisfaction utility (pleasure – Smith, 2011, 409). The Stoics underlined the “correctness of the fact itself” is the core of the idea and not the costs or yields of the good deed done.

For this we can see why Adam Smith is the founder of classical economics, because he has as central point the maximization utility, but he considered of himself as being a Stoic by the fact he promoted ancient philosophical evolution.

4.1.2. The Hedonists

The Epicurean or the Hedonist school underlined the idea that neither good nor rules are given from above, exogenous. The goodness of a deed is measured by the utility it creates; this is the core idea of the Hedonists. The vantage point is seen from the personal side on utility by the Hedonists and egoism is the ethics that dominates the system, except in the case of friendship where an exception is made. Utility became the equal of good life and the guiding principle of every deed done.

Another hedonist feature was the fact that the mind is influenced by the body both on pleasure or pain. A representative of the school was supposed to oversee through his reasoning reaching the goal on the long term, and for this they underlined the idea of using intellectual experiences.

The Hedonists ethics was based on egoism, reasoning, forethought and calculus. There are today’s modern economics’ principles and have as exception the existence of friendship that invalidates egoism and validates sympathy as promoter of our behavior.
4.2. Economics of Good and Evil

The Stoics were the promoters of “moral constraints” similar to the actual budget constraints, but for the Hedonists moral constraints didn’t existed anymore because they were incorporated into utility curves. The point that creates and advantage for the Epicurean is the fact they haven’t anything given from above, all factors used are endogenous, because they created their own set of rules.

Other differences between the two schools are the fact that for the Hedonists good loses its inherent sense and becomes utility, if goodness is part of a system it creates increased utility completely opposite to the Stoics. In the end Hedonists turned the logic around: Good became the achievement of utility (Sedlaceck, 2011, 81).

Adam Smith concluded that Hedonists weren’t consistent on their search for utilitarianism.

The beginnings of our philosophy must be credited to the Greeks and they printed a good way of living for today. The first player in this philosophical game was Xenophon and Plato created momentum for the economic philosophy. Through his story about the world of shadows in which we live to this day he molded the idea of evolution through misled development of the vantage point. For Plato the body and its desires weren’t important, but the idea of progress.

5. John Maynard Keynes and the long ignored “animal spirits”

The mainstream economic thinking during the last 30 years was dominated by Milton Friedman, but today John Maynard Keynes is coming into the light since governments around the world as well as Obama administration use Keynes’s fiscal stimulus packages.

Nevertheless, we consider the concept of “animal spirits” as having the same importance with the above mentioned one. After all, there are the “animal spirits”, namely the “irrational exuberance” that lead the current financial and economic world into the current crisis situation.

The 1936 “The General Theory of Employment, Interest, and Money” tried to put a balance between classical economists that stated that less regulation would allow private markets and rational participants, by the help of the ‘invisible hand,’ to create jobs, and socialists that sated that the state should direct the economy.

Keynes in his turn stated that only rational participants governed economy; he believed that noneconomic, non-rational, animal spirits actually caused involuntary unemployment and economic fluctuation.

Government should not be too authoritarian, (as suggested by socialists), and neither too permissive, as suggested by classical economists.
Trying to reach a consensus with classical economists, supporters of Keynes got read of most of the animal spirits, in an effort to convince in favor of adopting Keynes’ fiscal policy prescriptions.

This theory was vulnerable to critique by neo-classical economists like Milton Friedman.

"Animal spirits", are defined by Keynes in "The General Theory of Employment, Interest and Money" as "a spontaneous urge to action rather than inaction, and not as the outcome of a weighted average of quantitative benefits multiplied by quantitative probabilities."

When "animal spirits" are low, consumers refuse to spend and businesses refuse to hire or invest.

And taking into account the current situation on the financial markets and the confidence consumers have which has reached lower rates than ever before it is no wonder that “animal spirits ” are also lower than ever before.


They are: confidence, the conviction that guides rational participants towards some irrational decisions, which amplifies business cycles; fairness, which affects both wages and prices; Corrupt Behavior and Bad Faith, very evident in the recent economic crisis, but also in any other in the past is an economic activity with hidden, not-ethic motivation; money illusion, also pointed-out by neo-classical economists like Milton Friedman, is still a contemporary concern since people are not very familiar with the impact of inflation and deflation and stories, the narratives we create to describe human experience, which seems true and favor speculative bubbles.

Akerlof and Schiller’s analysis comes just at the right moment, when many world economies make efforts to recover. They are Keynesians by ideas, appreciating creating economic opportunity by free market, and also the potential threat these spirits represent for economy. From 1970’s these “animal spirits” were no longer taken into consideration and the current situation is the result.

Confidence is traced without doubt when we speak about housing prices that could never fall, or about stock market of the 1920s and 1930s, or about the tech bubble in recent years. This is in fact Allan Greenspan’s “Irrational exuberance.”

Fairness is directly connected to unemployment, affecting in the same measure employer and employees. The neo-classical theories about labor markets state that employers will pay less in order to employ as many people as possible. Nowadays, this is not the case anymore since the transaction only starts when the wage is agreed upon. Schiller and Akerlof show that employers often pay more than they need to, to secure a motivated and skilled workforce, and thus wages varies a lot. The wage considered fair by employees is almost always above the market-clearing wage;
Money illusion also affects wages; neo-classical economists stated the existence of a Natural Rate of unemployment. In general people have a very vague idea of the relationship between inflation/deflation and their purchase power.

A survey on two groups, one of economists and the second one of ordinary people had been done.

People had to react to the statement: “I think if my pay went up I would feel more satisfaction… even if prices went up as much,” 90% of the economists disagreed, while 59% of the ordinary people agreed and this shows clearly the money illusion.

Akerlof and Schiller rejected the idea that capitalism is pure and declared in favor of protecting people from the excess of capitalism.

Also they stated that stories we use to tell are most of the times exaggerated and irrational and we need protection from these exaggerations.

Conclusions

We are witnessing at present a reconfiguration of socio-economical and political structures, but also of relationships between humans and also between states. We are at the climax of a knowledge society, which is supported by the present revolution in informational and communicational technologies.

We are under the influence of globalization, seen in 1980’s as “the third wave” by Alvin Tofler and supported by the informational society and launched by Yasushiro Ito, in 1981, baring "johoka sakai" as name.

Having the internet as ally, and other new informational technologies, all components of global economy interrelate, at a commercial level mainly. Thus, we are affected by decisions taken in different corners of the world, on not only economic, but also socio-cultural and political grounds.

Jürgen Habermas, contemporary sociologist and philosopher stated the idea that the development of the public sphere can only be accomplished by the help of competition system, commercial theories and practices that are specific to occidental society. We also have to mention the concept of durable development seen as a unique mix of economic, social and ecologic aspects that sustain the actual economic and socio-political mechanism.

Since Gilgamesh up to present it was proven that the fundamental law of human nature has as final goal of human activities obtaining the maximum advantage. Modern sociologist Lester F. Ward opened the road of modern sciences by stating that profit is not everything opposing this way almost 5000 years of evolution. Still, profit is a motivation, and motivation leads to general progress.
Thus, we reached an understanding were the entrepreneurial spirit must be efficient from a triple perspective: economic, social and ecological, and profit (utility) is the goal of every socio-economical activity as well as appreciation criteria for businesses.

J.K. Galbraith stated that: "The producer’s motivation is profit perspective that he tries to… maximize" (J.K. Galbraith, 1982, 37).

Greenspan draw the attention on the global tendency towards absolute of the economic efficiency and maximizing profits, dressing the shape of a “contagious avarice”, having no boundaries.

This can lead only to a bigger gap between poor and rich people, between poor and rich countries, and damages over the environment, affecting even life on planet.

The present and generations to come have the target of finding a balance between all these economic, socio, ecological and even political aspects, of using the informational technology to protect human rights and needs.

From the “pre-economics” till the actual economics of unhealthy development we can realize that somewhere in the last 5000 years the shift was wrong and that created a rupture from common sense, from basic capitalism and from the development of moral and ethical common sense.

Bibliography