

"Those who cannot remember the past are condemned to repeat it."
– George Santayana

In past issues of *As We See It*, we have addressed the concept of long-wave economic theory. For the sake of review, long-wave economic cycles last 45–60 years and are superimposed over the shorter, more familiar business cycles. Each long-wave cycle exhibits four characteristic phases: an expansion, a peak, a decline, and a trough. (See enclosed Year End 1992 *As We See It*) Actual turning points in the cycle cannot be identified with precision. Moreover, not all observers can agree on the timing of the historical turning point between phases.

At present, most observers of these cycles place the United States' economy in the trough phase, and expect the next phase of expansion to occur around the turn of the century. However, one of the *keepers* of long-wave economic theory, J. Anthony Boeckh of *The Bank Credit Analyst*, feels the United States economy has already passed through the trough phase and has entered the expansion phase. Mr. Boeckh presented his views at the Association for Investment Management and Research's annual conference in May. To support his position, he pointed to a marked increase in the growth of world trade, a technology-led surge in capital spending, and the unwinding of the debt supercycle, with all three forces culminating to form the beginning of the next long-wave expansion.

Important to the prospect of a long-wave expansion in the United States and World economies is the potential for increasing world trade. According to Mr. Boeckh, the prospect for increasing world trade is enhanced by ". . . the triumph of free-market capitalism over socialism, Marxism, communism . . . and the spread of market-based capitalism to the three-quarters of the world that were effectively left out of the global trading system since the end of World War II." As these countries strive to raise their standards of living, world trade will improve. In turn, this will further raise the living standards of all.

While there is much disagreement among economists as to why there are long waves, most agree capital spending plays a pivotal role. Past expansionary phases were, for example, accompanied by capital spending on railroad equipment in the late 19th and early 20th centuries and industrial equipment in the post World War II period. Currently the upturn in capital spending centers around information technology. As with past capital spending cycles, the enormous investment in information technology, as society demands more and more knowledge, has profound implications for both the economy and society in general.

The Bank Credit Analyst does note, "The notion that the United States is in a long-wave expansion flies in the face of widely held bearishness about the nation's excessive consumer debt, inadequate domestic savings, an overdependence on foreign capital, and a failure to control the government deficit." There is normally a wholesale deflationary liquidation of private-sector debt during the declining phase of the long wave. This *cleansing process* enables consumers and business to take on new debt during the ensuing upswing. During the most recent downcycle, there was some liquidation of debt, but various government safety nets such as deposit insurance, unemployment benefits, and agricultural subsidies helped to prevent a full scale debt deflation. Mr. Boeckh concedes there is currently still more debt in the system than normally found in the early years of the long-wave expansion. However, he believes we have passed the point of maximum danger of a deflationary slump and an expansion should prevail.

The case for a new upswing in the long wave spurred by growing world trade and a new capital spending cycle is strong and has some interesting and hopeful implications for the financial markets. As usual, the future is not clear. There exists the danger of an external accident – perhaps an economic debacle in Japan as debt there is liquidated – causing a deflationary debt meltdown in the United States. We tend to lean in favor of Mr. Boeckh's view but, as always, prudence dictates caution and a *sense of balance* while events unfold.

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