

# LIVING SYSTEM LIFE AND WORK THE NEW PATTERN FOR *SUCCESS*

A Series of Presentation/Discussions  
To Explore Critical Issues  
For Your Life and Your Business

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## **Part 1 – 4** **4 Mega-Forces – The Kondratieff Wave Cycle**

### **Begin Part 1 – 4**

Now, let's use what we have just learned about Living Systems to continue our discussion of the Mega-Forces.

### **Slide 2 – Mega-Force 2 – The Kondratieff Wave Cycle**

### **Mega-Force 2 – The Kondratieff Wave Cycle**

*Mega-Force 2* is the Kondratieff Wave Cycle, often called the K-Wave. It is critically important for decisions and actions to be taken over the next two decades, especially for business leaders. Even so, the K-Wave is not well known. Few have even heard of it and still fewer know of its powerful uses. In this section my objective is to introduce you to it as a Mega-Force. In Part 3 of our program I will give you a detailed discussion of its nature and applications.

The K-Wave is a Living System wave cycle that is the template for long-term “Tidal Waves” in world affairs. It is the Morphic Field underlying the cycles of human optimism and pessimism in all human affairs, especially in the areas of economics, finance, business and markets. It results in an observable Operating plane wave cycle of human events in these areas. That is why it is a Mega-Force – And we will soon learn that we are now living and working during the most critical portion of the current K-Wave cycle.

The K-Wave’s observable results appear as a sequence of events in human affairs arranged along a non-linear wave of about 50 to 60 years in duration. Recall that non-linear waves do not have the same quantitative period and amplitude for each cycle. They are qualitatively the same from cycle-to-cycle, but can be quantitatively different. This means that the same qualitative sequence of events appears in K-Wave after K-Wave through history.

I emphasize that these observable results are guided by an underlying template, or Morphic Field, for human affairs. It is only one of the underlying waves in the world’s system structure. But it appears to be the primary wave guiding the ebb and flow of human optimism and pessimism in the areas I have named.

The Kondratieff Wave Cycle is named for the Russian agricultural economist, Nicolai Kondratieff, who headed an important government institute in Moscow in the 1920’s. He quantified the Operating plane effects of such long wave cycles using interest rate, commodity price and labor cost data from Europe, and to some extent from the U.S. His work meant that Communist theory was basically wrong. He found that a capitalist society, or any society for that matter, does not disintegrate at the end of a depression as Communist theory predicts. It eventually regenerates and begins its next K-Wave cycle. To properly recognize his pioneering work, the Soviet government condemned him to a Siberian prison camp where he died.

Kondratieff and other long wave scholars, like Joseph Schumpeter and Joshua Goldstein, focused on only the observable Operating plane results. When they did their work, scholars were not aware of Living System theory and it’s New Mindset that could have

enabled them to see that the K-Wave results they studied were really being guided by an underlying wave – a Morphic Field.

I believe that what I am saying is critically important for creating and implementing proper business, financing and operating strategy in our transforming world. This is probably the first time you are hearing these things so I understand it may seem confusing. That is what always happens when we are beginning to see a new pattern. It cannot be understood with the conventional mindset – It requires a new mindset in a new stage.

Let's be clear about what I am doing in this section. I am introducing you to a new treatment of the K-Wave phenomenon that is consistent with the theme of our program – Living System Life and Work. My presentation on the K-Wave is different from any other I am aware of. It is based on the Principles of Living System science.

The conventional treatments of the K-Wave, from their discovery in the early 1900's until now, are based on the linear systems mindset. This mindset considers the K-Wave to be *only* an observable Operating plane phenomenon because linear waves do not have underlying Morphic Field waves, as you know from my previous discussion on the nature of Living Systems. A linear system mindset believes that Only measurable Operating plane data are real. We know that Living System waves are always “Double Wave” bipolar things. So, the K-Wave as a Living System phenomenon must have, as all Living Systems have, both:

- 1) An underlying Morphic Field wave that is the guiding template for the K-Wave results that appear in the Operating plane; and
- 2) An observable wave of human events on the Operating plane wave, that *only in part*, are the results of the underlying K-Wave Morphic Field.

What I mean by the words “*only in part*” is critical for comprehending what has happened in the world pattern of economics, finance, business and investments since about 1987, and most especially since 2000. In am saying that especially since 2000, the

actions of official forces, like governments and central banks, have been purposely misinforming and acting to distort the Operating plane results of the K-Wave so the underlying Morphic Field pattern of the K-Wave is obscured.

What we observe is the combined results of the “pure” underlying wave pattern overlaid by the pattern of distorting actions by official forces. They are trying to nullify the normal deflation during the last years of the current K-Wave cycle to make human affairs appear to be what they are not. This has led some observers to say that the K-Wave is not true. I believe they are unaware of, or refuse to see, the official distortions. This masking of the underlying K-Wave pattern makes it more difficult for a business strategist to understand what is really happening and how to properly protect himself and his business during the last decade of a K-Wave. There was also significant government manipulation during the last years of the previous K-Wave cycle – But not to the vast degree we experience today.

We do not yet have the mutual background at this moment for me to explain the details of what this means to you, your family and your business. It is profound. I am developing background in this section so I can answer your questions using my more detailed treatment of the K-Wave in Part 3. It is important for you at this point to at least know of powerful government financial, market and business manipulations, especially since 2002.

We should be aware that the K-Wave is only one of the wave cycles underlying world events – it is one of a family of interrelated wave cycles. There are both longer and shorter wave cycles that we should know of, but we need not go into detail about them here. For example, there is an observable wave cycle of period from 150 to 180 years (~ 3 K-Waves) called the Hegemony Wave; another wave of about 3 to 4 years (~ 1/18 K-Wave) called the Kitchin Cycle and another of about 15-20 years (~ ¼ K-Wave) called the Kuznets Cycle. There are other observable business and investment market cycles of about 15 years in recent decades – They appear to correlate with the Kuznets cycle. We can also observe a longer term investment market wave of about 30 years that correlates with one-half of the K-Wave cycle. But, the K-Wave appears to be the primary Morphic

Field guiding the cycles of human optimism and pessimism for economics, finance, business and markets.

To continue, I focus on a rather conventional view of the K-Wave so you get a basic understanding of its characteristics. That means I will not make major distinctions between the underlying K-Wave guiding field and the Operating plane observable results that are so important to being a Living System financial and business strategist today during our world transformation. We will do that later when we have enough background.

### **Slide 3** – Pattern for two most recent K-Waves

Let's examine the basic wave structure and the sequence of Operating plane events for the two most recent K-Waves – The one we are now ending within the next decade and the previous one. This slide diagrams the overall shape of the K-Wave business pattern of expansion and peaking during the Up-Wave and contracting and bottoming during the Down-Wave. The current K-Wave may be as long as 65 years from beginning in 1949-1950 to probable end about 2012-2014. The previous one was 54 years from bottom to bottom. From peak to peak these two cycles were 60 years – 1920 to 1980.

Although we are looking at just two wave cycles there are many more that are known. Kondratieff studied 2.5 cycles starting with the K-Wave that began about 1790 A.D. to the top of the previous K-Wave on this diagram in 1920. From the work of Goldstein I have quantitative data showing that K-Waves have occurred continuously since the late 1400's A.D. when government economic data became available. There is qualitative data that K-Waves existed thousands of years earlier. Peoples of the ancient Middle East had a 50 year cycle in human affairs as did ancient peoples in the Americas, like the Mayans. So you can be assured that the K-Wave is not just a phenomenon of modern capitalistic society as some analysts *Wrongly* assume.

Let's consider structural details. The up and down waves tend to be about the same length in time, but need not be. For example, for the previous K-Wave the Up-Wave was 25

years (1895-1920) and the Down-Wave was 29 years (1920-1949). For our current K-Wave the periods were 31 years up (1949-1980) and probably will be at least 32 years down (1980~20012).

I find it important to divide the K-Wave cycle into four quarters that I call Quadrants. There are two for the Up-Wave – Quadrant 1 and Quadrant 2 that I name Q1 and Q2 for convenience: And two for the Down-Wave – Quadrant 3 and Quadrant 4 that I name Q3 and Q4. Each Quadrant is about 15 years long. Each has its own characteristic strategic realities for business and finance that transform in sequence throughout the wave cycle. This means strategic commitments need to be transformed about every 15 years to remain properly aligned with the underlying K-Wave. What is strategic brilliance during one Quadrant can be strategic ignorance and error during the next. The greatest strategic discontinuity comes between Quadrant 2 and Quadrant 3.

A brief outline to identify for you the nature of each Quadrant is appropriate. I will include references to the situations we have experienced since the current K-Wave began in 1949 to give you an historical context.

During Q1 there is real business expansion based on sound investments in production capacity. The financial environment is low inflation and low interest rates. The investment environment is a powerful, but quiet, Bull Market in stocks fueled by real earnings from production that starts to become speculative at the end of Q1. This was the situation between 1950 and mid 1960's.

Q2 is characterized by increasingly speculative business expansion in an environment of continuously rising inflation with price increases, rising nominal interest rates and growing overcapacity in many key industries. These conditions accelerate to a climax at the peak of the wave at the end of Q2. This situation played out between the mid 1960's to 1980.

Right at the peak of the K-Wave there occurs a short, sharp financial crisis for from 1 to 2 years. This was the situation between 1980 and 1982. Given the widespread overcapacity,

it is no longer possible to make high returns from new investments for most manufacturing situations during the Down Wave – It becomes easier to buy a company on the stock exchange than to build one the Q1 way.

Q3 begins with a profound shift in business toward “Paper Assets” rather than “Tangible Assets”. Nominal interest rates and commodity prices go into long-term declines. Investment banking and merger and acquisition activity accelerate. The era of “Financial Engineering” and “Money Shuffling” reappears and the transformation to the Q3 strategic environment is completed. Q3 is known for its “Booms” in stocks, derivatives, credit, debt and real estate speculations and manipulations while real asset production is in relative decline.

About 10 years after the K-Wave peak a series of financial and business crises begins in various places in the world. This period is the time of transition from Q3 into Q4. For the current K-Wave cycle, this situation began with the Tokyo stock market collapse in 1989 and continued in the mid 1990’s with crises in Asia, Mexico, Brazil, Argentina, etc. It climaxed with the US Technology Stock crash of 1999-2000. The transition into Q4 was then complete.

The Q4 period of deflation comes to correct the business, monetary, credit and debt excesses of Q2 and especially Q3. Q4 characteristics include financial asset “Bear Markets”, business recessions or depressions and the eventual rejection of “Paper” assets for hard assets. This is the period during recent K-Waves when “Official Forces” implement massive man-made financial manipulations and managed news to try to reverse, or at least nullify, the deepening deflationary environment. Such “Bubble Creating” manipulations were much simpler during this K-Wave because of the worldwide paper money environment. This is the situation began in the late 1990’s after the tech-stock crash and is still playing out. The next several years are when the K-Wave’s Mega-Force character will become more evident.

Further, each K-Wave cycle is composed of six Phases in Mass Psychology – Three during the Up-Wave and three during the Down-Wave. Each Phase is about 10 years in

duration. The Mass Psychology Phases overlap the Quadrants of business and finance conditions – They create increasing optimism during the Up Wave, especially during Q2, and increasing Pessimism during the Down Wave, especially during Q4. They cover the cyclical range of mass human emotions – From high pessimism at a K-Wave beginning to extreme optimism at the peak and back again extreme pessimism and even despair at the ending.

Let's identify for you the mass psychology phases using a few keywords:

- Phase 1 – Denial that conditions can improve;
- Phase 2 – Gradual belief that conditions are improved;
- Phase 3 – Euphoric belief that conditions will continue to be better;
- Phase 4 – Denial that conditions can worsen;
- Phase 5 – Gradual belief that conditions are indeed worse;
- Phase 6 – Depressed belief that conditions are bad and will continue to worsen.

I discuss in greater detail each Quadrant and Phase in Part 3 together with the proper pattern of strategy and behavior for a business leader to use throughout a complete K-Wave cycle. Here my objective is to give you a general picture of the repetitive pattern of observable events during a K-Wave cycle so you can better understand the K-Wave as Mega-Force 2 especially now during the most critical years of our current wave – Mid to late Q4.

To do that I will paint a word picture of our current K-Wave from its peak in 1980, to today and then to its probable ending.

First, how do we recognize from events that the K-Wave peaked in 1980? Easy. We observed rapid increases in inflation rates, interest rates, commodity prices and business costs that went into excessive upward “Blow-Offs” – The mass opinion was that the expansion would go on “forever”. Then came collapses in nominal interest rates, inflation rates and commodity prices. They all rapidly reversed and went into long-term decreases. Overcapacity was widespread. These were the situations in both 1920 and 1980. A short but sharp financial crisis came in 1980-81 and lasted into 1982. The same thing happened

from 1920 to 1922. Economies shifted from emphasis on real production and investments in real assets to speculation, paper investments and financial engineering.

Then an investment market “Boom” started along with an apparent business expansion for the next several years. That was the roaring 1920’s of the previous wave and the roaring 1980’s and early 1990’s for our current wave.

Now let’s continue the picture of the Down-Wave after the peak crisis. A great Q3 Bull Market in financial instruments is ignited. The Q3 period is called the “Plateau” – Its business pattern does not seem to be a decline, at least for a few years, because of all the paper profits being made. It is always a paradox – It is apparently the coming of the best of times for those captivated by the “Financial Bubbles” While at the same time it portends the coming of the worst of times for those who focus on the underlying reality. But almost no one senses the latter. Q3 is like a “Big Party” – “Let the good times roll” as they say. It is the coming of a new era of prosperity based on paper, credit and debt.

I refer you to the Roaring 1920’s of the previous K-Wave and the New Era of the 1990’s of the current K-Wave. The great Bull Market in stocks and various financial instruments rolled on to the point that its intensity became a Mass Mania together with the last stages of a commercial real estate expansion. Then about 10 years after the K-Wave peak, the most financially over-expanded link in the world’s mania chain broke. For the previous K-Wave it was the New York stock market crash in September 1929 – For the current K-Wave it was the Tokyo stock market crash and the start of Japan’s real estate collapse in late 1989.

These events told a K-Wave strategist that the beginning of the end of Q3 and the beginning of the transition to the K-Wave Q4 deflation and depression had come – Even though the financial markets still had more mania actions to complete. The transition from the last few years of Q3 through the first few years of Q4 normally takes about 10 years. That is exactly what has happened.

During the Q3 to Q4 transition governments, banks, businesses, and financiers got busy trying to manipulate their way out of the crises they were in. A series of crises continued for several years, culminating in the final crash that told a K-Wave student that Quadrant 4 deflation had come. Please recall the Q3 to Q4 transition Crisis history of our current wave – It began with the 1989 Tokyo crash – Continued through the Mid-1990's including crises in Asia, Mexico, Brazil, Argentina, etc. – And ended in 1999-2000 with the Tech and Telecom stock crash in the US.

There is one point I need to clear up right now. There are those who say the massive business expansions in China and India do not fit with Q4 deflation so the validity of the K-Wave is suspect. Wrong. The Orient's expansion is a massive deflationary force on world product and service prices. It is a vast transfer of production costs and jobs to the Orient in exchange for profits for the US to try to counter-balance the inevitable profit drops during Q4 deflation – It is a deal that says: We give you our jobs and you give us your profits. The K-Wave Q4 environment was a catalyst for more outsourcing. Since China must increase employment at all costs to prevent internal chaos and to grasp the opportunity build its national power, it made the deal – Profits are not the most important issue there – Employment, social order and future production and financial power are.

To complete this introduction of the K-Wave as *Mega-Force 2*, let's focus on the story since 2000. Between 2000 and 2002 the first leg down of a powerful Q4 Bear market in investment markets and business came. Government and central bank actions since 2002 show that they declared an all-out war on deflation, while publicly denying its existence. Massive government, central bank and Wall Street manipulations of economies and markets together with the largest monetary, credit and debt expansions in human history were used, and are still being used, as stimulants to try to prevent a resumption of the Q4 Bear market in securities and to try to stop the underlying K-Wave forces of world deflation. The quest was, and is, to create man-made, but hidden, inflation at least equal to the underlying deflation of the K-Wave so governments could claim they were “controlling inflation” (which was and is not true) while distorting the K-Wave effects enough to prevent the economy from spiraling into deflation. The price for all this is continuing loss of purchasing power of irredeemable paper currency.

When modest financial stimulations are applied during the K-Wave Q2 and early Q3 periods significant economic growth benefit is triggered along with significant inflation. During inflation the burden of debt can be inflated away and the effective cost of carrying debt decreases. But during Q4 deflation the situation reverses. During deflation it takes large amounts of financial stimulation to trigger even small amounts of economic growth and the effective cost of carrying debt increases. During deflation, excessive debt becomes a dangerous enemy.

It has taken unprecedented amounts of money, credit and debt over the last several years to implement government stimulation programs throughout the world. The amount of debt overhanging the world is now beyond comprehension. During this K-Wave the US has gone from being the largest creditor in the world to its largest debtor. Nobody knows for sure how big are the total US debt and liabilities – There are professional studies putting it at more \$40 trillion dollars and some estimates putting it as large as \$70 trillion dollars – Much of it is unfunded future liabilities that are “off-the-books”. There are estimates that the rest of the world’s debt is at least as large as the US amount. There is one thing for sure – This amount of debt can never be repaid or even serviced. If a Q4 deflationary depression materializes, its effects are unknown because no K-Wave in history has ever approached its end with such a “Debt Bomb” overhanging. A wise observer named Richard Russell says that the US must – “Inflate or Die”.

The path of man-made manipulations of the K-Wave has been tried before. Each has created imbalances in economics, finance, business and markets that were not sustainable. Bubbles were created that eventually crashed. Up to the case we are now living through, the most famous example is the fiat money and credit bubble engineered by John Law just before 1720 to try to extract the French monarchy from financial crisis and restore general prosperity. He created a massive bubble based on paper money, credit, debt and real estate securities at the start of a K-Wave Down-Wave. It brought temporary riches, then crashed and ruined the French economy for decades. Bubbles inevitably crash. A few get rich – Many are smashed financially. The parallels between

John Law and today's situation are notable but beyond what we can discuss here. The previous local situation of one country, France, is now worldwide.

So our conclusion is that the underlying K-Wave is indeed a Mega-Force with powerful effects for the next two decades. You now have a basic understanding of its nature and where it is taking us in the next several years – To its Q4 conclusion. We know the K-Wave is a Living System “Double Wave”. We know its underlying Morphic Field wave is primary and the one that tells us the truth. We know its Operating plane wave effects can be significantly distorted by “Official Forces” and we should not trust its appearances if they differ significantly from the underlying wave.

We cannot know the extent of the turmoil to come but we can be assured it will transform the conventional pattern for success over the last several decades. Having the Mindset of *Mega Force 1* will be a powerful advantage. We know that the next K-Wave will begin after the conclusion of this one – The world will once again regenerate when mass psychology believes it never will. Following Q4 we will experience Q1 of the next K-Wave cycle. Its effects will include real economic and business expansion.

We know that the underlying K-Wave is a powerful tool for us as leaders to make our own economic, financial, business and market forecasts, especially during a time when we cannot trust official ones. I will discuss K-Wave issues in greater detail in Part 3. Having a business that serves people in essential ways and generates cash with minimum financial risk and delay is probably the best place to be.

Now let's discuss Mega-Force 3.

**End of Part 1 – 4**