



Lakshman Achuthan: Economic cycle analysis does NOT indicate the end of business cycle

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Erik: Joining me now on the program is [Lakshman Achuthan](#), cofounder of the [Economic Cycle Research Institute \(ECRI\)](#). Lakshman prepared not just one slide deck but actually sent us four different slide decks, all of which are linked in your Research Roundup email. And we'll be referring to some of those throughout this interview, so I encourage you to download them.

If you haven't yet registered at MacroVoices for your free account to receive our Research Roundup email, you can just go to the home page at macrovoices.com and look for the red button that says [Looking for the Downloads](#) next to Lakshman's picture on the home page.

Lak, thank you so much for joining us on the program. The reason I really have been looking forward to this particular interview is you are an analyst of cycles. You've been looking at business cycles and economic cycles for as long as anybody can remember.

We're suddenly seeing this phenomenon where so many of our expert guests on this program are using the same phrase, late-cycle dynamics, saying that we're very late in the current business cycle, get ready for it to end soon. And we're looking for both confirmation or opposing views.

So, as a cycles guy, what do you think? Are there really justifications to say that we are late in the business cycle?

And, for that matter, what cycles are we talking about? Because some people talk about the business cycle, some people talk about the credit cycle. Are these the same thing or are they different things? And what should we be looking for?

Lak: Well, Erik, first off thanks a lot for having me join you today. I obviously think those are really important questions you just asked.

So I'll just lead off with my quick take, which is that the concept of late cycle, which is widely used, we all hear it all the time. I think it's important to understand it's based on a huge misunderstanding of what is the cycle, how does the cycle work?

Maybe, looking at the past few cycles and averaging them, you think we're late in the cycle. Maybe, because we're about to become, in the current expansion, the longest in US history, you think that we're late cycle.

Those are examples of not a lot of analysis, I think, or understanding of what the business cycle is.

For the past few years, you've been hearing this. And I'm just going to pick on one guy because he can afford it: Ray Dalio. No disrespect to him at all, but I've heard him also saying this. And he believes, I think, that you're in the late part of the cycle when the demand for things is pressing up against the capacity to produce them, and then interest rates are going to rise to put on the brakes, and therefore you're in the end of the cycle.

But really what's going on there – and I hope we get into this in our talk today – I think we'll try to – is the confusion between the business cycle and the inflation cycle. These are radically different things that a lot of people conflate, including the Fed. And I think it's at the heart of this mysterious where are we in the cycle.

Answering this really basic question, what is a business cycle? We actually have a slide on this in one of the slide decks that we provided. I think it's the Mauldin deck and I think it's on Slide 9, we answer this question. It was addressed by my mentor, Geoffrey H Moore. He created the original leading indexes back in the late '50s and early 1960s.

His mentor – so now we're back pre-Depression, in the '20s – his mentor was a man named Wesley Mitchell, and he defined what a business cycle is and what a recession is. Business cycles consist of alternating periods of expansion and recession.

When you drill into what is a recession, we have a schematic there. On the slide, it's a specific sort of vicious cycle that, under certain circumstances – when you have a decline in something like sales in the overall economy that can trigger a decline in output. You have a little less sales, you have a little less output. Like GDP or industrial production, something like that.

Which in turn, under certain circumstances – this doesn't always happen – sets off a decline in employment, which in turn depresses income, which feeds back into a further decline in sales.

So you have a cascading decline from sales to production to employment to income and on and on. And it starts to spread. It starts to rev in a vicious cycle which can spread like wildfire from industry to industry and region to region.

That is what is happening when we have these recessions every once in a while. Or, in this case, after 10 years or so. That is what's going on. And it's not two down quarters of GDP and it's not simply that the Fed has put on raised interest rates.

It's a very specific cycle. And this is something that's not only stood the test of time in the United States for 100 years, but since the late '70s Geoffrey Moore – he passed away in 2000 – he began using that definition and developing cycle dates all around the world for 21 economies where we have those cycle dates. And it's a condition – it's been described as the

Achilles heel of market-oriented economies.

Free-market capitalism is really the best way to organize your economy. And the Achilles heel, you know the rough spot occasionally, are these business cycle recessions.

Erik: Well, I definitely want to come back to inflation cycle versus business cycle later in this interview. But, before we get there, let's just stay on the topic of we're late in the cycle. That's the phrase you're hearing everywhere.

And I think the primary intention of the people saying it is they're trying to communicate, okay, maybe it's not the bottom of the ninth inning, but it's at least the eighth inning. Get ready because, before too long, the economy is going to be heading into recession.

That means that we're going to see a depression in Treasury yields. And probably it means that sometime, perhaps very soon, the stock market is going to top and we're going to move into a cyclical bear market in stocks.

All of these things are the conclusions that a lot of people would like to draw from their belief that we are (quote) in late-cycle dynamics.

So are we really in late-cycle dynamics? And do those predictions carry any weight as far as you're concerned, based on what you're seeing in terms of how this cycle is developing?

Lak: From our perspective – again, it's a purely cyclical perspective. We're very different from other forecasters in that we are not using any econometric models to make our forecasts. We're instead using cyclical indicators to monitor where we are in the cycle and, in particular, the risk of a turn in the cycle.

And we believe – I think we're on record publically as saying this for quite some while now – that we're in the fourth growth rate cycle downturn since the Great Recession. The last recession was '07 to '09. And we've been expanding, we've been growing ever since, which is why we're approaching the 10-year mark in this expansion.

However, that has not all been in a straight line, that growth. We have had three full-blown growth rate cycle downturns and then recoveries. 2010-11 was a slowdown. 2012-13 was a slowdown. And 2015-16 was a growth rate cycle slowdown.

And then we were accelerating in the second half of '16 into '17. And then we turned down again, sort of decelerating, in '18 into '19. So we're in the fourth growth rate cycle downturn.

Every time you go into a growth rate cycle downturn, the risk of recession starts to increase. But in order to forecast a recession, which we have not done, what we would require is for our leading indicators to decline in a pronounced, pervasive, and persistent manner in terms of –

Pronounced and persistent, you can see the leading index itself doing that. We have a number of them which we should get into. But, in terms of pervasive, they all have to be participating in the decline for it to be really objectively believable or a real turn.

And so we have a so-called “three Ps” pronounced, pervasive, and persistent decline in the growth rate. We have an absolute full-blown growth rate cycle downturn right now going on in this US economy.

It has not turned up yet. And therefore we’re edging closer to some recession risk. But we’ve not made a recession call, because we haven’t gone to a situation where the levels in these indicators all fall in a pronounced, pervasive, and persistent way.

If and when they do, and at some point they will – if not this cycle, maybe another cycle – if and when we do have a three Ps downturn in the levels of these leading indicators, then what happens is – and this is how you predict a recession – a window of vulnerability opens up, like the economy’s immune system becomes compromised, just like a person’s can become compromised.

And otherwise non-recessionary shock becomes recessionary.

So almost any negative shock, when a window of vulnerability has opened up, is a recessionary shock. And it’s how you can tell the difference between which shocks you have to worry about and which shocks you don’t have to worry about – Is the window of vulnerability open? And today, right now, it’s not open.

We’ve been having our share of negative shocks. You could – somebody who’s maybe bearish would point around to different shocks and say these are negative. It’s not that they aren’t negative. It’s just that the window of vulnerability, since it’s closed, makes them non-recessionary shocks for the time being.

Erik: Okay, Lak, to summarize, just saying it’s late-cycle dynamics because the usual business cycle is four to seven years and we’re already at 10 years, that doesn’t cut it. We’ve got to see actual indicators that are telling us the cycle is ending.

And what you’re saying is that you follow a number of indicators. You’ve got one cyclical economic downturn which is maybe flashing yellow, but not red.

What are the other indicators that you follow to tell you when a cycle is ending? How are they looking? And what are they signaling?

Lak: The idea of leading indicators, they start in the ‘50s and ‘60s. And, as I mentioned Geoffrey Moore, my mentor, created the original leading index which the Commerce Department took over and now I think the Conference Board is attempting to update.

Now, that's kind of old technology, in a way. It's over half a century old at this point. What we've learned in the interceding decades is very, very important.

First, there are long leading indicators and short leading indicators. So you want to be looking at them in sequence. You look at long leading for your first sign of a cycle turn and then short leading. Then the coincident.

Stocks – listeners will be interested to know – are short leading indicators. Many market prices tend to be short leading indicators. So looking at longer leading indicators can be a little helpful in gauging some cyclical risk around different asset prices.

But you can also – what we've been doing for some time now, for decades now, is looking at leading indicators for major sectors of the economy. So we're tracking leading indexes for the manufacturing sector, for the construction sector, for the services sector.

Within the services, financial services on their own and non-financial services. The latter is very important because that's where about five out of eight Americans work, the non-financial services.

And then, using this same indicator framework, we've been developing indicators around the world. And what's very important to understand, when Dr. Moore began developing international indicators in the late '70s, he had a choice.

He could either fit his leading index (and I'm doing air quotes while I talk to you on the phone) – he could fit the leading index to the data that was available. Or he could say, I'm going to stick with these indicators that I've been using for the United States, which are based on theory as to why they should turn, as opposed to just data mining.

And, in many cases, asked these different countries to start collecting data that we needed to develop our leading indicators. And, as a result, we have leading indicators for 21 economies, including all the BRICs.

These indicators are built the same way with the same types of inputs, so we can very honestly compare them across borders and their relative strength has meaning to one another. So you're comparing apples to apples when you look at, say, leading indexes for Europe or Asia or wherever, and the United States.

And those indicators, collective – now, we've been talking about the US. So far we have a growth rate cycle slowdown. Services are always a little softer on the slowdown. They're just a little less cyclical, the amplitude.

Many people might not know this, but it was only in the Great Recession that the service sector actually contracted. In all the earlier recessions, services just slowed down a lot. They didn't contract. But the larger cycles in manufacturing and construction brought the overall economy

down.

Now, the US has its slowdown. Europe obviously has its slowdown. And Asia too. So we had to synchronize the global slowdown that's been going on. There's maybe one or two spots that are bucking the trend, but generally that growth rate slowdown globally is fully intact. It's happening here in the US.

There was, I think, some hope that the US had decoupled somehow from this. But that seems to have given way. And people recognize that the US growth rate cycle slowdown is also happening.

Erik: I want to come back to those international cycles in a minute as well.

But first let's talk about a trend which seems to be gaining a lot of popularity, not only in finance circles, but also in the public debate in the political stage, which is people are saying, look, what's really going on here is Ben Bernanke was a genius. He figured out a way, using innovative new approaches to monetary policy, to tame the business cycle.

We don't have to worry about business cycles anymore because the Fed has figured out by expanding its balance sheet that it can basically tame the business cycle. It can eliminate this recession risk, so we don't have to have recessions anymore.

And, in fact, I think in the Mauldin deck that you sent us, you quoted a fund manager saying, look, recessions are a thing of the past. We don't need to worry about them anymore.

And that's led on the political stage to this whole discussion of modern monetary theory suggesting that, hey, we don't have a big inflation risk right now, so it's okay to monetize and to cover a lot of government spending and entitlements and so forth just by effectively monetizing any debt that's needed in order to fund them.

So what do you think about this? Is it possible that Bernanke has tamed the business cycle? That we don't need to worry about it anymore?

Lak: That would be nice. And you might guess, and the listeners might guess, that my answer is absolutely not. But this is also – what you've described is not unusual in the sense that, as expansions age and get longer relative to earlier expansions, people start to think – they pat themselves on the back.

It's kind of an attribution bias. It's a psychological effect that's actually out there, where you attribute something that you perceive as being good as your own fault.

And here maybe policy makers or others are saying, hey, we've figured it out. We know how to extend the business cycle. And you're right, I did mention a venture capitalist who's been saying that we're not going to have any more meaningful contractions.

But we can pick on Barron's. Barron's had a cover story explaining how the very existence of the business cycle may not be relevant – that's current news, current headlines – because maybe we can just create debt, that the Fed can do things, or we can create other types of credit to boost the credit cycle, and therefore override the business cycle and just have this continued expansion.

Just so everybody understands, in the late '90s, there was the same kind of thinking. It wasn't exactly the same rationale but, with globalization and the tech boom and the supply chain management improvements, the argument was that we had arrived at the end of the business cycle.

And that was just shortly after – some may remember Francis Fukuyama had declared the end of history just about that time. So we had a lot of end of everything. And, of course, nothing ended. Life went on much the same way it did before, including cycles.

In the late '60s, which was the earlier long expansion, same kind of thing: the end of the business cycle because Keynesian fine-tuning would repeal the cycle.

Everybody remembers Irving Fisher, the Yale economics professor in '29 proclaiming the permanent plateau of prosperity. That was a couple of months inside the Great Depression.

The basic issue here is that this notion of creating a lot of debt to fuel growth feels good for a little while. It does. It seems to work. The combined debt of the US, Europe, Japan, and China has risen more than 10 times the rise in their combined GDP over the past year. That's a fact.

So it happened. That happened. You had a lot of debt growth and you had some GDP growth. And there is probably some connection between the two.

The problem is that, to do it again, you probably have to do twice as much or three times as much.

We've called this the Red Queen effect, after *Alice in Wonderland* and *Through the Looking Glass*, where the Red Queen explains to Alice that, in order to stand in place, you have to run twice as fast. And to get anywhere, you've got to go three times, four times, five times as fast.

And I think when you start talking about getting things for free, in a sense, that's what we're talking about. You have to do more and more of this debt growth in order to keep the game running.

And it may be that another round is possible. Who am I to say it isn't possible?

Some people might remember another book – I'm a sci-fi buff – so Robert Heinlein's *The Moon Is a Harsh Mistress* introduced this idea, this acronym called TANSTAAFL! meaning there ain't

no such thing as a free lunch.

He was making the point that anything that seems free costs actually twice as much in the long run or is worthless. And that certainly is how I would view this idea that you can just create more and more debt in order to subvert the business cycle. The business cycle is bigger than simply the credit cycle.

As I described earlier, it's all those different elements in sales, income, employment, production. It's not just all about asset prices.

Erik: Lak, I want to come back to that in just a second.

But, first, you just mentioned there is no free lunch. That's a very popular expression. Another popular expression is the higher they climb the harder they fall.

Is there basis in data to believe that the longer this cycle runs the deeper and worse the counter-cycle will be? Or is there no correlation to evidence that?

Lak: That is a great question and one that I'm working on right now, to tell you the truth. And it's a nuanced answer. There's no straight answer here. I'll say a few things.

If you have a synchronized downturn globally, they tend to be more severe. And we don't know if the next recession is going to be a global synchronized one or not. We don't know that now, today. But if it were, that would suggest something more severe.

Another thing that can suggest a more severe recession is, if you see some extreme – and they're not all obvious in advance – but if there are some extremes in the economy or in the markets, and there is a financial crisis associated with the recession, they can be more severe.

That's observational, looking at history.

Now, digging into the data on length of expansion and severity of recession, it may actually be a little counterintuitive because, if you've had a long expansion that has been relatively low-growth, the amplitude of the cycle may end up being a little softer, which would argue for a less severe recession.

But that's a very nuanced kind of insight where you're looking at the amplitude of the growth over the course of the cycle.

Erik: I want to come back to inflation cycles in a minute because I am personally convinced that when we get the next secular bout with inflation it's going to cause a lot of problems.

But before we even go there – so many people just interchange these terms. The business cycle, the credit cycle, the inflation cycle. I think you've already made it clear these are three

separate cycles.

So what are the characteristics of these different cycles? And are there patterns, say, where say inflation peaks first and then the business cycle peaks and then the credit – is there a relationship? Are there predictions that you can make by examining these three separate cycles independently and comparing them?

Lak: With respect to business cycle and inflation cycle – after Geoffrey Moore created leading indicators half a century ago, in the '70s we had the stagflation. And that really turned him on to the idea, the notion of inflation cycles as being something that are closely related to business cycles, but distinct. They're different.

And he began working on this inflation cycle idea and determined that the inflation cycle itself actually is something quite different. And is actually a bit more frequent than the business cycle.

I'll refer listeners to one of the slide decks called the Minsky deck. There we define and show cycles and inflation and what they are and inflation cycle chronology. Somewhat analogous to the idea of a business cycle chronology.

What becomes immediately apparent when you're looking at those charts is that the frequency of the inflation cycle turns are many times that of business cycles. And, as it turns out, they are more closely related to what we talked about earlier, growth rate cycles, the accelerations and decelerations in growth.

But this causes all kinds of havoc for economists, because economists are looking at – they've been taught to use models which are rooted in these extrapolative relationships and may equate some amount of growth with some amount of inflation.

But if you're looking at two different cycles where the turning points are quite different, you're going to get in a lot of trouble.

So the same way that we had stagflation in the '70s, we had kind of the mirror image of that, we had growth without inflation in the '90s. And this is very relevant today, because people are reminiscing.

In particular, when I say "people" I mean Powell is reminiscing about the 1990s as a way that we ought to run Fed policy. But I think he has the story wrong.

You see, Dr. Moore created – first he saw the inflation cycle, then he created leading indicators of inflation and it's called the Future Inflation Gauge – it's a leading indicator of inflation cycle turning points.

And when I say inflation cycles, it's not too mysterious. It's accelerations and decelerations in

CPI or PCE deflator or PPI growth – so those kinds of things. And we can have a chronology based on the cyclical turning points in those things.

Now, Dr. Moore also happened to have been Greenspan's professor. Greenspan was Fed Chairman in the '90s.

In the mid-'90s, there was an interesting episode that some people may remember. The Fed hiked rates in early '94 and then cut rates in '95. And that episode is one of the only episodes of pre-emptive Fed monetary policy moves where they were moving ahead of actual CPI inflation as opposed to after it had moved.

It's interesting because Powell was reminiscing about this last August at Jackson Hole, talking about how Greenspan had this hunch about productivity growth allowing inflation-free growth in the '90s.

But if you actually look at the data – and all of this is in the Minsky deck again – the increase in productivity growth that we saw from the mid-'90s through the recession, actually, into the 2000s just continued. Productivity went up and it stayed up there.

But for some reason, which isn't explained by this productivity miracle, the Fed hiked rates in '99. And what does explain what happened there is the Future Inflation Gauge – there was a cyclical upturn in underlying inflation pressures.

That becomes, I think, very relevant today. That's all history, storybook stuff, but I think it's important for people to know what happened in the '90s because the story that's out there is just dead wrong.

It's important today because that same Future Inflation Gauge, which has run up in 2016 very hard, correctly calling the reflation, turned down early last year. And we recognized it as a three Ps downturn – a pronounced, pervasive, and persistent downturn in the summer of last year.

And so, in the context of that inflation cycle downturn, the September rate hike was a big question mark. The December one, doubly so. And then you see the Powell pivot.

In fact, not that we would forecast a recession this way because there's not enough observations, but when we see the Fed not cut rates after the Future Inflation Gauge has made a cyclical downturn – if the Fed doesn't literally immediately cut rates, after some period of time there is a recession.

So, just empirically, this is not how you forecast a recession. We do not make a recession forecast this way, and I make that clear in the deck. But the Fed has already made a mistake – and that was evident since last fall – by staying too tight and not cutting.

Pausing – I'm making a little bit of a joke here – but pausing is not cutting. And there's

potentially still some damage being done to the economy with the rates where they are now.

As I said, from our leading indicators we're not forecasting a recession today. There's no window of vulnerability that's open. But the growth rate cycle downturn is continuing.

And before anyone who is concerned about the amount of debt and the amount of money out there and how it may ultimately lead to inflation is offended, I'd like to point out when I say cyclical indicators and these leading indicators, we're looking ahead a couple of quarters. So this Inflation Gauge and our leading indicators, they can turn and they can turn quickly.

What they're telling us right now is that inflation has been in a cyclical downturn and is going to continue to move down for the next couple of quarters. That's it. It doesn't say anything about beyond that. That could easily turn up.

Erik: To pick up on that theme of what might happen beyond that, it seems to me – and I don't know if this plays into your cycles analysis work or not – but it seems to me like there's a really long wave cycle. And it's a cycle of public attitude about, I guess, ideology, for lack of a better word.

20 or 30 years ago, nobody was talking about government handouts or free college tuition or any of these things. The generally popular attitude was the government should help people by keeping taxes low.

What we're seeing now is a very significant change in public attitudes that seems to me like they may not be causing any inflation yet. But I think if we were to get to the point of so-called helicopter money, if we had free college tuition and forgiveness of student debts and some of the other things that are being promoted by some politicians, that's got to be very inflationary at some point.

So are the public attitudes that drive policy, which is either inflationary or non-inflationary policy, is that a cycle that we can follow as well?

Lak: I think we can follow it the way you described it. And think about it on our far radar. But to the extent that's going to show up in our leading indicators, our objective leading indicators, which look out just a couple of quarters, it will have to seep into those underlying drivers of the inflation cycle.

And so far that's not there.

The whole MMT thing is an interesting question. In essence, it would amount to the Treasury ramping up fiscal spending funded by issuing greater and greater amounts of debt, like that Red Queen thing I was talking about, that the Fed would then buy.

And the Treasury, I guess in theory – the theory goes they would raise taxes to counter inflation

if and when it shows up. Just so everybody knows, that is the general idea.

Now, I think we would worry and I think you would worry and a lot of people would worry about the assumption that it's easy to raise taxes to head off inflation after it rises.

And, in fact, the very practical danger is that you could see it right in front of us, without being about to see an inflation upturn coming. Inflation can surge long before the government takes any action to hike rates.

You see how the fiscal side works. It doesn't work very fast. The decision-making is not pretty. Nothing would happen very fast. So inflation can get very high and pretty entrenched pretty quickly.

And at that point – again, in kind of a rhetorical question, is anybody up for – is there a Paul Volcker in the house? Or someone with guts like he had, who would just walk out and engineer a recession to kill inflation? I don't see any fiscal policy makers who would be willing to do that.

So that's how I would answer this. I think it's one of these theory things, but in practical life it could be very dangerous.

Erik: There is another aspect to this which fascinates me which is most cycles work that I've seen over the years tends to focus on some national economy. The US economy looks like such and such and the indicators suggest this and that and the other thing.

But it seems to me this is really the first time in recorded monetary history where all of the central banks around the world – they're not necessarily acting in an actual coordinated policy in the sense of there being a treaty or agreement about it, but effectively just about every central bank around the world has been easing for the last several years.

And it seems to me that that maybe has a unifying effect that brings these independent cycles in different nations together into one cycle.

Now, since you said earlier in this interview that when you have a downturn which is global in nature that it tends to be worse, does that mean that by having all of these central bank policies kind of unified for the last several years that we're setting up for the entire global economy to move all together? And it sounds like that could have negative consequences if we are.

Lak: That's a great question and it's one we think about.

Japan started on this road first. And we've given other presentations where we explain how – while we're not analogous to Japan; we're very different economies – some of these basic ailments are common.

There's the demographic issue combined with a low productivity growth issue which ails the US and Europe and even the developing world, by and large. Maybe India has an asterisk on it, but generally speaking.

The policy response for all this has been central bank focused. Some are further along in the journey than others, and Japan is probably in the vanguard at the moment.

And what you end up with is you look at rates globally – so we have rates at the 10-year I think it is below 2.30 today or so – but that's relatively sky-high for major sovereign debt globally. And if the market is any indication, it's moving lower.

And of course you have negative rates in some major economies.

So we are maybe farther along this journey – it's kind of been played out, right? You can go into negative rates is where they may be able to go. And in a synchronized global recession, there may be, at least temporarily, a rush to the dollar as a safe haven.

So there's that one aspect to consider.

But then, ultimately, the US doesn't want to have the strongest currency around because there's all kinds of trade implications with that. And they work to lower the currency or they lower their interest rates and, relatively speaking, they may become a little less attractive.

So, in a way, all of us are circling the drain on this policy. It's been played out, largely. And with the US being the 800-pound gorilla in this game, as we get lower and lower in our rates, that game may be running its course.

What will ultimately have to be questioned is the presumption of higher trend growth. I think that's the thing that nobody wants to really face, is that higher trend growth may not be attainable. That may not be in the picture unless we have some productivity growth-changing dynamic that presents itself.

And I'll be the first to admit it's hard to predict productivity growth. That's a really, really hard thing to predict. But from everything that we're able to look at, it's hard to be emphatic or assert that there is a surge in productivity growth coming.

Therefore, I am worried about what happens at the next downturn. I think the Fed is worried about that, which is why they probably tried to raise rates a little too much, in some sense so they had something to cut.

When you look at different pieces of information that come out – the Bank of Japan, I think, is reported to own almost 3/4 of the ETFs in Japan. And you hear about – I think it was Yellen a couple of months ago speculating about maybe buying equities as a way to stimulate things.

So those kinds of financial market manipulations are a bit troubling in the context of that idea that there is no such thing as a free lunch.

So one of the things – big picture here – that I’ve always felt is that I don’t know why we have to treat recessions, even the next one which we maybe have pushed off for a while – I don’t know, we’ll see what the indicators say – why we have to treat them as the end of the world, as Armageddon.

They aren’t. They are part and parcel of free market economies. That is how the free market works. Recessions are part of them.

And they serve a purpose. It is arguable that the low-rate environment has kept a lot of so-called zombie companies or excess capacity or misinvestment – that it has supported all those kinds of things, which are not great for productivity growth. Which is one of the things that ails us here.

I certainly don’t wish the collateral damage that comes with a recession on anyone. But it serves a purpose in a free market economy. It’s part of how we stay healthy.

Erik: Well, Lak, I want to thank you for a fantastic interview. But before I let you go, please tell our listeners what you do at ECRI and what services you offer.

Lak: I love what I do at [ECRI](#), obviously, talking about cycles and having a different perspective on the world. What we do is manage cycle risk.

Cycle risk is not a constant. There are times when you need insurance and there are times when you don’t. And you can let things run either on growth or inflation at home or in all these economies around the world. So we consult with different money managers and also some corporations about managing cycle risk.

Looking out several quarters, maybe a year. On a couple of global cycles we can see out about a year. And that’s about as far as you can see. But we do constantly update this array of leading indexes and so we’re getting new information every month.

Erik: Fantastic. And of course our listeners can find more info on your website. I thank you so much for a fantastic interview. Patrick Ceresna and I will be back as MacroVoices continues, right here at macrovoices.com.