Anuarul Universității "Petre Andrei" din Iaşi
Fascicula: **Drept, Ştiințe Economice, Ştiințe Politice**
ISSN: 2248-1060 | ISSN-L: 2248-1060
Covered in INDEX COPERNICUS, IDEEAS. REPEC, SOCIONET, ECONPAPER, CEEOL

2017, Issue 20, pages: 142-149 | doi: https://doi.org/10.18662/upalaw/09

A Philosophy of the Economic/Business Cycle

[Managementul riscurilor aferente proiectelor finanţate din fonduri europene. Abordare procesuală]

Alexandru TRIFU[1]

[1] Professor, Ph.D., "Petre Andrei" University of Iasi, Romania, E-mail: trifu.alex@gmail.com.

Abstract: In the present paper, we try to underline the importance of the Economic Cycles in current life and to propse and sustain the tri-phases cycles of development, as being the most suitable model for nowadays. Why? Because the decenial cycle overlaps the movements of the business institutions such as money, interest, credit, investments, in one word the true business cycle. The expansion of the credit is the propeller and the prevention of its release represnts the mean the avoidance of the Business Cycles, those which shatter the current world.
At the same time, the overview of Business Cycles leads to the fact that we've tried to sustain the most appropriate expression for these inherent ondulations of the economy and society and to highlight the model of Economic Cycles the most pliable of what is happening in the real economy of today.
The cycles can not be avoided, wether there are due to the activities of a determined economic and social system and more, if there are influenced by structural and circulating financial institutions (money, interest, credit, even market) and, above all, productive investments and sustainability on the specific market.

Keywords: cycles, financial institutions, Juglar's Law, correlation, expansion.

How to cite: Trifu, A. (2017). A Philosophy of the Economic/Business Cycle. *Anuarul Universitatii "Petre Andrei" din Iasi, Fascicula: Drept, Stiinte Economice, Stiinte Politice, 20,* 142-149. https://doi.org/10.18662/upalaw/09

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1. Theoretical approach

First of all, the methodology used is that of analysis of the important contributions in the field, focusing on the important models describing the Economic Cycles and, after that, the deduction and support of one model as being almost true to the current evolution of the human society (Economics included in).

If in Philosophy, the emphasis is put on progress, including development of technologies and new discoveries in various domains, in Economics the emphasis is focused on *cyclicality*. And, in terms of *post-modernism*, we assist to a de-construction of what modernism has created and, at the same time, the creation of new visions in almost all domains: philosophy, sociology, art, literature, etc (Lyotard, 2003). The twilight of the duty (Lipovetsky, 1996) assumes the giving up to the myths of modernity, the entire economy/society turning from people, relationships, structures, etc. (Apostu, 2013, Apostu, 2016, Terec-Vlad 2014, Terec-Vlad, 2015, Terec-Vlad, 2016).

The issue of **Economic/Business Cycles** is one of the most important and sensitive aspects of the *economic science*.

The separation of *investments* from *savings* (as the economic theory of the early twentieth century stated) was done by Knut Wicksell, who developed the *theory of credit and cumulative processes*, ignored the statement of J.-B. Say and accepted the quantity theory of money. We shall summarize Wicksell's view as follows:

a. If $d'n > d'm$ (meaning that the natural rate of interest is higher than the monetary rate) we have *economic growth*, since investments tend to grow and thus the purchasing power increases;

b. And when $d'n < d'm$, we are in the situation of *economic recession*, characterized by a reduction in both the volume of investments as well as the purchasing power.

I shall no longer mention J.A. Schumpeter, whose theory I have already highlighted; I shall move on to another appreciable economist, representative of the New Historical (German) School, Arthur August Kaspar Spiethoff (1873-1957). Based directly on Juglar's view, the Rhinelander thinker also marked out **three phases of the economic cycle**:

1. The upswing;
2. The crisis;
3. The downswing.

By going deeper into the phases considered by Spiethoff, one can reach the current classification of the phases of an economic cycle:

1. The crisis;
2. The depression;
3. The revival;
4. The expansion.

In fact, what Arthur Spiethoff sought to capture was the missing element in building-up a view regarding the moment when bank loans start being granted and the moment of expansion within a new economic cycle. And this impulse was due to the missing link inside the system, **technological improvement** or **development of new markets**. Moreover, speaking in the same terms as Wicksell, Arthur Spiethoff based his theory on the basic situation of the equilibrium between *the natural rate of interest and the monetary rate*. With the *emergence of the new technologies and production processes*, the balance would break and lead to a situation where t*he natural rate > the monetary rate*, which would prove the existence of an *investment boom*.

The Theory of economic cycles (phases), build up on the Juglar (Marx)-Kondratieff (Tugan-Baranovsky)-Schumpeter (Kitchin)-Spiethoff structure, has drawn much interest, as many other authors have continued and developed their ideas, among which I mention G. Cassel, D.H. Robertson, F.A. von Hayek, or the *School of Kiel*, which was mainly concerned with the *structural changes* envisaged by the **theories of development** (specifically, they thought that the structural approach argued that the source of *economic growth*, but also of the existence of *economic cycles,* consisted of the continuous interaction between different the sectors and areas of the real economy). Another not worthy aspect is related to the fact that this theory was developed and improved by *authors belonging to a wide range of currents and schools of economic thought*.

The issue of economic cyclicality concerned many great thinkers, but the one who systematized it, providing a clear picture of how **Economic/Business Cycles** manifest, was the great theorist and subtle analyst of the economic phenomena and processes, Joseph Alois Schumpeter, who distinguished the following three types of economic cycles (Tasnadi, Tasnadi, 2004):

1. **Short cycles (Kitchin cycles), 40 months long**, which were associated with the periodic movements in the stocks of goods
2. **Medium term cycles (Juglar - Marx - cycles), approx. 10 years long**, associated with the periods of renewing the fixed capital.

3. **Long term cycles** (**Kondratiev or Kondratieff cycles**, as he is known in Western literature) -**50-60 years long** (Schumpeter believed even 56 years long), related to the revolutionary processes of science and technology, which bring progress and innovate the economic structures.

The evolution (development) of the entire human society is following the three types of Economic Cycles, but also *the external impulses* (political, social, cultural) are also very important in the **wave evolution** of the economy and society.

This is a view which is closer to the reality of the economic and social life regarding economic cyclicality, which broadens (in the spirit of the Marxian approach, which considers the *four (4) phases* of an **economic cycle)** the economic as well as the external causes that may influence this phenomenon; this image suggests the complexity and difficulty regarding the analysis of the economic activity, a process which, in the light of the different discussions and opinions expressed in the specific literature, appears to be defined as **the period between the beginning of two successive economic crises.**

2. Juglar's Law (Decenial Cycles)

The fluctuations in the economic activity became a subject of analysis during the first half of the nineteenth century. But the first thinker who was really concerned with discovering the **internal causes** of these phenomena was the French physician – but devoted to the economic problems - Clément Juglar (1819-1905). A member of the great current of **marginalism** as a form that we call *pre-marginalism*, the French author was the first to present the statement that **cyclicality is an ineluctable, natural law of development;** therefore, he is rightfully considered the author who grounded the theory of business cycles.

Clément Juglar caught the essence of this economic phenomenon as being governed by an inherent, ineluctable *law* of progress and wealth accumulation at the national economy's level. This law, as developed by the French author and improved subsequently, is presented as a conceptual construction as follows:

Economic cyclicality is represented by permanent changes regarding the orientation and rhythm of the overall economic activity, affecting the fluctuations of the national income (hence the wealth acquired and the trend of development); these fluctuations occur with some regularity, at relatively equal intervals of time, being

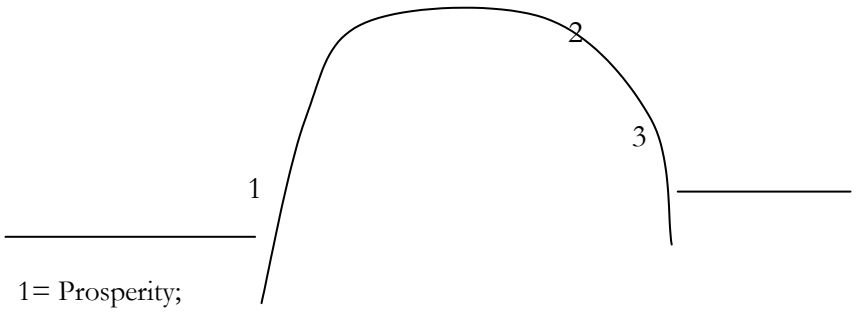
determined by the components of the economic mechanism and the interaction between them.

In his view, an economic cycle includes three phases:

a. Prosperity;
b. Crisis - in this phase, a short period of 10-15 days is identified, when the crisis deepens to its maximum (what Marx would describe as *depression*);
c. Liquidation.

However, in Juglar's view, these fluctuations that occur and manifest in the economy (in the same order of the phases) are caused by the credit policies of the banking system. This is understandable due to the influence of *Say's law*; thus, if we consider that price fluctuations are directly influenced by the granted loans, the **credit** appears as the driving element of the economic mechanism.

Based on the analysis of the economic crises of the nineteenth century, and also on the idea that these crises must be considered *sine qua non* conditions of the existence of human societies, Clément Juglar presented the **economic cycle** as follows:



1= Prosperity;

2= Crisis;

3= Liquidation (Recovery).

One can easily notice the theoretical trinity of the economic cycle above:

1. **Prosperity,** characterized by activities of increasing the overall wealth**.**
2. **Crisis** (with a short period of 10-15 days, when it reaches the critical, sharpest point, which has an ephemeral nature) - this

period is characterized by a strong gap between production and consumption, overall economic contraction and general anxiety.

3. **Liquidation and Recovery,** which means the end of the economic downswing and return to a normal growth trend**.**

The **Crisis** and the immediate period of **Recession** (downswing of the phenomenon) represent the germs and the early stage of the Recovery of the economy and its domains.

At the same time, I would like to highlight the design proposed by Juglar, which strikingly resembles the Greek letter **omega**, that last letter of the Greek alphabet; this similarity lies *precisely* in the fact that the analysis of the **economic cyclicality** is *the last step* in the general analysis of the economic phenomena, whereas in order to reach this phase it is necessary to know the internal factors, resorts and processes that influence and drive the economic mechanism. In turn, as in a feedback relationship, emphasizing the content and significance of the economic cycles ensures the normal development of the economic life, its continuity and the use of *appropriate economic policies* for ensuring economic stability and the necessary realignment between the aggregate demand and the aggregate supply.

Regarding the former Socialist countries from Central-Eastern Europe, their general evolution, stagnation, or extended transition, *is due mainly to the productive malinvestments and to systemic and structural errors in the economic policies' implementation (*Stankiewicz, 1989).

3. Results

The study of this issue and the economic results of Economic Cycles on the mechanisms of the real economy, written in theoretical works like (Silem, 1988), (Trifu, 2005), (Lachmann, 1978), (Stankiewicz, 1989), (Schumpeter, 1939), (Samuelson, 1968) lead us to the idea that, speaking about the cycles, the Economics is the general frame and the Business is the specific difference. Hence, the proper formula for our problem is **Economic/Business Cycles.** If we want to deep the analysis of *Business Cycles*, we must focus on the theoretical achievements in the field done by the Austrian School.

We have, on one hand, the specific economic and social system influences on cyclicality and, on the other hand, the endogenous causes, structural and circulating instruments which determine the development of cycles of themselves.

Conclusions

It is clearly stated that the evolution (development) of the human society and implicit of the economy depends on the **wave expression** (upstairs, downstairs, peaks, abysses) of the human civilization. Even the term of *cycle* came from the greek word „*cyclos*", meaning exactly wave, ondulation.

One of the main characteristic of Economic Cycles is that of a straight correlation between fluctuations in the countries of a region (e.g. South America and the pertinent analysis of Raul Prebisch) and those observed and taken into account in the rest of the world.

Based on the results of the two important models of Economic Cycles, we sustain that the **tri-phases model** (of course, with other intra-ondulations within each phase) is the most appropriate for the current existence and possible evolution of the economy, in its complex interdependence.

We sustain this model, because it is pliabil on the current strategies on medium and long run (3 years and up), being determined by the impact of financial institutions of open market, especially capital market, as money, interest, credit expansion.

Albeit, in the traditional approach of the cycles, these phenomena were viewed on short medium term, in fact the most important cycles, with the outstanding impact in our lives, are represented by those on medium and long term.

Economic/Business Cycles are specific to Macroeconomics level of analysis, even they generated and have impacts (and substance of producing) in the activity and existence of entities and organizations (therefore, Microeconomics level).

The economic growth and expansion of the developed countries is measured, regarding the cycles, in 2-3 decenial cycles (type Juglar or Marx) on each of the two phases of a long cycle (50-60 years). In the ascending one, prevail as duration and intensity, *the prosperity* stage (comprising *revival* and *expansion*). In the opposite situation, on the descending fall, *the crisis and the recession* (until stabilization and recovery) are prevalent.

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