View metadata, citation and similar papers at core.ac.uk
brought to you by CORE
provided by Research Papers in Economics

HUMAN NATURE AND CYCLIC CHARACTER OF ECONOMIC CRISES[1]

Ion POHOAŢĂ[*]

Abstract: *Crisis clearly distinguishes itself from the large mass of economic phenomena through its provocative force, which fuels theoretical discourse. The more harmful, the more generous the energies it deploys and consumes for explanatory and obstacle overcoming purposes. The result is that every crisis teaches us a lesson. What interests us is who writes and who learns from this lesson, and if they do. Then we try to find why serious crises, like the current one, occur once or twice in a century. What is the role that big world market players have in crisis "preparation", onset and resorption? Do solutions originate in the state's support or in the market? Does globalization erase national borders in such situations? How and to what extent real economy may penalize a guilty party that constantly comes from nominal economy? What are the problems raised by such an outcome for the strategy to follow and for economic sciences in general, etc.?*

Keywords*: crisis, Keynes, truth, compromise, market, state, human nature, speculation, indebtedness, personal calculation*

JEL classification*: E12, E44, E60, N10.*

1. DO LESSONS ON CRISIS HAVE A HISTORICAL NATURE?

In order to answer the simplistic however, we believe, easily accountable for interrogation in the title, we are first tempted to make the following simple statement: crises teach us nothing or almost nothing, since they keep occurring at certain time intervals, ruining our plans and making us start over. Or, to be more precise, we could say that they teach us something, but this lesson is useless. Why? Because our knowledge, put into perspective by historical events, will serve the generations that follow us at centennial intervals.

---

[1] Article published in ECTAP 5/2009 (534), pp. 3-20

[*] Ion Pohoaţă – Professor at the "Alexandru Ioan Cuza" University, coordinator of PhD programmes in Economics, Executive Director of the Doctoral School in Economics

We should however remind you that, starting with 1825, the world economy has had a cyclic development. Growth and progress were not brought about by linearity, but by winding developments, by uphill and downhill evolution, by phenomena such as crisis, depression, revival and boom. Heaps of books have been written and Nobel prizes have been won on this extremely interesting subject, which is the hard core of economic theory. Economic politics inspired by this theory managed a praiseworthy and at the same time noteworthy accomplishment; it managed to smooth sinusoidal curves and basically to prevent the turning of the wave top, called expansion, into a crisis. The cycle was thus reduced to two significant boom stages and recession. Crises were avoided or "managed" to become bearable. In two historic cases however economic policies failed to avoid serious crises: 1929-1933 and 2007-200?. These are two unheard of before situations, whose extent and consequences cannot be matched by any other economic phenomenon. It is these phenomena, and especially the latter, that we have in view when trying to find the point of a lesson on crises.

We know therefore, from what others told us and from what we are currently experiencing, that the moment called crisis is a highest intensity implosion and explosion event, which includes an unmatched variety of economic phenomena and processes, and which has the largest geographical spreading and the highest temporal concentration. It is in its nature not to pass unnoticed. It is disturbing, it determines standpoints, it changes matrixes or governments, it revises and updates discourse, etc., in a word, it requires study and examination. And this is what it gets. The generation that experiences it writes the lesson down, through its most representative scientists. It should normally be passed on to be learned and considered. What actually happens is that it is historicized, packed and sent to the past to be labeled: "to whom it is interested in the subject". Once "there", this knowledge gets patina, becomes relative or is simply lost. If this phenomenon occurred more frequently, this knowledge would be like the words in a foreign language that you learn, you do not speak for a while but surprisingly comes back to you when you need it. Unfortunately, this is not the case, since the following big crisis is experienced by another generation, the third or fourth, and it is interpreted in another language and according to a new paradigm.

And one more thing: crisis does not teach us all the same thing. Although crisis is a sum of negative phenomena, it does not leave a desert behind it. During and after a crisis, most of the people have lost something. They learn from their mistakes and their lesson takes the form of a set of sentences that teach their followers, a century later, what they should not do to avoid danger. Others, however, learn and pass on another lesson; one that teaches you not only to survive, but to

make a profit during crises. As already explained, passing on this lesson (regardless of its nature) through time will probably be either put into perspective, or simply lost.

The extent of the phenomenon, as well as its dramatic consequences, should keep this lesson alive; it should be taught in class, as we like to put it. It should be included in a "National Economy" textbook, including success case reports as well as failure case reports, plus accounts of world crisis and the way in which national economy answered it and managed to overcome it. Such a book would round up the academic curriculum, it would give it meaning and make it more attractive, at least in some social education fields.

2. CRISIS IS A FUNDAMENTALLY ECONOMIC PHENOMENON. ITS MOMENT OF GRACE, PEAK AND SOCIAL CHARACTER

The world is **virtually** in crisis until the streets fill with unemployed people. Remaining in the virtual stage and preventing the wave from breaking in foams, by resorption, is a wise politics proof; the ultimate proof would be however preventing the wave from occurring altogether. The toughest lesson that crisis teaches us is that concerning such moments. Social breakouts are actually the extinction with sparks and tragedies of large economic latent conflicts, present in all the cycle stages but manifesting themselves through explosions in the actual crisis stage, when mass unemployment reaches its peak. We speak of fact and idea conflicts, of insurmountable contradictions between production and consumption, real and nominal economy, micro, macro and global viewpoints; between the actual events and the theoretical orthodoxy, which provides neither explanations nor solutions for what happens in the real world. It is a time when economists are accused of everything, including imposture and occultism, and economic sciences look suspicious. Before the outrageous and dramatic show of the game field occupied by unemployed people, politicians are forced to acknowledge what they failed to acknowledge apriori, namely that economic balance means nothing without social peace. And they are forced to acknowledge it because, as J.M. Keynes put it talking about the "outcome" of the big crisis in the 1930's, "*...Men will not always die quietly. For starvation, which brings to some lethargy and a helpless despair, drives other temperaments to the nervous instability of hysteria and to a mad despair. And these in their distress may overturn the remnants of organization, and submerge civilization itself in their attempts to satisfy desperately the overwhelming needs of the individual. This is the danger against which all our resources and courage and idealism must now co-operate*" (Keynes, 1919, p.213). Keynes was an interventionist with liberal heart. He wrote these lines not out of any special fondness for the proletarian cause, but because the facts and events required such a conclusion. A good economic policy model is successful only if it is grounded on

the human factor, if its main coordinate-axis goal is full employment of the work force.

We insist on saying that such moments should be avoided, since they generally require “mad” solutions, which elude not only the economic status-quo logic, but logic in general. The choices are neither dilemmatic, nor metaphysical; they become one with and are imposed by the context. Let us consider **two examples**, which belong to the same area that made the brilliant Keynes to also write less brilliant texts. **First of all**, being preoccupied and even obsessed with finding labor market development solutions, he militates for discouraging savings and encouraging investments. Having the unemployment show before his eyes, he found investment sources and especially destination less important. He accepts any source of investment, including budget deficit (a classical dogma, he believes). Moreover, if an investment has a multiplication effect and generates jobs, it may even be an unproductive investment. According to this “logic”, Keynes states that *"…if the Treasury were to fill old bottles with bank notes, bury them at suitable depths in disused coal mines which are then filled up to the surface with town rubbish, and leave it to private enterprise on well-tried principles of laissez-faire to dig the notes up again… there need be no more unemployment and, …the real income of the community, and its capital wealth also, would probably become a great deal greater than it actually is"* (Keynes, 1970, p.147). In other words, Keynes is trying to say that the streets filled with people are so dangerous to the future of social peace that even useless work is acceptable as a “better than nothing” alternative. Taken out of their context, Keynes’ lines are simply absurd. We understand him only if we consider the time and the context this statement was made, which made it possible, in a country with healthy traditions that gave Europe princes, confronted with an explosive unemployment rate of up to 60% in the industrialized areas of the Ruhr basin, and we refer here to Germany, for a person such as Hitler to become “democratically” the country’s ruler only because he promised jobs. He actually kept his word, sending them to build roads and weapons. History has placed Hitler where he belongs, next to Stalin and other outrageous tyrants. The time of such statements is and must however be considered from this viewpoint, when such a crisis synthesizing context may be meaningfully “fructified” for the future of a nation. **Secondly,** Keynes is also known as the author of a childish reasoning: what does and what does not economy have during crisis? It has excessive work force and unused capital. T does not have money, real money, as the crisis is actually a crediting money crisis. And, forcing his way into the following conclusion, he suggests loud and clear that the gold standard is an annoying “barbarian relic”. Economy must be given what it misses and the printing press seems the perfect solution. Such reasoning is still encountered today, encouraged by the current crisis (see Krugman, 2008). The ones who can afford it will make such a

statement. The choice between a visibly "painless" inflation and unemployment, which can only be an explosive tragedy, also requires such "mad" solutions.

3. CRISIS - MOMENT OF TRUTH AND COMPROMISE

Crisis is a moment of **truth** to the extent it put things where they belong; it mainly places nominal economy, made larger by volatilization, on the fundament provided by real economy. It is a time when the institution of bankruptcy is called to drain and clear the ground, to do its job, to take out of the game the players who eluded or gave up good and healthy informal and formal practices, the ones who, selling illusions, not only compromised the game, but also altered the results with their poisons, turning the GDP in a huge and deceiving roll of cheese full of holes. In order for this to happen, the **market** needs to be left to do its job. Or, this happened neither in the 1929-1933, nor today. In other words, the sanitation mechanism is transformed and perverted.

Crisis is a moment of **compromise** because the fundamental institution in charge of continuously arranging and rearranging competitors depending on their results is seriously questioned. From this point of view, the ideas of the studies after 1929-1933 are not fundamentally different from the current ones. We find that then, like today, we developed on the right but we park on the left to find solutions and find our way out of the deadlock. And, once here, we call forth the presence of the **state** as the ultimate authority able to reconcile what has proven irreconcilable. We feel we should point out that even the purest liberals, starting with Smith, Ricardo, Mill, Locke or Ferguson and ending with Mises, Hayek, Friedman, Buchanan, Hazlitt or Rothbard, did not think that economy and society as a whole could work with the state intervention. In a lawful state that also forces you to see and notice what cannot be noticed – the general rules concerning all and each of them – they offer the image of the *Great Society*, a picture of the civilized world, of a world that reached prosperity and welfare not by the support of the state and interventionism, but by means of the liberal train. The market has always been the fundamental institution that made it possible for the "*human effort to flourish*" as Mises synthetically put it; an institution which, together with private property and entrepreneurship freedom, define free world; an institution with strong optimizing features that forces individuals to take out only what is good in them in order to remain in the free competition game and also to support adjusting and reconcile individual action plans through the price feed-back mechanism (Hayek, 1990). Nevertheless, at times of acute crisis, the market is pointed at incriminatingly, when it should be left to clean and penalize excrescences and deviations from the general rule of the game. The actions taken are perverse and irrational. The market is reprehended and state interventionism if called forth and glorified. Instead of being left to live its moment of truth, economy is subjected to the cruel game of

compromise. Why? Because it is now that can be noticed the perversity of this necessary harm called forth to “help”, the compromise with the state. Compromise and ultimate meanness, because these are its moments of grace. This is the time when it shows what it knows best: it privatizes profit and socializes loss. Now it is its chance to appear as an abstract entity beyond and above the people, the large category of losers, and close to the few winners, without risking anathema. This happens because in these circumstances asking the state for support and regulation seems objectively necessary; tragic reality requires it. The “arguments” supporting its help are equally numerous and perverse.

The spectrum of unemployment, generated by an organization’s possibility of going bankrupt (companies, banks, insurance companies), weighting heavily on the contractual chain of reproduction, is a primary reason for economic analyses. These are “so large” that the USA government cannot afford to assist to the macro and global economic imbalances or to the social effects of the potential bankruptcy of companies such as Bear Stearns, Fannie Mae, Freddie Mac, Lehman Brothers, Merill Lynch, Morgan Stanley, Goldman Sachs etc., the same way that the Benelux countries cannot be indifferent to what would happen if one of the biggest European banks, Fortis, collapsed; the same way that the Romanian government feels obliged to make waves in relation to the potential problems of the “Romanian” banking system, although over 90% of its assets are owned by Austrian, German, Italian and Greek banks. This means that governments cannot afford exposure; the lesson of the market is too tough and would certainly and irremediably render them unpopular. This is why they interfere and, via some authorized voices, they implement “compensatory mechanisms” generated, allegedly, from beneath market coordination. And therefore, they either nationalize (the Fortis case) or “take control” (the Fannie Mae and Freddie Mac), via the central banks (FED in the case of the USA), grant loans by proportionally taking over a portion of the shares package, inject billions of dollars and Euros on the market and, finally, buy back the negative assets of some endangered banking or financial institutions. And all these under the pretense of the huge “responsibility”, of the concern for unblocking or preventing the stumbling of economy and of restoring the necessary faith for the normal development of business. And how can one gain or regain trust if not by giving a helping hand to the great ones which, simply due to their specific importance, design the anatomy and physiology of economy?

Another argument refers directly to the **endemic market fundamentalism**. Stiglitz, for example, does not shrink from declaring that “*neoliberalism is dead*” and that the current market economy is nothing but “*a system of corporate wealth, protected by market economy*”) (Stiglitz, 2008). Not believing that deregulation and liberalization lead to efficiency and growth, the Nobel prize laureate is willing to acknowledge, by comparison, a certain superiority of socialism in relation to

neoliberalism "*Socialism takes care of people…neoliberalism helps corporations, not people*" (*Ibidem*). When an authorized voice, one that received the Nobel prize, sets the choir of anti-deregulation, it gathers up, effortlessly, the necessary team. And this is strong, in our case too. The philosophy of deregulation, which started with the Washington consensus, with the excessive rendering flexible of the labor market, the opening and the liberalization of the capital account, the imperfections of the financial market, doubled by the weakness of credit policies, etc., become targets that consume high quantities of energy. In a synthesizing sentence, functioning as an explanatory thesis for all the damage caused by the current crisis, the well known voice of the aristocrat of thought and writing in the field of Romanian economy, that of Daniel Dăianu, puts it bluntly: "the main cause of this crisis consists in the insufficiency and inadequate regulation of the financial system. By this, adds the author, I also refer to the effects of the *Phil Gramm-Leach-Bliley Act of 1999…adopted by the USA Congress, and which produced another wave of deregulation of the financial industry, leading to the appearance of several "synthetic" products (derivatives), very little comprehended in terms of the degree of risk they involved"* (Dăianu, 2008, p.5).

This would be the primordial cause, which tainted and brought, via a series of equally culpable transmission mechanisms, derivative products, harmful and abnormal in their turn: the transformation of loans into bonds, the disregard of a minimum level of prudence when taking risks, the misrepresentation of the evaluation operations performed by known rating agencies which concealed some collateral payment obligations – CDO or CDS, or of some unrestricted speculative and indebtedness operations such as leveraging, remuneration mechanisms and schemes for the persons with power of decision in some banking, financial or economic institutions etc.

Once entered in the analysis perimeter where we are invited by mister Daianu, it is not polite to question his judgment. This is inappropriate and illogical because, we repeat, inside this matrix, reality, with its obvious stubbornness, shows that this is how things are. The thing is that, if we step outside this perimeter, things look different from the surroundings. Briefly, "the blind faith in the efficient operation of the financial markets" and the lack of regulation are not responsible for all the things that surfaced following the crisis. As a matter of fact, an argument against the opinion according to which we are facing a crisis of open capitalism, caused by too much deregulation, comes from the very inside of the system struck by the crisis: Fannie Mae and Freddie Mac were not, by far, deprived of regulation and supervision and, despite all these, they were considerably struck; at the same time, most speculative funds, such as hedging, oases of almost complete deregulation, do not experience problems and are not threatened by the crisis. **We believe** that now, just like in '29-'33, the primary cause is not an excess of *laissez-faire*, but on the

contrary. **The crisis is not a manifestation of a market and deregulation surplus, but of a market deficit**.

Let us be clear. The market has never been an anarchical construction, but a game with well-defined rules; with numerous powers, as well as with imperfections. It appeared as a fundamental institution which serves as a solution to the unwanted evil, which exists within man. An intimately human construction, situated at the intersection point of the difficulties and counter-difficulties that define man and that "send" him, instinctively and objectively, on the land of exchange because "man almost always needs the help of his fellows" (Smith, 1962, p.13). And it does this because only there, on the path of exchange and of competitive markets, will society stratify and position each man where he belongs, according to the known criterion of consumed work. This is also the opinion of Mises, who sees the market as a fundamental "institutional arrangement", with seen and unseen rules, a machine which efficiently consumes human energy, facilitating cooperation with the ultimately individual manifestation of action (Mises, 1985). The same view is shared by Buchanan, who sees the market as "that institutional process within which individuals interact (voluntarily) for pursuing individual objectives ((Buchanan, 1986, p. 87). Another leader of economic thinking, Hayek reveals the intimately contradictory meaning of this institution which, together with private property and the freedom of action, defines the free world. This is the normative component, through which one resorts to the market as a means of **coordination** of human activities; a means of optimizing the human effort, a "concrete abstraction" through which individual plans are adjusted (Hayek, 1990). Here is where conflictive reality finds its own compensatory means, thus showing that it is not irreconcilable (Hazlitt, 1988).

We could continue, in order to prove, once again, that the market is not the best possible solution but, nevertheless, humankind has yet to invent something better. If a single example contradicted this hypothesis, we would accept the necessary and healthy doubt. But, at the same time, the centralized plan and socialism, as portrayed by Stiglitz, have not paid off either.

We are certainly aware of the risk of our laudatory exposure of the market being stopped by means of a down to earth sentence: well, well, we know all these, but look that the excessively free market has brought us! We return to the topic in order to clarify, once more, a couple of things.

First of all, the most zealous supporters of liberalism have come to realize that the market does not suffice for itself; that its normative valences do not manage to relieve tensions in a complex world. It needs rules. And the market has always functioned based on formal and informal rules. The more the economies grow in complexity, the more they resort to additional rules. The market of the United Europe is an example; one suffocated by rules. In other words, the philosophy of the

open market accepts regulation; it accepts rules, imposed via normative means, and which establish the behavior poles of actors, the cooperation terms, the nature of the goods and services that enter the competitions as penalties for those that do not play by the rules. If we accept this premise, an extra level of regulation rendered necessary by a special circumstance should not lead the discussion to the state interventionism – market dichotomy. Regulation is normally performed by the government and the state, the main actor. In reality, regulation must not, within the requested and natural limits established only by the complexity of free competition, "fall" beyond the market. Within the natural limits it is assimilated to the market philosophy *per se*.

Secondly, the free market is not populated by all kind of actors and all kind of goods. The ones that elude or break the rules are eliminated. The damaged reputation and the ailing solvency resort either to the civil or to the criminal code. If we view things from the material perspective, the free market does not intend to turn the consumer into a sovereign by intoxicating him with perishable, damaged or harmful products. Their circulation is not regulated, it is forbidden. The same should apply for the circulation of financial products that are packaged and re-packaged until they become "harmful". The regulation of the financial market should establish the normal course of products that can circulate and should exclude those of financial engineering schemes. We consider that, not even with the strictest regulations will the harmful products of this market entirely disappear. As long as such products are expressly requested, the final path of punitive measures will be similar to the path where we ended up by forbidding alcoholic products (vodka) in Gorbaciov's Russia, of drugs in Asian or European countries, of human trafficking or organized crime. Although we wish we were not right, the intimately and fundamentally "human" nature of the crisis has led us to this conclusion, as we intend to show in the following lines.

Thirdly, the market is a land of competition. Classics, as well as neoclassic, perceived it as a struggle between numerous and equal opponents, in term of competitive force. Such a competition can be won; with the help of high quality and low prices. Pure and perfect competition, as well as Hayek's catalectic order, was portrayed as the optimized images of the free market. But, before reaching these unimaginable borders, we have to deal with the world of real cases, of competitive markets among unequal opponents, of the struggles between the big and the small, of monopolistic competition. Via its very nature, monopoly has always been an assault upon the market. When it gains the dimensions of a corporation whose turnover exceeds the GDP of a developed state, the problem of regulation attracts more attention. When a small number of huge giants such as AIG, the largest American insurance company, or Fannie Mae and Freddie Mac, which own (owned) approximately a half of the mortgage loans granted to American consumers, starts to

collapse, the reaction of some officials that are responsible for the economic safety and peace of America and of the world makes sense. We can understand why a Henry Paulson (general secretary of the Treasury of the United States) or Ben Bernanke (chairman of FED) is restless and sends alarming signals: such giants cannot die alone, their ramifications in the entire world economy are much too numerous and it is impossible for their drift not to affect or to cause significant problems for the markets in the entire world. If, under normal circumstances, the government – monopoly relation does not pose any problems, since the joining of the interests of public and private finances helps them cohabitate, things change in times of crisis. Called to perform its duty, the government observes that it has to solve a problem which would naturally be the task of the market. Bankruptcy eliminated from the game a partner that broke the market line. Meanwhile, this partner was assisted by the state in order to abandon the premises of free competition. Its power of negotiation exceeds the limits of the market. The government itself is powerless when it comes to "its own child". The myth of the powerless state (Weiss, 29) becomes the reality of the powerless state. Its surgical extraction from the consequent is not possible without a series of catastrophic consequences for the whole. Actions that can be easily performed by the scoop of bankruptcy prove to be unconceivable and without traumas through the forceps of the state. The only solution is for it to compromise itself. And it does, by helping "its product", beyond and against the market.

Fourthly, and **summarizing**, the Washington consensus was not the commencement of the evil. Deregulation *per se* involves a surplus of freedom, shifted from the state to the market. And this surplus of freedom has turned out to be undisputed, emulative and innovative for the entire range of human activities. Incidentally, the initiator of the famous consensus, John Williamson (1989) came up with a set of measures, ten, to be specific, meant to support the developing countries that were affected by the crisis (also see Boyer, 2001). The critical attitude of some economists or economic analysts such as J. Stiglitz or G. Soros assimilated William's statements, in terms of nature and meaning, to the fundamentalism of the free market. It is true that the liberalization of trade and deregulation were among the ten recommendations. But, from here to interpreting these prescriptions as promoting a kind of neoliberalism which transforms the market into a "fundamentalist" institution, the road is long. Following this path, sent under the form of doctrinarian orientation, in complete confusion (see Rodrik, 2006), China and India kept pace and succeeded. Other states that adopted the same fundamentalism have to deal with crisis and failure. As concerns the developed world, under the empire of the philosophy of this consensus, seen as a total opening towards the market, the years that preceded the crisis were among the best. It is highly ungrateful and hypocritical to blame the engine when, too worked up, one

encounters an obstacle. You can fix the engine and go on, but you cannot replace it with a scooter. And fixing it means indeed regulation, at the same time staying in the proximity of the engine. In other words, not all regulation measures are generated by the market. On the contrary, we remain inside it and we rethink its rules without doubting its stimulating, optimizing and auto-regulatory features; and the capacity of producing wealth, undisputed and incomparable with the wealth of other institutions. Following this idea, the imperative of the massive intervention of the state in order to fight "the blind market forces" has tow risks: 1) the risk of contributing to the collapse of an institution which does not deserve such a treatment, not even in moments like this; 2) the risk of contributing to the irreversible compromising of the referee, and especially of the state.

At present it is difficult, if not impossible, to deconstruct an analysis which, via its conclusions, requires the presence of the state. We cannot persuade people that the firemen are not needed when the fire is already burning. It would have been better for the spark not to ignite anything; it would have been better to let the market solve the problem before stirring panic. After the fire is ignited, the intervention becomes "necessary" (Krugman, 2007). The problem is not why the state intervenes at this moment, but how we got to the point where such an intervention is necessary. As we have already stated, the regulation and supervision deficit was not the cause; and neither was the demolition of the banking legislation, with all its consequences (simplification and proliferation of agency activities, financial "innovations" in relation to the securing and creation of synthetic products, positioned with great outputs, but irrelevant for the substance of the wealth in itself, the policy of cheap money, etc.) or the emphasis, for two decades, on a single paradigm, that of the deregulated market. The cause of the causes sends us back to the beginning of the '80s (Cifelli, 1986; Diaconu, 2005). Then, with Reagan starting off as president, the doctrine of the offer was successfully implemented: (which also took from monetarism the idea of controlling monetary emissions, initiated by Friedman). The experiment took place in a context in which the Asian (mainly Japanese) competition had become torrential and was suffocating the American market on its own territory. Among other measures, reaganism also meant the putting into perspective of the known Sherman Law – the antitrust law of 1890 (May 1987), a set of antimonopoly laws concretized in normative acts aimed at regulating competition, price policies, mergers and acquisitions. The law wished to express the will of the public opinion, of putting an end to the monopolization tendency of the American economy and of preventing the domination of the automobile and oil industries by two important families, Ford and Rockefeller. Abuses, discriminatory practices, the control of the price policy, the creation of companies hidden under the umbrella of large monopolies, etc., were deemed to interfere with the spirit of free competition and were disapproved by the public opinion. These were the grounds of this Law.

The government did not have to regulate the market, but the abuse against the market. The antitrust law was primarily aimed at preserving free market competition. It required the intervention of the government in order to fight, with the help of legislation, against the main enemy of the free market – the monopoly. It is true that, once invited, the government followed the trajectory discovered by Mises some years later, by adopting the formula of an objective legislation according to which, once the state is invited into a specific segment, the economy, as a whole, will "*require more and more governing*" (Mises, 1944). Starting its journey in order to put into practice a social option, the prevention of monopolies, the government started to feed itself from the very substance of economy, by means of a gigantesque growth. By taking over and claiming responsibility for a series of actions and activities that were formerly the exclusive object of the market, either because such activities were denied by the market or because the state officials expanded their "responsibility" to several domains (Buchanan &Tollison, 1972) in order to justify their jobs and salaries. It does not surprise us that, in 1988, the American government were described as the biggest: employer, spender, owner, tenant, insurer, creditor, debtor and customer (Frederick and others, 1988). The growth tendency of the American government continued to progress from 1988 and until 2008. Despite all these, in 2007, when the crisis started, the USA government did not prove to be sufficiently powerful to counterbalance the power of some giants; of the companies that, unhindered by the antitrust law, managed to occupy either the entire economy or large pieces of it (possibility hinted at by R. Coase in its famous article *The Nature of The Firm*). The state can no longer fight against such economic, financial and banking giants. They are aware of this and defy; either by sending their representatives for state help with the helicopter or by honoring their managers with bonuses from the borrowed money.

If the state is called to regulate, this is what he has to do: reestablish the rules of competition, defeat monopoly, reintroduce the spirit of free competition, which will lead to low prices and high quality. In other words, it has to give back to the market the role and the place it should have. If the market needs additional rules, they must concern its legislative coherence and the stability of the business environment. And if some harmful products already exist on its territory, they must not be regulated, they must be forbidden together to the other products that "move" them. Thus, we repeat, the risk of the state being compromised is very high. And this is due to the fact that, during times of crisis, more than during uneventful times, the state is wooed in order to guarantee contracts and in order to become corrupt; in order to offer safe jobs to those who failed in private businesses, ending up in bureaucracy and paralysis. Making use of its redistributive mechanisms, the state takes from those who have played by the market rules in order to make gifts to those that should be punished. The principle of equivalence is dismissed in favor of

manipulative practices: the money does not go back to those from which it was taken, but to those which created holes, to companies that do not observe the rules of the game; to artificially built companies which will, in the future, compete with the ones that can face the crisis without the help of the state.

4. HUMAN NATURE AND CRISIS REPEATABILITY

There is one hope-giving piece of information coming from crises history, namely that they are transitory; they come, they create serious trouble or disorder and they leave. A new cycle begins when they leave the scene. Regardless of its nature and duration (whether it is annual, decennial or centennial), a cycle always reaches a peak - crisis. What happens today, comparable only to what history witnessed from 1929 to 1933, belongs to the long centennial Kondratieff cycle. Should we be tempted, which is only natural, to compare the current crisis with the one that occurred at the beginning of the 20th century, we have every reason to believe, at least out of inertia, that this crisis also has a beginning and an ending. When it comes to establishing temporal landmarks only the big world players have a say in the matter. It is not by accident, and we intend to prove that, that the USA were the triggering factor of this phenomenon in both cases. The ending will undoubtedly be dictated by the same country. Contagion naturally spreads quicker in a globalized world. For these very reasons, this crisis requires adequate global or globalized answers. Despite its different amplitude and higher spreading speed, the primary deadlock-breaking impulse is still present: the “center” looks for refuge and solutions at the expense of the “periphery”. Regardless of the indebtedness level (states to states, companies to companies, companies to states and vice-versa, and all the above to the IMF, WB or EBRD) and nature, putting an end to this crisis depression, despite the cooperation and aggregate effort calls, does not break away from the way of the world; a world of domination, having asymmetrical and irreversible effects, precisely as Fr. Perroux inspiringly described it, that is from the big to the small and never the other way around. The “accuracy” of this phenomenon, able to cover up any power abuse or discriminatory practices, turns indignation into futility. The world has gotten so much used to this way of the world, that the “periphery” states are “rightfully” and joyfully waiting to be announced when their ordeal is over.

It is undoubtedly true that this comparison would also reveal many other differences and similarities between now and then. There is hope lurking in the background: the current crisis should be shorter. The existing technical and material resources, intervention means and specific know-how entitle us to believe that. Moreover, beyond a certain limit, which is difficult to trace econometrically, the interested parties in overcoming this phenomenon are increasingly numerous and bigger. Leaving aside for now the technical-economic and political-financial causes

accounting for and supporting this phenomenon called crisis, we focus on another cause, which accounts for, from a different point of view, both crisis occurrence and repeatability. We are trying, in other words, to answer a perfectly legitimate question: will what happened between 1929 and 1933 and what is happening today also happen in the near or distance future? Will this phenomenon occur again at the end of this century to support Kondratieff's beliefs (1984) as well as the suppositions of other economic cycle theoreticians?

We dare give an affirmative answer, while not grounding our beliefs on technical causes. We rather think that it is human nature that actually accounts for the repeatability of such phenomena, which, due to their hideousness and devastating and offsetting effects, should be doomed as "unique".

We do not claim that we do pioneering work when we say that human nature may account to a great extent for what is called economic cyclicity. Keynes' psychological motives that "urge" individuals either to refrain from spending or, on the contrary, to increase their consumption appetite prove that the great economist was a good connoisseur of the human nature. People's fondness of investments or consumption, their preference for cash, "average opinion" evolution, credit condition, "fundamental psychological law" accounting for individual consumption behavior depending on income evolution, caution, transaction and speculation motives, etc. Here are only some of Keynes' concepts focusing on human nature.

Quite a large number of economists still ground their economic crisis studies on behavioral patterns (as adjustment responses to euphoria, panic, excess, indebtedness appetite, etc.), invoking greed as the all-comprising cause of crisis-generated chaos. Charles Kindleberger is a good eloquent example. Robert Aliber, Robert Solow, with whom Kindleberger actually wrote the famous book *Manias, Panics and Crashes: A History of Financial Crises* (2005), are greatly supported, in their opinions, by world known economists such as Paul Samuleson. Alan Greenspan, another highly respected voice in the crisis analysis world, states, post factum, after the onset of the current crisis, whose origin he is actually familiar with, that *"…these economic and financial cycle models do not fully capture ... the innate human responses that result in swings between euphoria and fear that repeat themselves generation after generation with little evidence of a learning curve. Asset-price bubbles build and burst today as they have since the early 18th century… To be sure, we tend to label such behavioral responses as non-rational. Current practice is to introduce notions of "animal spirits", as John Maynard Keynes put it. But forecasters' concerns should be not whether human response is rational or irrational, only that it is observable and systematic. This, to me, is the large missing "explanatory variable" in both risk-management and macro econometric models"* (Greenspan, 2008, p.522). When describing the phenomenon,

Greenspan also uses two other concepts: “irrational effusiveness” and “euphoric bubbles”.

We did not use such a long quotation to comment upon it. It speaks for itself. We are only interested in the “explanatory variable”, which over-technical explanation leave aside, but which is fundamental if we want to grasp the very sources of crisis repeatability. The euphoric bubble’s historical nature draws our attention; it gradually fills with highly collectively irrational phrases and suddenly bursts, destabilizing everything around it, without however acquiring the strength of a lesson worth learning.

What we are trying to point out here, in a world of ideas created by the names quoted above, is that a propitious **environment** makes crisis triggering possible. It results from the action and reaction of two categories of players: one that makes offers and another that stimulates demand. An assumption is necessary for an accurate understanding of the phenomenon: today, just as in the 1929-1933’s, the crisis actually started on the **loan money** field. Although the actual events in the 1929-1933’s suggested especially an over-production and consumption crisis, and in the 2007-200?’s a real estate market crisis, the panic on Wall-Street actually meant the same thing in both cases: the breaking of the loan trust chain. Built step by step, the “bubble”-permissive environment of over-packed and excessively-secured products was created by joint “contribution”; suppliers and buyers joined the dance of madness, in the thrall of a game built of trust and “human weakness”. Post factum, after the frenzy diminished and the game proved to be a sand castle, the guilty party is instinctively looked for and anathema is cast: on the stock exchange market that made it possible for illusion to be sold at tempting rates; on the banking system, which opened up to casino-type stock exchange operations and poisoned the market with uncovered products; on insurers, which gambled their payers’ money on the stock exchange market; on the obscure world of intermediaries, which facilitated the systematic emergence of synthetic products; on the rating agencies, which orchestrated the show giving good grades to doubtful initiatives, etc. If we are open to minimum objectivity, we should admit that stock exchanges, banks, insurance companies, etc., are not entities that breed by themselves. Their inputs and output call to the game a smaller or higher number of participants. Individuals, households, companies, dealers, banks, insurance companies, stock exchanges, investment funds, pension funds, public institutions, etc., become actors on this stage; they join the game, each bringing their own particular contribution to it, and at the same time taking the same excessive risk and going deep in debt.

Synthetically speaking, a human being’s reaction to risk takes the form of aversion. People do not like risks. From this point of view, M. Weber classified individuals in two categories: the ones that “eat well”, and the ones that have a “peaceful sleep” (Weber, 1993, p.28). To the first category, the businessmen, risk is

the price for the desired profit. The other category, significantly bigger, includes passive investors, passive depositors who are not disturbed by any possible dialectics brought about by the profitable investment involving risks and stress or bank deposits with a safe interest equation; they prefer to be passive money savers in the absence of any entrepreneurial vocation. That is how Say, Schumpeter and, more recently, Knight (2005) put it. In short, taking risks and living with uncertainty in not everyone's "game". This happens in normal circumstances. But the time before the crisis is nothing but normal. It makes everyone leave their passiveness and invites them to invest, within the limits of their own budget and psychological structure. When the loan offer is irresponsibly permissive, it makes no sense to remain a passive money saver. When you can take a loan with nothing but your ID card, when you are not asked what your possessions are and if you are able to provide any surety, when you are allowed to draft your own refund schedule, to pay back whatever and whenever your want, if, last but not least, no one needs to vouch for you, it is madness not to get loans. And you do it not because you really need it, but because you want to play the market. Why not buy two or three houses and as many pieces of land, even at extremely high prices, if you can sell them and make a profit before long. The price is not important. What matters is the positive difference obtained by resale. Everybody has this purely mercantile logic: creditors, who transfer the risks of unsecured loans to intermediaries; intermediaries, who secure mortgage loans; other intermediaries who provide loan security; commercial and investment banks that join the casino game tempted by quick earnings, preferring massive short-term debts and forgetting that in the long run they may walk into a trap; individuals or households that find it irrational not to take advantage of such offers. Risk exposure is no longer a problem because risk itself is underestimated. This picture is made whole and more clearly defined by opportunism, limited rationality and incomplete information. When all these are endorsed by scientists, the pleasure of living excessively well, even briefly, without worrying that you may be penalized in the long run is carefree. And this exactly what happened. In the country where the crisis originated, Oliver Williamson, agreeing with Herbert Simon's opinion (1997), replaces homo economicus rationalis with an agent whose rationality has certain limitations, derived either from the latter's inborn features or from communication and reformation difficulties. Moreover, by defining lapidary opportunism as "the pursuit of one's personal interest by cheating", Williamson opens the door to behavioral deviations having a false appearance of normality: deceit, lie, false promises or threats, manipulation, provision of distorted information, etc. (Williamson, 2005). Acknowledged as familiar human behaviors and theorized by excellent writers, such behaviors composed the background announcing the crisis. Business reputation or ethics have become obsolete. Agents with healthy behaviors were "forced" to understand that their tools were taking them

out of the competition, so they joined the game; they got into debt, played the market, provided surety, security, blew bubbles and felt happy; no stress and no fears.

On the other hand, indebtedness and indebtedness level have always been human, and economic, we might add. Regardless of its level, individual, company, nations, etc., and up to a certain point it did not prevent progress. On the contrary, spending more than you earn has sometimes proved, in different historical circumstances and geographical areas, beneficial for individual and community development. When their own resources failed, business entities borrowed then, and "living off diseconomy" as Keynes said, borrowing and spending now relying on future income, proved a trend of modern economy. At least two things draw our attention if we want to keep dwelling on the subject.

First of all, the line or point up to which indebtedness is "normal". In principle, indebtedness is considered from the viewpoint of and as deriving from the income-expense relation. When one's expenses (consumption or investments) exceed one's forces, loans and indebtedness are the solution. In other words, indebtedness depends on the current and future income. From this standpoint, literature tackles two opinions; **one** belonging to Keynes, according to whom consumption depends on the current income swings, which means that additional money would satisfy "cash hunger" and would make loans cheaper; the **other** due to Milton Friedman who believes that only "permanent income" –the swing trend coming from a long period of time- has a say in the matter of human consumption or saving behavior. The latter states that economy stands intrinsic chances of stabilization: in the long run, depending on the "individual life plan" and with higher income, agents' appetence for cash (savings) increases. In other words, a temporary and occasional cash infusion is not even considered; it is already insured by the very normal operation of economy, an economy which, given its normal growth, also needs a normal proportional growth of cash (Friedman, 1960). Even such reasoning, regardless of its nuances, does not drive indebtedness beyond supportability. As concerns the precise delineation of this supportability, which should separate normality from madness, econometric calculations are still being made. Beyond such a limit, people will undoubtedly fail to meet their payment obligations, and insolvency and bankruptcy will not be far. Determining the critical mass of agents whose indebtedness would jeopardize an entire economy is less clear and easy. We should add that, even if financial econometrics accurately succeeded in timely foreseeing and reporting the occurrence of a serious crisis, it would stand little chance to be taken seriously. When everybody is in a frenzy, they do not have time to listen to negative signals? When at a wedding party, people listen when you say that the bride was stolen, but nobody will listen if you say the groom is dead. The current manifestations of this crisis entitle us to say that the line has been crossed. In

2005, two years before the crisis' onset, America had the highest indebtedness rate. At the same time, just as in 1933, the savings rate was negative. Despite that and despite all the warnings, loans went sky high. The offer was so generous that even subprime loans with profitability rates slightly (2-4%) exceeding those of the government bonds were successful. The failure or delays in paying back the loans, bank inability to make payments, stock exchange crash, incipient bankruptcies, etc. announced an imminent crisis and the destruction of a system. Nevertheless, the show went on until the giants started to fall. The individual life plans tailored according to the Nobel price winner Friedman's "permanent income" were not considered. Keynes' "animal spirits" have accounted for more.

Secondly, indebtedness, regardless of the entity undertaking it, has the same meaning: you borrow to spend more than you earn. The assumption according to which indebtedness capacity is limited is also common. Just as the statement according to which going into debt is not in itself a positive thing. There are high chances are you may feel more comfortable as a creditor than as a debtor. Also, the concept of deficit has timeless validity when defining the difference between inputs and outputs. Minor differences only lie in units of measurement, settling methods and especially in the consequences deriving from indebtedness. We say nothing unheard of here. We should bear however in mind that consumption or investment loans, based on future income, have been increasingly higher and accompanied by increasingly significant risk exposure of all the economic game players. The way in which inborn aversion to risk influences financial flexibility, risk acceptance during boom periods, unflinching trust in future income, temporary financial imbalance spreading corroborated with economic strain stages, the "support" provided by the financial and banking system by its own examples (serious reduction of their own share in the total capital) etc. say al lot about the trend described above. We believe that debt consequences and coverage deserve special attention. Within an averaged-sized entity (family, company, etc.) indebtedness and debt settlement have the same address; the one undertaking the loan risk is also the one that, after crisis onset, is penalized for having dared to cross the danger line. His "pain" is a feed-back of his own wrong calculations. This does not apply to large corporations or to the state. Their mistakes are not always paid for by the ones who made them. Massive state intervention, regardless of the manner in which this is done, actually means a socialization of losses. Neither great corporations nor the state can become bankrupt without avoiding serious imbalances. Also, in these cases, it is actually an innocent "human nature" that pays for the mistakes of another "human nature", who undertook great risk exposure. The fact that not only bubble makers, euphoric boom people, but the entire population is involved in paying for the mistakes of others, turns crisis not only into a psychological certainty of the fact that risk underestimation collides with the innate risk aversion, but also into a moment of

maximum social strain, when the very basics of human cooperation are shaken to the grounds.

REFERENCES

1. **Boyer, P.** (2001), “Antitrust Legislation”, *The Oxford Companion to United States History*, http://www.encyclopedia.com/doc/1O119-AntitrustLegislation.html
2. **Buchanan, J.** (1986)**,** *Liberty, Market and State*, New York University Press
3. **Buchanan, J.** (1972)**,** Tollison, R., *Theory of Public Choice: Political Applications of Economics*, The University of Michigan Press
4. **Cifelli Isgro, A.**, “Antitrust Reform: DOA Reagan’s plan rankles business lobbies, consumer groups and Congressman Rodino”, *Fortune Magazine*, March, 31, 1986, http://money.cnn.com/magazines/fortune/fortune_archive/1986/03/31/67320/index.htm
5. **Coase, R. H.**, *Natura firmei*, în Oliver Williamson, Sidney Winter (eds.), *Natura firmei. Origini, evoluţie şi dezvoltare*, Ed. Sedona, Timişoara, 1997, pp.26-41.
6. **Dăianu, D.,** “Ar fi trebuit să se înveţe din crizele anterioare”, articol scris pentru *European Voice* şi preluat şi publicat de *Revista 22*, Nr. 40, 30 sept-6 oct 2008, p.5;
7. **Diaconu, B.,** *Legea şi piaţa*, November 4th, 2005*,* http://evado.ro/?p=27
8. **Frederick, W., Davis, K.,** ş.a., *Business and Society: Corporate Strategy*, Public Policy, 6th Edition, McGraw-Hill International Editions, 1988;
9. **Friedman, M.**, *Inflation et systèmes monétaires*, Calman-Lévy, Paris, 1960;
10. **Greenspan, A**., *Era turbulenţelor: aventuri într-o lume nouă*, Publica, Bucureşti, 2008;
11. **Hayek, Fr.**, *Infatuarea fatală. Erorile socialismului*, Ed. Antet, 1990;
12. **Hazlitt, H.,** *The Foundations of Morality*, Lanham, MD: University Press of America, 1988;
13. **Keynes, J.M.**, *Teoria generală a folosirii mâinii de lucru, dobânzii şi banilor*, Ed. Ştiinţifică, Bucureşti, 1970;
14. **Keynes, J.M.**, *The Economic Consequences of the Peace*, MacMillan and Co., London, 1919;
15. **Kindleberger, Ch., Aliber, R., Solow, R.,** *Manias, Panics and Crashes: A History of Financial Crises*, Wiley, John&Sons Inc., August 2005;
16. **Knight, F.,** *Risk, Uncertainty and Profit*, Casino Classics, 2005;
17. **Kondratieff, N.,** *Long Wave Cycle*, Richardson & Snyder, 1984;
18. **Krugman, P.,** “Betting the Bank, The New York Times”, March 14, 2008, http://www.nytimes.com/2008/03/14/opinion/14krugman.html?_r=1;
19. **Krugman, P.**, *The Conscience of a Liberal*, W.W. Norton & Co., 2007;
20. **May, James**, “Antitrust in the Formative Era: Political and Economic Theory in Constitutional and Antitrust Analysis, 1880-1918”, *Ohio State Law Journal* 50 (1987), pp. 257-395;
21. **Mises, L.**, *Bureaucracy*, New Haven: Yale University Press, 1944;
22. **Mises, L.,** *L’Action humaine. Traité d’économie*, PUF, Paris, 1985;
23. **Rodrik, D.,** “Goodbye Washington Consensus, Hello Washington Confusion?”, Jan. 2006, p.3-5, http://ksghome.harvard.edu/~drodrik/lessons%20of%20the%201990s%20 review%20_jel_.pdf
24. **Simon, H.,** *Administrative Behavior: A Study of Decision Making Processes in Administrative Organization*, 4th ed., New York: Free Press, 1997;
25. **Smith, A.,** *Avuţia naţiunilor. Cercetare asupra naturii şi cauzelor ei*, Vol. 1, Ed. Academiei Române, Bucureşti, 1962;
26. **Stiglitz, J.,** “Crisis points to need for new global currency”, interviu cu Kiyoshi Okonogy, în The Asahi Shimbun/ The International Herald Tribune, November 5th, 2008, http://www.asahi.com/english/Herald-asahi/TKY200811050060.html
27. **Weber, M.,** *Etica protestantă şi spiritul capitalismului*, Ed. Humanitas, Bucureşti, 1993;

28. **Weiss, L.**, *Mitul statului lipsit de putere. Guvernarea economiei în era globalizării*, Ed. Trei, 2002;
29. **Williamson, J.**, *What Washington Means by Policy Reform*, în J. Williamson (ed.), *Latin American Readjustment: How Much has Happened*, Washington: Institute for International Economics, 1989;
30. **Williamson, O.,** "Transaction Costs Economics" în C. Ménard, M. Shirley (eds.), *Handbook of New Institutional Economics*, pp. 41-65, Springer, 2005;
31. ***, "Reagan proposes easing antitrust rules (proposed antitrust legislation)", *National Petroleum News*, March, 1986, http://findarticles.com/p/articles/mi_hb4898/is_198603.