sciendo
Proceedings of the 5th International Conference on Economics and Social Sciences (2022), ISSN 2704-6524, pp. 694-699

The 5th International Conference on Economics and Social Sciences
Fostering recovery through metaverse business modelling
June 16-17, 2022
Bucharest University of Economic Studies, Romania

Permanentizing Crisis: The Impact on Current Turbulent Business Environment

Hezi SHAYB[1], Radu MUȘETESCU[2*]

DOI: 10.24789788367405072-065

Abstract

We intend to explore the causes of the perceived process of permanentizing the occurrence of crisis in the current political and business discourse and the consequences of such a phenomenon on the business environment. We try to assess whether such a process is an objective result of the emergence of a turbulent business environment at the global level or an artificial result of developments in the political arena. We will explore the consequences of this trend and its relevance to business decision making.

Keywords: crisis, crisis management, interest rate, monetary policy, emergency politics.

JEL Classification: H12, G01, E43.

1. Introduction

The last period has witnessed an apparent process of the proliferation of crises. Recurrent, overlapping, and apparently unavoidable, such crises not only make headlines in the international and domestic mass media but also seem to dominate the agenda of policy makers around the world. Pandemics, wars, and climate change are just a few examples. As a consequence, it has been argued that the "*normal*" political process has been abandoned in favour of "*emergency*" politics. While this process seems to have origins fundamentally outside of the economic field, a potential powerful explanation may come, maybe paradoxically, exactly form the field of economics. It is a result of a decades-long process of de facto abolition of the interest rate by monetary authorities and a decades-old rise in the time preference both at the social level but particularly in the field of politics.

[1] Bucharest University of Economics, Romania, shaybhezi@gmail.com.
[2] Bucharest University of Economics, Romania, radu.musetescu@rei.ase.ro.
* Corresponding author.

2. Problem Statement

The idea that national emergencies challenge the way politics is usually undergone has a long tradition in political thought (Lobel, 1989). Even in ancient times, the occurrence of war translated into a different approach to politics and the way government was operated and public affairs were dealt with. War was the extreme event that allegedly forced governments to make appeal to extraordinary measures in order to deal with it that put into danger the survival of the state. In consequence, governments that faced such existential challenges had to choose between death and structural failure and measures that could be qualified as dramatic, including the restriction of citizen rights.

From the perspective of the political science, the survival of the state was put into balance with the protection of individual rights (Klieman, 1979). The Machiavellian approach, which has fundamentally lied at the core of any state during all ages, allowed the sacrifice of the latter in order to further the former. In modern political debates, the process of transformation of the representative democracy – that seemed to have won the competitive process between political systems – into an administrative state with no accountability has been perceived as the most challenging.

Meanwhile, the discussion on the impact of such a political framework on businesses is still at the level of exploration. There is still an area that economists seem to have largely avoided. This is relevant for the business environment, as the approach of business decision-makers has been “hand-to-mouth” and ad-hoc. The institutionalization of risk management and the formulation of certain crisis-management approaches did not dig into the area of systemic and structural crises. Risk management fundamentally assumes the continuity of the core elements of the economic infrastructure and political institutions. In the current environment, crisis management should question this assumption. So companies have to learn how to deal with crisis that changes the elements of the economic and political system they are operating in.

3. Research Questions

This research attempts to identify the type of reactions from the part of the private agents operating in a business environment who are facing the critical challenges of a political environment which is dealing with crisis that seem to be permanentized. What kind of decisions could be made in such a framework where governments are expected to deal on a permanent basis with crisis?

4. Research Methods

We will employ the theoretical framework as envisaged by economists such as Ludwig von Mises, Murray Rothbard, and Friedrich von Hayek in order to find the impact of the turbulence in the regulatory framework on the way the businesses are operating. The Austrian School of Economics, employing a logical-deductive approach in reasoning, starts from an a priori assumptions (which are empirically validated) in order to identify universal causality relations between economic concepts and, in practice, economic phenomena (Hoppe, 2007). Very interestingly, the Austrian method is fundamentally abstract and a priori (such as mathematics) but can be employed in order to understand actual phenomena only in a speculative way, as any analyst employing such a theoretical method has to make judgments of relevance regarding the actual factors operating into the real economy. In other words, a good theory can be employed in a way that is irrelevant, and it could miss the realistic approach in explaining the real developments in the economy or society. This is the challenge of the relationship between theory and history as analysed by the Austrian economist Ludwig von Mises (von Mises, 1985).

5. The Rate of Interest in Society

Among the most challenging debates in economics as well as public policy is the misunderstanding of the concept of interest rate. The contemporary democracy has allowed for the progress of redistribution and socialization on multiple fronts, but among the most visible ones is the monetary policy. Besides the discussion related to the impact of monetary policy on business cycles and other macroeconomic phenomena, a very specific discussion can be opened about the impact of the fixing of the rate of interest by the monetary authorities.

The rate of interest in a society is not exclusively related to the capital market or to the monetary policy. As Ludwig von Mises argued, "*Interest is not merely interest on capital. Interest is not the specific income derived from the utilization of capital goods*" (von Mises, 1996, p. 524). This economist advanced the concept of "*originary interest*" as not being *"... specifically connected with any of the three classes of factors of production which the classical economists distinguished*". In fact, "*original interest is the ratio of the value assigned to want-satisfaction in the immediate future and the value assigned to want-satisfaction in remote periods of the future. It manifests itself in the market economy in the discount of future goods as against present goods*" (idem, p. 526).

Starting from the time preference expressed at a social level but also taking into consideration additional factors, a prevalent rate of interest emerges in any society. This is the rate of interest that allows the structure of production to expand in a natural way by producing economic goods that are required by consumers not only in terms of variety and preferences, but also in terms of gratification of the time preference (Rothbard, 2009).

Manipulation of the interest rates by the monetary authorities is an attempt to erase the scarcity of capital and artificially increase the level of welfare in society: "*The age-old disapprobation of interest has been fully revived by modern interventionism. It clings to the dogma that it is one of the foremost duties of good government to lower the rate of interest as far as possible or to abolish it altogether. All present-day governments are fanatically committed to an easy money policy*" (von Mises, 1996, p. 572).

The rate of interest that closes zero means two adverse impacts on the supply and demand of capital and investment: from a supply side, a zero interest rate means that the cost of capital is close to zero and that longer-term investment projects become attractive for private investors. On the other hand, the same level of the interest rate means a totally different perspective from the part of consumers / the demand: such an easy access to consumption credit means that these market participants will advance their consumption from the future to the present. In consequence, a gross mismatch emerges between the two sides of the market: from a supply side perspective, lower interest interests mean that longer-term production projects become attractive. From the demand side perspective, the consumption is brought into the present and not allowed to be postponed in the future.

As von Mises pointed out, "*The loan market does not determine the rate of interest. It adjusts the rate of interest on loans to the rate of originary interest as manifested in the discount of future goods*." (von Mises, 1996, p. 527). When monetary authorities decrease the official rate of interest, they alter the natural allocation of resources of society not only between goods but between the present and the future considering the relation between the rate of interest and the time preference of the society. It is a gross mistake to perceive that the manipulation of the rate of interest does have an impact only on the capital markets. In fact, it does have an impact on all the valuation in society of present goods against future goods in general. And among them, we could include also, in the political system of democracy, the political agendas and programs of reform not to speak of the morality and ethics at individual level in society (Hulsmann, 2008).

As a result of fixing the interest under the level of the "originary" rate leads in time to incentives that favour a higher time preference. Such a modified time preference would manifest itself on multiple fronts, including the support for redistributive public policies and direct gratification of consumers. Maybe paradoxically, the political environment prefers taking decisions that are oriented on the short term, highly redistributive toward "big numbers" and free from any principled approach. In consequence, the political discourse has adopted an apparent permanentization of crisis in public policies in order to reach such objectives. And fundamentally, this is also a result of the higher time preference of the consumers in their citizens' capacity.

6. Findings

Under such circumstances, business strategy faces critical decisions. The core challenge is that management and ownership have to "*make bets while the rules of the game are changing*" as the exogenous changes that companies cannot control or influence are critical for company survival. It could be argued that, in such times, the ability to understand complexity and experience of assigning "*relevance*" is becoming critical, as important as the operations and knowledge management. Maybe, in what could be termed as stable environments, the ability to cut costs, optimize supply chains, and outcompete other producers is critical. However, under turbulent business environments where the crises seem to be permanent, recurring, and overlapping, the ability to identify the path to follow is the most important aspect (Greenspan, 2007). And, in this respect, not only the knowledge of its own market is important for companies, but the understanding of the political processes and developments in other sectors is paramount. Private decision makers must not only be strategic and tactic, they must also be "systemic".

North and Kumta (2018, p. 304) argue that there is a different approach between what they define as "*stable context*" and "*turbulent context*": "*In an environment that is characterised by unpredictable, varying and unexpected crisis situations, knowledge management encourages swift problem solving, permanent experimenting, and quick collective learning as well as living with mistakes*".

Table 1. Differences between Knowledge Management in Stable and Turbulent Contexts

Knowledge management	
in stable context	**in turbulent context**
codify knowledge and document process	share tacit knowledge
build on experiences	develop ability to learn fast and "turbo problem-solving"
disseminate "Best Practices"	develop "Next Practices"
ensure knowledge transfer across employee generations	facilitate ad-hoc availability of knowledge

Source: North, Kumta, 2018.

They consider that "in *the future, organisations would need to carefully consider when it is worth the effort to make knowledge explicit and document it or whether it is more effective to switch over to creating collective implicit knowledge (process of socialisation) in rapidly changing situations*" (idem, p. 303).

There are also some sceptical perspectives on the idea that the contemporary moment is something new for the history of business and economics: "*In fact, the global economic map is always in a state of 'becoming'. It is always, in one sense, 'new', but it is never finished. Old geographies of production, distribution and consumption are continuously being disrupted and new geographies are continuously being created*" (Dicken, 2015, p. 14).

Meanwhile, the decrease in the rate of interest in society leads to what has been termed by Austrian economists as "*malinvesment*". As the stock of capital is fixed in a society (and as a result of past acts of savings), the decrease in the rate of interest leads to the choice of investment projects that maximizes the gains from "official rate" but do not maximize the social welfare. In such a situation, the economic calculation of private entrepreneurs is "*falsified*" as they do not get the right picture because of the artificially decreased interest rate. They choose to make longer-term investments that would be revealed later as being in disaccord with the preferences of the consumers. For a large number of producers, this relevance would come too late.

Such a perspective would mean that, indeed, times which are perceived as being "difficult", "crisis", and so on are present in every moment of the history. Maybe, in certain situations, the sense of novelty is a result exactly of the idea of every generation, which assumes, most probably, that its experience is unprecedented and novel one. Members of other generations may disagree. In fact, every moment, is a challenging moment and entrepreneurs have to deal with it as being special and not as the others.

7. Conclusions

The current economic and political environment seems to have adopted a discourse in which crises are becoming a permanent feature of public policy. Among other reasons, the monetary policy of undervalued interest rates had its own contribution to this outcome. It could be argued that contemporary politics is a result of "higher time preference" at the level of society. In such an environment, businesses have to conduct operations not only facing operating, financial, or other types of risks but also systemic, structural crises that have the potential to alter the fundamental institutional premises on which economy works. Knowledge management is maybe among the most important tools in this respect and business leaders have to learn how to use tacit knowledge in order to develop abilities to learn fast and "turbo" solve the problems.

References

[1] Dicken, P. (2015). *Global Shift. Mapping the Changing Contours of the World Economy*, Seventh Edition, The Guilford Press, New York.

[2] Greenspan, Al. (2007). *The Age of Turbulence. Adventures into a New World*, The Penguin Press, New York.

[3] Hoppe, H.H. (2007). "*Economic Science and the Austrian Method*, Ludwig von Mises Institute, Auburn.

[4] Hulsmann, J.G. (2008). *The Ethics of Money Production*, Ludwig von Mises Institute, Auburn.

[5] Klieman, A.S. (1979). Preparing for the Hour of Need: Emergency Powers in United States, *The Review of Politics*, 41(2).

[6] Lobel, J. (1989). Emergency Power and the Decline of Liberalism, *The Yale Law Journal*, 98(7).

[7] von Mises, L. (1996). *Human Action. A Treatise on Economics*, Fox & Wilkes, San Francisco.

[8] von Mises, L. (1995). *Theory and History. An Interpretation of Social and Economic Evolution*, Ludwig von Mises, Institute for Economic Research, United States of America.

[9] North, K., Kumta, G. (2018). *Knowledge Management. Value Creation through Organizational Learning*, Second Edition, Springer International Publishing.

[10] Rothbard, M.N. (2009). *Man, Economy, and State with Power and Market*, Second Edition, Scholar's Edition, Ludwig von Mises Institute, Auburn.