

The Kondratieff Cycle: Real or Fabricated?

by Murray N. Rothbard

Man has always yearned to know his future. And, since it is an economic law that demand tends to create supply, there have always been gurus and mountebanks to meet that need, people who claim to have a special handle on all that the future may hold in store. Soothsayers, palm-readers, astrologers, crystal-ball gazers have poured in to take advantage of the credulous and the gullible.

Forecasting and Soothsaying

Techniques of soothsaying or prophesying have changed over the centuries, but the basic tactics and strategy have remained the same. In the more frankly mystical atmosphere of the Middle Ages, it became common for gurus to arise and predict the Second Coming and the end of the world, with seemingly stunning precision. If the guru was shrewd enough, he made the date of the final days near enough to whip up excitement, but not so near that it would actually arrive and he would be caught out. Thus, the most famous of all these forecasters of doom, Joachim of Fiore, who lived in the late 12th century, predicted with absolute assurance that the day would come about fifty years afterward. That was close enough to develop a mighty movement of followers, but far enough away not to prove an embarrassment.

But suppose that the predicted day arrives and nothing happens? There have been various classical techniques to deal with that problem. The most obvious but the shakiest is to say, oops, I miscalculated, but now I have corrected my calculations and the precise day of the end of the world is eleven years and five months hence. Straightforward, but a bit desperate, and it is risky for the guru ever to admit error, for then his all-important aura of absolute self-confidence and infallibility will have begun to slip. Far better to use a fudge factor, which maintains one's air of omniscience and adds profundity to boot. "No, you see," the guru will reply loftily to his critics, "I was absolutely right; the end of the world *has* begun, we have now entered the *period* of the last days." If the guru is lucky enough, that period can last another century or so. And who is there to say him nay? The idea is to *reinterpret* for the faithful what had previously seemed to be clear and unmistakable language; a "day" has simply become an eon or two.

The High-Tech Gurus

In the modern era, when all things "scientific" are in vogue, the same sort of activity goes on, but now it comes cloaked in the wondrous trappings of the high-tech. The predictions of our new breed of soothsayers and crystal-ball-gazers – the managers of the high-speed computers and the charts and the econometric models – are just about as accurate as Joachim of Fiore. But the fudge tactics have become more elaborate.

For one thing, the task of the modern fortunetellers is less grandiose. Most of them are not trying to

develop a mass of faithful followers who will gladly lay down their lives for the guru. They are simply trying to attain the Good Life for themselves. But some of the tactics are precisely the same. The favorite forecasts are those that are close enough to be interesting but not so close that anyone cares to remember when the time comes. Thus, a few years ago there was published a rash of vogue books forecasting with seemingly great precision the exact economic profile of the Year 2000 – the population, the GNP, the unemployment rate, etc. The books were publicized and sold, the authors made their reputations as eminent futurologists, and then ... and then what? When the year 2000 finally arrives, will anyone care? Will anyone bother checking up on the various forecasts? And if anyone does, will the reading public bother? Surely not, for they will have long since gone on to other years, other forecasts.

A few years ago, I sat on a panel where one of the speakers, with absolute authority and self-confidence, announced that his "researches had shown" that nuclear war would arrive in the summer of 2010. A gasp, a *frisson* of delighted fear, went through the large and intent audience. But, when the year 2010 comes around, will any of us still here remember, much less bother to call this man on his prediction?

But suppose that the forecast was short-term, or the predicted year has arrived, and the prophecy is manifestly way off. Then what? Then the modern gurus use the same fudge factor as the gentlemen who predicted the last days. The guru will not miss a beat. "The event I predicted *has* arrived, but it is temporarily being masked by other factors." The prediction has been subtly or not so subtly redefined to fit the facts.

Thus, for over a decade I have been arguing with economists and investment analysts who have been predicting *imminent* deflation, that is, a general fall in consumer prices, or rise in the value of the dollar in terms of goods and services. For over the same decade, these predictions have been proved patently and 180 degrees wrong. Inflation, whether steep or slightly less steep, has marked every year during this period. Yet never have I seen the slightest faltering in the enthusiasm or the absolute self-confidence of the deflationist soothsayers. Often they will use the fudge factor: "Look, zinc prices have fallen over the last six months. 'Deflation' has already begun." Or, "Deflation is here at last. It has just been 'masked' by the expansion of bank credit."

In the same way, the astrologers fudge on *their* predictions. If you are a Pisces, they will proclaim that you are a mystic, who loves water. If you say, "You're right," they will smile triumphantly upon this confirmation of their analysis. But if you say, "Wrong. I'm a skeptic who hates water," they'll say, "Ahh, that's because your Jupiter is rising, and you're fighting your stars," or some such twaddle. The key point is that, with any guru worth his salt, *there is no way ever to prove him wrong*. He will always come up with the fudge factor. And, it should be clear to the wise that a prediction that somehow can never be proved wrong is worth far less than the paper it is printed on.

Furthermore, when anyone spends a lot of time predicting, on whatever grounds, once in a while *some* of these forecasts are bound to be proved right, just by chance. And so, in the world of economic as well as astrological forecasting, the soothsayers trumpet any successes they may have ("I predicted . . . !") while quietly burying their mistakes.

The Business Cycle

Business cycles began a mere two centuries ago. Despite the fevered hopes of some enthusiasts who claim to have observed business cycles going back to Methuselah, before the late eighteenth century there was no such phenomenon. Of course, there were centuries in which business improved and the economy progressed and there were other centuries (the Dark Ages, the 14th and 15th centuries) when it went into a long secular decline. But, within shorter time periods, business pegged along in a rough straight line year after year. Business was either good, bad or indifferent, but it tended to remain that way steadily for many decades.

Once in a while, it is true, something drastic happened. The king, as was the custom of monarchs, might need a lot of money quickly and therefore confiscated all the gold or silver he could lay his hands on. The result was a dramatic economic and financial collapse. Or a war would take place, and business might boom; or trade would be cut off in a war, and business collapse. The point is that there was nothing cyclical or wave-like about these events; and there was nothing esoteric or difficult to understand. It was clear to every observer what the problem was; the cause was *exogenous*, i.e., it came from outside the economic system and was imposed upon it. Almost always, that outside and disturbing force was government, and government intervention, in one form or another, was the clear cause of the sudden boom or more likely the sudden collapse. There was no need to conjure up any obscure "business cycle theory"; the cause was obvious.

Then, around the middle or latter part of the eighteenth century, something happened. A new phenomenon struck the world, occurring first in Britain, the most economically advanced country, and spreading to other advanced countries as they entered the market nexus of trade and finance. This phenomenon was a regular, continuing, wave-like movement of business activity. Instead of business proceeding on a straight line, it experienced a regular pattern of euphoric boom, sudden crisis or panic, bust or contraction, and gradual recovery, succeeded without pause by another boom. In contrast to earlier years, observers of business could find no clear-cut exogenous cause for these waves. They concluded that business is marked by a continuing, perpetual cycle, and that the cause, whatever it may be, comes from somewhere deep within the market economy, i.e., is *endogenous* to the economic system.

As economic theory developed and deepened, it became obvious that there was an inherent conflict between standard "micro-economic" theory, and factual observations of the business cycle. For theory tells us that, in the market economy, there is a continuing tendency to eliminate error and to "clear the market"; there is a tendency then, for losses to be minimized. So how could there possibly be periodic clusters of severe business losses, which constitute the onset of the panic, crisis or depression? The conclusion that most economists and observers unfortunately came to was that microeconomics does not realistically apply to the "macro" level.

It should be recognized that most business-cycle theories – Keynesian, Marxist, Friedmanite, or whatever – and remedies are grounded in the assumption that the cycle stems from some deep flaw in the free-market economy. But if micro-theory is correct, then it must apply to the "macro" sphere as well. The economy is not some entity split between a micro and macro half; *it is a seamless web*, inextricably linked together by the use of money and the price system. Therefore, whatever applies to one part of it must apply to all. The explanation for business cycles must somehow be integrated with the explanation of the micro-economy.

The Cycles Multiply

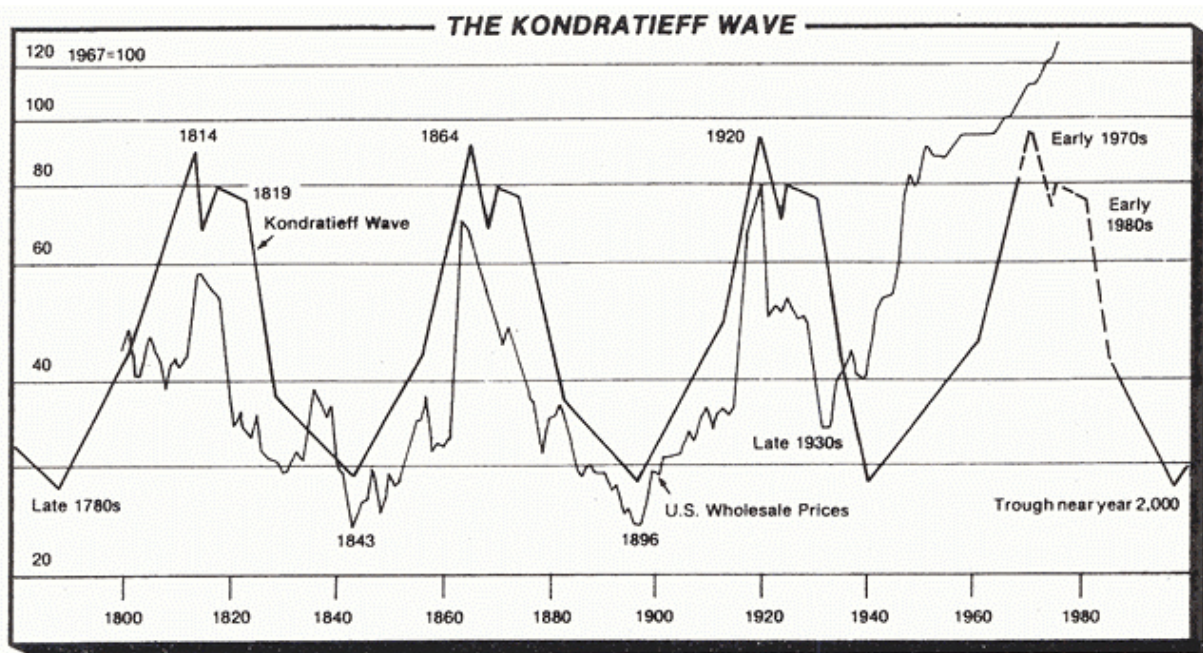
One of the worst things about the "business cycle" is its name. For somehow the name "cycle" caught on, with its implication that the wave-like movement of business is strictly periodic, like the cycles of astronomy or biology. An enormous amount of error would have been avoided if economists had simply used the term "business fluctuations." For man is all too prone to leap to the belief that economic fluctuations are strictly periodic and can therefore be predicted with pinpoint accuracy. The fact is, however, that these waves are in no sense periodic; they last for few years, and the "few" can stretch or contract from one wave to the next. The periodic notion was unfortunately fed by the fact that the early panics seemed to be ten years apart: 1837, 1847, 1857, but pretty soon that periodicity broke down.

At that point, those who had made their reputations as forecasters of the cycle had two options: they *could* have simply given up the idea of periodicity. But that would have detracted from their aura of omniscience. And so, many of them introduced the first big fudge factor: the idea that cycles, despite appearances, are *still* strictly periodic, except that there are several mystical cycles all occurring simultaneously *beneath* the data, and that if you manipulated the data long enough, you could find these simultaneous, parallel, strictly periodic cycles, all going on at the same time. The *apparently*

non-periodic data are only the random result of the interactions of the strictly periodic cycles.

This doctrine is mystic for two basic reasons. In the first place, very much like the "epicycles" of the Ptolemaic astronomers who fought against the Copernican Revolution, there is no way *ever* to prove the cycles wrong. If the cycles don't fit the facts, you can always conjure up one or two more "cycles" so as to make a perfect fit. Note that the fit has to keep changing in order to adapt to the new data that are always coming in. More epicycles get folded into the data. Secondly, as we noted above, the market is a seamless web. All facets of the market are interconnected through the price system, and the profit-and-loss motive. Booms and busts spread throughout the system; that is precisely why they are important. It is absurd to think that one part of the economy can peg along on a nine-year cycle, another on a three-year cycle, and still another on a 25-year cycle, with each of these cycles barreling along on a hermetically sealed track, not influencing and modifying each other. In fact, there can only be one real cycle going on in the economy at any time.

We have seen already that there can be only one business cycle at a time – the real, or evident one, the one that actually shows up in all the data – and that this cycle is emphatically not periodic. One of the mystical "cycles" that has been getting a lot of play from time to time is the flimsiest "cycle" of them all: the Kondratieff long cycle. The Kondratieff is supposed to be a strictly, or at least roughly, periodic cycle of about 54 years, which allegedly underlies and dominates the genuine cycles for which we have actual data. Even though, as we shall see, this cycle is strictly a figment of its fevered adherents' imagination, there *does* seem to be some sort of cycle in the periods when the "Kondratieff" captures the interest of financial and economic analysts.



Adapted from *The Inflation Survival Letter*, p. 174

In and Out of Vogue

The "Kondratieff" first made its appearance in the mid-1920s, the creature of the Soviet economist Nikolai D. Kondratieff. Even though it was translated into German at the time, it made no particular stir until the mid-1930s, when the German translation was, in abridged form, itself translated into English. The "long wave" had a brief vogue in the late 1930s, only to disappear until the 1970s, and since then it has had another and even bigger run. It seems clear that the times of fashion for the Kondratieff are a function of the economic climate of the day. Orthodox, mainstream economics had no explanation for the Great Depression of the 1930s, and so the Kondratieff was offered as one "explanation" for this phenomenon: "After all, we're at a Kondratieff trough; what else can one expect?"

After World War II, Keynesian economics was in the saddle, and claimed to be able to fine-tune the economy and eliminate inflation and recession alike. The *simultaneous* inflation-and-recession of 1973-75 inaugurated an era of many such "stagflations," which put an end to Keynesian dominance. Economists and financial analysts were led to look to some other explanation of this unwelcome phenomenon. And, lo and behold!, the old, forgotten "Kondratieff" was trotted out: for weren't we going past a "Kondratieff peak"?

Fortunately, Richardson & Snyder have now, for the first time, translated and published the full and unabridged Kondratieff work in English, so we are all in a position to judge the doctrine and the evidence for ourselves.

Kondratieff postulated a "long wave" of business that began somewhere in the late 1780s – it is all very murky since there are almost no statistical data for that period – and continues periodically roughly every 54 years. Well, what about the trough points? No question that the late 1930s – a "Kondratieff trough" – was a pretty miserable period. But what about the other three trough periods? What was wrong about the 1780s, for example? No particular depression there. And if we want to be generous and dismiss that "first trough" for lack of data or as only starting the whole thing, what about the alleged second trough? Fifty-four years from 1789 brings us to the "expected" trough year of 1843, a year in which everything was smooth sailing. Let us be generous and bend over backward for the Kondratieffites, and give them their admitted 1849 as the trough year. Even so, 1849 was a perfectly fine economic year, and in no sense whatever comparable to the late 1930s! In 1849, we were in the middle of continuing prosperity.

The third alleged Kondratieff horror point, or trough year, was 1896. But, again, there was nothing terribly wrong with that year either. Of all the trough years, or even trough zones, the only one that we can really say was bad and depressed was the late 1930s: One out of four!

On what basis, then, do the Kondratieffites presume to bracket 1940 with 1896 and 1849 and 1789 as the terrible years of Kondratieff troughs? Really, on one and only one ground: each of these years was a trough point for *the index of wholesale prices*. All the other alleged confirmations of the Kondratieff troughs were simply of prices, or else of monetary phenomena reflected in prices.

But wait! Is this really what we mean by a depression phase of a business cycle? After all, we are not really concerned about prices first and foremost. What really concerns us about a depression or recession is not that prices used to fall, but that there were and are sharp declines in production, clusters of bankruptcies and drastic increases in unemployment.

The Kondratieff "Depression"

Let us then look more closely at the long contraction, or "long depression," phases of the Kondratieff cycle. To make any sense, they should in some way look and *feel* like depressions, like grim periods of decline in business activity. The first Kondratieff long depression was supposed to be the period 1814-1849. But these thirty-five years were by and large a period of great expansion, prosperity and economic growth for the United States, England and France, the three countries Kondratieff used for his statistical analysis. And what of the second Kondratieff depression, the period 1866–96? Was that in any sense a depression? For the United States, and to a large extent for Western Europe as well, this was the period of the most dazzling spurt of production and economic growth in the history of the world. Production and living standards skyrocketed. How in the world could three such glorious decades be called a period of secular decline?

Obviously, it is absurd to call these periods long-wave depressions. The point is that in *real* terms – production, activity, growth, employment – these "Kondratieff depressions" were all periods of gigantic growth and prosperity. The *only* sense in which the two nineteenth-century "Kondratieff contractions" were contractions at all is that *prices*, by and large, fell during those decades. And that is that.

But if only prices fell, while all real or physical units increased, this means that the Kondratieff contractions could only be considered depressions if we *define* periods of falling prices as depressions or declines in economic well-being. And here we have one of the many fundamental fallacies of the Kondratieff doctrine.

Prices fell during most of the nineteenth century because prices *always* tend to fall on the free market. The natural course of events is for free market capitalism to pour forth an ever-increasing supply of goods and services, ever more production, and ever greater increases in the standard of living of everyone. If the government and its banking system do not inflate the money supply too much, prices will *always* tend to fall. But this does not mean depression in any sense, because costs are falling also, and productivity and production rising, so that business profits are in no way hurt by the price decline. Think of the computer and calculator industries in recent years, with their great rise in productivity and fall in prices, coupled with high growth and profits, and you will understand how this can work for free-market capitalism over many decades and epochs.

But if prices generally tend to fall, then what needs to be explained is why prices *sometimes* rise. During the nineteenth century, they indeed rose during Kondratieff booms. But dating the Kondratieff cycles only at the peak and trough completely distorts the real process at work. For prices did *not* rise continually from, say, 1789 to 1814, or once again, from 1849 to 1866. On the contrary, prices fell considerably, for example, from 1800 to 1812. The only "Kondratieff boom" took place in the brief span 1812 to 1814, i.e., precisely the years of the War of 1812 and the final years of the Napoleonic Wars. These were years in which the United States and Western nations inflated the money supply greatly in order to pay for massive war expenditures. Hence, the increase in prices. When the war and hence the need for war financing, was over, the monetary and price boom collapsed.

Similarly, there was no big price boom from 1849 on. In the United States, prices remained fairly flat from 1849 until 1861; the price boom lasted only during the few years of the Civil War, 1861 to 1866. Once again, there was no mystery and no long Kondratieff cycle at work. The war was short and devastating, and the U.S. government inflated madly in order to finance the massive burden of war expenditures. The monetary inflation drove up prices enormously, and then, after the war spending was over, money and prices collapsed.

Note that there are important lessons from both the first and second alleged "Kondratieff" boom periods. First, the "boom" covered only a few years and not two or three decades. The peak-and-trough focus on dating covers up the genuine economic reality. The booms were therefore short and intense, not in any sense "Kondratieff long booms." And second, the cause of the booms and of the subsequent contractions is all too clear. Namely, monetary inflation brought about by war finance. The so-called "Kondratieff" is merely a description of war and peace.

In short, Kondratieff long "depressions" were really booms in everything that counted except the fact that prices fell, and we have seen that falling prices are perfectly compatible with economic growth and prosperity. And Kondratieff long "booms" were really short booms fueled by devastating wars.

Torturing the Data

But what does Kondratieff say about his long depressions? Does *he* say that they are only money and price phenomena? No, for then he would scarcely dare to call them "depressions." Kondratieff asserts that the 1814–49 and 1866–96 periods were depressions in the physical sense by engaging in what statisticians aptly call "torturing the data." In his now-classic work, translated and published by Richardson & Snyder, Kondratieff presents us with several physical time series: coal production in England, mineral fuel consumption in France, and pig-iron and lead production in England. He managed to *approach* (but never really obtain) troughs, say, for 1896 as compared to the 1860s and 1870s, by the simple device of *taking out the trend*.

The rationale is that the tremendous upward trend of production throughout the nineteenth century was somehow a phenomenon totally isolated from the business cycle. In order, then, to get to the "true" cycle masked by this trend, Kondratieff manipulated the data to take out the trend. Moreover, he also divided the physical data by population, so as to further eliminate much of the upward trend by dragging it down by the massive growth in population – a growth largely induced by the industrial expansion and economic progress. Then, after extracting any possible iota of trend, he took a nine-year moving average of the remaining data, so as to eliminate any non-Kondratieff cycles that might be left.

As Kondratieff himself summed it up: the physical statistics of production and consumption, "taken as raw data, do not disclose the cycles with sufficient clarity." Therefore, "in order to bring out the presence or absence of long cycles, it was necessary to use more complex methods in processing the statistical series" (p. 33–34). In short, in the vital area of physical series, of production and living standards, the "Kondratieff cycle" does not and cannot exist; it is a pure statistical artifact, a product of the fallacious statistical manipulations that Kondratieff employed to get his desired result.

Oddly, Kondratieff admits that his manipulations are unsound, that it is in fact illegitimate to break down the market economy into hermetically sealed "trends" and various kinds of "cycles" and expect to arrive at a meaningful result. He concedes that "all elements of the capitalist economy are organically interrelated" (p. 33) and that therefore, *eventually* he would somehow have to put it all back together. But in the meanwhile, all he could do was to isolate and therefore falsify. The ideal of integration was of course promptly forgotten.

To summarize our analysis so far: for the nineteenth century – the "first two Kondratieffs" – there was never any depression as we know it: not in production, nor in employment or living standards. The "Kondratieff depression" is based on (a) statistical fallacies bordering on chicanery; and (b) the mistaken view that a price fall *must* mean depression. To the contrary, prices naturally tend to fall in a capitalist society. Furthermore, the "Kondratieff booms" were not long booms at all, but short inflationary spurts brought on by the creation of a great deal of money to finance major wars.

The Kondratieff in the Twentieth Century

Nikolai Kondratieff has been hailed by his current adepts as a prophet of the future as well as analyst of the past. Does his cycle fare then better in the twentieth century, before and after his own time? On the contrary, it does not seem possible, but his "cycle" is in even worse shape in our century. It is true that the alleged Kondratieff boom of 1896–1920 *for once* seems to fit the model, since prices were indeed rising throughout this entire period. But here again, we have to disaggregate and not pay myopic attention only to the years of peak and trough. The 1896–1914 era was the only peacetime period before 1945 when prices actually rose steadily. But the reason was not some mysterious "Kondratieff" force pushing them upward. The cause was much simpler: the burst of the last great gold discoveries in Alaska and South Africa, pushing up world prices in the first two decades of the twentieth century. But, even so, the rise was scarcely enormous, averaging 2.5 percent per year, a figure we would nowadays consider almost idyllic. The really massive inflation only took place during 1914–18, the years of World War I, where once again inflationary war finance drove up the world's money supply and prices. And once more, the boom stopped and was reversed upon the end of the war.

Next, there is the alleged third Kondratieff long depression. At first sight, this again seems to fit the model, since surely the 1930s were an authentic depression in every sense, including physical data. But what about the 1920–29 period, the biggest boom decade in American history? How in the world can *this* period be called a part of a long depression? If the 1920s were not a boom period, what were they?

This brings us to one of the Kondratieffites' many problems. Peak and trough dating is based on the wholesale price index, the longest continuous time series available. But the Civil War peak dating is

a problem. While prices retreated from their wartime high, there was definitely another economic boom until 1873, with prices peaking and the Panic of 1873 touching off a recession. Similarly, the post-War-of-1812 price peak was indeed 1814 or 1815, and yet there was, at least in the U.S., a surging economic boom until 1818, succeeded by a dramatic collapse in the Panic of 1819. Kondratieff, writing in the mid-1920s, found it easy simply to fudge over the peak dates, writing that his first peak came in "the period 1810–17," and the second in "the period 1870–75." Add a few more years for good luck on either end, and the anomalies of peak dating can be glossed over.

But Kondratieff had the good fortune to publish his work before the cataclysmic 1929 peak. What now? It simply became too much of an evident distortion to mumble something about a "1920–30" Kondratieff peak. Instead, the Russian's later disciples added another critical part of the current doctrine, a way of "saving the phenomenon." There is not one Kondratieff peak, you see, but *two*, and the period in between is the "plateau" before the "secondary" and really big depression. Well, we now have the "plateau" of the 1920s. It is a bit difficult to call this frenzied boom period a "plateau," but set that aside for purposes of discussion. We can then patch up the 1866–73 period as another plateau before alleged disaster. How about 1814–18? Three or four years is scarcely the majestic plateau of the 1920s, but again let that pass. If we are willing to fudge by shoving in some "plateaus," we can now try to absorb the damaging period of the 1920s into our doctrine. Why in the world should there be this "plateau," which sometimes looks instead like a raging boom, *after* the alleged main peak has passed? And in what sense has the peak then been *passed*? Once again, ours not to reason why. Who knows? Perhaps The Force, or whatever is supposed to fuel this mysterious underlying long cycle, needs a few years or even a decade to get a head of steam before it really does us in.

But the Kondratieffites' problems have only begun. Their *real* difficulties come after the alleged Kondratieff trough of 1940 – the last trough so far. The entire boom-bust "long" cycle is approximately 54 years in length. Allow a few years here and there. But still: It has already been 44 years since the Kondratieff trough. A 44-year boom! So where's the peak? The peak is getting long overdue. Most of the Kondratieffites confidently predicted that the peak would arrive in 1974, just 54 years after the previous peak. Previous peak-to-peak stretches had been 52 (from 1814 to 1866), and 54 (1866 to 1920). So where indeed is the peak? It is now 1984 and counting. We are ten years past the confident prediction and we still have inflation. The Kondratieffites have been forecasting imminent deflation since the magic 1974 year, but still . . . nothing!

The severe 1973–75 recession filled the hearts of the Kondratieffites with joy: the peak had arrived on schedule! But inflation still continued. The next big recession came swiftly, but *still* there seemed to be always recovery, and inflation continued throughout. What price Kondratieff now?

But, as in the case of Joachim of Fiore and other mystics, the Kondratieffite gurus have hardly given up – instead they have rushed to change the date. Or rather to announce: the peak already was! The 1973–75 recession was the peak. For now we are on the "plateau," the false boom, and soon, very soon, we will get the secondary depression, the Big Bang. Very soon now we will have our 1819, our 1873, our glorious 1929.

Well, here we are, ten years after the "primary peak," so surely the time for the Big Bang is Now. And yet, instead of that, the economy seems to be bubbling along, recovering nicely. Inflation is still continuing, despite all the propaganda about the problem being over.

Time is inevitably running out on the Kondratieffites. For there will be no Big Bang, no repeat of 1929. Pointing to problems in the economy, to stagnation, to stagflation, to falling commodity prices, to secular rises in the unemployment rate, while interesting and significant is not enough. It does not demonstrate the Kondratieff. After all, there are *always* economic problems. The point is that there is no permanent depression, and there is not, and will not be, any deflation. The idea that we are right now in the midst of a Kondratieff depression, but that the deflation is being *masked* by inflationary bank credit, cannot be the way out. For that is simply the mystic's fudge factor so that you can never prove him wrong, regardless of the evidence. No, the Kondratieff is dead, and now it is simply a

question of how long it will take the Kondratieffites to lie down, to admit defeat and slip away into the night. How many years will it take before everyone sees that there has not been and will not be a "fourth peak"? And without such a peak, there can be no cycle.

Cycles of War?

To the criticism that "Kondratieff peaks" are simply the results of war-borne inflation, the Kondratieffites have an answer: "Ahh, but this analysis is superficial, for the wars *themselves* are caused by the arrival of the Kondratieff peak!" Well, in a sense: the War of 1812–Napoleonic War, the Civil War, World War I, major wars all, came at (i.e., brought about) Kondratieff peaks. Can we then say which was cause and which was effect – the war or the cycle? Aside from the fact that we would again have to postulate some mysterious force that drives men mad and on to war during Kondratieff peak periods, there is one mighty counter-example that destroys this theory totally: World War II, which came, not at the end of a Kondratieff boom, but rather – in stark contrast – at the end of a Kondratieff depression.

This example indicates another gross error in the Kondratieff analysis. Where *real* cycles exist, in physics, astronomy or biology, the scientist concludes that there are cycles after hundreds, if not thousands, of mutually confirming observations. But in the alleged "Kondratieff," there are, at very most, only three-and-a-half cycles. What kind of analysis builds a cycle theory on only three-and-a-half observations?

Why Business Cycles?

If "the Kondratieff cycle" is a myth and a chimera, why are there business cycles at all? There is no space here to present a positive solution to the business-cycle phenomenon. But we have already seen (1) that since the market is interrelated and a seamless web, there can be no multiple "underlying" and interacting cycles; there is only one business cycle. And (2) the real business cycle is in no sense periodic, but is a continuing, wave-like motion that varies considerably in length and intensity.

We can only sum up the correct answer to the problem of the business cycle. We have already seen a hint of the solution: that inflation and the inflationary boom are caused by bank credit expansion generated by governments. In fact, government's central banking system provides the key causal element for all business cycles, a cause exogenous to the market economy. Continuing government intervention sets in motion business cycles by generating inflationary booms. Because these booms distort the signals of the market place in interest rates and in relative prices they bring about grave distortions of production and prices, which must be corrected by recessions and depressions.

In short, government intervention cripples the market economy, and recession or depression is the painful but necessary adjustment by which the market reasserts itself, and liquidates the distortions committed by the government's inflationary boom. After each depression, the government generates inflation once again, because it is the government's natural tendency to inflate. Why? Quite simply, whoever is granted a monopoly of printing money (e.g., the Fed, the Bank of England) will use that monopoly and print – to finance government deficits, or to subsidize favored economic groups. Power will tend to be used, and the power to create money out of thin air is no exception to the rule.

And so we see – and this is the great insight of the "Austrian" theory of the trade cycle – that micro and macro economics are in harmony after all. The free market *does* tend to adjust harmoniously without boom and bust, without incurring clusters of severe business losses. It is government intervention in the market that creates the business cycle, and unfortunately makes the corrective adjustment of recessions necessary. The cause of the boom-bust cycle is not some mystical periodic Force to which man must bend his will; the fault, dear Brutus, is not in our stars but in ourselves, that we are underlings.