

THE UNITED NATIONS says that the recession is the “worst slump since the 1930s”. True, but such a comparison disguises the unique qualities of the economic forces that have now built up.

The distinctive features of the world recession of the '30s have gone down in folklore as "the Great Depression". They were the result not of "natural forces" but of a botch-up by politicians.

The unique feature about the current recession is not that so many countries entered the downswing at the same time: the OECD economies simultaneously converged on a slump in 1973. What is so special now is that the former Soviet nations are also stagnant, and are groping for ways to revive their economies. All of this coming together in the early 1990s means that we have the makings of a historic phenomenon: the first global Kondratieff cycle.

Nikolai Kondratieff was a Russian economist who discerned long waves in economic history. His mistake was to announce that the crisis of the '30s did not signal the end of capitalism. As a penalty for

his contradiction of the Marxist scheme of history, Stalin despatched him to Siberia, from which he never returned.

The long waves, argued Kondratieff, lasted 54/55 years. His work was further refined by Joseph Schumpeter and others. The results were schematically portrayed (see graph below) by Dr. Francis Smith.

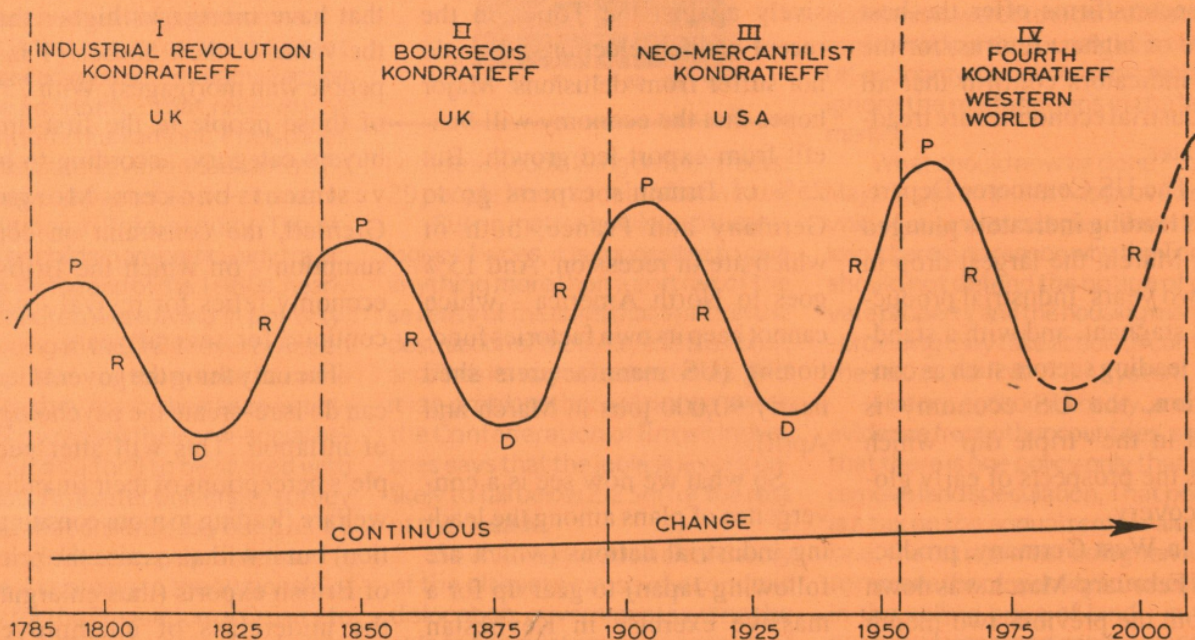
The first cycle began in Britain. Subsequent cycles became more generalised with the spread of industrialisation around the world. The third cycle was dominated by the US, and the fourth was the story of the western world.

Those long swings in activity are punctuated by shorter cycles, ranging in duration from five to 18-years. The shorter cycle is most obviously the result of political manipulation, but economic historians cannot explain the cause of the trends that can be measured

over two decades.

In terms of the amplitudes of the booms/busts, the four Kondratieff cycles have been moderated by the impact of international trade, which has cushioned some of the downturns. A slump in one economy was partially offset by the upswing in another country. World War II, however, truncated historical trends. It forced every economy into an identical economic time-frame. It took 10 years to rebuild the economies - to reach a state of normality - with the result that sustained growth began in 1955. This terminated 18 years later, in 1973; which, in turn, guaranteed the next major downturn in 1991/2. (Using the Kondratieff cycle, Dr. Smith - writing in 1980 - predicted that the latest recession would not bottom out until 1994.)

This brings us to the distinctive feature of the next Kondratieff



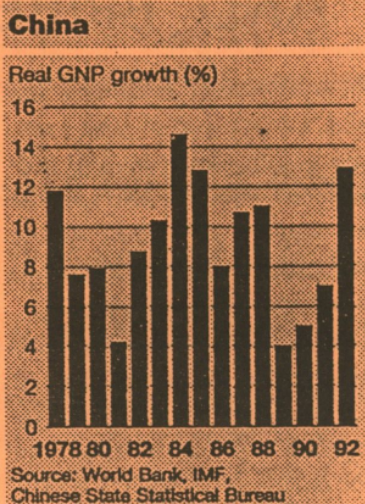
Source: F. Smith, *J. Oil Col. Chem. Assn.*, 1981, Vol. 64, p. 149.

cycle. Since WWII, half of the industrial world has been cut off from international trade. The Soviet and Chinese empires were sealed behind iron and bamboo curtains. Those barriers have now come down, which means that all the world's economies are synchronised on an identical growth path.

Providing the ex-Soviet economies correctly marshal their energies in the market, the new upturn will be powered by a collective burst of energy never before seen in the history of industrial society. Russia alone, with her market of 160m people and a research and development capacity that could rival any country in the world, will add stupendous possibilities to world trade. Unfortunately, however, because of the synchronisation of the world's economies, there will be no compensating upswing in one country to offset the downswing elsewhere. Boom/bust amplitudes in the next long wave of activity will therefore be greater than ever before.

THE ONE exception to the synchronisation is China. She began her first modern 18-year cycle in 1978 (tracked in the Financial Times' bar chart). There was a mid-cycle downturn in 1986, but the benefits stemming from the adoption of the market mechanism in China's coastal regions continued to roll in, producing an annual growth rate now touching 14%.

But policy-makers in Peking are now panicking, and are struggling to control the expansion of credit which is fuelling the escalation in fixed asset investments. China is experiencing a classic building boom provoked, in the main, by the pursuit of rent. Despite its leasehold system of tenure, China has not learnt that what



matters is not who owns land, but who pockets the income from land.

In global terms, China is out of synch. with the other economies. According to the US news magazine *Business Week* (May 17), in its cover story on China: "There seems no stopping their momentum". Wrong. China will suffer a major recession in 1996 (see EI/36). Elsewhere, entrepreneurs may like to know that their investments will be at risk during the global mid-cycle downturn in the year 2,000, which will be followed by the next Big Slump in 2,010. During those two crises, despite

NIGEL LAWSON,
Ex-Tory Chancellor:

"Well, errors are always made, there's nobody who doesn't make mistakes...But I think it's an illusion to suppose that, if mistakes are avoided - we're talking about mistakes by government now - you won't have recessions. I believe and have always believed...that the economic cycle is a fact of life. There have been these ups and downs throughout recorded history, not just in this country. Throughout the world, there always have been, there always will be."

the size of her economy, China will not be able to offer a countervailing effect.

READERS will be familiar with EI's principal tool for sketching the economic outlook for the next Kondratieff cycle.

Each 54-year cycle is sliced into three 18-year cycles, the architecture of which is determined by speculation in the land market. That land speculation in its modern form should have originated in Britain is not surprising, since that is where the Industrial Revolution - and "capitalism" - originated in the late 18th century.

Can we rely on EI's predictions for the 21st century? So far, EI's forecasting tool has not been outclassed by any other forecaster's model. True, our model does not have the 100 mathematical equations featured in the British government's Treasury model (which the Treasury is now thinking of scrapping, since it failed to predict the boom of 1986/8, or the 1992 downturn that followed: see EI/1 for the correct predictions, which were offered in 1988).

Can governments do anything to forestall the Kondratieff cycle? Or is it a historical inevitability? Britain's former Chancellor of the Exchequer, Nigel Lawson (who presided over the failures of the 1980s) presumably thinks there is little his successors can do: see his fatalistic observation (inset).

In fact, there is a solution to the business cycle. In its historical form, it could be wiped out by the simple expedient of removing land speculation from the economy. But since the policy-makers have not yet learnt that lesson, entrepreneurs would be foolish to work on any basis other than that the cycles will continue until they hear differently from EI!