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THE ECONOMIC CRISIS, A PHENOMENON THAT ECONOMIC THEORY DOES NOT PREDICT

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ABSTRACT
Economic crisis are recurrent phenomena in the history of economy and intensified as of the 20th century, with increasingly shorter cycles, with local or global dimensions, seeming to go against economic theories and the attempts of economic agents, governments and authorities in the planning and exercise of an efficient control. The purpose of this article is to defend the hypothesis that the occurrence of economic crises is a cyclical phenomenon of the economy, inevitable, unpredictable and uncontrollable and that economic theories based on "céteris paribus" rule, are not sufficient to predict and prevent them. Bibliographical research and documental analysis were carried out to identify theories, grounds, facts, data and historical information in relation to three major global economic crises (1929, 1973 and 2008) analyzing current theories, frameworks and governance models and confronting these in the three crises. Accordingly, the hypotheses of these crises being inevitable, unpredictable and uncontrollable were confirmed, considering the number of agents, variables of political, social and ideological forces, diffuse interests of different groups and of the factors to be managed, in addition to the unpreparedness, discoordination, and naivety of agents and governments. It can be concluded that economic theories, based on the céteris paribus rule, are not sufficient to predict and prevent the occurrence of economic crises, once the countless executors have diffuse interests and limited capacities.

Keywords: Economic Theory. Economic Crisis. Global Economic Crisis.

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Revista ARACÊ
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INTRODUCTION

Economic theories imply the achievement of an equilibrium in the level of the relationships of measurable factors of the economy, called "real economy"; this quantification, however, is one of the first aspects hindering the accomplishment of such equilibrium. Schumpeter (1957) pointed out that economic growth, from the perspective of dependence on the use and variations of productive factors, presents a difficulty of measurement, because it is confronted with interrelated social, political and economic forces, which makes it impossible to plan and a cause and effect hierarchy. Agreeing with this thesis, Furtado (1974) highlights it as the way of expanding the means of production and the aspects of the real economy legitimizing and justifying the dependence on the productive system. Equilibrium does not always occur, when observing the constant crises and depressions, relations and interests of the various economic agents, it is possible to identify that oscillations and variations are not purely economic phenomena.

It is necessary to consider all the economic variables with impacts to the workings of the economy, such as: changes in the organization of society; wealth generation and distribution; adjustments in institutions and decision-making processes, political forces, exchange rates, interest rates, government spending, investment decisions, production matrix, working class resistance and the interests of society. Within this complex set of factors, crises, according to Puche (2009), represent an adverse situation, one of difficulty, depression and worsening not only of the economy, but of aspects of life in society.

Classic economic theories, based on economic liberty, according to the reasoning of Adam Smith and other contemporary authors, proposed the market as a self-regulating mechanism. For the classics, the impetus of individuals to generate the flow of wealth would generate a natural equilibrium, thus governments should not inhibit, but should foster such competitive system. By applying capital to obtain income and promote individual interests, the entrepreneur bolsters the general interests of the collective (Smith, 1776). Classical theories have guided the behavior of agents since the 18th century, however, the first major global crisis, which culminated in October 1929, stressed among theorists, agents and governments, the questioning as to the efficiency of this theory.

In opposition to the classics, especially after the 1929 crisis, the theories of John Maynard Keynes emerged. For Keynes, economic liberty defended by the classical model, was unreliable and risky for the economy, defending the action of the State to reach full employment, but with direct intervention is sectors in which the private initiative did not have the capacity or interest to act. Keynes' main propositions are: promotion of economic protectionism policies; measures to ensure full employment; economic stimulus with public spending and investments; and, legal (regulation), tax and fiscal control strongly atoned by the nation-states or developed or developing economies.

Nevertheless, at the beginning of the seventies, a new economic crisis, originated from disputes over the main global energy and economic matrix, oil, imposed by the countries holding the reserves, the Organization of Petroleum Exporting Countries (OPEC), based on a veto and embargo against the United States and Europe, causing a crisis of international proportions, with increases in oil prices and unbalancing global economy. This crisis is presented as a counterpoint and confirmation of criticism of the liberals to the Keynesian model.

After the oil crisis, the proposal of a model, having British Prime Minister Margaret Thatcher and U.S. President Ronal Reagon as its main defenders, putting forward the resumption of economic liberty as a guarantee of development based on liberal principles, which became known as "neoliberalism". Among its theoretical defenders were Leopold Von Wiese and Friedrich Hayec, of the Austrian School, Ludwig Von Mises and Milton Friedman of the Chicago School, the proposal defended less state interference in the economy and the guarantee of the free flow of capital, initiatives and competition, a hybrid model between the classical (free market) and the Keynesian (state control/intervention).

In 2008, right in the midst of neoliberalism, the world experienced another crisis of continental proportions, causing bankruptcies of financial institutions in the U.S. and Europe, which unsettled the global financial system. The crisis began with the subprime process (risky credit, granted to a borrower without real guarantees), resulting in a "housing market bubble" in the early nineties, with a growth in the sales of real estate and the granting of credit for increasing sales through the acquisition of mortgage-backed securities from U.S. banks. To curb rising inflation, the U.S. government increased profit and reduced credit, slowing down the market and causing real estate prices to fall, resulting in defaults, undervalue, deepening the crisis.

The aim of the article was to analyze the three main global economic crises, describe their leading aspects, considering that each one of them occurred in historical moments in which different economic theories were in force and effect. The main objective of this articles is, based on the theoretical and historical analysis of the crises, to defend the assumption that the economic crisis is an unforeseeable cyclical phenomenon the

Revista ARACÊ
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economy, and that economic theories based on the "*céteris paribus*" rule, which has its development attributed to Leon Walras' "Elements of Pure Economics" in 1874, are not sufficient to predict them in light of the multiple interests and the oversights of the economic agents rendering them recurrent and uncontrollable.

The article is structured in 5 sections, the first being this Introduction, presenting a general contextualization of the theme, preliminary foundations, research issues and objectives. Section 2 presents the theoretical framework (literature review), hypothetical propositions and established assumptions. Section 3 comprises the methodology, in which methodological aspects are presented in two subsections: the research design, description of the method, type of research; and, procedures for survey and bibliographic analysis. Section 4 presents discussions on research data and preliminary conclusions. Finally, Section 5, conclusions, results and findings obtained, limitations identified and suggestions for future researches.

THEORETICAL FRAMEWORK

Presented in this section are the central theories and studies used as a basis to substantiate the discussions presented herein.

CLASSIC ECONOMIC THEORIES AND THE 1929 CRISIS

Classical theory of economics refers to the first modern school of economic thought and to the tenets of a collective of "economist philosophers"[3]. The work considered as the inaugural milestone of classical economic through is Adam Smith's "The Wealth of Nations", which presents central concepts of economic equilibrium, economic freedom and adjustment of the behavior of economic agents under certain general conditions. Other classical theorists featured in literature are: Thomas Robert Malthus, David Ricardo, Jean Baptiste Say and John Stuart Mill.

Considered, from present day perspective, a "liberal", Adam Smith (1723-1790) believed in the concept of the natural order of business, the author trusted in the natural selfishness of individuals and in the harmony generated from individual interests. For Smith, any effort in the search for individual improvement naturally results in the search for the

[3] This denomination is due to the fact that the so-called classical theorists of economics did not have a background in economic sciences, but in philosophy. Economic Relations were, in fact, the object of study and analysis by them in a set of social relations.

most advantageous job or condition for society. In the perspective of market harmony, free competition among the agents would lead the society to economic growth in a natural way, as if guided by an "invisible force" or "invisible hand" (Vasconcelos & Garcia, 2011). Smith believed that economic freedom was fundamental to maintain peace and harmony. According to him, without economic freedom, there would be increased poverty.

For Smith, the State's main role was to provide the necessary frameworks for the development of economic activities, protection of society and establishment of laws and standards. The nation's productivity and wealth would be the result of the productive capacity of individuals (labor theory of value) and the better the division of labor (specialization), the greater the capacity for generating wealth. Smith also established a distinction between use-value and exchange-value, in his opinion only in exchange-value is there any economic interest, he analyzed the process of income distribution between wages (fruits of labor), profit (fruit of the gain of commercial relations) and income from land (result of the exploration of land – production).

Considered as another important contributor to classical theories, David Ricardo (1722-1823) in his work "Principles of Political Economy and Taxation" he developed a study related to differential income from land and on the future of the capitalist system and was, among other classical authors, the one who most delved into matters related to social transformations involving economic relations. Another aspect highlighted by Ricardo was the concepts related to foreign transactions related to the trade balance, gains and losses of nations in the import and export of gold, silver and other goods produced by the agents of a nation or territory. Ricardo proposed a distinction between the concepts of value and wealth; value being proportional to how much labor was required to produce it and wealth as property, the goods that people possessed, which would be necessary, useful and enjoyable.

From this notion, Ricardo proposed that the economic value of a good is determined by the price of another good, represented by a certain amount of money, thus variations in the value of money would imply in variations to the price of the good. If the money is used to remunerate labor (wages), the value of money could also be considered as the quantity of labor required to produce the metal used to manufacture money. In general, Ricardo considered that if there was a change in the value of money, there would be an equal change in the price of goods, but the value of these goods would remain stable.

Thomas Robert Malthus' (1766-1834) main contribution to the classical school was from his work "An essay on the principle of population: or, A view of its past and present effects on human happiness" of 1888, a proposal of a law of diminishing income or returns, used to explain the low living conditions in England at that time. For the author, populational growth would occur geometrically while production would occur arithmetically and this difference would generate an overload on national economy. According to Malthus, populational growth on a fixed stock of land would result in a decrease in productivity with a lower use of land in agricultural activities, resulting in chronically lower wages and compromising the population's standard of living. Another point emphasized by Malthus was what he called the automaticity of market economy to generate full employment and the tendency of limiting spending to generate savings, which would result in the generation of unemployment and the commitment of income of individuals and the turnover of the economy.

The central contribution of the Frenchman Jean-Baptiste Say (1768-1832) to the classical theories was what became known as "Say's Law", which argued that supply creates its own demand and demand generates supply. According to Say, increased production of a given good or service is transformed into income for the worker producing it, and for the entrepreneur and this income will be spent on the consumption of other goods and services. In his work "Traité d'Économie Politique" (1803), Say defended freedom of production and consumption and stated that the economy had the capacity to always adjust to crises. In this work, considered as a popularization of Smith's ideas, Say used as a basis the typical methodology of period economics and the conviction that the study of economics would have to consider, as a starting point, the real experience of the human being in economic relations and not the use of abstract mathematical formulas and statistical analyses.

Another of Say's contributions was the theory of the utility of goods and services, in which, contrary to Ricardo's proposal, defended that it is the utility (use-value) of good and services, and not labor, that determines the value of a good. With emphasis on goods and production, with his humanistic outlook, Say highlighted the role of the entrepreneur in Economy and stressed that the entrepreneur was necessary to create and putting into motion all kinds of industries. For the author, in the process of creating the products necessary for human consumption, among which means of production: some supply land, others capital, other labor and other apply acquired knowledge. The entrepreneur,

Revista ARACÊ
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according to Say, is the “main agent” of the economic system, the only one capable of simultaneously combining all these factors.

Considered as the synthesizer of the theories and ideas of his predecessors, John Stuart Mill (1806-1873) in his work “Principles of Political Economy” (1848) dedicated himself to the continuity and deepening of various aspects and to refuting others. His greatest contributions to economic theory were: economies of scale, opportunity cost, and comparative advantage in foreign trade. Mill was also considered as an advocate of economic freedom and freedom of speech. In discussions on economic relations, Mill’s greatest contribution is the proposition about the profit of entrepreneurs. According to Mill, profit represents the price of abstinence, the reward the entrepreneur or industrialist receives for the sacrifice of employing capital in a business to produce goods and services rather than consuming capital to satisfy his own needs, thus being the minimum or natural rate of profit, the fair return to remunerate the entrepreneur for the risk and effort expended.

Summarizing the classical theory, emphasis is given to the assumptions of the generation of a balance between the factors of production, consumption, income and wealth, with: a) Smith, defender of economic freedom as the theory of natural market equilibrium (invisible hand) and limitation of state intervention; b) Ricardo with social and economic transformations generated by the economy, economics related to foreign transactions (trade balance) and the distinction between value as the quantity of labor and wealth as the ownership of assets; c) Mathus, with the law of diminishing returns or income, populational growth greater than production, generating an overload to the economy, a drop in productivity and wage levels and in the standard of living of the population) and defense of full employment as a factor of economic development; d) Say, defender of freedom of production, consumption and the logic that economy adjusts to crises; theory of utility (use-value of goods and services), defense of the entrepreneur as the main agent of economy, responsible for moving the industry, production, employment and income; and, Mill, as the synthesizer of the previous theories, of the logic of economies of scale, opportunity cost, and comparative advantage, defender of economic freedom and freedom of speech, and of profit as a reward to the entrepreneur for abstinence and sacrifice of capital.

In accordance with the assumptions of the classic minds, when there is a balance between production factors: land (raw-materials), labor (population) and economic freedom, there would be the generation of employment and income, consumption, profit (reward) of the entrepreneurs and the natural economic balance, with the Government’s actions for

Revista
ARACÊ
ISSN: 2358-2472

regulation being dispensable, and the Government should direct its efforts and attention to other aspects not explored by the market. In view of this, there wasn't in this set of theories the understanding of a possibility of the occurrence of imbalances, depressions and economic crises. This model remained in force until the second decade of the 20th century when, at the end of the century the first great economic crisis in the history of capitalism broke out and called into question the assumptions of balance and its efficiency.

In order to understand the 1929 crisis, it is necessary to understand its background. Up until the end of the 19th century the prevailing international monetary standard was the metallic standard or "gold standard", without the dominance of any national currency. In 1914, with the outbreak of the World War I, 1914, the major economic powers (Great Britain, France and Germany) abandoned the gold standard due to the need of freely financing the high costs of the conflict (Eischengreen, 2000). After the war the economies of the nations involved were devastated, with Germany having been defeated being the most affected.

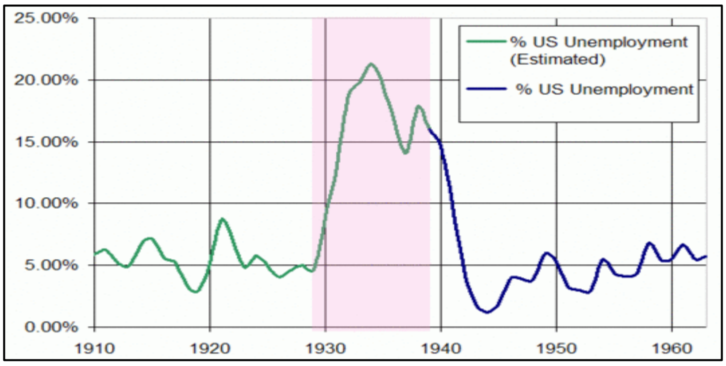
In the post-war period, in 1918, the U.S. was considered the richest country in the plant, with intensive industrialization (automobiles, steel, industrialized food, machinery, oil, coal, among other commodities). According to Eischengreen (2000), in the following ten years (1920s), the U.S. economy grew at above-average rates, generating euphoria among entrepreneurs. With high levels of production, consumption patterns and job creations, the national economy and the shares of U.S. companies reached elevated levels of appreciation, nevertheless, this was artificial and without criteria and fell apart in a short period of time. On October 24, 1929, began what is considered as the worst economic crisis of all times in a capitalist economy. U.S. statistics have demonstrated that there was a recession due to a process of overaccumulation of capital, especially in sectors considered as being more sensitive to interest rates, such as the automobile and civil construction sectors (Silva, 2015).

The main causes for the aforementioned being: agricultural overproduction with production exceeding demand; reduction in consumption levels due to the high growth of the industry, without an equivalent increase in the purchasing power of the population; and, the crash of the New York Stock Exchange with the slowdown of production, bankruptcy of companies and devaluation due to the so-called "herd effect" (investors wanting to sell shares, but there were no buyers), thus, the crisis hit the U.S. economy head -on. This disastrous scenario culminated in the collapse of the New York Stock Exchange on the

Revista ARACÊ
ISSN: 2358-2472

famous “Black Thursday” of October 24, with the biggest low in history and the Crash. The Crash brought fear to the market, generated unemployment (7.8 million in 1931, 11.6 million in 1932 and 16 million in 1933), bankruptcy of companies, increased poverty and downturn of exports by 70%.

Figure 1: Unemployment rates in the U.S. during the 1929 crisis



Source: The Balance Money

CENTRALITY OF THE STATE THEORIES AND OIL CRISIS

After dilapidating the U.S. economy and affecting the entire global economy, once the U.S. economy during this period functioned as a lever of global capitalism, the assumptions of the classic thinkers were the object of criticism and discussions, being regarded as the causes of the origin of the crisis, the excess freedom of agents due to the absence of the State. The greatest critics of the classical theories were Gunnar Myrdal, considered the main proponent of the Welfare State, criticizing in the classical model the distancing of the government from the economy and identifying in freedom the existence of a vicious circle of backwardness and generation of poverty and the British John Maynard Keynes, defender of state intervention in the economy, who gained notoriety both for his writings and ideas, as well as for his role as an economist in proposing and conducting the Bretton Woods Treaty, which would take place 14 years after the great depression.

Myrdal and Keynes played a prominent role in the post-crisis period. Between 1928 and 1935, Myrday coordinated in Sweden the Commission on Unemployment, producing theoretical and empirical studies on crises and proposing the development of a counter-cyclical action based on the Governments role in the economy. For Myrdal, increased wages would have a positive effect on the economy, resulting in long-term growth. Myrdal’s proposal enabled the development of a national policy on wages aimed at increasing productivity levels, increase consumption and boost national economic growth.

Revista ARACÊ
ISSN: 2358-2472

(Kerstenetzky, 2011). Due to his ideas, Myrdal is considered the main proponent of the Welfare State. According to Myrdal (1957), the disparity in income and standards of living and consumption between developed and underdeveloped countries tended to constant enhancement, thus, the author defended state intervention in the economy and rejected the "*laissez-faire*" model.

The 1929 post-crisis period gave great notoriety to the ideas of John Maynard Keynes, receiving special attention for his macroeconomic proposal of general equilibrium based on a model that considers all economic agents, including government spending, investments and the balance payment relations. Keynes, who obtained recognition for his writings, in "The General Theory of Employment, Interest, and Money" of 1937, had his work for the general public known as of his "The Economic Consequences of the Peace", published in 1919, in which he criticized the Treaty of Versailles with unoptimistic arguments regarding global politics and economy.

According to Skidelsky (1983) Keynes' main arguments are those related to his criticism of liberal capitalism, presented in the article "The End of Laissez-Faire", published in 1926, in which he argues that free market, based on "laissez-faire" and in the "invisible hand" theory would not be able to ensure economic stability and social harmony. Skidelsky (1992), reaffirms that Keynes' observations were considered in the following years as important insights into the principles of liberal capitalism and the functioning of the economy.

Government actions are attributed to the ideas of Keynes, such as Roosevelt's proposal for the creation of the New Deal and International Monetary System, structured through the creation of the World Bank (WB) and the International Monetary Fund (IMF). These policies were implemented as of 1944, with the establishment of the Bretton Woods Treaty, with the participation of 45 allied countries, the main proposition of which was to draw-up and establish international management parameters, rules for commercial and financial relations between industrialized countries, and to manage development policies of peripheral countries supported by the IMF, that would act as a kind of international credit union (Dooley *et al,* (2003).

As per Helleiner (1996), Keynes' ideas that were implemented include: the N-1 system (exchange rates = U.S. dollar), with the U.S. dollar as international currency of reference, the establishment of fixed exchange rates, with the possibility of future adjustments, and the creation of the IMF and World Bank. Despite being troubled, the post

Revista ARACÊ
ISSN: 2358-2472

Bretton Woods Conference period (mid-1940s and the 1950s and 1960s) was marked by wards, from the economic viewpoint, since the “Marshall Plan” that the U.S. offered to Europe, a massive package of credit and donations to finance the import of capital goods and raw-materials and generating a large current account surplus (Chesnais, 1997) registering high growth rates, generating what became known as the most productive period of global economy (1950 and 1970), called the “Golden Age of World Economy”.

Even with the high growth rates, global economy went into a crisis, as the international demand for dollar credit gave the U.S. banks a competitive advantage in the 1950s. In the 1960s, the U.S. registered a deficit with the Vietnam war expenses and the export of U.S. dollar to finance the expansion of multinational companies (Dathein, 2002) and in 1964 taxes were created to equalize interest, restrict the borrowing of Europeans and prevent the outflow of U.S. dollars and reduce investments by corporations. Such controls generated impetus to the Eurodollar market, creating a new financial center, offshore, as multinationals and banks reacted to the controls and began to deposit their earnings abroad (euro markets), and using them as a source of financing, devaluing the pound sterling and the French franc, obtaining gains with the adjustable exchange rate and generating a deficit in the U.S. balance of payments resulting in the abandonment of convertibility into gold and the end of the Bretton Woods in August of 1971 (Eischengreen, 2000).

The Keynesian model received strict criticism because, for many economists, it was the perfect model for maintaining the power and the growth of the largest economies and the subordination of peripheral economies through the control of the agencies created with the international monetary system controlled by centra economies. The criticism intensified with the oil crisis, which erupted on October 19, 1973, after President Nixon requested to the U.S. Congress the amount of US$ 2.2 billion in emergency aid to Israel for the Yom Kippur war. On this date, the Organization of Petroleum Exporting Countries (OPEC) imposed an oil embargo on the U.S. and began a price policy quadrupling the price of the commodity, from US$ 2.90 per barrel, prior to the embargo, to US$ 11.64 in January 1974. In March 1973, the embargo was removed but the high prices were maintained (Merrill, 2007).

Revista ARACÊ
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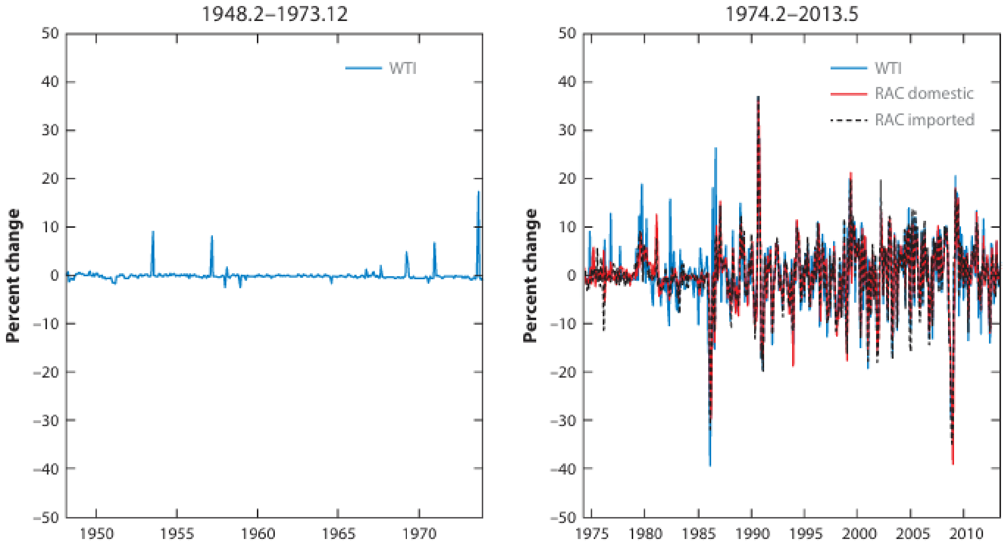
Figure 2: Percent change in the real price of oil. RAC denotes the US Refiners' Acquisition Cost as reported by the US Energy Information Administration, and WTI denotes West Texas Intermediate.



Source: Kilian, L. (2014)

The oil crisis was attributed to the Keynesian model by a group of economists, among which Milton Friedmann, who defended non-intervention of the Government in the economy, because, even with the reorganization conditions of international organizations, the effects of the crisis are not fully mitigated, as highlighted by Polak (1991). For critics of Keynesianism, "economics is a space for adults who know what they are doing" (Friedmann, 1962). Amongst the criticisms of the Keynesian model as crisis generator, matters are highlighted such as: political issues, including military dictatorships in Latin America, pressures from social movements and the international community, peripheral economies indebted to the IMF, the process of economic opening and the adoption of cost-effective practices.

Economic internationalization, based on globalization, originating from the from the center to the periphery, and the indebtedness of peripheral countries, created a scenario that obliged developing countries to open their economies and adopt market economies, opening and free competition. This crisis occurred in the second period of economic history in which the theoretical postulates were diametrically opposed to those of the first crisis. While the 1929 crisis was attributed to market imbalance, oversupply and economic freedom, the second, in contrast, occurred in a period in which the prevailing theory proclaimed the control of the State over the economy. Aside from the theory, the oil crisis was prompted by countries that controlled oil production. Accordingly, it can be considered as a crisis caused by the State as an economic agent and as a crisis in which the

Revista ARACÊ
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Keynesian theory of control of the economy by the State was not sufficient to predict and prevent.

NEOLIBERAL THEORIES AND THE 2008 CRISIS.

According to Höfling (2001), the neoliberal conception of both society and the State can be considered as inscribed and as the one that retakes some points of the classical liberalism tradition of the 18th and 19th centuries. For the author, while Smith's "The Wealth of Nations", considered as the cornerstone of economic liberalism, Friedrich Hayek's "The Road to Serfdom" is identified as the cornerstone of neoliberalism. Milton Friedman, an economist from the Chicago School, the most well-known and eloquent advocate of a liberal model in his formulations of the State and social policies, clearly identifies with Hayek's ideas and formulations. (Höfling, 2001).

According to Teixeira (1996), the theoretical and political movement known as neoliberalism emerged after World War II, in countries with more developed economies and "mature capitalism". This movement appears as a theoretical and political reaction to the Keynesian model, centered on the intervention of the State and legitimized in the Bretton Woods treaty. Neoliberal theorists considered the intervention of the State in the economy as the main factor generating the crisis of the capitalist system, once it is a limiting factor of the development process, controlling and restricting free enterprise and this critical position is intensified after the oil crisis, seen as evidence of the inefficiency of the model.

One of the main authors and defenders of the neoliberal model is Frederick Hayek, who until the 1940s was seen as a technical economist. After the publication of "The Road to Serfdom" in 1944, Hayek showed his frustration with the economic analyses of the period, which focused on Nazism and Fascism. Hayek adopted a skeptical posture to the point of warning that "minimal government intervention would lead to a totalitarian state," that State action in the economy, even when well planned, could result in unintended consequences and require greater state intervention, generating increasing State intervention, generating greater control and less freedom.

Another author who defended the model was the American Milton Friedman, considered the leader of the Chicago School and one of the most influent economists of the post-WWI period. Friedman's conviction in his work, especially in his most famous "Capitalism and Freedom" of 1962 is that the free market is the best form to enrich individuals. Friedman defended non-intervention of the State in the economy, flexible exchange rates in the international market (free market among nations). The natural balance of society is obtained from relationships that are individual and established, as highlighted by Friedman in “Capitalism and Freedom”.

For Friedman (1962), the model capable of generating development would be based on regulated private activity, private activity regulated by the State and State production, that is, in other words, only productive activities would generate wealth and balance. Anderson (1995) stresses that, it was after oil that capitalist countries fell into recession and, according to Coutinho (2012), neoliberalism used the crisis to establish itself, while the OECD countries sought alternatives. But, it was in 1979, with Margareth Thatcher’s election, that the model was implemented and England became the first country of advanced capitalism by putting it into practice. In 1980, with Ronald Reagan elected as president of the U.S.A, followed in 1982 by Khol, who took over in Germany, Schluter in 1983 in Denmark, considered a model of well-being, and in the following years by the northern countries of western Europe (except for Sweden and Austria).

According to Filgueiras (2007), the neoliberal model presented itself as a new form of action by the State, with the privatization of public companies, entrance of public companies with foreign capital in peripheral countries, and the creation of regulatory agencies to control essential services. Due to its characteristics, the model has a low presence of the State in the economy and a free and open competition similar to the classical model. Neoliberalism also presents strong international intervention and concentration of government spending on economic assets and facilitators of economic growth, resembling the Keynesian model. Thereby, from a theoretical viewpoint, it is a hybrid model, with characteristics of the two previous models, which was believed to be immune to the occurrence of crises, because it reflected a combination of learnings.

However, in 2008, generating even further opposition to the expectations of the economists, begins a crisis in the world’s greatest economy, the U.S.A. and, accordingly, became global as in the previous ones. According to Bresser-Pereira (2009) the 2008 financial crisis was serious, despite not being comparable to that of 1929, it was profound and affected aspects of confidence in financial transactions. Having begun with real estate loans to insolvent debtors, leading financial institutions to liquidate in other institutions and the accumulation of these securities culminated in an inflation bubble. Resende (2013) agrees with this position and stresses that this crisis is the most serious, most complex and possibly longer lasting crisis, because its roots are deeper and its implications are broader,

Revista ARACÊ
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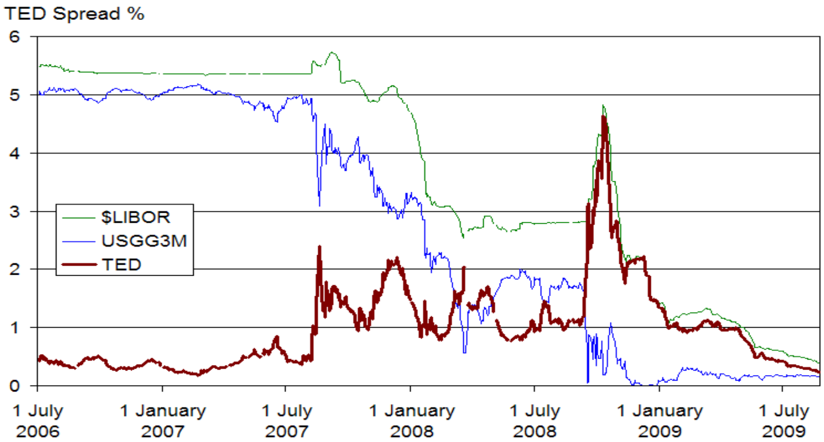
associated to the leveraging of financial operations, with mismatches between the terms of the assets and of the liabilities.

This third crisis is, once again, contrary to the economic theories in such a manner as to cast doubt as to the ability of economic theories to predict crises or to enable the control of the economy. The 2008 crisis generated a series of papers, researches and proposals for revisions and questioning the economic theories and in relation to the complexity of controlling or predicting the behavior of all economic agents simultaneously and, therefore, to exercise control of economic policy in the quest for development and balance.

Figure 3: Stock market in 2008.



Source: Strik Money (2021).

ECONOMIC CRISES, A CYCLICAL AND UNPREDICTABLE PHENOMENON

Even when discussing the crisis in peripheral, “smaller” and localized economies, such as the crisis in Rusia, in Mexico and the one of the Asian Tigers in the nineties and, more recently, in Argentina and in Brazil, it is possible to perceive the same type of pattern of the financial-monetary crisis in this type of phenomenon, as a result of the imbalances of factors of the financial economy (interest rates, exchange rates, balance of payments…), speculation or imposition or conditions by international or risk agencies and bodies, which then affect the structure of the real economy. In this manner, such characteristics of the crisis lead to the conclusion that the *céteris paribus* hypothesis of the economic theory, which presupposes that, when analyzing a given economic factor, considering that all of the other factors remain unaltered, is only a theoretical proposal for the simplification of a reality that is not simplifiable, because this condition will bever occur in the real world.

Revista ARACÊ
ISSN: 2358-2472

To explain the ruptures in the economic system is difficult when analyzing the approaches that propose the existence of a balance or of convergence that makes it possible to be achieved. Hence, crises will only occur as a result of external (exogenous) shocks, errors made by economic agents or fraud, aspects or mechanisms capable of generating imbalances. In the classical theories, Adam Smith, Say and Mill assume the natural balance. However, when observing Smith's work on overtrade, the author stresses the difficulties and bank failures generated by fraud and improper banking practices. Although considered the negative point of cycles, due to the reduction of the activity, it is in this, according to Brooman (1970) that the physical volume of the product naturally tends to resume its growth. For this author, whenever the economy resumes a positive cycle movement, it tends to reach a higher level of development and income than before.

Studies on the theory of economic cycles gained importance as of the second half of the 19th century, from reflections on the crises affecting global economy since the Industrial Revolution. The Classical Theory, according to Galbraith (1989), had a significant shortcoming, the lack of a theory of crises and depressions, because the concept of balance, related to full employment, considered the possibility of the occurrence of price and wage fluctuations, but did not consider the scarcity of demand. Have the different theories on economic cycles sought to explain the variation in temporal growth and which factors cause such fluctuations? In the first studies carried out in the end of the 19th century and beginning of the 20th century, by Arthur Burns and Wesley Mitchel and the "Measuring Business Cycles" of the National Bureau of Economic Research (NBER), in 1946, two schools stand out: the perpetual movement or deterministic models, which argue that economies are in constant cyclical processes and oscillations originated in the economic system itself; and that of the propagation models, or of impulses, which bear the understanding that, what determines the oscillations are external factors to the economic system, the so-called "exogenous shocks".

Among the theories that have sought such explanation in relation to crises are: monetary , which consider fluctuations in interest rates and the availability of funds for loans as the causes of fluctuations in investments; fluctuations of autonomous investments, that consider the origin of the cycles in the sudden effects of investments and technological innovations that generate discontinuity in growth patterns; and, structural, which derives from the theories of spontaneous cycles and considers that fluctuations are caused by physical limits of growth of real economies.

Revista ARACÊ
ISSN: 2358-2472

William S. Jevons, considered the forerunner on studies about cycles, in 1866 proposed his theory of cycles based on the fluctuations of agricultural activities. Jevons (1866) observed the business cycles of 1721 to 1878, which were similar in duration to sunspots, which defined climatic cycles, and in turn rainfall and harvesting cycles, and in a direct manner the economic cycles in agricultural economy. In this same line of thought, Marshall (1925) and Hawtrey (1926) point out that the economic cycles are associated with the periodicity of events that comprise and alter the economy, that there are alternations between weak and strong phases with average intervals of between 7 and 11 months, similar to the variation in agricultural harvests, , thus other dimensions of the economy have alternating periods of abundance and scarcity, in a cyclical manner.

Studies from the end of the first half of the 20th century, such as those of Schumpeter and Nichol (1934) and of Burns and Mitchell (1946) present relevant contributions towards a definition for the analysis of economic cycles. Schumpeter and Nichol (1934) stress the economic cycles as being exogenous disruptions, where an innovation will impact even those States in which economies are in equilibrium. For Burns and Mitchell (1946) in opposition, disruptions and imbalances of the economy are factors endogenous to their its own functioning. Along the same lines, Rapoport and Brenta (2003) underline that crises are the result of factors intrinsic to the economies of countries, such as economic cycles or fluctuations, and that these factors are not external to the monetary system such as wars and climatic catastrophes. For the authors, cycles are oscillations of an endless nature, intrinsic to the economic activity, a cyclical process, thus, a movement of growth and expansion will necessarily lead to its opposite, a movement of retraction, of decline.

In summary, Sachs and Andrew (1995) highlight the existence of two categories of variables, the pro-cyclical, which grow during the expansions and tend to fall during recessions: aggregate production, profits, velocity of money, short term interest rate and price levels; and the countercyclical ones, those that tend to grow in periods of depression and decrease during expansions inventories (of finished goods and inputs), unemployment rates and number of bankruptcies. As highlighted by Dymski and Li (2004) and Kregel (2010), the economic crisis is generally analyzed from the depth in which it strikes the global financial system and impact on the behavior and evolution of economic aggregates, however, according to Krugman (1979) and Obstfeld (1994) no model has been able to adequately internalize the facts that have marked the succession of financial crises in recent decades.

In view of the exposed, it is observed that the prevailing economic theories in each period of occurrence of the three main economic crises of global magnitude were not sufficient to predict and prevent them. Thus, when considering the occurrence of crises with different characteristics at different historical periods in which different theories, market structures and models of governance were in force, the following propositions were developed.

HYPOTHETICAL PROPOSITIONS

Based on the theoretical fundaments analyzed and discussed, hypothetical propositions were developed, for which explanations, evidences and/or verifications were sought:

P1: Crisis is inevitable, it is an endogenous and natural phenomenon of the economy and occurs cyclically at different times, with different economic arrangements.

P2: Crisis is unpredictable, it occurs in a countercyclical manner in different moments, where different theoretical and conceptual frameworks are in place.

P3: Crisis is uncontrollable, because the number of variables involving economic policies makes the economy difficult to control, and despite seeking a balance, the variables have self-behaviors.

METHODOLOGY

The methodology used for the preparation of this paper was of a qualitative nature, with the use of bibliographic research from the study and analyses of books, academic articles and documental analyses, carried out in documents generated by government agencies (working papers). With the use of the hypothetical-deductive method, the economic theories were used from bibliographic research and documental analyses, economic theories as fundamental bases, then the data and backgrounds of economic crises, aiming and deducing to what extent the economic theories are able to predict and prevent the occurrence of economic crises or depressions in periods with different theories, market structures and governance models in force.

DISCUSSION ON THE RESULTS

For data analysis, a comparison of the theories prevailing at each historical period of the occurrence of the three main economic crises analyzed was carried out.

Revista ARACÊ
ISSN: 2358-2472

The 1929 crisis, caused by the oversupply of goods and services due to market speculation may be considered as a “crisis of market economy”, generated by excessive economic freedom and by the lack of the presence of the State. This crisis occurred under the effect of the classical theories that advocated free market, free initiative, free competition, non-intervention of the State and appreciation of the businessman/entrepreneur, in other words, represents a failure in the *Laissez Faire* State model, free economy and self-regulation by the natural balance of the “invisible hand”.

The crisis of the 1970s occurred at a historical moment in which the economic structure and the prevailing theoretical model were opposite to the first one. In this period, “State capitalism” prevailed, economic centrality was in the State, as an essential entity for the control of the economic activity and the promotion of development. This crisis was also speculative, but of national states over the economy, with low economic freedom, thus being considered a flaw in the Keynesian model of State centrality.

On the other hand, the 2008 crisis, the sub-prime crisis, occurred in a third moment of economic history, in which the prevailing model, although opposed to the prior two, preserved the aspects characterized by them by maintain economic freedom of the classical model and the presence of the State of the Keynesian model. In this way, this crisis is considered a failure in the neoliberal model, of market economy with the control and complementation of the State.

Thereby, the first proposition P1: Crisis is inevitable, it is an endogenous and natural phenomenon of the economy and occurs in a cyclical manner at different moments, with different economic structures was considered as CONFIRMED, because the three crises analyzed occurred at three different moments of economic history, in which the ways in which the economy was structured were different from each other and, in some cases, diametrically opposed.

The crisis (1929) occurred in a period in which the postulates based on the “laissez-faire” proposals and the “invisible hand” theory of the classical theorists who proclaimed natural balance based on economic freedom, free competition and the appreciation of the businessman/entrepreneur and the intervention of the State in the economy being dispensable.

The oil crisis occurred in a period in which the postulates opposed to the previous ones and presupposed the economic centrality of the State, that the State’s capacity to collect taxes, to make capital investments, to regulate and develop economic and social

Revista ARACÊ
ISSN: 2358-2472

policies would be sufficient to promote economic development, social wellbeing and economic balance.

The subprime crisis occurred in a period in which the prevailing theory was the hybrid model, between both previous theories, neoliberalism, characterized by presenting at the same time a proposal of economic freedom, market opening and freedom of capital flows and the presence of the State as a regulatory and economic agent.

Accordingly, the second proposition P2: Crisis is unpredictable, it occurs in a cyclical manner at different times, where different theories, theoretical and conceptual frameworks prevail and are used to guide the actions of governments **and economic agents** was considered as CONFIRMED, since the three crises analyzed occurred in periods with prevailing economic theories and practices, distinct from each other.

In the 1929 crisis, the U.S.A. was the center of the world economy with the main worldwide economies (European countries) dilapidated by World War I, high tax collection and an economy boomed by the U.S. consumption euphoria and the reconstruction of Europe, feeble exchange rate policies and the gold-dollar standard (with the abandonment of the gold standard) still developing. There was no international economic coordination and the flow of capital was limited, and the power of national States limited, and the influence of companies and financial institutions was not considered to be of great relevance.

During the oil crisis, the U.S.A. was still the center of global economy, but weakened by the recovery of post-war Europe (World War II), the strengthening of Japan, Asian and Latin American countries. There was a marked flow of capital, tax collection and fiscal policies as forces in the economy and national tax authorities exercised strict controls (State economy). There was international coordination (IMF and other entities created in the Bretton Woods) and the national states owned the main means of production and occupied strategic sectors of the economy.

In the subprime crisis, the economic scenario was quite different from the previous ones, although the U.S.A. remained as the central economy, its hegemony was no longer so great. There were policies of regional coalitions and formation of blocks such as: EU Europe Union, NAFTA - North American Free Trade Agreement, APEC - Asian-Pacific Economic Cooperation, Mercosur, ASEAN - Association of Southeast Asian Nations and BRICS - Brazil, Russia, India, China and South Africa. Nations such as China, Russia, Japan and Latin American countries, as well as India and South Africa, have gained

Revista ARACÊ
ISSN: 2358-2472

economic power and influence. Capital flows were intense and economic powers gained strength through the internationalization of their capital through their multinational companies with global presence. Fiscal and exchange policies followed Washington Consensus prescription, and there was a strong expansion of credit as a policy to stimulate household consumption. Nation states maintained control of sectors considered as strategic for economic and social policies and regulated the other sectors, which were greatly privatized and opened up the private sector. Hence, the third proposition Pe: Crisis is uncontrollable, since the number of variables involving economic policies make the economy difficult to be controlled and despite seeking a balance, the variables have self-behaviors was considered as CONFIRMED, because the crises analyzed occurred at different times when the main economic variables in the largest economies worldwide and the coordination structure of the international economy were at different stages.

CONCLUSION

The purpose of this article was to analyze the extent in which economic theories are sufficient to predict and prevent the occurrence of crises. To carry out the study, economic fundamentals and economic theories disseminated and practiced in the period in which the three economic crises considered to be of global dimension and selected as the object of the study occurred, the crises of: 1929, 1973-1979 and 2008. The core objective of this work was to defend the hypothesis that economic crises are inevitable, unpredictable and uncontrollable phenomena and that economic theories based on the "*céteris paribus*" rule – in which the simplified analysis of two variables is carried out with the maintenance of the other stable variables – are not sufficient to predict, prevent and avoid them. For each period of crisis, the current theory was analyzed and compared to the general aspects considered as causing these crises.

Upon analysis of the economic theories, what literature and studies on the crises presented, after analyzing the three crises of global magnitude in three different moments of in the history of capitalist economy, comparing each theoretical model prevailing in the periods of crisis, with their causes and characteristics, it was concluded that the three propositions presented were confirmed. Considered as "inevitable", crises occur cyclically, at different times, under different economic structures. This behavior demonstrates that, in the same manner as capitalism has the capacity to reinvent itself, find new forms, new contours, crises also seem to innovate and find new weaknesses in each economic model and structure; “unpredictable”, although there is a consensus as to the cycles, crises occur in increasingly shorter periods, in moments of different theoretical and conceptual frameworks. This behavior demonstrates that, while theory evolves from historical learning (past facts), crises follow current dynamics and find weaknesses that have not yet been identified: “uncontrollable”, the number of variables involving economic policies makes the economy difficult to control and, despite seeking a balance, variables have their own behaviors, because in each historical moment the set of agents and forces that govern and influence the economy change and, regardless of the behavior of such agents, there will always be political and ideological disputes, weighing of power among different actors and groups of influence, economic and social differences, decision-making, leadership and subordination.

It can be concluded that crises are almost as diverse as the economy itself, and just like the behaviors of the economy, behaviors and characteristics of crises vary according to the circumstances and set of forces established and assume different forms for each scenario or context, in other words, no economic model is strong enough to be immune to crises. According to Blanchard e Pérez Enri (2011), when faced with economic crises, the following questions are always asked: what happens during these episodes? Are the disruptions especially negative? Have the adjustment mechanisms failed? Are the macroeconomic measures especially misguided? In view of what has been studied herein, although in a limited manner, it is perceived that it is not possible to objectively answer any of these questions, because in episodes of crisis, it is difficult to state “what happens”, since each crisis presents a different pattern, with different facts and forms.

On concluding this work, an astonishing realization occurs, that the economic theories that have guided the functioning of the economy, the structuring of economic and social policies, and which served as a basis for the structuring of economic models and to guide the decisions of government officials, tax and treasury authorities, businessmen and entrepreneurs are not sufficient to predict, prevent or avoid crises. This finding is strengthened by the fact that the world is (at the time of completion of this paper) involved in yet another economic crises, this one brought about by the pandemic caused by the SARS-Cov-2 virus (Severe Acute Respiratory Syndrome Coronavirus-2), popularly the “new coronavirus”, a respiratory syndrome identified in December 2019 in Wuhan, China, spreading rapidly and declared a pandemic by the World Health Organization (WHO), on March 11, 2020.

In addition to the public health importance, challenging science and medicine to a rightful scientific battle to confront this “unknown enemy”, restrictions on the movement of people and recommendations for social distancing and isolation, had a direct impact on the economic activities of companies and organizations of all sectors and nations. Despite economic crises being cyclical, as highlighted herein, they present increasingly diverse causes and occur at increasingly shorter intervals, and when experiencing another crisis, humanity has the feeling of being unprepared to face them, that society and its institutions were unable to predict them and to adopt preventive measures to deal with the effects of a health crises, but also with economic conditions and effects.

This inability to predict crises demonstrates that the sum of negligence and inexpert of the economic actors (including governments) to plan and control the economy is evident and, in a certain manner, naïve. An example of unpreparedness is the fact that Brazilian companies, the absolute majority of which (99.1%) are micro and small enterprises (Sebrae, 2019), 15 days after the pandemic situation was declared by the WHO and, the publication of decrees related to restrictions by the governments, declared that they did not have cash (financial reserves) to honor short-term commitments, a clear demonstration of the absence of financial planning and control. The states of Brazil, with the exception of what can be classified as “islands of efficiency”, suffered significant impacts with the fall in tax collection, retraction of economic activities, foreign exchange with the drop in exports and uncontrolled public spending due to the emergency or calamity situation declared.

The lack of governance and transparency in public spending, the inability to access international credit and the political instability, places the so-called “developing countries” in a situation of fragility and risk of economic collapse. Even nations considered as economic powers, such as the U.S.A. and China, the damage caused by the internal economic downturn and the losses caused by the retraction of international transactions were strongly registered. Apart from the ”unpreparedness to predict the crises” that has affected capitalist economies, due to negligence, excess optimism or the absence of a theory capable of predicting it, global powers are still experiencing disputes in the field of medical research for the economic control of immunizers and for their temporary monopoly.

It is understood that this work represents a contribution to the academia and to society, bringing studies, analyses and reflections on a present phenomenon that impacts the lives of citizens worldwide. Although there is an understanding on other factors that contribute towards the functioning (and imbalance) of the economy and to the occurrence of crises, which have not been contemplated herein, such as: economic power of the imperialist model of major economic powers and the relationship of center-periphery dependence; ideological aspects (capitalism x socialism) present in governments of different nations; interests of international economic agents and global imbalances; favoring of the major powers by bodies that control the economy and international trade, among others, and recognizing the absence of these elements in the discussions proposed in this article, is exactly the argument that, “it is the existence of an uncountable number of variables that influence the functioning of the economy that makes it uncontrollable”, the non-linear and non-predictable behavior of all the agents involved that makes economic crises an almost impossible phenomenon to be predicted and prevented stemming from economic theories based on the *céteris paribus* rule.

In view of such conclusion, the following questions remain: are we orphans of economic theories after yet another crisis of global dimensions? What theoretical model can we adopt henceforth? Is it possible to propose a new set of economic postulates? Is it possible to reformulate the current postulates and find a solution for the recurrent crises? Is what we have learnt from previous crises sufficient to predict and prevent future ones? As suggestions for future researches that can expand, complement or refute, in part or in whole, this research, it is recommended that this theme be analyzed from a geographical perspective, with continental or regional analyses by conglomerates (economic blocks); political/ideological, with comparative analysis of economic models (socialist vs, capitalist). Other elements should be considered in future studies, such as: the performance of central economies in comparison to developing economies, economic and social impacts of crises in countries or regions with different economic and/or political profiles.

Revista
ARACÊ
ISSN: 2358-2472

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