

# Chapter 16

## Postwar Rhythms

In analyzing and projecting the trends, both for the nation as a whole and for certain basic industries this study has sought to make clear that a declining rate of growth elevates the "cycle" to greater importance for business and industry than ever before in our history. Limited as our knowledge of such rhythms still is, there are basic data to help us face the problem of the postwar era with more than mere guesswork. We have a tool whereby, for any given series of figures, we can get a fund of additional knowledge for guidance in facing the problems of any specific organization.

Our pattern did not serve to show us when World War II would finally end. As previously noted, we do not even know how to define "war." The ending of actual hostilities in 1945 may conceivably prove not even to have been the real end of the war - much as the 1918-1939 period was one in which war merely shifted from the military to the diplomatic level.

But here, in summary are some findings of which we may be relatively sure:

1. The 54-year rhythm in wholesale prices is on the decline. It turned in 1925; the pattern is due to reach bottom in 1952.
2. The shorter 9-year pattern in wholesale prices - a rhythm that applies also to iron, steel, and stockmarket prices - which had its last high in 1937, reached for another high in 1946. The pattern was due then to turn down until 1951.

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3. Just as the pattern of the 9-year rhythm was due to reach a peak in 1946, or shortly after (it depends on the business in question), so the 3 1/2-year pattern - almost universal in business - was forecasting a peak in 1947. Other peaks in the 3 1/2-year rhythm are due in 1950 and 1954. Lows are due in '48 and '51.

4. The 18 1/3-year pattern in building activity apparently reached its high about late 1942, the exact date depending on methods of reporting and compiling statistics. In general, building and real estate patterns are due to decline to a low around 1953.

5. The 15-year pattern in the index of the purchasing power of beef cattle prices, an exceedingly interesting index for the farmer, was scheduled for a high around 1944 thereafter declining to a low due in 1951. OPA regulations and wartime black markets veiled the meaning of free market statistics. But declines after 1946 would not be surprising.

It cannot be repeated too often that these findings are not offered as unqualified forecasts. The data do not go back far enough to permit unqualified assurance that the observed rhythms are beyond the result of chance. Further, if all the rhythms are real and continue they might still be so buffeted about by other rhythms and sporadic forces that the actual high and lows would be delayed or accelerated.

Still, with all these qualifications, it is worth noting that the expectancies facing us do not suggest any lengthy postwar boom. On the contrary, the number of important rhythms that come to a low together around 1952 suggest the possibility of a growing postwar crisis. The reader now familiar with this method of analysis will not expect the crisis really to be avoided or halted by any preventive measures which the government might decide to take. In the present limited state of human knowledge as to the ultimate nature of these rhythms and their correlations, we shall suspect that any action adopted by government would be ameliorative in character without being curative. Probably the most we can hope for would be some kind of palliative actions if the blows fall.

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The individual, on the other hand, can doubtless help himself to some degree in advance - keeping in mind the good example of Joseph in preparing for the lean years when fat was still upon the land. To give specific advice is not the purpose of these pages, but a few generalities may be mentioned parenthetically in passing, to indicate recipes that cannot be relied on.

Obviously no individual, in times like our, can rely wholly on money saved to carry him through any future periods of social or economic crisis. In other times, if faced by evidence that deflation lay ahead, he could unerringly have put his holdings into money and obligations repayable in money. But since 1929, governments all over the world have learned how to demonetize money. Our own government in 1933, for instance, called in all old dollars - just as some European countries have recently done; it can readily call in the current issue when it pleases, and/or make it unspendable. It has learned through experience how to restrict the withdrawals from savings and other accounts. It can delay payments on bonds due. It can, and now does, control the export and import of dollars.

In other words, various monetary controls devised by Dr. Schacht for the mark have already been quietly applied in various ways to the dollar and no American man planning for the future can safely assume that he will ever again be able to do with dollars exactly what he will. In actual practice (if not in theory!) sovereign states today hold the view that currency and credits are the origination of the state, and thus are the state's property, to be held and used by individuals only so long as that use serves the state's purposes - or, at any rate, does not come in conflict with them.

Nor, for that matter, do present tendencies and trends in the economy suggest future opportunities for freedom that once prevailed in the uninhibited enjoyment of any kind of real property Metropolitan properties, for instance, will doubtless continue to be milked by high real estate taxes for the support of unemployed city masses. Grim realty taxes, combined with rent controls, could ultimately prove almost confiscatory.

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Thus, income-producing real estate is no longer a perfect hedge for inflation, and in a time of deflation may have questionable merits indeed.

Nor are bonds a perfect refuge for savings any longer. The ultimate value of government bonds is something for conjecture. Of some corporate bonds it is possible to say that in a period of national deflation they have been demonstrated to be as questionable an asset as stocks. And stocks now mean to the investor only the right to participate in what is left after management takes its salaries and expenses and government seizes what it will.

Some of the tax Laws that weighed down the American economic outlook during the war years have been changed - but it is probably too much to hope that they will undergo, in any foreseeable future, the wholly drastic change that will restore past relationships.

Thus the man seeking to protect his own future against the turns of the economic wheel must nowadays face difficulties of a rather unexampled kind. He will doubtless wish at least to reduce his dollar indebtedness to the minimum, on the theory that freedom from debt, at least means freedom of action in time of emergency, In an era when freedom of choice has been steadily whittled down to the vanishing point for almost every individual in terms of ultimately significant values, freedom from debt is one that can still be chosen. In the era ahead of us it may be valuable to anyone who esteems his freedom dearly.

The foresighted individual will doubtless know that long-term leases, contracted for when properties are at their peak price, are much the same as long-term debt; mortgages inevitably are debt. regardless of terms of payment; and even life insurance policies - unless fully paid up - are a form of debt which, until paid up, can often cost the insured much of his equity in the policy if he fails to continue premium payments and must let the insurance lapse. But these are all details that interested individuals will find more adequately discussed in numerous other quarters. Here it is sufficient to note that hedges to protect principal in periods like the present will continue hard to find while the returns on capital in general bid fair to continue at around low levels.

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In an economy where the rate of growth is rapidly approaching zero and major underlying rhythms in the expression of energy are also on the decline what would one expect to meet as a major symptom of such lowered vitality? In a profit economy, it could well be a declining rate of profit. And that is exactly what we have met, over a long period of years, in the United States of America. See [Figure 16.1](#).

Figure 16.1. Profits in the Steel Industry, 1901-1945

(From data furnished by the American Iron & Steel Institute.) For purposes of comparability the chart shows averages for two 18-year cycles, each containing a war. The situation in steel is representative for many industries.

The foregoing is not meant to suggest that our rhythms indicate collapse of our economy. We may only infer, if they continue, that around 1947 a fall-off will start, and our economy will experience rather protracted declines in prices, production, employment, and economic activity generally, reaching a bottom that would presumably be dated sometime in the early fifties.

As has been noted, factors like war - though not (in the past) ultimately changing either trends or rhythm patterns - can for a time emphasize, magnify, or distort a rhythm.

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There are doubtless, yet unknown, other factors besides those appearing clearly in war time which may effect the same end. It may be that such a factor will show up in conjunction with the postwar rhythms, to modify their operation. But the data here do not suggest the likelihood of the possibility.

It may also be stressed again that our knowledge of rhythms is still in its infancy. Concerning their reality, some high authorities have testified to conviction; as to the exactness of the timing of the rhythms, some of the greatest authorities still disagree. Nor, of course, can any research assert that a rhythm - however real in the past - will undoubtedly continue. Again, it must be noted that individual industries and companies and commodities have their own patterns, which must be determined one by one. With all these qualifications, the merit of knowing what probabilities the rhythms indicate is obvious.

In studying these rhythms for purposes of postwar guidance, it seems important to note again that for the first time immediately following a major war in over a century, the projected rhythm of building activities will be on the downgrade. As we have already seen, building is closely related to the activity of many basic industries. If building activity does find itself inhibited in the coming years, we could be justified in expecting heightened seriousness in any decline that appeared in other economic activity.

One could have "proved" in advance of the war's ending, with almost irrefutable logic, that after World War II enormous pent-up demand for housing would launch an almost unprecedented building boom, not to say a period of extensive land speculation. But the building cycle is one of the most obvious, evident, and clearly marked. As we have seen, it evidences a simple, not complex rhythm. Its regularity is apparent to the most untrained eye, on almost any charted pattern. If the pattern fails to repeat itself in relative decline following World War II, the failure would be the first to appear since national statistical records have been compiled.

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Hence we seem to be warranted in taking the postwar implications of a declining rhythm in building activity with some seriousness.

Not the indication of decline in price levels, but the indication of restricted building activity for some years along with a decline in price levels of commodities and securities, is a signpost unprecedented for any other immediate postwar era in the past century. Declining price levels would mean, of course, that the dollar would rise in purchasing power. It would indicate, in effect, that the dollar has recently been undervalued in a world where it has survived, under war's various destructive forces, as the strongest, most desirable currency on the globe. From this point of view, price declines could well be viewed as growing recognition of the essential inner strength of the United States of America.

In seeking to time the beginning of the corrective economic downturn following World War II, we may remember, from our various data, that the 1929 stock market panic waited for a turn-down in the 9-year cycle in wholesale and stock prices, and followed the turn in the building activity cycle by some 3 years. A 2- to 4-year lag between the turn in the building rhythm and a panicky fall in stock prices has not been uncommon as previously noted. Such data from the past suggested to informed observers that the real post-war break in the bull market of the forties could come any time after the middle of 1946 - after the turn-down of the 9-year pattern in June of that year. The break arrived on schedule. After the turn-down in the decisive 3 1/2-year, or 41-month, pattern scheduled for early 1947, the decline could be expected to increase in intensity.

If 1950-1953 looks like a subsequent deep valley on the charts, this much should be noted: It is also the beginning of a long trend upward. Further, it is not the peaks and valleys of the rhythmic patterns, as a rule, that people note so memorably in their expedience. The periods prevailing between are often the ones that most affect lives.

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Thus, the downturn in the 54-year price rhythm was hardly even noted for its significance by most commentators in 1925. Real estate boomed in areas like New York long after the passing of the national activity peak in 1926, and the collapse of the Florida speculation of the period. Not even the stock market panic of 1929 was of paramount significance to more than perhaps a few thousand people who were unhappily too extended in their commitments to meet it. The millions proceeded pleasantly on their way, and many, reached 1931 and 1932 before they concluded that things were not normal.

Thus an observer may hazard the guess that the turns in various projected rhythmic patterns, due in 1946 and 1947 if the patterns continue, may at the time hardly be noticed by most of the people.

We could know, as of 1946, that any coming declines would start from such high levels of national income and production that in their early stages of fall most economic indices would still be above all prewar norms. In April of 1946, for instance, production was proceeding at the rate of 150 billion dollars annually - the highest rate of peacetime production in American history. At the same time, the Federal Reserve Board's production index crossed 170, compared to 109 in 1929. The national income, after an insignificant "reconversion" slump, was still almost at its wartime peak. And the Treasury could announce that sales of savings bonds to the people in the first quarter of 1946 amounted to over 2 billion dollars, or three-quarters as much as in the comparable quarter of 1945 when the war was on. We may expect that, by all prevailing definitions, 1947 will be a good business year. Probably many will feel themselves equally as prosperous in 1948 and later.

If, following depression lows, a definite turn upward finally comes around 1952, it should be an important one in many ways, notable particularly because a rise in the rhythm of real estate and building activity will coincide with a rise in the long 54-year price cycle. We do not need to agree entirely with Professor Schumpeter's theories regarding the 54-year cycle to regard his research as of paramount importance, and his ideas as highly significant.

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It will be remembered that he retraced historical data in the periods covered by three such cycles - following a technique used for rather different purposes by Spengler. Somewhat like Spengler, who identified each one of his cycles with the progress of a particular culture, Professor Schumpeter believes that each 54-year cycle may be identified by its association with some particular economic influence.

Similarly, we need not wholly accept Professor Schumpeter's belief that a new industrial "cause" lies behind each 54-year cycle to agree wholly with his observation that - during the last three cycles, at least - the course of each one has proceeded simultaneously with some particular economic force of a new kind.

It will be recalled that Schumpeter calls the cycle beginning in the late 1700's that of the industrial revolution. The one that followed saw the development of the steam engine and the railroad. to a point where this cycle changed the habits of men everywhere. The latest one which began around 1898, Schumpeter has associated with electricity and the automobile. This is a striking observation, and one confirmed in the experience of millions who have lived through the period when electricity and personal mobility changed almost all the living patterns in our nation.

It is at least interesting, and not wholly without possible usefulness, to wonder whether the new 54-year cycle (which, if this hitherto fundamental pattern continues, will begin about 1952) is again to be associated with some great change in our living patterns, stemming from industrial or social developments now hardly visualized.

No such indulgence in pure conjecture is required to note that, for a period of years after 1952, the upward sweep of various major periodicities suggests a time of important constructive accomplishments and prosperity in the general economic life of the nation, regardless of the leveling out of basic growth. Because this is as far ahead as it can serve most readers' purpose to look at the present time, the discussion of the longer term may be dropped at this point.

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The reader wishing to continue the exploration into later years may readily formulate some conclusions of his own by studying and projecting the rhythms grouped for convenience on pages 188-189 and by determining and projecting the rhythms that may be present in the series in which he is particularly interested.

Meanwhile, it is apparent that our nation will have various bridges to cross that do not look wholly easy of negotiation. Some commentators, like the sober Sumner Welles, have indeed hinted at "revolution." Mr. Welles declared, during the war years:

*"Every great convulsion recorded in history of which the mightiest will be this global war has been followed political and social repercussions which have wholly modified the course of human events. It is inevitable that after the present war the structure of our modern civilization will be profoundly transformed."\**

The data we have for rhythms, with so many declining in concert after 1947, do undeniably suggest a difficult period of adjustment for the short-term future. There is no reason, as we have seen, to assume that the rhythms will act differently just because political government, instead of the business man, now dominates the American economy. There is equally no reason to assume that government planning by government administrators will prevent rhythmic depressions any more than planning by bankers and businessmen can.<sup>o</sup>

Our knowledge, however limited, is at least adequate to suggest that American business should not indulge in optimism on this score, and should prepare for distinctly leaner economic pickings in the postwar decade. Even

\* New York Herald Tribune, July 12, 1944.

<sup>o</sup> It is notable, for instance, that even in a managed economy like Russia there was famine in the twenties, when capitalist nations experienced their own first postwar depression, and famine again in the early thirties, when the second postwar depression arrived. While price statistics for Russia do not lend themselves to tracing rhythms, events of this kind suggest some kind of correlated rhythm that even a statist economy meets in one form if not another.

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businesses that see every "reason" to expect a boom should be sure of sound grounds for their optimism. Countless numbers of American business do have rhythms of their own which seem more or less independent of the dominant economic rhythm of the nation. There are many businesses on record, for instance, that made their highs in 1930, and some even in 1931.

Similarly, the presidents of large and successful corporations have been heard to say privately that depressions were periods in which their companies had the greatest relative gains. The depression problem for business management is often only a problem of being prepared.

No general work of this nature can hope to do more than issue a few words of general warning to those who are operating their private and public lives on the supposition that the tide of general postwar "prosperity" will be so great in a world starved for our products that even weak ships will triumphantly ride the waves.

The judgments here, and throughout the text, rest on three assumptions that are basic in this treatise, and are worth emphasizing again:

- 1. That a rhythm can be considered to be significant only if it has repeated itself so many times and so regularly that it cannot reasonably be the result of chance - and**
- 2. That the rhythms which have evidenced themselves clearly in the past, in our economy, continue to operate repetitively - and**
- 3. That the trends which have been traced in our great basic industries continue on their established courses.**

The evidence brought to bear on the problem strongly suggests the probability that at least some of the rhythms are significant, and will continue their patterns as projected. The evidence regarding the trend lines, on the other hand, cannot rule out the possibility that new logistic curves are even now superimposing themselves on American trends that have been long familiar.

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The probabilities, of course, are of a different nature. They suggest that every businessman and every responsible head of a family should be looking ahead economically with great caution as the late forties approach. They suggest the rise of problems in government, as well as in business management, which will require the height of wisdom to solve.

The same rhythms that suggest caution in planning for the late forties also foreshadow various new opportunities opening up in the fifties, of a kind such as our nation's youth may hopefully anticipate.

However difficult the interim, it will not be the economic end of our world, as those caught in economic panic are sometimes inclined to think. It will merely be some winter weather. We cannot choose the course of the weather, but we can at least be thoughtful in preparation when we note that the barometer is beginning to fall. If the rhythms are ultimately confirmed by events, in their indications that the immediate postwar era will bring our economy into some economic hard sledding, we can take renewed hope in the very rhythm of the winter's coming. It will help confirm the knowledge we have gained that our economic rhythms do have patterns that can be projected - patterns that assure us that we shall also see, not too long hence, a new economic spring.

# CYCLES

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