

# ANTIECONOMY, ECONOMY CRISIS AND CRISIS OF ECONOMICS

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**Abstract.** *The gist of this article is the idea that the orthodox theory of economic crisis unduly reduces its subject to business crisis and that it is the outcome of the narrowness and limitedness of the individualistic economic approach to the problem, employed mostly by neoliberals and libertarians. As individualists (the individualistic camp) explicitly or implicitly identify economy with market, their perception of an economic crisis is reduced to business crisis, crisis of the production of private goods. However, the concept of economy is broader than that of the market; thus, an economic crisis cannot be reduced to a business crisis. In addition, the theory of economic crisis could be enriched by the concept of anti-economy, which does not fit the individualistic economic paradigm. Therefore, a correction of the theory of economic crisis is needed, and this correction should be done in a holistic cognitive framework. Holism opens the possibility (which doesn't automatically guarantee cognitive success) to look at the economic crisis through a wider lens, to perceive it as a whole. The shift from individualistic reductionism to holism allows us to see a correlation between cognitive crisis and crisis in real economy, and to introduce the concept of systemic crisis.*

**Key words:** *anti-economy, economic crisis, crisis of economics, systemic crisis, individualism, holism*

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## Introduction

The term “economic crisis” is traditional. Its tradition comes from the 19<sup>th</sup> century and largely dominates the discourse on the matter up to now. It is tied to the concept of business cycle. The major problem with this tradition is that traditionalists (this is a milder term to denominate orthodoxy) assume, mostly implicitly, that economy and business, in other words, economy and market, are synonyms, i.e. they are two terms representing an identical content. In other words, traditionalists reduce economy to the market and, consequently, economic crisis to business crisis. This fits the logic of methodological individualism, but, in our view, contradicts the content and essence of economic reality.

We do not challenge the postulate of traditionalists that cyclicity is inbuilt in the market system, but we assert that not all factors of or reasons for a crisis to occur have the market origins and that they are not necessarily of cyclical character.

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One of the fundamental reasons for economic crisis is cognitive blunders, i.e. misconception of the very economy and the diversity of its regimes. This gross misconception of economy through regimes of **reflexivity** (Soros, 1999) leads to inadequate actions and policies in the sphere of real economy and, finally, to huge economic losses irreducible to a material and financial waste of resources and unattained material or financial benefits. Social, political, ecological losses should be assessed as well. The individualistic perception of economy is a root cause of these losses.

The main task of this article is to show an interrelation among cognitive mistakes in understanding economy, economic policy blunders, and crises in real economy.

The traditional individualistic economic thinking (libertarian or neo-liberal) doesn't cover this interrelationship, because cognitive aspects of economic life to them are exogenous, non-economic and, thereby, do not fall in the subject matter of economic science. Traditionalists do not consider the reflexivity effects in a real economy, i.e. the influence of our perceptions and beliefs on reality in the form of self-fulfilling prophecies or regimes of official governance. Moreover, traditionalists are very hesitant about or averse to the issue of the regimes of governance, putting an emphasis on spontaneous, self-regulating regimes in economy. This is the expression and result of individualistic thinking which, if used consistently, presupposes abstraction from any non-market and supra-individual phenomena. Thus, individualism doesn't provide us with a relevant, paradigmatic vehicle or framework to explore the whole phenomenon called "economic crisis".

Without a proper understanding of economy with all its aspects and spheres, the economic profession has little, if any, chances to discover the whole content and all factors of economic crises. The chances are higher when the holistic approach in dealing with the problem is applied.

### **Individualistic versus holistic perception of economy**

One of the biggest paradoxes of economic profession is that it has no satisfactory, agreed upon definition of the concept of economy. In other words, our profession didn't reach a satisfying convention on how to define the main concept of our profession. Moreover, efforts in this respect are negligible and the very discourse on the subject is weak, hardly visible and audible. There are two main possible explanations for this situation: firstly, the content of the concept "economy" seems to many in our profession self-evident and doesn't requiring deeper, more comprehensive scientific efforts; secondly, there exists a strong ideological or / and political motive to block an open, public discourse on the matter and to avoid uncomfortable, "inappropriate" or endangering disclosures.

Anyway, the fact is that our understanding of economy is fuzzy, foggy and heavily influenced by various ideologies and by elements of common sense which we understand

as conventional wisdom, the casual, non-scientific, non-rigorous, vaguely conceptualized part of our worldview.

It is worthwhile to stress that in this foggy cognitive environment it is easier to use various techniques of ideological indoctrination, manipulation of the public mind. The methods of rule by stealth or rule by obfuscation (Muller, 2001) in these circumstances are easier to apply.

Whatever the factors of such a cognitive mist, the fact is that in economic literature only small part of economists spare some attention to the problem of the content of the concept “economy”. And even those who do, usually limit their efforts to concise descriptions of economy, while the majority resort the instinctive, implicit understanding of it as self-evident without any clearly definition.

As the world, until recently, for several decades has lived under the dominance of the individualistic (neo-liberal, libertarian, etc.) thinking, the very cognitive and psychological environment was favourable for the perception of economy as market. However, in our view, it is an intolerable reductionism: economy is a wider concept than market.

The individualistic paradigm is based on the premise that the only social reality is an individual with his private interest and that the supra-individual, communal entities are non-existent and therefore do not matter (Mises, 1998; Friedman, 1962). If economists, explicitly or implicitly, adopt this premise and assume that all supra-individual entities (community, nation, etc.) are figments of imagination of all kinds of collectivists (the proper name for them is “holists”), then logically follows the conclusion that in economy are produced and move only private goods, i.e. commodities, and therefore the only mode of economic behaviour is competition and that the market is the only, or at least the best, regime by which economic goods are produced and where optimal economization (optimal ratio between benefits and the input of limited resources) can be ensured. Thus, explicit individualistic presumptions or implicit individualistic beliefs automatically lead to economy’s identification with the market, with the private business. One of the consequences of this logic is the conclusion that an economic crisis should be understood as a business crisis or a crisis of the market regime.

This individualistic perception of economy and, consequently, of an economic crisis can be hardly challenged by the arguments of the same paradigm. The polemics here is meaningful only on the level of details. However, the situation changes when we get outside the individualistic paradigm, when we critically review the very foundations of individualistic thinking and first of all its main axiom, namely the presumption that the only economic actor is the self-interested individual and all communal, collective entities are a fiction created by paradigmatic opponents, i.e. all kinds of holists (organicists, institutionalists, collectivists, communitarians).

A critical analysis of axiomatic foundations of individualism and the adoption of holistic axiomatics brings about a new cognitive perspective and new prospects for

economic governance (Gyls, 2008). In short, holism assumes that, alongside individual actors, there exist entities that could be named as communal, collective. The emergence and existence of these actors could be explained by the existence of the kind of needs which cannot be satisfied by a separate individual. In this sense, these needs are supra-individual, irreducible to the sum of individual needs. They are collective needs, and their fulfilment requires joint, collective actions, which can produce a synergy effect.

A consistent holist does not hesitate to claim that economy is a **hierarchical system** with a range of levels (individual, family, firm, community, nation, mankind). An individualist readily accepts a microeconomic analysis, but doesn't like macroeconomic inquiry, because the latter deals with aggregate, synthetic variables and parameters, which are not reducible to the facts of personal life of an individual or the functioning of a private firm (GDP, aggregate demand and aggregate supply, inflation, etc.). In contrast, a conscious or instinctive holist readily employs a macro-economic approach.

The fundamental tenet of coherent, consistent holistic thinking (worldview) is an explicit recognition of **public goods** as part of national wealth (not confusing them with free goods). This recognition stems from understanding that economy is a hierarchical system, that collective, communal entities exist to meet the common needs, and these needs are satisfied by the production of public goods, i.e. goods of common use or, as P. Samuelson called them, collective consumption goods (Samuelson, 1954).

However, even among those mainstream economists who use this term there is a widespread belief that public goods are rare and therefore this concept does not belong to the conceptual core of economic science. That's why it is on the margins of our understanding of economy, of its diagnoses and economic policy projects.

The very recognition of public goods is a certain theoretical compromise, paradigmatic concession made by some mainstream economists. In fact, it is the evidence that the individualistic paradigm in, its pure form (public goods in consistent individualistic thinking should be absent), is not able to cover the whole economic reality and that it has to accomplish a paradigmatic shift towards the holistic worldview to make this worldview more realistic. But this concession to holism, or a forced but unrecognised paradigmatic shift from individualism to holism, is not satisfactory if the variety of public goods is reduced, limited to national security and several other items. In fact, the variety (diversity) of public goods is much richer.

All goods of common consumption (use), produced **in conditions of scarcity of resources**, are public goods. Law, democracy, a large part of academic and other knowledge and cultural products, weather forecasts, social capital are public goods. In short, all goods which satisfy our common wants and needs are public goods. But they in no way are free goods, like sunshine or fresh air. The latter cannot be categorized as economic goods, because they are free and don't require the use of scarce resources.

A conscious, consistent holist would admit that purely public goods represent only part of economic goods. The other part are **mixed goods** (like human qualification, health, etc.), i.e. goods which have features characteristic of both private and public goods.

Now it is time to make our first generalization. Individualism and holism provide us with different panoramas of economic reality. All individualistic schools in economics explicitly or implicitly reduce economy to the production and movement of private goods, i.e. to market. In the individualistic panorama, supra-individual, common, public needs and goods are invisible, eclipsed or, in the best case, marginalized. Here, economization means marketization, commodification, privatization, liberalization and, thus, reduction, confinement, constriction of economic reality to its part–market. State, macroeconomic governance is treated as alien, exogenous to economy. Moreover, it is presented as destructive, destroying the “natural order” of the market and thereby ineffective. However, the assumption **that part is the whole** leads to a grave misconception of the scope of economic cognition, explorations and of the domain of practical economic activities.

The holistic approach, with its emphasis on the whole, is advantageous because it doesn't push, press the explorer to make “resection”, “to amputate” economy and allows to encompass all spheres and aspects of economic life with all – public and private, spontaneous and programmed, reactive and proactive – regimes. Encompassing the whole economy, the holistic worldview serves as a better instrument of economic diagnosis, forecast and governance. Furthermore, it opens an opportunity to look at the negative side of economic reality – anti-economy, what is practically impossible, or at least uncomfortable to do, in the framework of individualistic thinking which presumes that a rational individual in the competitive environment is driven by rational motives and is forced by competition to act absolutely economically.

### **Anti-economy**

Traditionally, mainstream economists base their understanding of economy on the premise that a self-interested *homo economicus* as a purely individualistic creature is absolutely, or at least to a large extent, rational and that his individual rationality brings wealth and wellbeing to society as a whole. In other words individual rationality automatically converts (translates) into societal rationality.

Being rational and effective, he is always and totally positive because self-interest and the system of market competition force him to be effective and do not allow to be negative, wasteful, ineffective. Thus, in its traditionally individualistic perception, the market system resembles very much a kind of the paradise where waste, counterproductive, destructive forces (except minor negative externalities) are tiny, negligible, because they are neutralized by individual rationality and market competition, its “naturalness”. This picture miraculously resembles the unearthly happy life without negative shadows in communist society, portrayed by theorists of extreme collectivism.

However, this heavenly picture of the market system contrasts sharply with reality and therefore deserves a more thorough examination. In real life, we face myriads of facts of waste and harm, i.e. facts which cannot be described as beneficial, rational

or effective. It is difficult to ascribe all of them to mere deviations from the market behaviour, such as government intervention. All these negative phenomena could be explained both by market and non-market factors. What is common to them is that they represent the negative side of our life, which could be called **anti-economy**.

Several years ago we conceptualized the phenomenon of anti-economy, defining it as a negative aspect of reality, which reflects the production of economic (private and public) bads and a waste of scarce resources. If the concept of economy represents the flow of economic (private and public) goods and an optimal ratio between benefits and costs, and in this sense it is the “white”, positive, rational, effective side of social life, then the concept of antieconomy, in contrast, could be defined as the “black” aspect of social reality, encompassing all kinds of harm, the flows of economic bads, anti-wealth, waste of limited resources and all kinds of deviations from optimality in the sense of ratio between benefits and costs (Gyls, 2005, 2008).

Here, we should stress that we are talking about **abstract** concepts in which **purified aspects** of reality but not reality itself are presented. Only concepts are pure the real life is always a mixture of these contrasting aspects. In other words, there is no such thing as purely “white” economy or purely “black” anti-economy in real life. Real economy is practically always “grey”, a mixture of “white” and “black” features and elements of social life. In some cases the reality is light grey, while in others it is dark grey.

Elements of anti-economy are found everywhere; in some cases they are minor and in others major factors of our activities. Anyway, to (dissociate) from antieconomy as a seemingly very rare and negligible phenomenon is an essential cognitive mistake. Unfortunately, this mistake is characteristic of our profession. The very fact that the negative side of economic life is left outside the scope of economics means a huge blunder and cognitive loss which, in turn, leads to the spread and reinforcement of destructive regimes, to a distortion or even paralysis of governance regimes. Ignoring the anti-economy, “abstracting” from it as an insignificant, marginal factor enhance anti-economic regimes in real life. If unrecognized, unanalyzed and undiagnosed, they are too often not prevented and properly neutralized.

Thus the inability or failure to identify the negative side of economic life and to include it into its scope and thus into the domain of economic explorations is another major feature characteristic of the crisis of mainstream economics. For mainstream economists, two major spheres of reality – public economy and anti-economy – remain “invisible” or marginalized.

Shadow economy is the third sphere which, though to a lesser extent than anti-economy, is neglected or marginalized by mainstream economics. Suffice it to look through the textbooks of economics to confirm the latter statement. Shadow economy is hardly mentioned in them and until now is vaguely defined or conceptualized. Some economists perceive it as a “bad”, “black” economy. The second group understands it

as an illicit, illegal and underground economy. Finally, the third group of economists describe it as a hidden or unrecorded economy. In this conceptual and terminological confusion, it is not clear what content is represented by terms “underground economy”, “black”, “grey economy”, etc. In many cases they are held as synonyms. In our view, it is a major misconception (Gyls, 2008).

Paradoxically, despite this terminological and conceptual disarray, economists cling to their mathematical instincts and are trying to calculate the volume of shadow economy. However, as Thomas rightly asserts, that prudent, effective measurements in this part of social life are not possible without theory, which introduces a conceptual and terminological order (Thomas, 1999). Only when we define “what is what” and what names are attributed to each “what”, measurements make sense, and the results of these measurements would lead to the imitation of hardness and preciseness of economic inquiry, which in fact mean cognitive losses and anti-economy, an ordinary victory of common sense, casual thinking, over true science based on a rigorously organized conceptual and terminological apparatus. Any formalization and measurement begin with the orderly structurization and non-contradictory baptising of the concepts. Fulfilment of this precondition opens opportunities for the further – quantitative – analysis, measurement included (compare with Stiglitz, Sen, Fitousi, 2010).

Our proposition in this context is to clearly distinguish, discriminate between anti-economy as a negative side of social life and shadow economy defined as illicit, illegal and therefore underground economy. Although “badness” and “illegality” are connected criteria, they are different. For instance, negative elements may exist not only in shadow economy, but in the official, legal side of economy as well. This means that anti-economy might be present not only in shadow economy. “Black” spots may be present in official activities as well. Moreover, shadow economy may encompass some positive elements and to be not only dark, but grey or light grey.

At the same time, anti-economy and shadow economy shouldn't be confused with hidden or unrecorded economy because the latter two synonyms (two terms for one concept) represent a separate class of phenomena – those that are difficult to identify, to record, to quantify and calculate. Hidden, implicit, difficult to record elements exist not only in shadow economy. They are especially widespread in normally legal household economy, in legal business, etc.

Unfortunately, hidden economy is also neglected by mainstream economists who are usually seized with the passion for quantitative analysis. The irrational instinct, which has little in common with the true science, of the mainstream is expressed in the desire to focus on the aspects of economic life that are easily calculable or seem so. The elements of this life that do not belong to the class of easily identifiable and thus quantifiable phenomena are instinctively, subconsciously treated as non-economic or insignificant both in terms of volume and importance. There are few exceptions in this respect, such

as the – concepts of implicit costs, of hidden unemployment, etc., and several others which are part of traditional economic discourse.

This irrational passion for impassionate rationality is another case of the victory of common sense over scientific inquiry. Passion for quantification at the cost of qualitative analysis means that one of the methods of economic investigations often dominates over the scope of economics.

### **Holistic concept of economic crisis**

When we talk about a political crisis, constitutional crisis, energy crisis or currency crisis, we intuitively attribute certain features to them. Any of these crises could be characterized by several features.

First of all, crisis is a **critical** situation in the lifespan of a social system, be it a firm or economy as a whole. This is expressed in an essential decrease in the vitality, sustainability, stability of the system. In its extreme, a crisis situation threatens the very existence of the system or entity. Speaking in medical terms, crisis means a serious disease. That loss of vitality, sustainability and stability means a serious decline in its efficiency, i.e. ability to fulfil certain functions, to produce certain goods (“services” and “products” in the widest sense of these terms) which satisfy the needs of the system. Also, during a crisis, various evils that harm the system multiply enormously. The loss of productivity could also mean a substantial waste of resources possessed by the system. In social systems this is expressed in the waste of human, social, material, financial resources, loss of knowledge, experience, qualification, material inventories, etc.

Further, crisis in social systems is characterized by the malfunctioning of two blocks of regimes which ensure the proper organizational structure, of the system, which is the basic prerequisite for the effective production of goods. To put it in other terms, crisis is expressed in disorder, discord, in augmenting entropy at the expense of negentropy, due to distortions and weakening of self-regulatory and governance regimes. The first group of regimes represents a spontaneous self-organization based on the automatic operation of various norms in the form of traditions, habits, moral or legal codes together with the network of direct ties and a feedback forming the regulatory loops. These automatic, self-regulatory regimes are **reactive**. The specificity of the second group of social regimes is that they are **proactive** and based on the creation of programs of action and on the implementation of these programs. When a country, institution, community produces adequate programs, when it acts according to a program and, finally, when these actions are successful, one can state that the governance took place and it was effective, productive and organizational potential is increasing. In such cases, anti-economy is present, but it is relatively small, and there is no reason to talk about a crisis situation.

If malfunctioning self-regulatory regimes and regimes of governance produce a huge amount of entropy, disorganization, which threatens the very existence or vitality,

sustainability and stability of the system and brings about a heavy harm and a huge waste of resources, one may use the terminology and phraseology of crises. It might be that regimes of both self-regulation and governance are in a bad shape, and this causes a serious disruption of the economic order, organization and the spread of entropy, disorganization.

Finally, it is possible to point out one positive side of a social crisis. In a critical situation, societies, communities, institutions, firms, etc. usually have better conditions and a stronger motivation for positive and cardinal changes than in conditions of “business as usual”. In times of a crisis, the resistance to the necessary changes is much weaker than in calm, “normal” times.

Economic crisis is a form of social crisis. In other words, an economic crisis is one of the aspects of a social crisis. If we consider a macroeconomic crisis, but not a crisis of one of the spheres of economy or a crisis of a separate firm, farm and etc., we unavoidably have to keep in mind that it has consequences for society as a whole. If we, being holists, examine society as a whole with all its inseparable spheres and aspects, we should be aware that a serious economic crisis involves also a crisis in the political, social and other spheres.

These postulates work when the holistic approach to the issue is applied and the method of abstraction (idealization) is correctly understood and used. If we perceive society as “a whole” and assume that economy is not a physically separate entity but one of the aspects of social reality, and that other aspects of society, such as education, health service, etc., are perceived in the same way, we have to admit that there is no such separate thing as a macroeconomic crisis, that it is a disease of the social organism as a whole and that separate social sciences deal with separate aspects of the crisis. Alas, too often we forget that, firstly, this separation among economy, politics, etc. is done for analytical convenience and, secondly, that reunifying separate aspects into a whole picture is worthwhile.

Let's return to the concept of economic crisis. Its definition depends on our understanding of economy. In the framework of common sense and the prevailing individualistic paradigm, economy is identified with market, i.e. the sphere where commodities, private goods move. As a result, economic crisis is reduced to market crisis or, as we usually call it, business crisis.

The holistic approach to the problem opens the possibility of a more precise and wider understanding of economy as an aspect of social reality which, represents the movement of all (private and public) economic goods in conditions of limitedness of resources and when economic agents achieve an optimal ratio between benefits and cost.

If we strive to understand the economic reality as a whole and are not trapped by common sense or a misleading ideology, we have to admit that alongside economy there exists its and antipode – anti-economy, i.e. the aspect of reality, which reflects

the negative aspects of this reality, where all kinds of public and private evils move and where the waste of limited resources takes place. We should remind here once again that we elaborate on the content of the concept of anti-economy where a purified, abstract negative side of economy is presented, and that real life almost never is totally negative.

Concepts of **anti-economy** and **economic crisis** are closely related, overlapping, though not identical. Anti-economic elements could be found in practically all real processes, products of our activities. They can be of a miniscule or of a huge, horrendous scale. Crisis differs from anti-economy in the sense that it is only one of periods of economic life when anti-economy reaches a considerable level and, secondly, crisis is understood as a vehicle, a window of opportunity for a positive change and in this sense has something in common with economy but not with anti-economy. Thus, anti-economy unavoidably exists always and everywhere, it can be small or big. An economic crisis is usually a temporary (although it might be protracted) stage of economic life, and anti-economy in the time of crisis is big. This means that the real economic life during a crisis is “dark grey”, while in normal times it is “light grey”. In addition, crisis means the possibility of fundamental positive changes, of a more radical cure which could diminish the size of anti-economy in the “economic body” of society.

### **When economic crisis is systemic**

Real economy, as we have already stated, in normal times is light grey; the anti-economic factors, factors that enforce negative regimes, are weak and not widespread. When they are strong and disseminated throughout the system, anti-economy accumulates strength and economic bads in the form of private and public bads circulate through the entire organism of society. From the above discussed holistic premises it follows that public bads in this process are playing a much more negative, destructive role than private bads, because public goods are goods of a common use and therefore of a higher level. If private bads cause private harm and waste, public bads, such as national insecurity or destructive (flawed) law, bring damage to the collectivity such as a nation. Micro-crisis on the level of a firm is less damaging than a macro-crisis of the whole economy.

Public good, like an efficient national security system (understood holistically with all its elements) brings society common benefits, which are of a higher ranking and importance than any private good. Conversely, a bad, weak, dysfunctional national security system, which includes military security, economic security, political security (Gyls, 2008), threatens the very foundations of the system, i.e. it has a systemic negative impact on society as a whole and diminishes the vitality of society, its stability, causes waste throughout the system.

Public goods could be called **infrastructural goods** or **network goods** which in most cases could be likened to the system’s networks in a live organism (central nervous

system, blood circulation system, etc.). In social life, these infrastructures may be **material** (road network, electricity grids, gas pipelines) or **intangible** (legal system, political system). Material infrastructures are not purely public goods because some of their characteristics correspond to private goods. In turn, an intangible infrastructure, such as the political system, is very close to the definition of purely public goods. Similarly, public bads are infrastructural, network bads and hamper the normal functioning of the system as a whole.

The holistic approach allows us to make a very important conclusion concerning economic crises: a systemic economic crisis takes place when the regimes producing and procuring public goods are in great jeopardy because they are gravely deformed. As a consequence, these regimes produce public bads instead of public goods; this causes damage to the infrastructural part of the economy. This damage is expressed in a decreased vitality, stability and overall efficiency of the country because, first, the system-creating and system-reproducing networks are seriously damaged, torn or otherwise harmed, weakened. An ineffective, damaged economic network, is the major hindrance for the normal functioning of economic regimes producing economic goods. In other words, the crisis of public sector unavoidably leads to a substantial increase of anti-economy in the private sphere of economy, i.e. the market. The latest global economic crisis and the crisis in the euro zone are vivid examples of such an interdependence. International institutions didn't provide economy with quality public goods. Instead, they emitted a substantial quantity of public bads in the form of inadequate economic policies, which distorted the general conditions for private economic agents. Consequently, such flawed economic decisions, bad national and international governance led to grave losses both nationally, regionally and globally.

The concept of systemic crisis, in this interpretation, in the framework of individualistic worldview is impossible, because the individualistic perception of economy includes neither public sector nor anti-economy. We remind that the scope of mainstream economy is limited largely to market regimes; therefore, traditional economists are not interested in public matters, public needs and thereby in public goods. This cognitive "amputation", "resection" of the economic picture limits substantially their ability to recognize, identify and diagnose the problems and, correspondingly, to find proper, adequate solutions for the neutralization of crisis, for the least painful exit from it. An important, substantial part of these solutions lie on the public side of the economy. Unfortunately, they stay unrecognized and mishandled.

Mainstream economists concentrating on the market aspect of economy and treating the public sector as alien to economy, as a "burden" to economy and even as a kind of "bad economy" or, in our terms, anti-economy, are unable to draw the picture of the economy as a whole and to, establish **all true factors of crisis**, part of which are beyond the market place and belong to public economy. Thus, these economists cannot produce valid diagnoses and recipes how to neutralize the crisis. Though mainstream economic

theory is able to explain business cycles, it fails to explain and suggest remedies for the recent global economic crisis, because many variables are left outside the scope of a serious, rigorous examination. Arguments for the smallest possible government and against any state involvement into economy, for drastic measures are outdated, obsolete. They are simplistic and contradicting the global experience of the last 70–80 years. They smack more of ideology than science.

From the holistic perspective, the orthodox, traditional individualistic (for instance, neoliberal) economic thinking may be treated as a public evil or at least a mixture of public goods and evils, which produces multiple negative outcomes. The individualistic presumption, or prejudice, that the public sector is not part of economy even more and is the “burden” to economy leads to conclusion that the public sector doesn’t matter to economy (according to a milder position) or has a negative impact on economy. In the latter case, the public sector is instinctively, implicitly treated as a negative aspect of economic social life or, in our terminology, as anti-economy.

Thereby, in their approach, education, publicly funded science, health care, etc. do not add to the wealth of nations and mankind as a whole or their contribution to national or global wellbeing is at best marginal. But it is an affront to reality and even to common sense, an egregious negligence of real facts. The public sector, not only the private sector, operates in conditions of scarcity of resources. Thus, it must economise, i. e. search for an optimal ratio between costs and benefits. And, although regimes of economization in the public sector are different from those working in the private sector in the sense that here public resources, first of all public finance, are used and public, not private, control of economization is exercised, the very essence of economization is the same: it is the search for the optimal ratio between benefits and costs.

The public sector provides goods that are essential for the survival, vitality, efficiency, stability of economy and that can reduce the waste of national wealth, its limited resources. We have in mind first of all social knowledge (technical knowledge is often private good), legal system, democracy, public order, organization in most general sense word. In the absence of these elements of public life, economy loses considerably. In fact, it stops functioning. In contrast, if society has a mature, relevant public sector, there are far better conditions for the private sector, households, communities and society as a whole to develop (here we could make a reference to A. Wagner’s law). The case of the Nordic countries demonstrates that a good, efficient public sector is not a burden to the economy, it doesn’t reduce the international competitiveness of the country; on the contrary, it increases the common national well-being and strengthens the country’s position in the global economy. A vitally important element of a swiftly, harmoniously functioning economy, as follows from above, is an adequate **cognitive** framework, infrastructure, environment and a relevant economic **governance**. The former is the basic prerequisite for the latter.

## **Crisis of economics and crisis of macro-economic governance**

The basic reason for a systemic economic crisis is the individualistic perception of economy. It is the fundamental cognitive error, because in this case economy as a whole is confused with its part – the market. This fact is directly or indirectly admitted by a large and influential group of economists. They assert that the mainstream economics is in a serious trouble (Krugman, 2009; Roubini, 2010; Soros, 1999; Stiglitz, 2009; Tabb, 1999).

When the broad society and its elite accept this individualistic perception of economy (it is often called market fundamentalism), this cognitive blunder leads to another major mistake – misconception of the scope, purposes and means of economic policy, i.e. macro-economic governance (Ban Ki-moon, 2011).

In many cases, traditional economists fail to explicitly recognize that macroeconomic policy is macroeconomic governance. Largely, instinctively they feel that macroeconomic governance is by definition a **public**, not a private, endeavour, expression of activities of a proactive visible hand and therefore do not fit their worldview devoid of public, proactive elements.

Macro-economic governance puts constraints on the self-regulatory regimes of the market. This causes a cognitive or ideological discomfort for individualistic thinkers and actors who limit economy to an interplay of private forces and to reactive regimes of the invisible hand. However, as in any other case of governmental policy, state institutions executing the macro-economic policy set the goals, choose the tools of achieving these goals, and implement these goals; these aspects comprise the content of any process of governance.

The macroeconomic governance is successful if its goals are realistic, relevant, valid, if the means are effective and if the goals of economic policy are achieved. Then it should be treated as a public good, as part of economy. And vice versa, when state institutions are unable to understand the object of the governance – economy as a whole (its both public and private sectors with a diversity of regimes – invisible and visible hands, etc.), their diagnosis is irrelevant and they fail to choose a proper combination of fiscal, monetary and other instruments, most probably (lucky coincidence of positive circumstances shouldn't be overlooked or excluded) their actions cause a massive harm and losses such as contraction of GDP, rise of unemployment, etc. In turn, contraction of the private sector causes problems for the public sector in the form of budgetary cuts and so on. In such a case, the country has to deal with the macroeconomic policy as a public bad which is an expression of anti-economy. When the consequences of such defunct policy are huge, one can state that the country has got into an economic crisis and that it is systemic.

A libertarian or neoliberal economist is usually unable to acknowledge that there are two scenarios of macroeconomic governance – positive and negative, i.e. that a state

institution can both succeed and fail. They treat state's intervention into economy as an evil, though in some cases unavoidable, element of society.

Such an attitude to the role of state can be treated as faulty and ideologically biased, thereby non-scientific, because a country's economy cannot function properly if based exclusively on the foundations of spontaneous regimes, because the latter, as in the case of governance regimes, may have both positive and negative outcomes. In addition, in the absence of a visible hand of the state as a defender of common public interest, other visible hands, for example, huge corporations, business associations, will govern some macroeconomic parameters of the country's economy in their own, private interests at the expense of public interests. However, such a shift in macroeconomic policy from public, common interests to private, corporative ones would mean substituting public interests by private ones, de facto privatization of this policy and a threat to the democratic economic order, to the vitality and stability of the economy deprived of a very important chunk of public goods. Such a specific conversion of public elements into private ones, unfortunately, goes on mostly undetected because it is difficult to notice it when the economic reality is seen through the neoliberal or libertarian lens, and the paradigmatic alternatives to the individualistic thought are weak and vague.

Macroeconomic governance is the domain of public interests, while the microeconomic level is permeated by private interests. Macro-growth, employment, inflation are issues of common concern of business, labour, households, etc. Therefore, the purpose of public institutions is to deal with these (macro, supra-micro, supra-private) problems. To an individualist, this way of thinking is alien. He is averse to everything that smells or smacks of public commonality, collectivity, generality.

Macroeconomic policy, being a kind of supra-individual activities, cannot be reduced to the actions of a separate, isolated, private person or firm. Its scope encompasses the matters of economy as a whole, as a system, and any attempts to impose individualistic thinking on this governance means substituting the public level by the private level of economic reality and may lead to huge cognitive and practical losses. An a priori negative attitude of the individualistic camp to macroeconomic governance and the macroeconomic level of analysis shifts the problem from the pragmatic issues of the contents, goals, means. It causes contradictions and difficulties which have to face macropolicy makers in the largely ideological polemics between "statists" and "anti-statists" on the very need of state involvement into economic life.

Instead of having an advanced, sophisticated discourse on really complicated macroeconomic matters, we are stuck in a preliminary, introductory discussion on whether the state has to play any economic role. In our view, it is another evidence of a deep crisis of the economic profession, with enormous anti-economic consequences for real economy. This fact proves that ideology (and common sense) prevail over a scientific inquiry in the economic debate. At least, they are very strong.

Paradoxically, while we, economists, are trapped in the natal stage of the discourse, in reality, states are executing one or another kind of macroeconomic governance. Governments are applying fiscal measures, central banks are using quantitative easing and changes in the discount rate to influence, i.e. to govern, the macroeconomic parameters such as GDP growth, unemployment or inflation. Thus, we should discuss the relevance of macroeconomic policy goals and means instead of arguing for or against statism (state involvement). This issue is being settled by practice, and ideological polemics about a small or big governing without a proper analysis of the factors that determine the scale of government's economic role, should be replaced by the **contingency approach**. The "state" must be neither small nor big. It should be of an **optimal size**, and this size must be based on the at least two things: on the ideologically neutral, critical, scientific analysis and on a public convention. The first precondition should be based on the recognition, that a good macroeconomic governance is a public good and an inseparable part of economy, whereas a faulty one, of course, is a public evil. In parallel, the discourse should be based on understanding that, with increasing the complexity of economic activities and the growing threat of a diversifying variety of economic bads, the role of regimes of governance has an objective, natural tendency to grow. In times of an economic crisis or war, this tendency is especially vivid.

The dynamic, transparent, cognitively balanced, and democratic public discourse on the role of the state and its costs (first of all in tax burden), on policy goals, on means, etc. is the second precondition of the optimal proportion of the state and public sectors. This policy is a common matter and therefore must be discussed publicly and openly, observing a balance between various public and private interests. It is not the case in most, especially in less developed, countries in which the methods of rule by stealth or rule by obfuscation are used massively and the balance between public interests and the interests of powerful private entities is not observed.

Democracy as the public good is, by definition, a transparent regime of governance, based on a good understanding by people of common, public needs and goals and on the common consent as to their content, structure, means of achievement, etc. Transparency, a good understanding of public interests, of policy-making means and a certain public agreement on the most important public matters (macroeconomic policy being one of them) are the basic prerequisites and characteristics of democracy. Free elections, the freedom of speech, other individual liberties are not enough to call a society democratic. Unfortunately, in many cases the named features of social life belong rather to desirabilities than realities. This strengthens anti-economic regimes, accumulates negative elements in economic life, making a crisis more probable or more severe. The mission of the true economic science is to provide society with an adequate knowledge and thereby to contribute to its genuine democratization, to the enhancement of economic efficiency and to a more successful prevention of wholesale, systemic or partial economic crises.

## Conclusions

We live in a society in which economists do not know and do not bother what economy is. In parallel, they do not explicitly admit the existence and importance of the negative side of economic reality. Consequently, society and the economic profession face huge conceptual and terminological quandaries when such terms as “black economy”, “grey economy”, “shadow economy” are used. A consistent theory of economic crisis in these circumstances is hardly, if at all, possible.

The application of the holistic approach in economic inquiries opens a new cognitive perspective, allowing redefinition of the concept of economy, introduction of the concept of anti-economy and formulation of a comprehensive theory of economic crises which encompasses both market and public regimes of the economic reality. The holistic economic paradigm allows us to discover the cognitive factors of the emergence of anti-economy and economic crises.

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