In the latest cycle of technological change, capitalism is getting ready for its next act, but it is vulnerable to political developments.

“I suppose it’s tempting, if the only tool you have is a hammer, to treat everything as if it were a nail.”

Abraham Maslow (1908-1970)

In the 1930s, the Soviet Union asked Nikolai Kondratieff, a mathematician, to create a model that would “prove” that capitalism would fall and communism would endure.

Kondratieff studied economic history and reached the conclusion that economics was better explained by technology than class struggle. He observed that technology did not evolve linearly, but rather in leaps every 50 to 60 years. Named for the mathematician who made it famous, this pattern is called Kondratieff cycles or K-waves.

K-waves have been studied since and confirmed via spectral analysis. There is some controversy about the number of cycles and when they begin. Table 1 shows our own interpretation of the cycles and their defining technology.

Table 1 – Kondratieff Cycles

<table>
<thead>
<tr>
<th>Cycle</th>
<th>Period</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1st Cycle</td>
<td>1770-1820</td>
<td>Initial mechanisation</td>
</tr>
<tr>
<td>2nd Cycle</td>
<td>1820-1870</td>
<td>Steam power, railroads and telegraphs</td>
</tr>
<tr>
<td>3rd Cycle</td>
<td>1870-1930</td>
<td>Electricity, internal combustion and heavy engineering</td>
</tr>
<tr>
<td>4th Cycle</td>
<td>1930-1980</td>
<td>Mass production, Fordism and nuclear energy</td>
</tr>
<tr>
<td>5th Cycle</td>
<td>1980-2030</td>
<td>Telecommunications and information</td>
</tr>
<tr>
<td>6th Cycle</td>
<td>2030-2080</td>
<td>Robotics, alternative energies, and Human Enhancement Technologies (HET)?</td>
</tr>
</tbody>
</table>

Source: Authors

Our main research hypothesis involves the end of the fifth, and current cycle, as well as the existence of a sixth cycle.

The Crisis of 2015-2030

Each Kondratieff cycle ends with a general crisis. Karl Marx predicted capitalism as crisis-prone and believed this would lead to it falling apart. But Kondratieff found that capitalism reinvented itself with each crisis. As the saying goes, “desperate times require desperate measures” - giving rise to new solutions, investment in technology and new business models. These periods of crisis or struggle generally last between 12-15 years and eventually a new form of capitalism emerges.

We seem to be in a period of struggle now. Based on past trends, the predicted crisis of the current Kondratieff cycle should take place between 2015
and 2030. When future economists or strategists look back, the refugee wave that hit Europe in 2015 may be considered the triggering event.

Table 2 lists the main conflicts of each “crisis sub-phase” – the struggle that marks the end of each Kondratieff cycle.

<table>
<thead>
<tr>
<th>Cycle</th>
<th>Period</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pre-cycle</td>
<td>1755-1770</td>
<td>Seven Years War (1756-63)</td>
</tr>
<tr>
<td>1st Cycle</td>
<td>1800-1820</td>
<td>Napoleonic wars</td>
</tr>
<tr>
<td>2nd Cycle</td>
<td>1860-1870</td>
<td>Crimean War, Triple Alliance War, American Civil War, unification of both Germany and Italy</td>
</tr>
<tr>
<td>3rd Cycle</td>
<td>1914-1933</td>
<td>World War I and inter-war period</td>
</tr>
<tr>
<td>5th Cycle</td>
<td>2018-2037</td>
<td></td>
</tr>
<tr>
<td>6th Cycle</td>
<td>2065-2087</td>
<td></td>
</tr>
</tbody>
</table>

Source: Authors

World War II and the generation after are considered outside the crisis sub-phase of the cycles. The 1939-1945 period was one of intensive technological development and economic growth, in the face of massive destruction. The post-war period gave us strong and fast expansion with a new public “business model” of the Welfare State. Hence, the 1950s are still known as the “golden age”. That model worked until the 1970s when it was reformed.

As was the case at the end of other K-waves, “desperate times require desperate measures”. People are investing in new technologies and thinking out-of-the-box, trying new things and accepting the previously unacceptable. This is when a set of new technologies that had been too risky to develop becomes more feasible due to an increased tolerance of risk. A new technological revolution is brewing.

This means organisations must tailor their strategies and business models accordingly.

How business models will evolve

When technology changes and capitalism adapts, business models evolve for companies to stay profitable.

Business models have been around since the foundation of capitalism. There was a banking business model as far back as the 10th century. As capitalism evolved, especially after the Industrial Revolution, so did business models.

A business model should not be designed with rigid components. It must have the real capacity to support the creation of revenues and profit in an organisation.

For example, Casadesus-Masanell and Ricart

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5. New energy matrix with solar, wind, biomass and shale (fracking)
6. New raw materials coming from space

A new cycle?

Will businesses be able to adapt? We have something that none of our predecessors had: big data. The ability to crunch numbers to simulate future scenarios is a unique power that could impact the technological cycles going forward.

Looking back over Kondratieff’s Cycles, one aspect we cannot control is government. The political decision-making power of a handful of countries is the independent variable. This variable could decide our future and whether capitalism as we know it will continue.

Businesses should also be aware of, and tailor their strategies and business models to, hegemonic cycles and their effects. Hegemonic stability theory indicates that international relations are more stable when a single nation is a dominant world power, or hegemon. Hegemonic cycles tend to run for 100-140 years before entering a period of transition and a new stability cycle. It remains to be seen whether we are at the end of America’s dominance as the global hegemon.

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