

Why People Should Not Fear Recession?

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The end of fear from recession

Throughout the history, the majority of economist and their economics theories were concerned about smoothing business cycle or avoiding the recession at all, this paper would like to propose another angle of look. First half of this research will tell why people should not look on recession as on bad thing which should be avoided and feared, but more like on something natural and something which is needed and has to be accept. The second half will present also good impacts of the crisis. Moreover, it will show up that the negative impacts which recession have are linked with positive impacts together. Therefore by trying to smooth the negative impacts, we will smooth positive as well.

Nature in free market economy

In nature nothing stay constant, everything changes, and as it was written in article on Telecommunications Expense Management (2010) “as organisms fight for niche space and resources, the ecosystem as a whole attempts to achieve its highest efficiency relative to the transfer of nutrients.” The very similar statement apply for economy as well, because also in the free market economy the people, businesses and governments fight for the scared resources and the market as a whole attempts to achieve its highest efficiency relative to the allocation of scare resources.

In nature is this highest efficiency ensured by the constant change in conditions where all species try to resist the change, but as Charles Darwin (1859) said “it is not the strongest of the species that survives, nor the most intelligent that survives. It is the one that is the most adaptable to change.” The evolution ensure that scare resources will get to those spices who are able to survive in the constantly changing world and therefore to use them most efficiently.

In the free market there can be found basically the same mechanism, the highest efficiency is also ensured by constant change in conditions on the market. Thus by the

recession and expansion, both phases brings changes to the market, where also all subjects try to resist the change. However, as Charles Darwin (1859) said “in the long history of humankind (and animal kind, too) those who learned to collaborate and improvise most effectively have prevailed.” Therefore, at the end there will prevail those households, business or governments which are able in time of recession to be creative, innovative and improvise. On other hand those business or governments which are not capable of being creative, innovative nor improvise will at the end either go out of business or face bankruptcy.

Moreover, at the end the creativity, innovation or improvisation which was done by those who were most successful in this economical evolution, will lead to the improvement of technology which will according to classical model result in the expansion of production possibilities frontier if all other variables, capital and the amount of labor available remains the same. Thus at the end of every cycle is economy more and more efficient always leading toward the highest possible efficiency. Therefore, the recession is just a part of natural cycle which at the end result in higher efficient free market economy.

Why is recession good for households, businesses and governments?

After describing why is recession part of natural cycle which result in more efficient economy, following section of this paper will propose alternative angle of look to the black & white one which most of people had on recession. It will try to show up that, neither expansion or recession are bad or good for the households, businesses and governments, they both just have their pros and cons. Furthermore, this section of the paper will show up positives impact of recession to basic economic units which are households, business and governments.

Why is the recession good for households?

The recession is good for ordinary people for many reasons, there is no space for presenting them all in this paper, but Ivan Widjaya (April 3, 2008) summarized some of them nicely in few points. Firstly, “Recession push you to work smarter. You will use more creativity juices to tackle the recession, which leads to better productivity.” Secondly, “You will live a healthier and greener life. You will start thinking to change your light bulbs to LEDs, reducing non-essential household power consumption, walking the pavement or riding a bicycle instead of driving a car, less eating out and more home cooking, less meat eating and more vegetable eating, and many other benefits.” Finally, “businesses will usually, by nature, offering you more discounts and perks at a longer period to attract and retain customers and visitors.” These are just examples of positive impact of the recession to the households.

Despite of these positives there are also impacts which seems to be negative, but they have long term positive impacts, one of them is the increase of unemployment. Even through the cyclical unemployment is for sure negative in short run, in long run it can be positive. Because the most of employees which are fired during the recession are the least productive and do not fit the job. This idea is confirmed also by study made by Michael Segalla (February 9, 2010), for the Harvard Business Review shows that “the older, more expensive but high-performing managers were targeted for layoff the least, by only 10% of the responding executives.” Therefore, the most employees targeted for layoff has not high performance or long experience.

Even if this has the short run negative impact for this less performing and experienced workers, in long run it has more positives. After being fired these employees can realize that they weren't the right match for their position and can move on to find job which better fit their personal advantages, or they can work on improving their skill to become more

experienced and productive which in the long run improves their career and life as well.

Another negative is the fall in household income, which means that households must consume less. For sure less consumption is not good for anybody, but as Friedrich August von Hayek (1944), wrote in his book *Road to Serfdom*, “the economic changes will have from the rule impact just on the margin of our needs, that, what is marginal on them.” Thus even if people will have a lower wage for some time, they are forced just to cut off things which are the least important for them. This can be very positive for people because they can realize that many of these marginal needs he or she does not have any more. This can be better described on example where someone was always driving to work by the car, after he has lower income, he can decide to stop buying gasoline and substitute the car for example by bicycle, and after a while he realize that he do not more has a need to drive to work.

Why is recession good for business?

After providing answer to the question “why is recession good for households”, this paper will move on with examining and finding answer for another important question why is recession good for business. Probably the most positive side of recession for the business is that new business can more easily enter the market, because there is more space after the companies which get out of business, and the conditions on the market will favor anybody who can be creative, innovative or can improvise (Pennel S., January 24, 2009).

On the other hand negative impact of crisis to the business is that they suffer from having less or no profits which is caused by lower aggregate demand. However, there is valid the same rule that the economic loss or profit touches just the marginal needs of the particular company. Therefore, the business are forced to stop those projects or production which are not needed for their core business. In the extreme case when particular businesses will not have enough profit to cover even the basic of their core business, they are forced to be creative, innovative or improvise which as it was written in this research multiple times will

lead in to the more efficiency, otherwise they will have to leave space for more creative competition.

Why is recession good for the governments?

The last question which this paper has to answer is why is recession good for government. The first reason is that the governments must in recession start spending money more wisely, which means that they must cut off some unwise or populist programs and force them to concentrate on programs which are really necessary for their citizens.

Also recession points on many problems which are in time of expansion overlooked, for example Greek problem has not started just with the recession, the high rise of real wages with just slow rise of work productivity would lead into serious problems sooner or later. This idea supports also the fact, that the most problems with recession has those countries which economies weren't very healthily even before recession. Therefore, recession can be used as good indicator of economic health, because healthy economy should survive recession without huge troubles.

Why we should not try to smooth business cycle?

The answer for question why we should not smooth business cycle is simply because it is unnatural and by doing so, we will also smooth the economical evolution which result in higher efficiency of the markets as well as other positives of recession. Therefore, it is not like John Maynard Keyens (1923) said "in the long run we are all dead." In fact it is quite the opposite, in the long run we are all more efficient. Smoothing business cycle is like to use antibiotics every time you have fever. At the end you will permanently damage your immunity system which will lead to your death. Instead of trying to find the way how to smooth business cycle people should take advice from old Confucius (551 BC - 479 BC) saying "our greatest glory is not in never falling, but in rising every time we fall."

Summary

To sum up, the recession is a natural phenomenon and has many positives for people, businesses and governments as well. Therefore recession should not be an object of fear or unwanted part of business cycle. Also, economists should not try to find way how to smooth the business cycle because it results in the less efficient economy. Moreover, people, business and governments should be happy when recession come as well as they are happy when recovery will come.

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