Kondratieff

On September 17, 1938, Russian economist Nikolai Kondratieff was executed by a firing squad during Stalin's Great Purge. His crime? Not agreeing with the heads of state that while capitalism has had built-in tensions that would inevitably create costly, socially damaging down waves, communism was not subject to the same corrections or recessions. Worse, his theory of economic cycles and "long waves" lasting over 60 years, suggested that capitalist economies, once out of recession, would rebound strongly. It took over 50 years for Kondratieff's reputation to be rehabilitated, and his K-Wave theory is once again getting attention from economists who have far less to fear than a rifle barrel for being wrong.

Kondratieff's model of the Long Cycle, developed in the 1920s, likens financial and economic cycles to a human lifespan of 60 to 70 years, broken into four 10 to 20 year "K-waves" of spring, summer, autumn, and winter. They are easy to remember because they follow the natural progression of the seasons, and of human life.

Spring, for example, brings economic birth, expanded production, affluence, rising wages, less unemployment, which reaches its apex in the summer cycle, where resources become more limited, production decreases, and there's even some signs of back-lash against an economy of abundance. Come autumn, life's bills start arriving. This cycle brings deflation and a rapid increase in debt as everyone's habits have settled into a life of over consumption.

Winter brings death by debt. Some say that's where the developed world is today. Debt gets purged from the economy, either by deflation or inflation, opening the way for a rebirth in spring.

Today, the K-Wave pattern Kondratieff defined is sometimes used to trace the evolution of the global economy, and help make politico-economic predictions. Students of global economics have been very interested in the tendency for nations to go to war during the long transition between an economic winter and spring, the classic example being the Great Depression and World War II.

K-waves are easier to indentify when looking at international production data than at a particular nation's economy, and they are more visible in looking at output rather than prices or surges in particular sectors. So the indicators that most economists focus on, such as gross domestic product, short-term business cycles and the stock fluctuations aren't useful in seeing the long cycle. K-Wave starts during a time of downswing and generalized slow-down and are caused by the demand for innovation and solutions to new problems. But because winter and spring overlap and each K-Wave is driven by different types of growth, it's easy not to see that one is beginning.

The last wave was driven by the technology sector, and is considered the 19th K-Wave in the global economy. Here's a chart tracing them back to the first one, over a thousand years ago, driven by advances in printing and paper. According to George Modelski, Professor Emeritus, Political Science, University of Washington, "…it is now quite widely agreed that the leading sectors of the late 1990s are the information industries and that the K-wave 19 has now moved into higher gear, for a period likely to extend for some two-three decades, into the 2020s.

Fascinating stuff.

k wave table

Another economist who believes we just crossed the midpoint of a Kondratieff winter that started in 2000, is Larry Jeddeloh, Editor of The Institutional Strategist and CIO of TIS Group, which advises money managers on investment strategies. He sees the attempts of government to produce counter-cyclical actions as ways of helping the U.S. economy adjust over time and avoid a crash/depression in the winter of this long cycle. "While one can easily understand why such a policy prescription might be devised," says Jeffeloh, "the result has been an expansive fiscal/super easy monetary policy…[which] practically guaranteed it would continue for some time by refusing to let the markets and economy fully adjust." We quote him here from a column by investment manager Alan Weiss who warns that "coming out of a Kondratieff winter takes time…not months, years."
One Response to "Economist executed for having correct theory"

1. Jim Jurado Says:
   June 16th, 2010 at 3:45 pm

On a Monthly chart of the $SPX, the moving avg(50) and the moving avg(150) are about to cross. This will be a bigger IRON CROSS than the COPPOCK CURVE crosses in 2000 and 2008 and soon, 2010. A crash in the markets will retest the 666 low. By then, the MA(50) would cross the MA(200) as well, pointing to a bigger crash; in fact, two or three more market collapses are ahead for the next few years. These supercycles are being ignored by the current pundits on wall street. Technology(Outsourcing) and Globalization have engineered the collapse of the Middle class in Western nations (creating higher unemployment and lower consumer spending) while maximizing corporate profits, the collapse of real estate, the collapse of the banking system and its engine for money creation, and the aging of populations in the West, the drawing of money from the stock and bond markets, by pensions and retirement accounts over the next twenty years, all these point to a final bone crunching DEFLATION and DEPRESSION: the cold winter K-wave will remain for many years to come.