



This cycle is indeed different

Every economic cycle reflects contemporary pressures. So, its amplitude and duration can vary from the average. Nevertheless, every cycle is built around a precise pattern that is defined by its role in the evolutionary process. The process itself is brought into being by a system shock and, once that shock has been absorbed, three uniquely-patterned oscillations will emerge. In the *Helmsman* model, these three oscillations are called Transition, Transformation, and Termination Cycles. All are of a similar duration, each starts strongly but ends on a downwave, and each is punctuated by a period of weakness. The correspondence of patterns across cycles is so strong that the progress of a current cycle can be tracked by comparing it with an equivalent predecessor at the same level of the cycle hierarchy. In this way, we can literally know where we are within the evolutionary process.

My research has identified an over-arching 35- to 36-year evolutionary cycle in US industrial output. Each new cycle is initiated by the major trauma that inevitably emerges in the closing stages of a maturing cycle. There is, however, a delay – in the form of a Threshold Cycle – before evolutionary forces become apparent. Collective psychology has to be convinced that change is inevitable. A Threshold Cycle can last between 2 and 5 years. However, this variability hides a relatively fixed ratio – of about 38.2:100 – between the duration of the Threshold Cycle and the period between the onset of the end-of-cycle crisis and the actual end of the cycle. Once the Threshold Cycle has finished, the subsequent three evolutionary cycles each last between 9 and 11 years.

The output model has to be synchronised with commodity prices. The price model is the 54-year Kondratyev price cycle (K-cycle), which is regularly analysed in these *Commentaries*. Here, it is only necessary to emphasise that the K-cycle is at a stage where the implications of the 2008-11 monetary boost are being absorbed by the system. One valid conclusion is that, since that monetary boost has been followed by a collapse in commodity prices, monetary policy has lost its traction. Instead, however, the 'learning', seems to be that more reflation is needed. Indeed, formerly cautious policy-makers seem to be abandoning the idea that inflation is inherently destructive. It should, therefore, be no surprise that the K-cycle model suggests that a major global inflation is not too far away.

Commodity prices have been falling because the energetically weak K-cycle learning/absorption phase has coincided with the downswing of a Threshold Cycle. And the charts overleaf show how prolonged these Threshold Cycle downswings can actually be. Firstly, the charts show the US Termination Cycles of 1932-42, 1970-80, and 2001-13. Secondly, therefore, they show the end-of-cycle traumas of 1937-38, 1973-74 and 2008-09 – and it is no accident that these traumas are 35 to 36 years apart. Thirdly, the charts reveal that each crisis is followed by a recovery and then by a three-wave (A-B-C) slowdown that terminates the whole 35- to 36-year socio-economic era. Fourthly, once this has happened, the economic system enters the Threshold Cycle of a new era.

A Threshold Cycle is unusual and, almost by definition, it will disappoint: it will be driven by adjustments to inventories rather than by changes to capital spending; it will turn down early; and it will keep contracting for longer than expected. In the charts, the inherent bias towards weak growth is obvious for the Threshold Cycles of June 1942 to February 1946, and February 1978 to July 1980. The downward bias is now also becoming apparent for the Threshold Cycle that began in July 2013.

An end-of-cycle crisis always generates a politically-charged argument about the exact 'cause' of the disruption. However, the argument usually ignores two facts: (a) the disruption is a response to unsustainable excesses; and (b) those excesses are usually the result of government stimuli. The weakness of the Threshold Cycle is therefore related to the unwinding of excesses and to the role of official policy in that unwinding. Quite specifically, problems emerge as liquidity tightens. Liquidity is very much a global phenomenon, entwined with global debt. In principle, therefore, global liquidity will tighten in response to any contraction – whether intended or not – in global debt.

Tony Plummer

This cycle is indeed different

