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## Article

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## Rationalism, Pseudo-Rationalism, and the Lack of Rationalism: Realistic Scenarios about the Beginning of the World Crisis of 2007

Gabriela Bodea<sup>1</sup>, Aurelian-Petruş Plopeanu<sup>2</sup>

**Abstract:** In this paper, we aim to assess whether rationalism is a feature that usually accompanies the architecture and the evolution of financial and economic crisis. We find that, unfortunately, the lack of rationalism and pseudo-rationalism are the rule, not the exception, which created, and still do, the vulnerabilities of modern global economic systems. Once again, these shortcomings and limits of rationalism have negative effects. We found that the volatility of the present context is a pseudo-rationalist cause of the latest crisis which created social, political, military and economic turbulences. Moreover, the economic cycles were generated by the incompetence of political power and its legalized manifested corruption.

**Keywords:** world crisis; rationalism; pseudo-rationalism; irrationalism

**JEL Classification:** H12

### 1. Introduction

The modern knowledge undoubtedly uses both empiricism and rationalism - though in different ways, depending on what is predominant - as equally important to us - in every moment of becoming. Why? Because if the world economy is evolving today, it is due both to the processing of data and information from past experiences and thinking (rationality). And the *truth* is the only one that has to guide both the decisions and the decision-makers. So, all the situations and cases presented in our article use fragments of truth, process and anchor them in reality, comment them, trying to draw the complexity of the *whole* represented by what we invariably call *crises*.

We have to admit that, when a rational idea has gained some force or influence, we, humans, tend to think that everything that derives from such an idea becomes reasonable and rational. And reality has shown us that it is not so - and that a rational idea taken over, reinterpreted or misplaced can be a true source of great errors or failures. Therefore, this paper will illustrate these elements.

Rationalism - as a philosophical doctrine - is based on something apparently simple: that *truth must result only as the effect of the force of reason and of knowledge*, not based on beliefs or dogmas. But to what extent are we dependent on our knowledge-generating experience? In this paper we try to answer this question.

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## **2. Rationalism in Times of Crisis?**

Is there rationalism in crisis? Usually, we are tempted to blame, before we answer. And to begin with, there is nothing simpler than to blame the Eternal Guilty: capitalism. Was it “invented” in a conceptual sense? Of course. But what we, the people, haven’t understood is that capitalism is re-created. It restores - always between other limits - the rift between rich and poor countries, sustaining the “vicious circle” of personal accumulation, economic cyclicity and social rupture.

Here are just a few possible “guilty explanations” of the lack of rationalism in economy, in fact, the numerous vulnerabilities of the world’s economic system:

1. “The very word «secrecy» is repugnant in a free and open society” (Kennedy, 1961), John F. Kennedy declared in 1961, though Armageddon’s conspiracy violated all the epochs that mankind had passed through. And nearly six decades after this statement, we find - together with Jessica T. Mathews (Mathews, 2012, p. 14) - that the world is facing far more threats and economic and political aggression than in the past;
2. Paul Krugman recognized a social collective guilt in assuming economic rationality over the crisis in 2007: “Well, we were foolish. And now the plague is upon us.” (Krugman, 2008, p. 5)
3. Economic and social risk - associated with imprudence, temptation and fraud - is an overwhelming factor at the beginning of the millennium. For example, we are aware that sometimes the state itself disappoints, imposing “a huge economic, political and social risk for the entire population.” (Berca, 2011, p. 248)
4. By separating the truth of ideas, doctrines and ideologies, some of us recognize the inherent cracks that sound concepts suffered because of their corruption by counter-rationalists: “We are sapping the country’s spirit. Our political system is broken.” (Nocera, 2013).

In concrete terms, the crisis that began in 2007 abounds in the pseudo-rationalist “guilt” caused by globalization, because this process has been the exponent of a major change in international transactions, especially in the signs of power. And, contrary to the economic laws known so far, highly developed countries have been more deeply affected by the crisis than low-developed ones. Apparently, the process is not a rationalist one, because in general, countries with economies dependent on others cannot rely on the same credibility and representativeness of financial-banking institutions. But precisely from here it results the asymmetry of the recent perception of the crisis, as a result of both economic weaknesses and the resistance of states to the conjunctural pressures. In this generous context, globalization has facilitated the spreading of “monetary outflows” effects throughout the world, frenetically dissipating and minimizing the notion of credit through extremely creative but risky “scammers”.

The volatility of the 21st century conjuncture is also a pseudo-rationalist culprit of the crisis - and another one that carries major risks: political (new leaders on the world stage), social (strikes, street movements), military (arming, wars, terrorism) and economic (migrants, unemployment).

For the world economy, Ravi Batra was a visionary, because, as early as 2007, he has admitted that no matter what/who is at the root of the crisis, things will get worse from several points of view: “The economy will steadily get worse, with home prices falling and layoffs rising.” (Batra, 2007, p. 173) or *BUSINESS ADMINISTRATION AND BUSINESS ECONOMICS*



“The housing bubble appears to be a major event (...). Its starting point was 2001, when the interest rate started a panicky fall. It is likely to burst in 2008, give or take a year. The burst could start in 2007 and continue till 2009.” (Batra, 2007, p. 175) In the same direction, he stated that “The economy could still face a steep recession because of rising oil prices, but avoid the calamity of a depression. (...) There could be more stock market crashes from 2008 to 2011 or 2012.” (Batra, 2007, p. 179) In 2012, the same scholar confirmed his own predictions, because “a deep slump started all over the world in 2007, and, fully five years later, its ill effects of high poverty and unemployment continued to afflict the globe.”<sup>1</sup>

Political corruption has been one of the ‘lack of rationalism’ culprit of economic crisis-induced chaos. Batra was convinced that this scourge has attacked the business environment “under the belt”. Members of the same “orgy” were the injustice and incompetence of power, which were persuasively imposed (Batra, 2007, pp. 1-14), both through the economic cycles (as it was normal) and the electoral ones (“orgy of official incompetence and corruption” (Batra, 2007, p. 13)). The plagues caused mercilessly by these culprits - said Batra - are aggravated by the fact that we are dealing with “the endemic governmental corruption” (Batra, 2007, p. 187). What do we understand from this? That America alone has its own corruption? Not at all: the power machinery has defective parts all over the world, in almost all compartments. Rather, Batra wanted to say that so deep was the danger of corruption that it became permanent. And, unfortunately, in some respects, it seems to have almost “legalized” (Batra, 2007, p. 192).

Lacking rationalism is also the answer to another question: Why do officials (from any environment, political or banking) often lie about the economic realities? Either to circumvent their own involvement in guilty situations, or to delay unwanted effects out of “modesty” to “protect” the population. The latter is perhaps the most unfortunate, because it insults our intelligence. The lie is another culprit of the crisis and its consequences (Batra, 2007, pp. 103-122), and it concerns several sub-categories: the general state of the economy, its financial and fiscal situation, the perception of voters before the elections, the mental and material condition of the population in times of crisis.

It is interesting what we can hold and use today in the tragedy of the Great Crises (1929-1933), through Harold Bierman Jr. ’s eyes (Batra, 2007, p. 209). There are two things to confirm:

1. that between optimism and pessimism there is a permanent equilibrium, a bridge that denotes “a delicate balance” of the capital market;
2. that the guilt of the impact of the crisis lies in the way in which public statements are made.

That is precisely why even the positions taken by officials can influence stock exchange operations and especially investors’ investment. Unfortunately, the “assigning blame is unreliable if there has not been an adequate passage of time and opportunity for reflection and analysis.” (Bierman, 2007, p. 169) What can be more rationalist in a statement that does not induce pragmatic rationalism?

Here is another landmark of the lack of rationalism. Public opinion has reacted in recent years to the stated error of the 2007 crisis: loan funds. Their guilt was sometimes unfairly distributed by guiltier

<sup>1</sup> Ravi Batra, A New Theory of Unemployment: Globalization and the Wage-Productivity Gap, Department of Economics, Southern Methodist University, Dallas, U.S.A., 9/15/2012, [http://www.ravibatra.com/a-new-theory-of-unemployment.htm#\\_edn2](http://www.ravibatra.com/a-new-theory-of-unemployment.htm#_edn2).



ones; in fact, the idea is that the political environment seems to be waiting for any new moment of economic degeneration, in order to immediately accuse the most plausible culprit.<sup>1</sup> How do we explain something like that? Having as its source the liquidity crisis and the financial hysteria in the USA (2007), the crisis spread its tentacles on all continents, on the classic chain of contagion. It was, in fact, the propagation of a massive lack of confidence in anything that would have meant capital investment. Of course, the “financial zone” was the gateway to subsequent problems (investment being among the first affected), but the rebound of the crisis has attacked - more or less, but insolently - all spheres of the economy.

“Illustrating” the crisis, Charles H. Coppes (Senior Investment Counselor, Investor’s Diversified Portfolio, IDP Consulting Group) admits that, unfortunately, unlike his governors, the American people seem to have been plunged into sleep: not paying enough attention to the money handlers (“the money changers”), proving its ignorance towards the financial market and even national currency movements (Coppes, 2011, pp. 319-326).

What did the subprime crisis mean in terms of lack of rationalism? In our opinion, the reality was based on one of the following three steps:

1. an immense error of human judgment, that is, making mistakes in ignorance;
2. an inadvertent error, apparently excusable, until the criminal investigation phase;
3. a premeditated error, the worst aspect of all mentioned.

Moving further into the insight on the lack of rationalism, we also identify an educational culprit of the 2007 crisis, infiltrated into the financial-banking system. Why? Because the term subprime credit means a mortgage loan offered to a person with a low (questionable) creditworthiness, respectively an irrelevant or dissatisfied history of the repayment of previous debts. However, the multitude of frauds has proven that, all over the world, the employees of the financial-banking institutions have too easily overlooked the irregularities in the credit files, which accentuates their guilt.

### **3. The Need for Rationalism and Social Responsibility**

The crisis has gone through all the steps of the snowball theory, which in economic terms begins with the launch of the whisper “Bank X has huge problems” and ends with a bankruptcy. But this time, however, in 2007, the banking institutions even had reasons to be agitated, as the “credit for the pocket of any client” (usually without creditworthiness) had become, overnight, the uncrowned king of finance. And as we live in a society in which bottomless forms are in high demand (minor concerns become of major interest, just for the sake of speculation), it did not take long before the troubled or worried depositors began to withdraw their money and resort to other options (either banks, or gold, or bonds). Here is the morality: rumours are more erosive than the danger itself, and since 2007, history has shown

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<sup>1</sup> A reference to the article ‘Government’s Response Like That of a Rowdy Drinker in a Bar Brawl’ Financial Times July 5, 2009, (“Governments’ response to the financial crisis has been compared by one senior official to that of rowdy drinkers in a bar brawl: “You wait until a fight breaks out and then take a swing at the guy you have always wanted to hit. Whether or not he had anything to do with starting the fight is not the point.” In Europe that is a pretty accurate description of how policymakers are treating hedge funds and private equity funds.”), available at <https://www.ft.com/content/5bc508ba-698c-11de-bc9f-00144feabdc0>.



that even markets considered stable or secure have entered a crisis as a result of true or false rumours. Which proves, once again, that the lack of rationalism has tragic effects.

The Asian panic from 1997-1998, the primary source of the 2007 crisis, was at least a strange attempt for the world economy. What made it interesting was that its harshness could obviously not be motivated, only by the causes attributed to it (in fact, real ones): the devaluation of the Thai currency (in the summer of 1997)<sup>1</sup> and the yen-USD exchange rate, amid declining global demand for electronic products and fierce competition imposed by China. It is true that these were the triggers, but, in fact, it was not the worst situation to go through (for example, the energy crisis of 1985 had been perhaps even more acute). Interestingly enough, even obsessive, was the fact that the culprit “built” by the Malaysian Prime Minister Mohamad Mahatir seemed more credible to Asians (Krugman, 2008, p. 87) than looking for other reasons: a conspiracy plan that included George Soros and other financial operators of the same calibre as puppets which were handled by the US government.

On the other hand, equally absurd, the adherents of Western democracy and Orthodox theories have induced a “moralistic” motivation for panic, linking the crisis to a punishment for the ancient sins of Asian corruption. And the panic seemed rationalistic, though it did not turn out to be so. The truth was perhaps too simple or too discreet (visible only to those who wanted to observe it): Asian economies, such as Indonesia, Malaysia, South Korea, Thailand, and the Philippines, were trying to relax as economic systems, heading towards external economies, trying to be a significant (if not equal) part in international transactions. This attempt cost them quite a lot, because most of the development loans they had already contracted were in US dollars, and the movement of the dollar did not benefit them, but on the contrary: it accentuated their vulnerability to the first steps towards unforgiving capitalism.

And yet, what stakes of rationalism does the crisis that began in 2007 carry? First, let us briefly address the notion of social responsibility, which consists in the effect determined by an entity bearing responsibility towards society. At the national level, this moral philosophy leads to behaviour that motivates the development of a country (positive responsibility) or vice versa (negative responsibility). The role of social accountability is to bring visibility to government policy. In this sense, most European democracies have legislation that is declared pro-responsible, which is also intended to be rationalist. In the countries of Central and Eastern Europe, the process of social responsibility is historically delayed, although the interest of all states is to prove themselves rational and responsible: to improve their external image, to act against social and economic inequalities and to honestly ‘conquer’ new markets.

The exercise of authority involves a pattern composed of three levels of legitimacy in the organization of power at state level: the first, traditional (based on the “sacred order”); the second, charismatic (focused on the exceptional qualities of the leader); third, bureaucratic (grafted on the criterion of the designated authority). This exercise is definitely disruptive in times of crisis, because they, the crises, are the cause of increasing uncertainty in the economic environment (and rationalism no longer motivates them). Governments and state organizations must try, during such periods, to reduce the massive market pressures by making savings on their operating costs (rational budgets, decent

<sup>1</sup> Subsequently, as Diane Coyle (Diane Coyle, World Economic Governance, Antet XX Press Publishing, Prahova, 2003, p. 6), the Asiatic panic expanded, reaching August 1998 in Russia. The stake here was that of the debts that remained since the Soviet era, which the Russian state could not honor. In addition, the ruble had devalued and Russia could no longer respect the agreement with the International Monetary Fund, through which the most important loans in its history were granted.



spending). On the other hand, corporations must aim to reduce the actual costs and social costs arising from their actions. If these forces channelled their activity to the needs of society, their support would be real.

We will take a counterexample, which illustrates the obedience and the lack of responsibility of some of the industrial ‘colossals’ of the moment:

- in top Fortune 500, the first companies in terms of earnings in 2012 were<sup>1</sup>: Exxon Mobil (452,926 million USD revenues and 41,060 million USD in profits), Wal-Mart Stores (446,950 million USD revenues and 15,699 million USD in profits), Chevron (245,621 million USD revenues and 26,895 million USD profits) and ConocoPhillips (237,272 million USD revenues and 12,436 million USD profits). In addition, Valero Energy (12th place in this top), Marathon Petroleum (31st), Sunoco (61st), Hess (74th) and Murphy Oil (98th) are among the top 100 richest companies in the field, with revenues of “only” 31,446. 3 million USD and profits of 872. 7 million USD. We can easily underline that out of four companies with the highest earnings in 2011, three are part of the oil refining industry. The list is completed by five more, with remarkable results. In total, eight huge names in oil refining - along with important profits - are in top 100 Fortune 500 companies;

- in comparison, in 2013, places 1 and 2 were interchangeable, and in top Fortune 500 were<sup>2</sup>: Wal-Mart Stores (revenues of 469. 2 million USD and profits of 16. 999 million USD); Exxon Mobil (revenues of \$ 449. 9 million and profits of US \$ 44. 880 million); Chevron (revenues of \$ 233. 9 million and profits of \$ 26. 179 million); Phillips 66 [ConocoPhillips] (revenues of 169. 6 million USD and profits of 4. 124 million USD). Among the top 100 richest oil companies were also placed Valero Energy (9th in top Fortune 500), Marathon Petroleum (33rd), Hess (75th) and Tesoro (95th);

- in 2014, the top three companies remained the same as in the previous year<sup>3</sup>: Wal-Mart Stores (revenues were 1. 5% higher, while profits 5. 7% lower than the last year); Exxon Mobil (revenues were 9. 4% lower and profits 27. 4% lower than the previous year); Chevron (also with modest results than the previous year: revenues were 5. 8% lower and profits 18. 2% lower); Berkshire Hathaway came fourth. Among the top 100 richest oil companies, we also find: Phillips 66 (6th place), Valero Energy (10th place), Marathon Petroleum (25th place), Tesoro Corporation (75th place) and Hess Corporation (84th place);

- in 2018, the same Fortune 500<sup>4</sup>, which offers the rankings of the global companies by their earnings, recorded important differences than the previous top, the main one concerned top 10 companies, such as Chevron, Phillips 66, Valero Energy, Ford Motor and General Electric, which were replaced by UnitedHealth Group, McKesson, CVS Health, Amazon. com and AT&T.

What we want to emphasize is that, since crude oil and its derivatives are sold so profitable even in times of crisis, the aforementioned gains seem to be too much. Who brought so many profits to the companies? Obviously, some of these “contributors” are market entities: nothing moves without fuel. But another part is the indebted and impoverished citizens, who bring their personal contribution to the

<sup>1</sup> Fortune 500 Rank, Annual ranking of America’s largest corporations, <https://fortune.com/fortune500/2012/>.

<sup>2</sup> Fortune 500 Rank, Annual ranking of America’s largest corporations, <https://fortune.com/fortune500/2013/>.

<sup>3</sup> Fortune 500 Rank, Annual ranking of America’s largest corporations, <http://fortune.com/fortune500/2014/>.

<sup>4</sup> Fortune 500, Annual ranking of America’s largest corporations, <https://fortune.com/fortune500/2018/>.



prosperity of the rich. What do they get in return? Reports, statements and declarative statements. Meanwhile, large companies and corporations are rounding out their bags, parading the human dimension of their interest in citizens.

Should such behaviour be rationalist?

Corporate Social Responsibility seems very generous: large companies declare that they recruit staff from among the unemployed, contribute to the training of employees, provide career development opportunities, support employees in their right to work and benefit from health insurance. But is this offer so real, as it stated? The financial crisis from 2007 has already shown its negative consequences, both on national economies and on companies (especially the small ones, unable to withstand a competitive market). This has also induced unwanted changes in the practice of social responsibility, in the sense that there were many companies that seek to evade their social duties. Their motivations were not difficult to guess, because social apathy can be motivated today through the high costs that such activities require. The survival problems of small businesses are understandable. The situation of large companies, however, allows help for others, social responsibility and perhaps even philanthropy. Should they be considered landmarks of the lack of rationalism?

The government responsibility is even harder to overcome: they specify, on all occasions, that it supports local communities, acting against the consequences of the crisis, delineating themselves from acts of corruption and money laundering. But in concrete terms, people do not feel these measures. They do not see them. On the part of the rulers, the rationalism proved by the responsibility during the times of crisis presupposes qualities such as: the sense of measure, the consciousness of integrity (in all public institutions), coherence, patience, rigor, all attached to professionalism. From other possible culprits of the effects of the crisis (individuals or various types of economic entities), countercyclical measures require specialist knowledge applied seriously and consistently, without any compromise.

Unfortunately, all over the world, in the last few years, there have been numerous samples of lack of accountability and circumvention of respect for the community. On the political scenes in the West and in the East, we often identify images of powerless governments, of leaders sometimes impassive to the problems of those they lead. The speeches of dignitaries are illusory, the political class does not recognize its "contribution" to the financial crisis (and even less to the human one), and the ordinary citizen remains trapped in helplessness, poverty and unemployment.

How many state institutions have taken responsibility for the mistakes committed, even unintentionally? Most of the time, the rulers make others responsible, throwing the hardships to others. And the people don't protest anymore. They have become accustomed to the double-sided election promises. And they aim to be harder to manipulate in the next elections.

Regarding the way public institutions protect the economy from the manifestations of the crisis, we will exemplify the need to re-assimilate it by calling upon the so-called principle of "sublimation" of Toynbee. He is recalled by the Romanian academician Tudorel Postolache, as the true law of the Universe: "life evolves together with its ability to feel and to become aware of what is happening around it; namely by being exposed to dangers, not because it is protected against them." (Postolache, 2009, p. 173) This is precisely what the state has to do, from a rationalist perspective: to anticipate the





dangers that the economic system might go through or, if it does not foresee them, then to react in the spirit of the best solution to the problems induced by them.

We end this idea by mentioning a former US president's speech. In the sense that error becomes a mistake only if it is not corrected, John F. Kennedy (1961) wanted to impose an honest administration that would take responsibility and acknowledge its own errors: "This Administration intends to be candid about its errors (...). We intend to accept full responsibility for our errors; and we expect you to point them when we miss them." (Kennedy, 1961). But we are not sure that anywhere in this world such a dream could come true.

#### **4. Conclusion**

Regarding the manner the state institutions should protect the economies from the devastating effects of a crisis, from a rationalist perspective, they have to foresee the dangers the economic system might go through - or, if it does not, to react with the best solutions to the problems induced by them. The leftists believed that the linear progress which came along with the human societies is enough to eradicate all threats which in the past were incurable. Many of us had certainties that the last human being on the scale of evolution is infallible and the owner of the absolute truths, although in economic thinking. The arrogance of the last man was so powerful that he involuntary created a broken system based on his difficulty to understand that he is also a "fallen" being. His hidden weaknesses under the veil of a perfect creature was the consequence of the lack of rationalism. More important, also the lack of the intelligence of the spirit.

Instead of assuming his irrationality, the modern decision makers found the errors outside, in pseudo-rationalist type of guilty. The policymakers were fully responsible for the the causes of the global crisis, their responsibilities towards the communities were not in action. The contagion effect could be considered such a cause, especially when the omniscience of the human beings created chaotic financial instruments and destructive economic bubbles, augmented then by the lack of trust and hoarding disorder effect among the citizens. Moreover, the rumours were more erosive than the danger itself, even stable markets were affected by them in an irrational manner.

Of course, as long as they are not clearly delineated, the crises can be denied by those who are opposed to the fact that the world economic system is evolving from a temporal perspective. But from some point on, the existence of crises and their sinuous path can no longer be denied. As we know from Kant, it is about that moment when rationalism and empiricism are no longer opposable, but they contribute together to the de facto analysis of the situation, recognizing that any crisis involves a priori and a posteriori connections.

How much rationalism and pseudo-rationalism contain the crises? We do not know if anyone can answer such a question. And this is because we do not believe there are infallible possibilities, instruments and arguments for the research of the economic phenomena called crises. There are no identical crises, but only similar. Therefore, there are no generally valid, but customized solutions. We always try to become aware of our limitations and therefore, at first, we estimate various costs due to



unavoidable errors. But in the end, when we see the reality, we cannot bring false arguments, but, using rationalism, we think of different ways to optimize viable solutions in the event of a crisis.

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