

# What is behind the economic crisis?

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**This paper is dedicated to find answers to the question: what are the real processes that cause the economic crisis nowadays and in the past. The cycles of economic life and their effect on the whole system are analyzed, but the main analysis is about problems that seem to be every day's problems, though it hasn't been considered to be the real cause to the crisis. Topics as the dependencies between countries and nations are concerned, which will lead to the significant problem of the international chasm of development.**

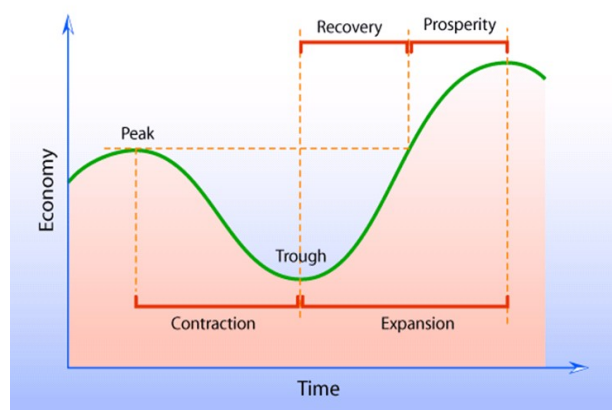
## I. INTRODUCTION

Since 2007, when the local economical crisis broke out from the United States, many analysis have been written about the financial state of not only the USA, but of the European Union and Asian countries. Though not many assays mention the causes that can be found behind all current economic events.

## II. THE UNCONTROLLABLE AND UNFORESEEN CYCLES

The periodicity of the productivity has not been built into the normal models of economic growth, this area was taken into further analysis by the theories of economic cycles. Firstly, they started to analyze these periods in connection with other economic crises, but soon it was discovered that they have further connections with the economic growth as well.

First, only a 10 year-period was discovered through the seasons of starvation in Europe, but soon, as the financial and estate area were also analyzed, more types of these cycles were found.

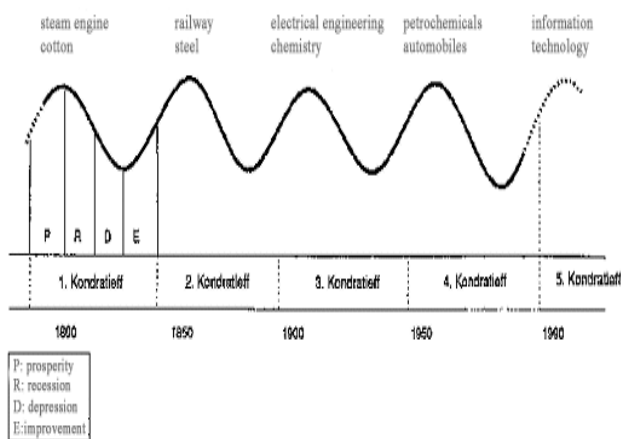


The "life" of a full cycle.

The cycle observed by Joseph Kitchin can be connected to the outlook of the companies and the short-term aggregation and derogation of stock. That's why it is known as the cycle of storage. Its length is approximately 3-4 years (40 months).

The cycle named after Clement Juglar was already discovered in the 19th century and is connected to departmental periods. Its nadirs are testified by crisis of overproduction and financial crashes. One cycle is 8-11 years long; it takes this time to decide whether a company can be viable or not, and what relation can be discovered between demand and supply.

Simon Kuznetz discovered cycles with 15-20 years of life, while he was analysing the american economic crises. It was explained by the periodicity of the infrastructural investments. By short, the Kuznetz-cycle is a long term period of estate.



Kondratiev-waves since the 18th century.

The most controversial cycle was discovered by a Russian economist, Nikolai Kondratiev. He took part in creating a 5-year-plan for the development of the Soviet agriculture, from 1923-1925. In 1924 he published his first book, presenting his theory of major cycles. The presence of the 40-45 year-cycle can be hardly proved. According to his theories, 5 long cycles could have been in the agriculture, each can be connected to a significant agricultural or industrial development.

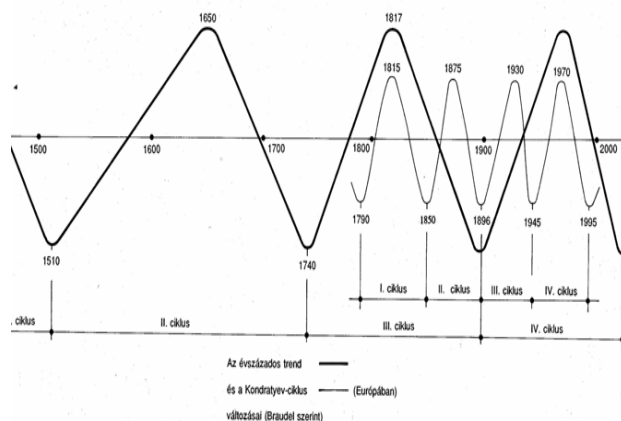
The first wave can be bonded to the appearance of the steam-engine, this era lasted from 1770 to 1830. This was followed by the period of the railway-building, from 1830 to 1870. The third wave was resulted by the second industrial revolution, electricity and heavy industry dominated until the end of the 19th century. After, the era of oil and automobiles came, from 1900 and was ended by the oil crisis in the 1970s. Currently, we are experiencing an other change of periods: since informatics and information technology developed in the 1970s, its end was signed in 2001, when the dotcom-bubble popped. It is known that nanotechnology is following the informatics, but the question is, when will the new wave start.

These four waves create the swing of the agriculture. By reprochement they can strengthen and weaken each other. A serious crisis can burst out if the turning point of

a Kondratiev and Juglar wave encounter. Besides if a Kondratiev wave is turning into depression can bring serious social tension up to the surface. Though it has to be noted that it's not important that depression or recovery is the actual period, a turning point can causes serious concussion in the agriculture.

An other wave that is worth of mentioning is the Braudel-cycle. This is a very long cycle, nearly 100 years long and shows the changes of the deepest, nearly moveless structures.

These waves can be projected on the earlier economic crises. After the Napoleonic wars, when whole Europe was starving, the top of a Kondratiev wave was dominating, encountering with the top of a Braudel wave. In the middle of the 19th century the revolutions show the depression of the Kondratiev cycle. Behind the crisis of the 1870s, a Kondratiev and a Juglar wave encountered. At the crisis of 1929, there was the nadir of a Kondratiev wave., meanwhile, during the 1970s, a Kondratiev, a Juglar and a Braudel wave met.



The changes of the Kondratiev and Braudel waves.

### III. WHY DID THE CRISIS BROKE OUT?

To fully understand why this crisis broke out in the beginning of 21st century, we have to know about processes that can be found deep within the economic system. These processes are just as important as the result of the history's chain reaction. It can be told that not only economic systems are in crisis, but the society as well.

Possibly urgency is the reason that specialists do not look further than they do presently, but because of this, the real causes to the crisis became unforgotten. The imbalance of the economic system creates a bubble that signs to us that the chain of crises will continue if these problems won't be solved.

To find out what lies behind the phrase "the imbalance of the economic system", examining the connections between the countries is completely enough. We can tell by first sight that no country or nation is independent, because of the integrity of the relations of the markets.

There are more types of the dependencies: we can mention the international relations of properties, trading, the debtor-creditor relations, technologies and information streams.

Examining the relations in the international properties we can monitor the flow of stocks, and find out how much ownership does one country by buying foreign shares. But there can be lack of balance when one buys more or less shares than the amount it imports. It can cause real damage to the country's economy if there are more foreign properties than domestic properties.

International debtor-creditor relations are very important when we speak of dependencies. This is more likely a process of subsidizing, that significantly defines the differences between countries and nations. Because these are financial processes, they have a very close

connection between trading, international stock-flow and technologies. But we have to recognize that if one country gets credit, it still can grant credit to another country. The point is, that at what rate is a country creditor and debtor.

The problem is that if a country pays its debts by getting more credits from others. It leads us to a present problem which effects the connections between countries.

The European Union already announced that they try to solve this problem within itself. It would recompense those member states that has a debt much more than the 60% of its GDP. (Hungary's debt is 82.9% of the GDP.)

There is a great division in the development of technologies and research. There aren't any independent states, because every country depend on another's developments and new technologies.

Here we have to mention the process of "*brain drain*", which normally means the qualified workers 'wandering to other states, where their knowledge may be more useful. This normally happens when the homeland does not provide enough possibilities to research and develop.

Brain drain can be connected to the debtor-creditor relations: typically the workers from the debtor moves to the creditor's country. But there are very dangerous elements of this process: the young and talented students will more likely move to a foreign country that has very good possibilities in education and scholarship projects.

It has to be mentioned that these processes are naturally part of globalization; youth has become more mobile and they move easily to another country to work, more easily if they have a very good chance to do it. A very important representative is the meeting of different cultures.

And at last, the asymmetry of the flows of information can cause serious troubles when the information is not forwarded to concerned parties, though it is admitted that information is just as important as technologies.

The recent industrial revolution provides faster receiving of information than anytime earlier. The global web helps to reduce the differences between the countries but only if the society is prepared enough.

#### IV. THE INTERNATIONAL CHASM OF DEVELOPMENT

This phrase means the differences between states. Though the index numbers individually do not show full picture of this, using them together might show the measures of these differences.

First time only the index GDP was used to show one country's state of development. Now it is only used to show the economic growth.

United Nations Organization introduced the Human Development Index, because the other index numbers do not show the development of the society. This number shows the expectation of life, the average of years spending in school.

But in the meantime the speculation of a certain economic growth can reduce the inequality of earnings has become less convincing, so monitoring a certain country's social inequality is a part of the dissection of development standards.

Though it has to be admitted that these numbers do not show the quality and direction of development. It is shown by crises that the direction and quality is at a dead-end.

The international chasm of development is inherited from the past. Not solving its problems led to a greater difference between nations, and it has a very negative effect on the less developed states, because following trends in the richer countries raises the numbers of fugitives.

This can cause serious tension in the host country, and we can all hear and see the result of these ethnical and religious opposites, coming to surface, which leads into terrorism, threatening the security of the global society.

The solution to solve this problem lies in radical changes - to lead the less developed states into line to the developed countries, and this can be unthinkable without reforming the current economic system, and ensuring the needed education and the healthcare to the people.