THE LONG WAVE IN ECONOMIC LIFE

BY

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‘There are few fields more deserving of study by economists than conjuncture-statistics, or studies of economic fluctuations, over the past century.’

Colin Clark [15, p. 88]

1 INTRODUCTION

Economic growth is stagnating and there is very little indication that the growth rates of the 1950s and 1960s will soon be resumed. The spirit is gone; the economy now looks quite different from what the postwar textbooks told us. At times like this historical awareness increases. One looks at the past in order to be able to look into the future. This look at the past has recently led to an increased interest in the theory of the long wave, also known as the Kondratieff cycle.

What is meant by this long wave? This is what a well-known text on business cycles [37, p. 56] says: ‘Many writers (...) have pointed out that the past economic experience of the Western world discloses prolonged periods of relatively buoyant times, extending far beyond the boundaries of the major business cycle, and similarly prolonged periods of more or less chronic hard times, within which, however, the swings of the business cycle occur.’ Two comments on this quotation:

(1) It does not speak out on the endogenous or exogenous character of these long fluctuations. The accepted terminology is to speak of a 'long wave,' and not, analogously with the better-known short-term fluctuations, of a 'long cycle.' 1 The distinction between 'wave' and 'cycle' is important. The term 'cycle' suggests (a)

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1 The accepted terminology is the following: the inventory-investment cycle is called 'minor cycle' or 'Kitchin;' the cycle associated with investment in plant and equipment is called 'major cycle' or 'Juglar,' or more generally, 'business cycle,' while for the cycle of 15- to 25-years' duration the terms 'Kuznets cycle,' 'building cycle' or 'long swing' have been reserved.
a model, in which fluctuations are generated as an endogenous process; (b) a fixed periodicity and amplitude. Admittedly the second requirement cannot be imposed on all short-term cyclical models either. Floors and ceilings can change the length and amplitude of an endogenous cyclical process [38], [22]. The first requirement, however, is essential, and all discussions on the long wave hinge upon the endogenous nature of the cyclical process.

(2) The downswing phase of the long wave does not necessarily involve absolute decreases in production. Even in downswing periods the trend may continue to rise. In that respect it would be more appropriate to distinguish accelerations and retardations in economic growth, rather than upswing and downswing phases.

The increased interest in the long-wave hypothesis is not surprising. Economic science has always reacted to the actual problems of its age. Thus in the years of the Great Depression economists referred frequently to the long wave [85], [35], [71], [56], [21], [72], [14]. Many of the important works on business cycles were written in the 1930s [34], [69], [76]. After World War II the interest in business cycles gradually decreased. It even came to the point that in 1967 a conference was held on the possible obsolescence of the 7- to 11-year business cycle and the different other short-term fluctuations, which characterized life in capitalist economies. One wondered: 'Is the business cycle obsolete?' [5]. That question was answered in the affirmative by most contributors to the conference. Fluctuations existed, but these expressed themselves as growth cycles, with the growth rate hardly ever becoming negative. Now, in 1977, we have a different perspective: 'The business cycle is alive and well' [11, pp. 109–112].

The intensity of the interest in the long-wave hypothesis is itself subject to long fluctuations. The first references to the beginning of a downswing phase of the long wave were heard during the recession of 1971–72 [26], [6], [4], but the voices grew louder and louder when in 1974–75 the Western economies struggled through their worst recession of the postwar period, a recession for which also the term 'depression' was used because of the absolute declines in national income in those countries. Now more and more economists are pointing at a possible turning-point in the long wave [13], [61]. Yet the theory of the long wave can hardly be said to be an accepted part of economic doctrine. The introductory textbooks often give it no more than a single footnote [68], [31], [57], [64]. And while the Kondratieff appears in more and more discussions on the prospects of economic growth, the number of critics at least equals the

2 Two of the better known Dutch texts [3], [47] are striking exceptions to this 'rule.' The amount of space devoted to the Kondratieff cycle in these books could possibly be seen as a indirect tribute to the work of two Dutch long-wave pioneers, Van Gelderen and De Wolff.