

LONG BUSINESS CYCLES THEORY AS AN INSTRUMENT OF ECONOMIC GROWTH DETERMINATION

Kvitka A.V.,

PhD, Assistant Professor of economic theory and economic management
V.N. Karazin Kharkiv National University

Kvitka K.V.,

A student of the Faculty of Economics, specialty "Economic theory"
V.N. Karazin Kharkiv National University

The economy of any country, including Ukraine, is affected by the constant oscillations, which in the scientific community are called "business cycles". In his studies, a well-known Ukrainian economist Mikhail Tugan-Baranowski had shown an interest towards this topic, and later – so had his student Nikolai Kondratiev, who developed the theory of long cycles (40-60 years). This theory makes it possible to trace the dynamics of long-term economic development, which, in its turn, is necessary for the further prognostication and searching the way out of the crisis situations, inter alia – the current crisis in Ukraine.

Key words in English: business cycle, 'Kondratieff wave', crisis, recovery.

Problem statement

Today quite a difficult situation has transpired in Ukrainian economy, that led to the increased relevance of the works of the native and foreign economists, which were dedicated to the different ways of solving vital problems, their deep analyzes and future predictions. This study is no exception, thanks to the idea of long economic cycles the researchers have an opportunity to use this idea in the light of modern realities of the country. Analysis of long cycles allows us to understand the long-term dynamics of the global economic system and offer scenarios for its future development, as this analysis largely deepens our understanding of the nature of the crises of the past as well as current economic crisis.

Analysis of the recent researches and publications

It should be noted that in 1894 Ukrainian scientist and economist who was among the first world-famous, Michael Tugan-Baranowski (1865-1918) published the book "Industrial Crises in Contemporary England, their causes and impact on the people's lives" [3], in which fluctuation patterns in the economy were identified. Through the analysis of crises in the history of one of the classic capitalist countries - England, Tugan-Baranowski discovered a number of specific features (eg the price of iron, cent discount rate) that characterize the different phases of the cycle, and their management can not only help to predict the future situation at the market, but also to influence it. That has made a breakthrough in economic forecasting, which until today remains the basis of economic policy.

The one, who continued and developed the ideas of Tugan-Baranovsky economic cycles was his student Nikolai Kondratiev (1892-1938). That theory of large cycles has brought him international fame, but it was quite skeptically regarded in scientific circles. The first time it was published in the report "Large economic conditions cycles" [4] in 1926.

"Increasingly economic academia has come to realize the brilliant insight of Nikolai Kondratiev and accordingly there have been many reports, articles, theses and books written on the subject of this "cyclical" phenomenon. An influential essay, written by Professor W. Thompson of Indiana University, has indicated that K waves have influenced world technological development since the 900's. His thesis states that "modern" economic development commenced in 930AD in the Sung province of China and he propounds that since this date there have been 18 K waves lasting on average 60 years" [8].

The purpose of the paper, objectives and methodology of the study

The purpose of this study is to examine the concept of economic cycles in the light of theories of Tugan-Baranovsky, and theory of Kondratieff cycles developed on their basis; defining phase of a long cycle for modern Ukraine, opening the possibility of further regulation forecasting and economic situation in the country.

While reaching the purpose, we have posed such objectives:

- studying the excitant theories of the large cycles;
- exploring the present extensions of such theories;
- making an attempt to analyze the current state of Ukrainian economy in the light of K waves theories.

During the research the general methods of scientific cognition have been used, which include: the method of system analysis - to study the large cycles in terms of the economic situation in Ukraine and in the world in general.

Main results of the research

Not in a single country in the world, no matter how advanced it is, economic growth can be called either permanent or smooth. The economy is subject to certain fluctuations, which have various names in the scientific literature: business cycles, the cycles of economic conditions, economic cycles. However, no matter how we call such cycles, their essence remains unchanged. "The

economic cycle is a constantly periodically repeated rises and falls in the economy. It consists of several phases: expansion, crisis, depression, recovery" [1, p.498].

"At the end of XX – beginning of the XXI century in the world economics significantly increased the level of understanding of the crisis principles in all countries" [2, p.29].

Scientist had studied the 140-year period, starting from the 1780th. and untill the 1920-ies. His analysis included dynamics of price indices, equity prices, wages, production and processing of a number of minerals (coal, lead, iron), foreign trade turnover. Based on the data, he concluded that the long cycles (waves) can last about 50 years (40-60 years). He also acknowledged the presence of shorter cycles (8-10 years) that were directly linked along. In reality, the imposition of some other fluctuations occur, and the longer cycles consist of several shorter ones.

In his studies Kondratiev identified three large cycles:

- from 1787 – 1792 till 1810 -1817 (upward wave);
- from 1810 – 1817 till 1844 – 1851 (downward wave);
- from 1844 – 1851 till 1870 – 1875 (upward wave);
- from 1870 – 1875 till 1890 – 1896 (downward wave);
- from 1890 – 1896 till 1914 – 1920 (upward wave).

"From 1914 till 1920, in accordance with the opinion of Kondratiev, a new wave of large downward cycle of economic conditions has begun.

Further investigations made by the followers of the scientist revealed that the third Kondratyev cycle would be completed in the late 40's, and also identified the fourth cycle – from the late 40's – early 70's (upward wave) till late 70's – mid 80's (downward wave). Fifth cycle – from the mid 80's till the 90's (upward wave) "[5].

The main role in changing of the cycles, or "Kondratieff waves," as the scientist believed, belongs

to scientific and technological innovation. Thus, we could call crucial the inventions and developments in the textile industry as well as in the production of iron for the first wave, the construction of railways, the rapid development of maritime transport for the second, which allowed to master new economic territory and transform agriculture. As for the third wave, it was forced by the inventions in the field of electrical engineering and mass introduction of electricity, radio, telephone as well as the other such inventions.

"Developing the Kondratiev analysis, it can be suggested that the fourth wave (40-ies) was associated with the invention and introduction of synthetic materials, plastics, the first generation computers, and the fifth (80's) – with the massive introduction of microprocessors, the achievements of genetic engineering, biotechnology, etc. "[5].

Although large cycles usually have an international character and happened to occur approximately at the same time in various elements of the global system, which scientists have viewed (England, France, Germany), but this does not guarantee that these cycles are just as inherent considering the other elements of the system.

Regarding the theory of Kondratieff cycles, the particular dynamics of these cycles that the scientist has found should be taken into account:

- "The upward phase of the cycle is accompanied by wars, revolutions and other disasters.
- The downward wave is accompanied by a crisis in agriculture.
- Large cycles affect the average cycles: on a downward phase of the large cycle the downward phase of a medium cycle involves long duration and depth of the fall, the upward phase of the average cycle is of

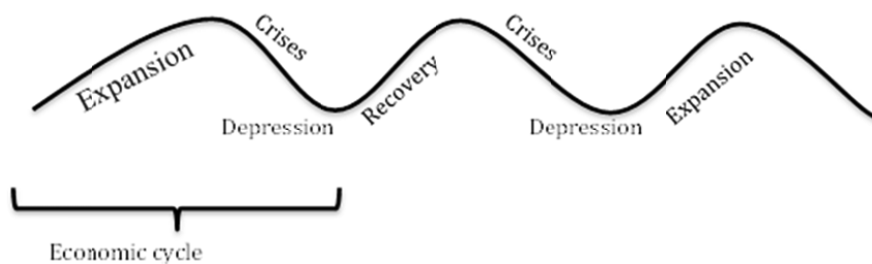


Figure 1 The phases of the economic cycle
Source: prepared by the author

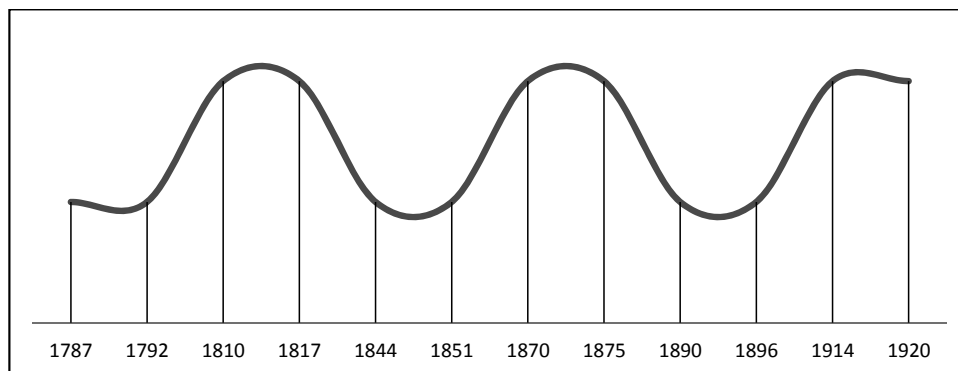


Fig.2 Three Kondratieff cycles
Source: prepared by the author according to [4, s.226]

short duration; on the upward phase of the large cycle, on the contrary, the rise of the average cycle is more significant than the fall.

- Before the upward phases of each cycle there should be significant changes in the economic life of society - technological inventions and discoveries, changes in monetary conditions, strengthening the role of new countries in global economic life.

- The upward wave of the cycle begins when a significant amount of capital has been accumulated, that can be used as investments in high technologies, which leads to dramatic changes in the production process.

- The onset of the downward wave at the very beginning is stimulated by the shortage of supply for the capital" [5].

Kondratiev wondered about the possibility of predicting the crisis or recovery phase, linking it with the analysis of different current economic indicators, including, for example, the dynamics of prices for agricultural products.

Therefore, the scientist, studying the nature of the cycle, has not limited himself with the research of only internal factors, but also studied the impact of external factors such as weather conditions, yield and others.

"Though, like all cycles, K wave analysis is more "descriptive than prescriptive", but provides enormous insight into our current economic condition. Thus, it would be wise for our political and economic leaders to accept the lessons of history and realize that based on

comprehensive economic evidence, following the 2007 systemic collapse of world banking and credit, things are likely to get much worse before they get better. Such evidence also supports the proposition that the FED and the ECB, instead of prolonging the agony through \$5 trillion of credit expansion, should liberate the "international market" and let it intelligently and efficiently do what it has done 18 times before. World bankers if they were properly versed in their craft would realize that Kondratiev's heroism has given them the understanding they require to correctly comprehend and deal with the crisis. However, instead of seeing "it" as an acceptable development based on the natural result of technological stagnation they have panicked and mis-diagnosed it as a credit/monetary problem. Thus the epiphany of truth will only finally dawn when both the FED and the ECB go bust and as every financial dog on Wall Street knows, this is not a matter of "if" but "when" [8].

What can be regarded as an encouraging factor, is that such a destructive period for the world economy is usually followed by boom which will deliver it to new levels of political, social and economic development. Hopefully, enough experienced economists and politicians will work on preventing the only catastrophe that will completely destroy this perspective and that option we do not even try to contemplate or regard as possible as for the current world and, as a part of it, Ukrainian economy, can be now be only situated in one certain position.

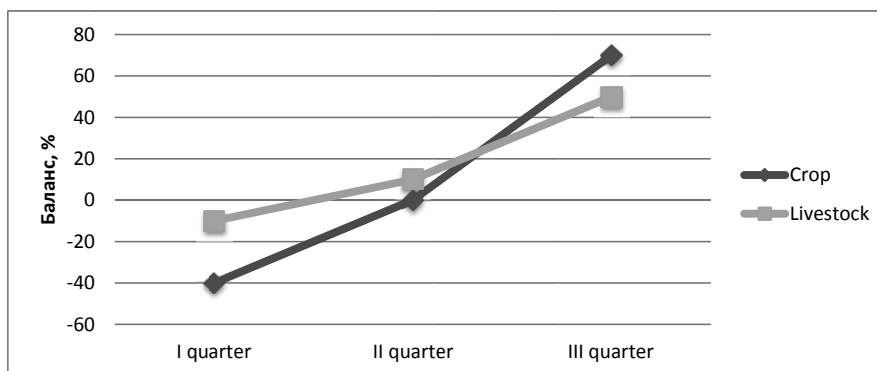


Figure 3. Expectations of agricultural enterprises in 2015
Source: Data prepared by the author [6]

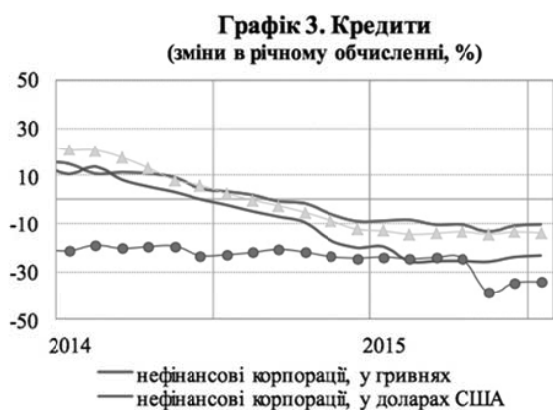


Fig. 4 Graphics of the dynamics of loans and deposits
Source: [7]

Conclusions

Proper identification of the phase of the short and, more importantly, long cycle is an important factor for the analysis of the current situation in Ukraine. This could greatly facilitate the task of the predictions for the upcoming years and decades.

If we regard the current economic situation in Ukraine, we should take into account all the latter features of the various phases of a long cycle.

According to the State Statistics Service of Ukraine [6], the last year has brought a steady increase in agricultural production, prices, and increasing the number of employees in this area.

Moreover, according to the National Bank of Ukraine [7], in 2015, the demand for loans and deposits continued to fall. From this we can conclude that at present Ukraine's economy can not be in recession phase.

At the same time, it can not be denied that over the last year some dramatic changes have transpired inside the country, both economic and socio-political. The unstable political situation, changes in monetary conditions, changing positions on the international political scene and world market – all this indicates that Ukraine is on the threshold of the upward phase of the cycle. However, this phase could begin only when the country will have accumulated sufficient capital for its further development.

References:

1. Райсберг Б.А. Современный экономический словарь / Б.А. Райсберг, Л.Ш. Лозовский, Е.Б. Стародубцева // Инфа-М. – Москва. – 2012. – 512 с.
2. Раба А.А. Учение М.И. Туган-Барановского о циклах и его значение для преодоления мирового экономического кризиса в Украине / А.А. Раба // Бізнесінформ по 2. – Харків. - 2012. – С. 29-31
3. Туган-Барановский М. И. Промышленные кризисы в современной Англии, их причины и ближайшие влияния на народную жизнь / М.И. Туган-Барановский. - СПб., 1894
4. Кондратьев Н.Д. Большие циклы экономической конъюнктуры: Доклад // Проблемы экономической динамики. — М.: Экономика, 1989. — С. 172-226. — 523 с.
5. ВОПРОС № 14. Научный вклад Туган- Барановского, Кондратьева в понимание экон. Динамик // Лекции. Нет [Электронный ресурс]. — Режим доступа: <http://lektsii.net/2-62192.html>
6. Очікування сільськогосподарських підприємств у III кварталі 2015 року щодо перспектив розвитку їхньої ділової активності // Державний комітет статистики України [Електронний ресурс]. — Режим доступу: http://www.ukrstat.gov.ua/operativ/operativ2015/fin/gr/selo/arj_selo_2015.htm
7. Грошово-кредитна статистика // Національний банк України [Електронний ресурс]. — Режим доступу: http://www.bank.gov.ua/control/uk/publish/category?cat_id=12063884
8. Christopher Quigley Kondratieff Waves and the Greater Depression of 2013–2020 // Financial sense [Electronic resource]. — Access mode: <http://www.financialsense.com/contributors/christopher-quigley/kondratieff-waves-and-the-greater-depression-of-2013-2020>

ТЕОРІЯ ДОВГИХ БІЗНЕС-ЦИКЛІВ ЯК ІНСТРУМЕНТ ДЕТЕРМІНАЦІЇ ЕКОНОМІЧНОГО ЗРОСТАННЯ

Квітка А. В., к. е. н., доцент

Квітка Е. В., студентка

Харківський національний університет імені В. Н. Каразіна

Економіка будь-якої країни, у тому числі й України, піддається постійним коливанням, які в наукових колах прийнято називати «економічними циклами». У своїх дослідженнях, даною темою цікавився відомий український економіст Михайло Туган-Барановський, а після – його учень Микола Кондратьєв, який розробив теорію довгих циклів (40–60 років). Дана теорія дозволяє простежити довгострокову динаміку економічного розвитку, що, у свою чергу, необхідно для подальшого прогнозування і пошуку виходу з кризових ситуацій, між іншим – з нинішньої кризи в Україні.

Ключові слова: економічний цикл, «Кондратьєвські хвилі», криза, погравлення

ТЕОРИЯ ДЛИННЫХ БИЗНЕС-ЦИКЛОВ КАК ИНСТРУМЕНТ ДЕТЕРМИНАЦИИ ЭКОНОМИЧЕСКОГО РОСТА

Квитка А. В., к.э.н., доцент

Квитка Е. В., студентка

Харьковский национальный университет имени В.Н. Каразина

Экономика любой страны, в том числе и Украины, поддается постоянным колебаниям, которые в научных кругах принято называть «экономическими циклами». В своих исследованиях данной темой интересовался известный украинский экономист Михаил Туган-Барановский, а после – его ученик Николай Кондратьев, который разработал теорию длинных циклов (40–60 лет). Данная теория позволяет проследить долгосрочную динамику экономического развития, что в свою очередь, необходимо для дальнейшего прогнозирования и поиска выхода из кризисной ситуации, между прочим – из нынешнего кризиса в Украине.

Ключевые слова: экономический цикл, «Кондратьевские волны», кризис, оживление.

Надійшла до редакції 10 листопада 2015 р.