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Can the Great Recession be explained by Long Business Cycle Research?

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Since the pioneering work of Kondratieff (1926) and Joseph A. Schumpeter (1939), there is a discussion in the literature about the existence of long waves (e.g. Hanusch 1999). The central issue in the discussion was about causal dynamics of Kondratieff cycles, thereby focusing on capital investment, innovation, and capitalist crises as driving forces of the long wave (Freeman 1987). While the empirical evidence for long waves is ambivalent, there is surprising consensus found on the fact that a general purpose technology drives a long wave, leading to the establishment of a new techno-economic paradigm. However, beside the work of Perez on finance and bubble prosperity (2007), there is still a lack of theorizing the determinants of the turning points of business cycles. Against this background, the proposed paper will analyse the recent world economy crisis in the light of the long wave theory.

The paper is structured as follows: After a brief introduction we firstly provide insights of Schumpeter's explanation of the business cycle, including remarks on the meaning of crisis in the process of economic development. In the next paragraph, following the explanation of depressions in the economic process given by Schumpeter (1934/1951), Mensch (1975), Freemann/Louca (2001) as well as Perez (2002), we review factors that indicate a new Kondratieff upswing. For this purpose we review and synthesize the past work on long cycles, which is somehow scattered among various disciplines and approaches. Our goal is to extract certain criteria that enable us to determine the turning point of a trough. In particular, by analysing the evolution of former innovations, we want to show empirical evidence for the start-up phase of a new technological revolution. We conclude with implications for both entrepreneurial and political efforts to reform or offset inefficient public institutions that may be welfare-improving.

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