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**A Critical Perspective on the
Doctrinal Approaches Regarding the Economic Crises**

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Abstract: The aim of the present paper is to analyze comparatively the main economic theories regarding the economic crises, including the premises for starting the present financial and economic vulnerabilities on national and international level. On ideological level, the present global financial and economic crisis, similar to the other ones throughout history, initiated an intellectual debate among several applicable theories: Adam Smith's "invisible hand" liberal theory, Keynes's state interventionism theory and even neo-Marxist theories. The issue of the economic cycle and the crisis is a very complex one that cannot be analyzed and explained in a few pages, because talking about the crisis and the economic cycle supposes an analysis of all aspects of the market economy. Thus, we try to found out which of these theories best explain the economic cycles and crises and we believe that the Great Depression of '29-'33 confirmed to a great extent the "Austrian" theory of the economic cycle.

Keywords: economic cycle; crisis; Keynesianism; creative destruction; animal spirits

JEL Classification: B12; B25; B53, H13

1 Introduction

The global financial and economic crisis that started in 2007 is probably the most serious crisis after the Great Depression, during the last 80 years. It is a reason for reopening the debates, meditations, questions regarding the causes for the starting of this crisis, the effects and the solutions for coming out of recession.

The opinions regarding the elements that started the crisis differ among the specialists from this area. On the one hand, there are opinions according to which the state intervention made possible the starting of the financial and economic turbulences that we experience and the involvement of the public authorities will not attenuate the economic difficulties, and on the other hand, there are voices that say that the starting of the crisis is based on the inadequate behaviour of the economic agents, characterized by selfishness, greed, speculation, etc. Without pretending to counterpoint a personal point of view comparable as level, the goal of the present paper is to analyze comparatively the main economic theories regarding the economic crises in order to identify the theory that best explained the economic crises.

2 Conceptual Approaches regarding the Economic Cycle and the Economic Crisis

Thus, first of all, we would like to explain the concept of "crisis" and in this context, we have to approach a notion without which we cannot offer explanations, namely that of "economic cycle".

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In the specialized literature, there is almost an unanimous agreement regarding the fact that the economic activity does not have an uniform, linear evolution, but it is fluctuating, registering in some periods increases, standstills or decreases of the production, inflation, interest rates, labour force employment, etc. Based on the statistical data from several countries, we could notice the existence on the macroeconomic level of several types of economic cycles that overlap and interpenetrate, as it follows: Kitchin cycles (in Joseph Kitchin's opinion – cycles of the monetary offer that last 3-4 years), Juglar cycles (in Clement Juglar's opinion – credit contractions and periodical crises at every 9-10 years), Berry cycles (25-30 years), Kondratieff cycles (50-60 years), Strauss cycles (90-99 years) and cycles of the modern world (300 years).

The studies regarding the cyclic evolutions in the economies with competition market are focused first of all on the decennial cycle (average or Juglar) which is covered by an ample literature comprising a wide variety of points of view.

Thus, according to some opinions, an economic cycle represents “an oscillation of the production, the income and the employment on national level that usually lasts between 2 and 10 years, this period being characterized by a significant expansion or limitation of the activity in most of the sectors of the economy” (Samuelson & Nordhaus, 2001). Although these economic fluctuations have irregularities, the economic cycle can be considered as a succession of ascending and descending stages. At the same time, there aren't two identical economic cycles, but they can often share similarities.

Anyway, as John M. Keynes stated, by “cyclic movement we understand not only that the ascending and the descending tendencies once they have started do not maintain forever the same direction, but also that they are overturned in the end” (Keynes, 2009). Therefore, the economic cycle includes several stages, that is: expansion, crisis, recession and invigoration of the economic activity (Haberler, 1946).

Regarding the crisis phenomenon, Keynes stated that “the replacement of an ascending tendency with a descending one often takes place unexpectedly and in a violent manner” (Keynes, 2009), while the shift from a descending tendency to an ascending one is not characterized by a sudden turning point.

At the same time, Gottfried Haberler wants to vary the concept of “crisis” by comparing it with the concept of “depression”, that most of the times are wrongly used as having the same meaning. According to him, the term “depression” shall be used having the meaning of “a process or a continuous state of affairs of more or less extensive duration” (Haberler, 1946), where the “real income consumed or the volume of consumption per head, the real income produced or the volume of production per head and the rate of employment are falling or are subnormal in the sense that there are idle resources and unused capacity, especially unused labour” (Haberler, 1946).

The same author assigns to the concept of “crisis” two meanings. In the technical sense of the theory of the business cycle, crisis means the turning point that marks the shifting from prosperity to depression. In the regular sense of the daily language used by the financial media and frequently used in the economic writings, this means an acute state of financial shortages (acute poverty), panic, bankruptcies, etc. Technically speaking, a crisis is usually (but not always) accompanied by an acute crisis in the regular meaning of the word. On the other hand, an acute financial crisis can and occasionally appears in a moment when there is no crisis in the technical sense. In other words, the crisis does not always mark the shifting from a period of prosperity to a depression one, but sometimes it appears during a depression or even during a period of prosperity without transforming it into a depression.

As Ludwig von Mises stated, “During the boom period, we are talking about good business, prosperity and advance. Its inevitable consequence, the readjustment of the conditions to the real data of the market is called crisis, period of bad business, depression” (Mises, 2002).

In this context, we agree to the statement that the cycle expresses the positive and the negative deviation determined by an *endogenous* complex of factors (the economic system includes in itself

destabilizing mechanisms that generate cyclic fluctuations) and *exogenous* complex of factors (sun spots, natural conditions, wars, discoveries of new gold deposits, etc.)

3 Theories Regarding the Economic Crises

At the question “Why do economic crises appear?” the answers of the economists are extremely varied. At the same time with the manifestation of the first fluctuations of the economic activity in the XIX century, the representatives of the schools of economic thought have been preoccupied to offer explanations regarding the causes of the economic cycle and the manifestation of the economic crises. There is a diversity of antagonistic opinions, but as Roubini states, “ideas matter” (Roubini & Mihm, 2010) and, without an understanding of the economic ideas that influenced the period of the previous crises and the recent ones, we cannot understand how did we get into that situation and how can we get out of it. In this context, in the present paragraph, we undertake to review selectively the theories regarding the economic crises, in an attempt to analyze them comparatively and to identify which of them explain to a greater extent the recent economic and financial crisis.

The classical economic thought originates in the writings of Adam Smith, Jean-Baptiste Say and John Stuart Mill. According to the classical approach, the set up of the economy is based on the *natural order*. The classical economists believe in the natural laws, in the self-regulating virtues of the economy reflected by the famous metaphor of the “invisible hand” that expresses the miraculous process through which “the selfish and divergent interests of the individual economic actors somehow manage to coagulate under the form of a stable system that regulates itself” (Roubini & Mihm, 2010). They use the method of scientific abstraction and deduction, and the preferred analysis environment is the microeconomic one. At the same time, they are convinced that only by having a fair individual behaviour, only by ensuring the personal interest, the social peace can be ensured, not otherwise.

The conception of the classical economists regarding the society in general and especially the economic activity targets its functioning according to its own laws and excludes the involvement of the state in the economic area, the only accepted intervention measures of the state being necessary in order to eliminate the obstacles that come across the way of the free competition. For the classical school, the competition game is the one that allows the prices of the market not to stray away for a long period from the natural prices, by means of the signal system of the prices according to which the producers guide their activity, thus the starting of a general economic crisis is not possible.

The postulates of the Classical School that framed both the classical economists and the neoclassical ones without differentiating them are synthesized by Keynes (Keynes, 2009) under the form of three hypotheses that he disputes: 1) The real income is equal to the marginal disutility of the volume of employed labour force; 2) There is no involuntary unemployment in the strict meaning of the word; 3) The offer creates its own demand, a theory formulated by J. B. Say according to which overproduction is impossible by its own nature.

Essential to the classical conception is the idea of prices and salaries flexibility that acts as a self-regulating mechanism eliminating any excess of demand or offer through which labour force employment is retaken to the maximum level and production is maintained at the potential level.

Within this analysis framework, in the liberal capitalist system, a crisis of the general and prolonged overproduction is not possible and the recession can only be the result of a wrong allocation of resources (Țigănaș, 2005). Thus, they know the concept of economic cycle, but consider it a temporary deviation that is going to correct itself.

The trust of the classical school representatives in the self-regulating capacity of the economy determined them to look for the causes of the crises outside the economy through exogenous explanations of the economic mechanism, such that elaborated by J.S. Mill, of psychological order – objective alternation of some states of optimism and the state of pessimism or that proposed by W.S. Jevons, known under the name of “theory of solar spots”.

John Stuart Mill is considered to be the first one (Roubini & Mihm, 2010) that dealt with the study of the crises in its works; he tried to explain them by means of an external shock or “an accident”. While the prices rise and there is the certainty of some high profits, the economic agents will want to earn more and they will resort to credit in order to increase the production of goods, determining other price increases. The unexpected failure of some companies will determine a “general distrust” on the market which will make difficult to obtain a credit and in order to pay the debts (the credit not being available anymore), the individuals will start to sell. Thus, the prices drop and the panic replaces the previous safety feeling.

W. S. Jevons, a representative of the neoclassical theory, considers that an external disturbance, such as solar spots, could disturb the balance of the weather on the planet and therefore the agricultural production and those events could unbalance the economies of the countries, culminating with a crisis.

As a result, taking into account the self-regulating capacity of the markets, the idea that crises are started by external causes remains essential to the school of classical economy, thus the markets can be disturbed by certain external events, but they are shock resistant and they cannot collapse.

The Great Depression (1929-1933) shattered the convictions regarding the self-regulating capacity of the economy for ensuring the balance between economies and investments, under the conditions of the full employment of the labour force. Therefore, for explaining the economic cycle, the causes of endogenous - exogenous type came up as decisive. According to them, the cycles resulted from the conjugation of the action of some internal factors of the economic system, the interdependencies within it and some exogenous circumstances to it. Based on them, the economic system included in itself destabilizing mechanisms that generated cyclic fluctuations and the exogenous factors (natural, social, political conditions, etc.) could favour or hinder their action.

The manifestation of the crises and unemployment phenomena, specific to the Great Depression, represented decisive factors in the reevaluation of the liberal economic doctrine and the consideration of the economic analysis according to other principles, showing the limits of the private initiative in solving some economic-social problems with significant impact on the society and major dysfunctionalities of the mechanisms of the market economies, confronted with serious disturbing phenomena. Since the appearance in 1936 of the *J. M. Keynes's* “General Theory” and for 30 years, the economists applied the Keynesian version of the economic cycle. Thus, in order to fight against the destructive effects of the world economic crisis, including of the manifestation of the cyclicity of the economy, the state restored to intervention measures as a viable alternative to the disturbances that came up in the functioning of the market mechanisms.

Keynes's conceptions regarding the economic cycle can be found again in the chapter 22 of the “General Theory” that states that “the essential character of the commercial cycle and especially its regularity regarding the sequentiality and duration that justifies the denomination of cycle is mainly due to the manner in which the marginal productivity of the capital fluctuates [...] the commercial cycle should be better considered as caused by a cyclical change of the marginal productivity of the capital, although it is complicated and most of the times worsened by the changes associated with other variables important on short term of the economic system” (Keynes, 2009).

In the Keynesian conception, the succession of the prosperity and the recession stages can be analyzed in causal relation to the evolution of the marginal efficiency (productivity) of the capital, in interdependency with the interest rate. Keynes considers that the classical economists wrongly interpreted two notions: the interest rate and the marginal efficiency of the capital. From his point of view, the marginal efficiency of the capital is “that updated rate that would make the present value of the series of annuities given by the expected benefits brought by the capital good during its life to be equal to its offer price” (Keynes, 2009), and the explanation of the crisis “is not especially an increase of the interest rate, but a sudden collapse of the marginal efficiency of the capital” (Keynes, 2009), as a result of the manifestation of some psychological factors (panic, future uncertainty).

From the Keynes's point of view, the behaviour of the entrepreneur in the investment act mainly depend on the relation between the anticipated profit rate and the interest rate; the entrepreneur is

interested in investments under the conditions in which the desired profit rate will exceed the level of the interest. At the same time, the entrepreneur does not ignore the acceleration effect according to which an increase of the consumption can determine an increase more than proportional of the investments in the area in which these goods are manufactured for which the demand has increased, in the same way in which an investment expansion stage can end only because the sales are stabilized at a certain level or are increasing, but at a lower level than the previous one.

Thus the full employment of the labour force depends, in Keynes's opinion, on the aggregate demand. During a crisis period, if the salaries are reduced and the workers are laid-off, people will consume less and the demand will decrease. As the demand decreases, the entrepreneurs will not be interested anymore to invest which determines new reductions of the salaries and dismissals. In this context, the consumers will decrease the consumption and will save more, thus reducing the demand even more, creating the "paradox of saving".

On the other hand, during a period of economic prosperity characterized by "overinvestment" (Keynes, 2009) (the meaning assigned by Keynes to the term is that of investments made under unstable conditions and that do not last because they do not satisfy the expectancies that generated them), the famous economist considers that the solution consists not in the increase of the interest rate because it would discourage some useful investments and it would decrease the inclination towards consumption, but by intervening through the reallocation of the earnings or the reduction of the interest rate in order to stimulate consumption. These measures refer to the suppression of the depressions and the maintenance of a state of "quasi-prosperity" (Keynes, 2009).

Thus, for Keynes, in the absence of a self-regulating mechanism that redirected the economy towards the full employment, due to the fact that prices and salaries are not flexible, the solution consists in applying monetary and fiscal policies that stimulated the economy and that maintained at the same time high levels of the production and the employment of the labour force.

The instability manifested at the middle of the '60, determined the authorities and the economists to question the general theory of Keynes. Nevertheless, according to Hyman Minsky (Minsky, 2011), the current economic theory interprets in an inexact manner the work of Keynes and the financial quasi-crises of 1970, 1974-1975, 1979-1980, 1982-1983 etc. were not the result of the Keynesian policies, but of the fragility of the financial system and the speculative financing.

In that context, in the '70-'80, the *monetarist school* imposed itself, that appeared at the end of the '40 at the University of Chicago and the leader was Milton Friedman whose convictions were also shared by the collaborator of A. Schwartz and by others, as a criticism towards the Keynesian orthodoxy in force. The results obtained following the application of the monetarist policies in the '70-'80, although contradictory, attested the fact that the policy of limiting the money offer led to the stop of inflation, but regarding the issue of unemployment, the offered solution consisted in the stimulation of the offer.

The followers of the monetarist theories tried to explain the cyclical evolutions through the credit evolution: its excessive increase stimulated expansion, but it disturbed the economic balance, leading to the recession stage. According to them, the economic cycle could be a purely monetary phenomenon determined exclusively by errors committed by the authorities in charge of the monetary policy. Criticized for their unilateral character, the monetarist theories regarding the economic cycle grew and diversified especially due to the contribution of the specialists from the Monetarist School (M. Friedman, A. Schwartz). Friedman and Schwartz offered a much different interpretation than that of Keynes regarding the crisis from the '29-'33, considering that it was caused by the reduction of the deposits and reserves from the banks ("Great Contraction"), and that the collapse of the money offer diminished the aggregate demand that at its turn determined the reduction of the expenses, incomes, prices and labour force employment.

One of the most recent monetarist elaborations regards the cyclical evolution as a result of the credit policies adopted by the central banks: when they reduce artificially the interest rate, they stimulate the initiation without sufficient economic grounding of some investment projects that at a certain point prove to be unattainable because the production factors are actually more expensive than the initial

evaluations. The recessive stage begins when it becomes impossible for the entrepreneurs to achieve the scheduled objectives and they reduce their investments. Particularly, the monetarists recommend the maintenance of a constant growth rate of the monetary mass in order to ensure the stability of the prices and thus to preserve the neutrality of the monetary policy in relation with the process of achieving the general balance.

Paul Samuelson, author of the *neoclassical synthesis*, believed that the theories regarding the economic cycles must be classified in two categories (Samuelson & Nordhaus, 2001), that is: external theories and internal theories. From his point of view, the external theories considered that the economic cycles originated in the fluctuations of the factors from outside the economic system, such as wars, revolutions and elections, price of oil, discovery of gold deposits, migration of the population, discovery of new resources, scientific discoveries and technological innovations, sun spots and weather; on the other hand, the internal theories took into account the mechanisms from inside the economic system that determined the self-generation of the economic cycles. Developing the Keynesian conception, Paul Samuelson explained the cyclical evolution based on the interdependency between the multiplier and the accelerator, mechanisms whose functioning could determine the economic expansion and recession (Haberler, 1946). From the point of view of professor Minsky, the neoclassical synthesis, that included monetarist nuances and Keynesian elements, failed to explain how it was possible for a financial crisis to appear out of the normal functioning of the economy and neither why in certain periods the economy was susceptible to the crisis, while in other periods was not (Minsky, 2011).

After the success registered by the monetarists, consisting in the eradication of inflation from the American economy, the velocity of money circulation became extremely unstable, according to some authors, due to the emphasis, during that period, put on the monetary policy and those changes compromised the monetarist conception. In that context, at the beginning of the '70, Robert Lucas set the bases of a new school of economic thought – *new classical economics*, to which also contributed Thomas Sargent and Robert Barro, as main representatives.

The new classical economics adopts the fundamental principles of the traditional classical model, that is: 1. The prices and the salaries are flexible; 2. There are certain stable natural values of the variables through which the markets adjust themselves; 3. The only explanation for the temporary deviations of the observed values of the respective variables from the natural values is related to the imperfect character of the anticipations.

But, in this new analysis framework, the new classical economics brings something new, an innovating element, the so-called hypothesis of rational anticipations. According to this hypothesis, the economic agents formulate their expectations in a rational (objective) way, that is on the basis of the best information found at their disposal, by understanding the manner in which the economy and the effects of the policies applied by the government function. Thus, the state cannot fool anymore the citizens because they are well informed, they have access to the same information as the public servants and they have the capacity to forecast the future and the consequence is the predictability of any economic policy and therefore its ineffectiveness.

The representatives of the new classical economics talk about the *theories of the economic cycle equilibrium* (Samuelson & Nordhaus, 2001), according to which a wrong perception on the evolution of salaries and prices makes the labour offer be too big or too small which leads to the cyclical fluctuation of the level of production and employment. A variant of these theories argues that the unemployment increases during the recession periods because the workers have high salaries that they won't give up.

As a result, the real economic equilibrium is susceptible to be affected only by the non-anticipated elements of the economic policy. The unpredictable elements of the economic policy can have a temporary effect on the real equilibrium, but this effect has nothing to do with the inability of the economic agents to use the available information, but it is related to the insufficient information regarding the behaviour of the authorities that is often unpredictable. The hypothesis of the flexible

prices means that the economic policy can influence the level of the production and the unemployment only if it takes the economic agents by surprise and disturbs their perceptions. But if the policy is predictable, it would be difficult to take them by surprise, thus, on the long term, the economic policy cannot have any effect on the evolution of the economic activity that is exclusively determined by its real factors.

The *new classical* theory is much similar to the classical approach, including the source of the fluctuations of the economic activity and the disequilibrium states: shocks or changes imposed from outside the system.

Some authors (De Soto, 2010 & Minsky, 2011) agree that there are no big divergences between the Keynesians and the monetarists, but on the contrary, there are several similarities among them, due to the fact that both sides used the same economic theory. From their point of view, the crises have exogenous causes (psychological, technological and/or errors of the monetary policy), and the economic cycle can be eliminated, if we do not take into account the forces that produce disequilibrium, endogenous to the system, that lead to economic cycles. Thus, according to them, the causes of the instability are the events found outside the functional dynamics of the economy. Nevertheless, there are also differences, meaning that the monetarists thought that the reason for the destabilization of the economy is the change of the money offer and the Keynesians explained the crisis by variations in aggregate demand.

Unlike the monetarist and Keynesian macroeconomists, the *Austrian School* adopts a theory of the *endogenous* causes of the economic crises which explains their *recurrent* nature (corrupted institutions: the fractional reserve banking and the artificial expansion of the credit) (De Soto, 2010).

The “Austrian” economists (especially Ludwig von Mises, Friedrich von Hayek and Murray Rothbard) explained the economic cycles as a monetary and financial phenomenon, a consequence of an artificial expansion of the credit by banks and other financial intermediaries that determined differences between the monetary interest rate and the natural interest rate and that was not accompanied by a corresponding increase of the voluntary savings. Therefore, through the expansionist monetary policy, the interest rate was artificially reduced below the natural interest rate (the interest rate that resulted from the manifestation of the preferences of the individuals regarding the ratio between savings and consumption) which determined the investments to exceed the savings. Thus, for a more reduced interest rate, precisely induced by the artificial expansion of the credit, several investments that were considered unprofitable then became apparently profitable (malinvestments).

Generally, such monetary expansion would have repercussions on the level of the prices that would gradually increase and that would overturn many of the profitability expectations of the economic agents. In time, in the areas that absorbed with priority and preponderantly the fictitious capital, the economic agents would realize that they extended excessively the capital structure corresponding to their business. They were the ones that under the attractive appearance of the cheap credit, overinvested in comparison with the real exigencies of the market. When the need to limit some economic developments – in excess – became inevitable, then the crisis manifested itself.

Therefore, from the point of view of the “Austrian” economists, the crisis is not caused by the decrease of the demand, an argument supported by Keynes, but on the contrary, by the expansion that precede it and that modifies the structure of the productive apparatus, thus, for them, the crisis is structural in nature. The economic cycles, with the alternation of the periods of expansion and depression, occur due to the resource transfer from one activity to the other, following the modification of the relative prices of the production factors and of the goods.

Nevertheless, Roubini draws the attention on the fact that the Austrian approach is wrong when it comes to the short term policies (Roubini & Mihm, 2010). Thus, in the absence of some governmental investments, the crisis can turn into total depression and according to Keynes and Minsky, on short term it would be better to avoid a collapse of the entire financial system through more flexible monetary policies, stimulating expenses and tax reductions. But, on average and long term, we have to

apply the teachings of the Austrians: the reduction of the level of debt both by the population and the companies and the banks, the companies and the households that are insolvent should go bankrupt and start fresh, because maintaining them for an undetermined period only prolongs the agony and nothing else.

Roubini, as well as Keynes, are somehow in error, because the distinction between the short term and the long term economic actions is a theoretical one. In the concrete economy, the temporal horizons interpenetrate and the short term economic policies of the government (for example, fiscal incentives) produce long term effects (structural deficiencies such as an overbidding of the financial services or of the commercial ones to the detriment of the industries or the productive activities).

To the judgment error regarding the temporal horizon, another error adds, maybe even more serious, regarding the economic circuit or flow and the aggregate structure of the economy, more precisely, the separation between macroeconomics (aggregates such as demand and offer, national output, investments and consumption, general level of the prices, etc) and microeconomics (prices of the market, salaries, etc). Thus, since Keynes and up to the present, in the mainstream economics, we have a static circular economic circuit or flow, focused on the concept of equilibrium (as in the principle of communicating vessels), where saving represents a „leak” from the economic system, while the consumption as much as possible (from where it results the importance of the multiplier and the accelerator) is the propulsion factor of the economic mechanism and the factor for maintaining the equilibrium.

Moreover, microeconomics and macroeconomics are linked through statistical data, a fact which even a post-Keynesian such as Robert Solow considered to be strange, because he talked about a “decoupling” between micro and macroeconomics.

In the dominant theory (where we can place all the neoclassical synthesis, from post-Keynesians to monetarists and the followers of the new classical economics), the money is neutral. In other words, the variation of the money offer can have only short term effects on the real economy (inflation or deflation), but it cannot produce structural modifications (that is mutations in the orientation of the economic agents and therefore in the structure of the economic activities). Thus, the facility of the fiscal or monetarist solutions for the economic crises and implicitly the idea that the fine tuning can be done (aggregate demand = aggregate offer) for the full employment of the labour force, the sustained economic growth or, if applicable, the maintenance of the stability of the prices.

If from various reasons (as in the old “banking school”, the stimulation of business and commerce or as in the Keynesian macroeconomics, the reaching of the full employment of the factors, especially the labour force or, more recently, the maintenance of the economic growth) there is an excessive increase of the money offer, the result is an extension of the production periods or, in other words, the employment of too many factors in the production of capital goods, apparently profitable. When the problems arise due to the incapacity of the banks to sustain the excess of projects, the economic crises starts and these capital goods or, more precisely, these producing economic branches are no longer profitable. In this context, the introduction of additional quantities of money means the prolongation of the “agony” with devastating or even disastrous effects in the future. On the other hand, the stimulation of the aggregate demand through public works (public investments) means to distort even more the structure of the economy. Therefore, even if the shock is painful, it must be left to manifest itself, because it would produce a shorter crisis, not a depression.

Rothbard showed the contribution of the Austrian theory to the explaining of the economic history in the paper “America’s Great Depression” (Rothbard, 2000). Far from being a proof of the failures of the uncontrolled capitalism, the Crash from 1929, rather illustrated the dangers that resulted from the involvement of the government into the economy. The economic collapse came as a necessary correction of the artificial boom induced by the Central Bank by means of monetary expansion in the ‘20. The attempts of the government to “heal the effects”, only worsened the situation. For Rothbard, the bank policy was the key of the American economic history.

The fact that at the same time with the change of the conditions of an institutional system, most of the part of a theory previously used lost its significance or suddenly limited it, precisely represented the signal, the proof of its falsity. The rejection of the universal character of the Keynesian theory was generated by the crises from the '70 from the western economies. An even more convincing invalidation of the monetarist theory was determined by the failure of the monetarist recipes of "shock therapies" in Russia, Eastern Europe, as well as the categorical refusal of China and the dynamic development of its economy.

Following the performed analysis, we can conclude that while the classical theory, the Keynesian, the monetarist and the new classical economics believe that the crisis is determined by exogenous causes to the system, the Austrian School believes in endogenous causes.

Recently, the American professor Hyman Minsky, considered to be a *post-Keynesian* economist, has presented in his book "Stabilizing an Unstable Economy" a theory regarding the financial crises that are based on an interesting hypothesis, the hypothesis of the financial instability (Minsky, 2011). According to this hypothesis, two sentences are valid: 1. The capitalist market mechanisms cannot lead to a state of total equilibrium with stable prices and full employment; 2. The cause of the serious economic cycles is represented by financial characteristics that are essential to capitalism. Practically, Minsky brings again to our attention an aspect that has already been mentioned by Keynes in the General Theory, an aspect that got lost in the present standard theory. Therefore, his important contribution is his attempt to understand the theory of Keynes, that demonstrated with undisputable arguments that the "success in the attempt to make the economy work can only be temporary; the instability is an inherent and unavoidable defect of the capitalism" (Minsky, 2011).

At the same time, from a different perspective of the economic thought, some economists update the concept of "*animal spirits*", used for the very first time by the classical liberals such as David Hume, developed by J. M. Keynes and presented as revolutionary hypothesis regarding the economic crises in the thesis of the Nobel prize laureate George Akerlof and the professor Robert J. Shiller (Akerlof & Shiller, 2010).

In 1739, David Hume published "*A Treatise on Human Nature*", a paper where he used the term "animal spirits" in order to identify the reasons that stayed at the basis of the decision making in the actions of the human beings, as major study subject of human nature. Later on, J. M. Keynes developed that concept in his paper "*The General Theory of Employment Interest and Money*". Keynes found that the "animal spirits" represented the determinant factor based on which human beings, when they had a choice, rather decided to act than not to act. Keynes reached to the conclusion that the taking of the economic decisions was not just a simple rational mathematical calculus, but an impulsive process, led by human feelings, expectations, experiences and states of trust and pessimisms that can cause fluctuations in economic activity (Keynes, 2009).

Without animal spirits and resorting only to mathematics and economic analysis, the economy will fall in a permanent state of apathy, because it is possible that the human being limited their reactions or decided not to react at all: "If the animal spirit is weak, and the spontaneous optimism starts to rock, leaving us to depend only on the mathematical expectations, the enterprising spirit will fade and die" (Keynes, 2009).

Thus, according to the opinion of the great economist, the crisis is not necessarily the result of rational calculations, but rather "the consequence of the unbalance of the delicate equilibrium of the spontaneous optimism" (Keynes, 2009). Therefore, Keynes explains in the chapter 22 from the General Theory dedicated to the economic cycle the fact that the prosperity stages are characterized by optimism, even overoptimism, many investments, abundance of capital goods, high prices, increasing production costs, till the moment when a collapse of the marginal efficiency of the capital appears, which makes crisis even more difficult.

In the context of "animal spirits" developed by Keynes, George Akerlof and Robert Shiller, the "animal spirit" is associated with the manifestation of trust, with a naive optimism that pushes the consumer to exaggerated expenses and the businessman to too big investments, people believing that

the economy will permanently grow, offering the possibility to the two authors to include in their paper the most important economic issues that interfere with the animal spirits: the social limits of profit; the illusion of money; changes in the economic actions; legends instead of facts and numbers; corruption; exuberance and overtrust. In their opinion, the “animal spirits” represent the key-element (Akerlof & Shiller, 2010) in a different vision on the economy that explains the fundamental instabilities of capitalism and reaffirms the role of the state in correcting the unbalances that are related to the irrationality of the markets or the wrong perceptions of the individuals: “Such a world of animal spirits gives the state the chance to intervene. Its role is to establish the conditions in which our emotional states can be used in a creative manner in order to serve for a higher purpose. The state must set the rules of the game” (Akerlof & Shiller, 2010).

The animal spirits, as Akerlof and Shiller demonstrated, are decisive factors in the evolution of the economy, for the starting of the economic crises, but unfortunately, not yet for the economic thought, as well as the neoclassical theory, whose representatives argue that the economists should not take at all into account the animal spirits. Nevertheless, the crises return and evolve and this is the reason why we believe that the economists and the authorities should begin to review the theories and also to evolve in their manner of economic thought, because if we do not face accordingly this challenge, then we have to accept that not only the economy is in crisis, but also the economic science.

4 Conclusions

Finally, we would like to emphasize the main differences between classical economics and the mainstream economic theory, as it follows:

1. Macroeconomics and microeconomics as distinct activity areas and economic policy do not exist, but there is only an economic system, if the expression is allowed, or a certain economic order.
2. There is no short term and long term, but economic activities on different temporal horizons.
3. The interest rate is not given by the “marginal efficiency of the capital”, but by the offer and the money demand. On the contrary, the interest rate regulates the savings and the investments. From here it results the importance assigned by the classicals to the “healthy” money, eventually with a 100% reserve of precious metals or at least fractional. Somehow, the classical economists preoccupied by the real economy (production, distribution and consumption) have also thought that money is “neutral”. But believing that the state is nothing else than a judge and a supervisor of the game of “free competition”, they could not think that there are monetary or fiscal excesses and therefore radical deviations from the relatively balanced evolution of the economic activity. This is the reason why for them the crises can only be temporary and the eventual cycles have exogenous causes.

Also, we would like to synthesize the main differences between the “Austrian economy” and the mainstream economic theory, as it follows:

1. Admits the ideas of the classical, less the errors (value-labour, salary fund, the theory of capital etc.).
2. There is no static economic “circular flow” focused on equilibrium but an *economic process*. The activities are developed in time, dynamically and that is why the structural relations matter (among prices, categories of goods, activity branches etc.).
3. There is not homogenous “capital” that can sum up all the goods used for the production of other goods and for giving a monetary expression to them. But, on the contrary, there are different categories of capitals, in different relations with the market and the categories of consumer goods. They result from different production periods and from different relations between the market of the factors (the past of the activity of the enterprise) and the market of the consumer goods (the future).
4. Time and money matter count a lot in the estimates and the economic calculations of the enterprises. Thus, money cannot be neutral. Therefore, a distortion of the ratio between the future

consumption and the present consumption, that is the price of time or the price of money (interest), determines a long lasting variation of the structure of the capital or the production periods.

The present economic crisis will lead to the rediscussion of the manner in which the government can properly influence the economy. Basically, the discussion must end in changes that would lead to a better equilibrium between discretion and rules in the fiscal policies of the governments. The successful solving of the crisis will depend on the adoption of a pragmatic solution that took the best from both sides, that of the “invisible hand” and that of the “visible hand”.

Thus, we subscribe to the Mises’s opinion, according to which in a market economy, “the main task of the political power is to protect the unobstructed functioning of the market economy against fraud or violence appeared inside or outside the country” (Mises, *Economic Policy. Thoughts for Today and Tomorrow*, 2010), and a functional market economy needs administrative and judicial organs that established and followed the observance of the rules of the economic game by all economic and social actors.

Each of the presented theories contain some truth, each economic thought current has something relevant to say. Without pretending to have solved the dilemma related to which one of the theories (classical, Keynesian, monetarist, Austrian School, etc.) explain better the economic cycles and crises, we believe that the Great Depression of ‘29-‘33 confirmed to a great extent the “Austrian” theory of the economic cycle.

Causa causorum of the economic cycles is the excessive money offer. The concrete manifestation is represented by “malinvestments”- wrong investments, not overinvestments, as it was wrongly interpreted by many authors. If monetary overoffer existed, why wasn’t inflation produce in what many economists called “the longest period of sustained economic growth”? (Alan Greenspan called the ‘90 and the beginning of the 2000, “The Great Moderation”) (Greenspan, 2008). Due to the high increase of the labour productivity that theoretically leads to a decrease of the prices, productivity that enough people rediscovered in the high-tech industries? Probably, most part of the money excess materializes in the financial sector where it has taken place an exponential increase of the price of the assets or the general price index. But this phenomenon proves the “Austrians” right by saying that important are the relative prices that maintained the structure of the economic activities and not an “illusory” macroeconomic aggregate.

However, two problems remain somehow unsolved by the Austrian theory of the economic cycle (which will be the subject of another study): 1. Is or is not the economic cyclicity a characteristic of the capitalist system?; 2. Is there or is there not a dichotomy between a supposed “real cycle” and a “financial cycle”, given the overwhelming importance of the financial-banking sector in the present day?

Nevertheless, the instability accompanies the capitalist economy with a complex structure and on-going evolution that can determine the manifestation of the very high inflation phenomena and deep crises. In these cases, the public institutions and policies must intervene in order to restrain the instability impulse, by identifying and applying some adequate policies, but we cannot say if it must be a Keynesian, monetarist or Austrian policy, because there are several types of crises and if a theory worked in a certain context, it does not mean that it will also have the expected effects in the present. Thus, we have to analyze more carefully the past in order to understand it, to adopt solutions that combine the liberal thought with the interventionist one and of course, also to include in the public policies the animal spirits.

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