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The cycles of Kondratiev and the petroleum

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I found interesting to cross the peak of production of the petroleum and the theory of the cycles of Kondratiev. The Cycles of Kondratiev allow to give a theoretical frame, on the long term, to the evolution of the economy and the oil price.

Presentation Kondratiev

A. Presentation.

Nikolai Dmitrijewitsch Kondratiev (1892-1938) is a Soviet economist. He puts in evidence the cycles of 50 years in the economic activities of four major powers of his time: United States of America, United Kingdom, Germany and France. Director of the institute of economic situations, his theories on the cycles condemn him for the Gulag where he dies shot in 1938.

B. The theory of the cycles.

Kondratiev put in evidence of the cycles of a length 30 to 50 years. That we can summarize in four phases:
→**The spring** (investment, growth, creation of wealth)
→**The summer** (limit of the growth *"exponential"*)
→**The autumn** (slowing down of the prosperity)
→**The winter** (depression, decline)
Every new cycle has for engine, for it growth's period, a technological innovation.

The cycles of Kondratiev

A. The cycles.

The first three cycles are defined well :
Cycle 1 - 1800-1848 (the steam engine) crisis of 1848.
Cycle 2 - 1848-1896 (the railway) including the period of the big depression: 1873 in 1896.
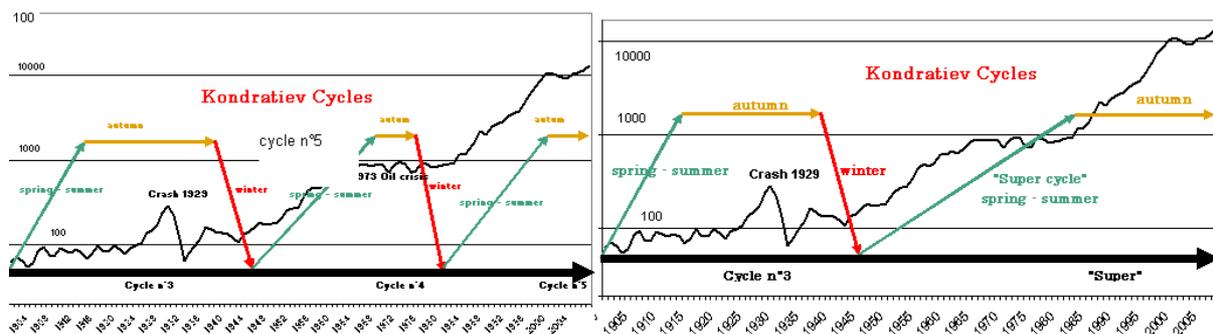Cycle 3 - 1896-1940 (internal combustion engine, electricity), crisis of 1929.
Cycle 4 - 1940-???? (Oil Industry, electronics, petroleum source of energy)
When ends the fourth cycle of Kondratiev? Yesterday, today or tomorrow?

B. When end of the fourth cycle?

There are three points of view on this subject:
1. The cycles of Kondratiev don't exist any more! They were valid for the Nineteenth century and the beginning of the Twentieth century but they are not any more today.
2. The cycle Number 4 is ended and the crisis *(the winter)* took place in the 1970s with the oil crisis. We are in a new cycle (n°5) which should end in a new winter from 2010-2020.
3. The cycle Number 4 is not ended. It is much longer than the previous cycles. A period of big growth based on the use of the petroleum cheap and the interventions of the central banks in the economic world moved *the winter* of Kondratiev but did not remove it.

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There are thus three options:
1. Absence of cycles, absence of crises, the end of the petroleum takes place without crises. (This is not a joke, you can read it daily in your newspapers).
2. Cycle n°5, approaches *the winter* of Kondratiev with the peak of production of the petroleum.
3. Cycle n°4, the scenario is that of a longer cycle and thus a more violent *winter* coming along with the arrival of the peak of production.

I have a preference for the *"high-octane gasoline"* cycle Number 4, not still ended, that is the scenario of a longer cycle (stronger growth, more effective economic intervention and especially plentiful petroleum) which should engender a *winter* of more violent Kondratiev. But the case of a cycle n°5 is also likely. Bearer of the same plan, [the fall of the production of the petroleum](#) entails a crisis and the following cycle builds itself a new engine of growth …

Soon the *winter* of Kondratiev because of the petroleum.

A. The causes of the *winter* of Kondratiev.

To schematize, we envisage two causes in the crises of the *winter* of Kondratiev: overproduction or underproduction. For my part, I think that it is under production of petroleum and the other sources of energy ([Uranium](#), [natural gas](#)) and raw materials (water, platinum, [gold](#), copper, zinc, [silver](#), lead, tin, nickel) because of decline of the reserves that goes limited the growth of the offer. We can always make new televisions for new customers (the marketing would manage to sell fifth one televisions has penguins), but the energy and the resources will miss. Damage for the marketing!
The nearness of the oil peak of production and the end of *"great cycle"* of Kondratiev which had as driving the oil does not seem to me due at random, it seems to announce the end of the cycle n°4 or 5 of Kondratiev.

B. The consequences.

The growth of the money supply serving for delaying the arrival of the *winter* of Kondratiev, Oil is becoming scarce and the natural resources are going to favor the return of the inflation. This last one will impersonate the inflation of the 1980s, that of Zimbabwe or the Republic of Weimar for a management of head of family.
The cycles of Kondratiev help to build a theoretical frame on the economic situation, that they exist or not, they allow an axis of reflection, but do not give the date and the hour of the next crisis.

The idea, cycles of Kondratiev, a crisis every 50 years seems to me to retain. Nevertheless, since the crisis of 1929 and the Second World War, it happened 60 years without that we had big crises of the type of 1929. Some people will say « *today we have the control of the economy, more possible crisis!!!!* ». Well, why not, but the concept of a perpetual increase thanks to a wise person controls some economy is not enough as theoretical explanation, and it especially when the gas tank which feeds the engine of this increase for several decades empties …
The True question for you and me, if the most pessimistic scenario takes place, is to know how to cross the *winter* and which will be the mainspring of the next cycle of Kondratiev …

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"People accept the change only in the necessity and they see the necessity only in the crisis."
Jean Monnet

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