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WEDNESDAY, APRIL 8, 2009

The Long Wave Has A Long Life

There's a conference going up in Toronto that has certainly attracted the doom and gloom set. Larry Summers' [former partner](#) Nouriel Roubini is there as is Meredith Whitney, but what caught my eye was the sponsor of "A Night with the Bears", Ian Gordon.

Gordon, author of *The Long Wave Analyst* newsletter, expects the Dow Jones industrial average to plummet to 1,000 based on Kondratieff Long Wave Theory. According to Kondratieff Theory repeat every 60 years or so.

Murray Rothbard [tried to bury](#) the theory more than 15 years ago:

There is no "Kondratieff cycle," no way, no how. There is among many people, even including some of the better hard-money investment newsletter writers, an inexplicable devotion to the idea of an inevitable 54-year "Kondratieff cycle" of expansion and contraction. It is universally agreed that the last Kondratieff trough was in 1940. Since 51 years have elapsed since that trough, and we are still waiting for the peak, it should be starkly clear that such a cycle does not exist.

Most Kondratieffists confidently predicted that the peak would occur in 1974, precisely 54 years after the previous peak, generally accepted as being in 1920. Their joy at the 1974 recession, however, turned sour at the quick recovery. Then they tried to salvage the theory by analogy to the alleged "plateau" of the 1920s, so that the visible peak, or contraction, would occur nine or ten years after the peak, as 1929 succeeded 1920.

The Kondratieffists there fell back on 1984 as the preferred date of the beginning of the deep contraction. Nothing happened, of course; and, now, seven years later, we are in the last gasp of the Kondratieff doctrine. If the current recession does not, as we have maintained, turn into a deep deflationary spiral, and the recession ends, there will simply be no time left for any plausible cycle of anything approaching 54 years. The Kondratieffist practitioners will, of course, never give up, any more than other

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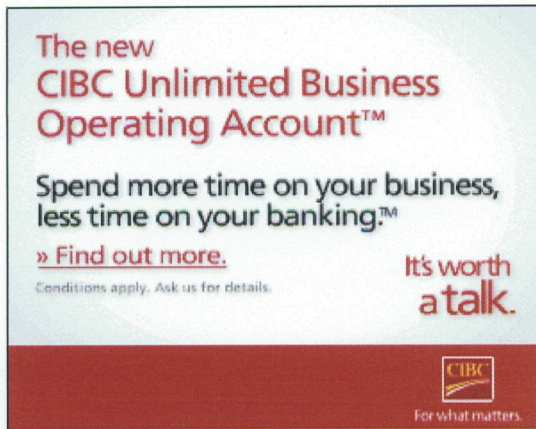
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seers and crystal-ball gazers; but presumably, their market will at last be over.

Bad theories don't seem to die in economics, they just seem to grab new followers. I'm beginning to think there is a mass of people in every generation that just don't think logically.

posted by Robert Wenzel at 10:09 PM

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As a Wave Theorist of Wave Theorists, allow me to point out an article from the WSJ, October 12, 1979, "After the Fall: 50th Anniversary of Great Depression is Sparking New Interest in the "Kondratyev Wave":

"Kondratyev disciples contend that after the Civil War peak, a supercycle pattern developed remarkably similar to the pattern after the War of 1812 - a brief primary recession, a plateau until 1874, a long secondary slump until 1896, and finally a period of renewed prosperity and rising prices until 1920."

Later on comes an analysis of the then "Current Situation":

"Some forecasters even suggest that if a secondary slump does soon develop, it may be marked, like the current plateau period, by continuing inflation."

Now the Supply Siders - the Good Guys - like Paul Craig Roberts, reported that when Reagan became President, RR's team worked out an agreement with the Fed (Volker) that there would be a reduction in the increase of the Money Supply over a 3 year period. The Fed provided that reduction over a period of months, thus guaranteeing the deep recession of the early 80s.

Our critic of the Kondratyev Cycle conveniently points to the year 1984 - "The Kondratieffists there fell back on 1984 as the preferred date of the beginning of the deep contraction." - and this is misleading

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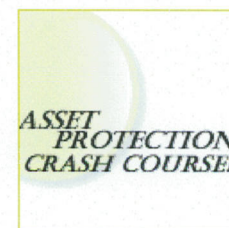
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