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Topical Study #35

The Economic Consequences
Of The Peace

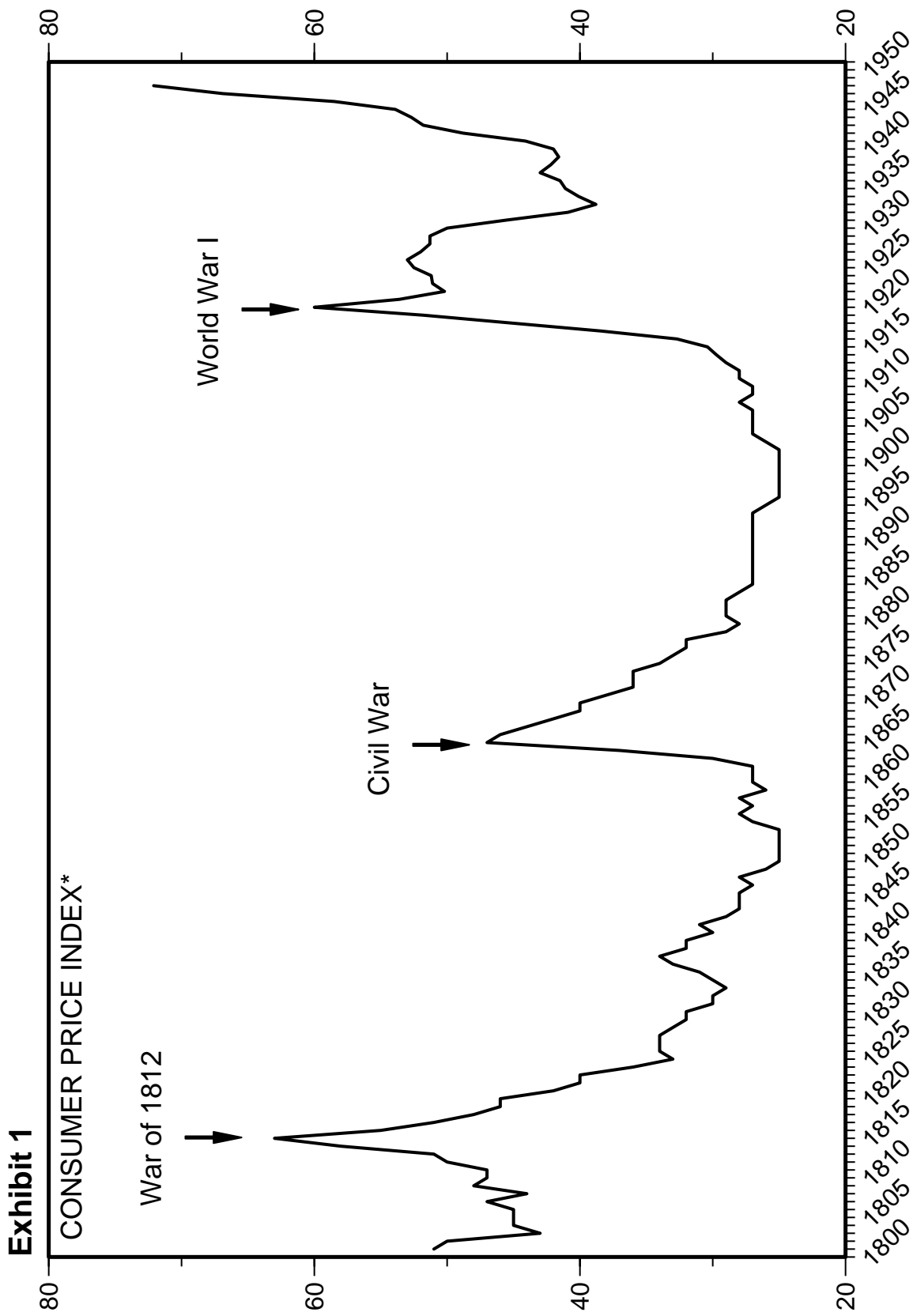
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* Base index from 1800 to 1947 is 1967 = 100.

I. Introduction

The end of the Cold War is undoubtedly one of the most important events in world history. The monumental political importance of the end of the superpowers' military and ideological rivalry was obvious and immediately recognized by everyone transfixed by the television coverage of the populist demolition of the Berlin Wall. Yet, even today in 1997, the *economic* consequences of the end of the Cold War are not fully recognized. In my opinion, the financial consequences of the end of the Cold War are wildly bullish for both stocks and bonds. Indeed, by the year 2000, I expect the Dow Jones Industrial Average will soar to 10,000 and that the government bond yield will fall to 5%.

My major premise is that the collapse of the Berlin Wall marked the end of the 50-Year Modern Day War, which includes World War II, the Cold War, and numerous regional wars from Korea to Vietnam to Central America to Southern Africa and numerous other hot spots around the world. My major thesis is that this war, which lasted half a century, was in its effect an unprecedented trade barrier. Americans were prohibited from trading with Communist countries. The Iron Curtain was a major obstacle to trade between all countries on opposite sides of the curtain. The lifting of the curtain, the destruction of the Berlin Wall, and the collapse of Soviet imperial communism all simultaneously heralded the elimination of the world's greatest barrier to trade. Coincidentally, trade among "Free World" countries was liberalized further by the Europe 1992 movement, the Uruguay Round of trade talks under GATT completed during 1993, and the North American Free Trade Agreement of 1994. China remains in communist hands, but trade between China and the rest of the world, especially the United States, has expanded dramatically in the 1990s.

II. War & Peace & Prices

There has been a dramatic expansion of free trade since 1989. According to data compiled by the International Monetary Fund, the sum of all exports rose to a record \$5.1 trillion during 1995, up 70% since 1989. I estimate that global trade will total \$10 trillion in 2000.

All wars are trade barriers. They divide the world into camps of allies and enemies. They create geographic obstacles to trade, as well as military ones. They stifle competition. History shows that prices tend to rise rapidly during wartime and then to fall during peacetime. War is inflationary; peace is deflationary (Exhibit 1 on page 2). For example:

- 1) During the War of 1812, the CPI rose 47%. It fell 48% after the war.
- 2) During the Civil War, the CPI rose 81%. It fell 40% after the war.
- 3) During World War I, the CPI rose 140%. It fell 35% after the war.

From 1939 through 1947, during World War II and the start of the Cold War, the CPI rose about 50%. Then prices soared about 500% during the Cold War from 1947 to 1989.

During peacetime, prices fell sharply for many years following all the wars listed above, except for the peace so far in the 1990s. Prices are still rising in the United States and in Europe, though at a significantly slower pace than during the previous two decades, when the Cold War was most intense. Japan is the one major industrial economy experiencing some deflation.

Economists mostly agree that the fewer restrictions on trade and the bigger the market, the lower the prices paid by consumers and the better the quality of the goods and services offered by producers. These beneficial results occur thanks to the powerful forces unleashed by competition. Peacetime tends to be deflationary because freer trade in an expanding global marketplace increases competition among producers. Domestic producers are no longer protected by wartime restrictions on both domestic and foreign competitors. There are fewer geographic limits to trade, and no serious military dangers. As more consumers become accessible around the world, more producers around the world seek them out by offering them competitively priced goods and services that offer the highest quality standards possible. Entrepreneurs have a greater incentive to research and develop new technologies in big markets than in small ones. Big markets permit a greater division of labor and more specialization, which is also conducive to technological innovation.

If peace has been deflationary in the past for the reasons just outlined, then why are prices still rising in the 1990s, albeit at a subdued pace? Is deflation still possible as we enter the next century? If peace prevails into the next millennium, will deflation prevail? Or is history mostly irrelevant, implying that inflation will persist and even rebound?

The “war and peace” model of inflation is simple and seems to account for the major price waves of the past. However, monetarists have plausibly argued that monetary policy and central bankers are also important contributors to the inflation process. I think some monetarists overstate their case when they claim that inflation is always a monetary phenomenon. *I believe that the competitive structure of markets is also a very important variable in understanding inflation.* But I also believe that money matters.

So far, in the peace of the 1990s, easy money has succeeded in offsetting the natural, peacetime forces of deflation. In the present situation, the central banks of the major industrial economies have eased credit conditions significantly in an effort to offset the forces of deflation. Of course, central bankers existed in the past when deflation prevailed, but monetary theory and operating procedures were primitive.

Gauging whether monetary policy is restrictive or stimulative can be very controversial. Orthodox monetarists focus on the growth of the “money supply.” More eclectic observers might prefer inflation-adjusted interest rates, i.e., real interest rates. I’m content to look at the unweighted average of three-month Euro deposit rates to gauge the

direction of monetary policy in the Group of Seven (G7) countries. My approach is admittedly unscientific and casual, but the conclusion is obvious and robust: The G7 central bankers have lowered interest rates sharply to avoid deflation. The G7 short-term rate plunged from about 10% on November 1989, when the Berlin Wall was dismantled, to 4% at the end of 1996.

The German Bundesbank, renowned for its commitment to conservative anti-inflation monetary policy, lowered interest rates from 10% in 1992 to 3% in 1996. The Bank of Japan burst the so-called “bubble economy” in 1989 by raising interest rates, and unintentionally pushed the real economy into a prolonged recession. In the early 1990s, the Bank of Japan lowered the official discount rate to nearly zero. They’ve been giving money away, yet the Japanese economy remains weak.

Have the central bankers defeated or just delayed the forces of deflation? This is the big question for economic forecasters looking over the few remaining years of the 20th century and into the next century. If the risk of deflation is minimal, then the downtrend in interest rates during the first six years of the 1990s may be over and could possibly be reversed by the start of the new century. In this case, the major economic legacy of the end of the Cold War was short-lived and much less significant than I believed it would be.

Time will tell, of course. For now, my hypothesis is that the forces of deflation have not been defeated. They might be delayed for several more years, and slowly lose their power. Or else, they might eventually prevail and become the defining economic characteristic of the next century.

III. The End Of Macroeconomics?

Francis Fukuyama wrote a controversial article in the Summer 1989 issue of *The National Interest* titled, “The End of History?” He argued that the ideological battle between capitalism and communism was over. The clear winner was capitalism. The clear loser was communism. To the extent that history consists mostly of epic struggles between opposing forces, the triumph of capitalism also marked the end of history.

In the same spirit, I would like to propose a simple notion: Macroeconomics is dead. The triumph of capitalism also marked the triumph of *microeconomics* over *macroeconomics*. More specifically, our economic present is better understood and our economic future is more accurately predicted by a model from the microeconomics textbooks than from the macroeconomics textbooks. The new “in” model is Perfect Competition. Out are Keynesian, monetarist, and other macro models.

The perfectly competitive marketplace has the following characteristics:

- 1) The goal of firms is to maximize their profits.
- 2) There are no barriers to entry to new firms. The factors of production are mobile.
- 3) The number of competing firms can be as numerous as the market can profitably sustain.
- 4) There is no protection against failure. There are no government support programs or self-perpetuating monopolies, oligopolies, or cartels.
- 5) The goal of consumers is to maximize their utility given their budget constraints.
- 6) Consumers are free to purchase the best products at the lowest price from any producer. They have cheap and readily available information available to them to make their choices.

This model of perfect competition predicts that the market price will be equal to the marginal cost of production. Consumer welfare is maximized. The conventional model is fairly static and needs to be combined with models of economic growth. It also needs to be more dynamic to reflect the impact of technological innovation. Despite these limitations, the model of perfect competition has probably never been more relevant than it is today. In capitalist societies, the pressure to maximize shareholder value has never been more intense. Company managers are taking big risks in restructuring their businesses with the goal of increasing their profitability. In formerly communist countries and in newly emerging ones, governments are privatizing state-owned enterprises.

Globally, there are fewer barriers to entry as a consequence of the end of the Cold War. This is certainly true geographically. It is also true in other ways. For example, a potential barrier to entry in some industries is the availability of financing. Technology is especially dependent on venture capital. Low interest rates and booming stock markets around the world suggest that there is plenty of capital available.

Foreign business ventures are attracted to emerging economies because government regulations are minimal and labor costs are very low. This trend is putting pressure on the governments of industrialized nations to deregulate their economies and to intervene less in disputes between workers and their employers.

Factors of production are becoming more mobile because companies are becoming more mobile. US corporations have a long tradition of setting up operations overseas in local markets. Indeed, this accounts for the US trade deficit, especially with countries like Japan and Germany that until recently had a more mercantilist business tradition of exporting to their foreign customers. But change is occurring. Japanese and German companies are globalizing their operations.

Global firms are adopting price cutting as a new competitive business strategy. They are striving to cut costs and to boost productivity in an effort to be among the lowest-cost producers in the world. Profit margins evaporate quickly in competitive markets. So

companies are under enormous pressure to innovate at a faster and faster pace. The simple goal is to sell as many units to as many consumers worldwide as possible at the lowest possible price in the shortest time period.

If perfect competition is the “new” model that best explains aggregate economic activity, then inflation may be dead too. If inflation is dead, then the business cycle may also be dead. In the New World Economic Order, companies are under enormous pressure to reduce their marginal costs so that they can offer the lowest prices. In this scenario, deflation is more likely than reflation. If inflation remains low, central bankers won’t need to tighten monetary policy in an effort to stop a cyclical rebound in inflation. Inflationary booms are less likely. Policy-engineered recessions are less likely as well.

Of course, not all recessions are policy-engineered. I’m sure we will see another recession in our lifetime. However, the standard tools of macroeconomic analysis, particularly business cycle indicators, may no longer accurately reflect the true nature of our economy. Similarly, forecasts based solely on the business cycle model may also miss the mark. Furthermore, the secular trends unleashed by the High-Tech Revolution could overwhelm the cyclical pattern of the low-tech economy. Again, this is not to say that the business cycle is dead. However, it may no longer dominate the course of economic growth as it did in the past.

IV. The High-Tech Revolution

High-tech hardware and software are revolutionizing the way companies do business and the way consumers shop. The High-Tech Revolution is providing the tools that companies must have to reduce their marginal costs and to manage their activities on a global basis. It is also providing consumers with cheap and easy access to the information they need to make the choices that maximize their well-being. In other words, the revolution is a major contributor to the proliferation of perfect competition on a global basis.

Technology has become the pacesetter industry for all other businesses. And what a pace it is! During the first six years of the 1990s, real GDP was up 14%. Computer outlays by business more than tripled over this same period to \$133 billion as measured in the inflation-adjusted GDP accounts. Computer outlays included in personal consumption soared from practically zero in 1979 to \$70 billion by the end of 1996. All together, computer spending has grown 29% per year, on average, since 1990.

The dramatic upturn in computer purchases in the 1990s was triggered by a significant increase in the processing speed of computer hardware as prices plummeted. At the same time, computer software became much more powerful and easier to use. Table 1 appeared

in the February 20, 1995 issue of *Business Week*. In 1983, Intel first shipped the 286 microprocessor in volume with an initial speed of 1 million instructions per second (MIPs). The 386 chip was shipped in volume during 1986. It was five times faster than the 286.

The 486 was four times faster than the 386 and twenty times faster than the 286. It launched the high-tech revolution once Intel started volume shipments in the early 1990s. According to the table, Intel has sold 75 million 486 chips. Compaq Computer Corporation started a price war in 1992, which made the powerful 486 machine very affordable. Also, in April 1992, Microsoft introduced version 3.1 of Windows. It was much easier to use than the MS-DOS operating system and led to a dramatic increase in Windows-based software applications.

Table 1: Chronology of Intel's Microprocessors

	286	386	486	Pentium	Pentium Pro	Pentium II
Start of design work	1978	1982	1986	1989	1990	1993
Formal introduction	Feb 1982	Oct 1985	Apr 1989	Mar 1993	Q3 1995	1997
Volume shipments	1983	1986	1990	1994	1996	1998/99
Number of transistors	130,000	275,000	1.2 million	3.1 million	5.5 million	8 million
Initial speed in MIPs*	1	5	20	100	300**	500**
Peak sales year	1989	1992	1995**	1997**	1999**	2002**
Installed units	9.7 million	44.2 million	75 million	4.5 million	na	none

* Millions of instructions per second **Estimated
 Source: *Business Week*, February 20, 1995 and December 9, 1996

The Pentium chip was introduced in 1993 and bulk-shipped the following year. It was initially rated at 100 MIPs. The Pentium Pro operates at 250 MIPs. This year, Intel will offer the Pentium II chip which should process 500 million instructions per second. At the start of the next century, 1,000 MIPs chips are likely. As a consequence of faster and faster chips and the rapid proliferation of this technology among so many applications and users, the world's computing power doubles every two years or so. By the beginning of the next century, the world will have at least twice as much number-crunching power as exists today.

One of the most unusual, and certainly most unique, attributes of the computer industry is that prices fall even as processing power soars and demand exceeds supply. From 1982 through 1995, MIPs per \$100 rose from one to an estimated 30. In high-tech markets, falling prices are the reason why demand exceeds supply. But why do prices fall so rapidly in the face of booming demand? As soon as a computer chip is introduced, manufacturers are already developing the next generation. Innovators of generation "n" chips are forced to create "n+1" chips. If they don't, the competition soon will. This situation means that the most successful producers of technology must cannibalize their own products to remain successful. The high-tech industry literally eats its young.

The cost of high-tech research and development is so great these days that high-tech manufacturers must sell as many units as possible of their new products in as short a period of time as possible before the n+1 generation is introduced. That's why they tend to offer more power at a lower price with the introduction of each new generation. Also, the introduction of n+1 immediately reduces the demand for the *n*th chip and the *n*th computer. As the price of the old technology falls, it limits the upside of the price of the newest technology. As a result of these unique trends, the purchasers of high-tech hardware are constantly receiving more bang for their buck.

The plunge in the cost of MIPs is probably the most extraordinary deflation in the history of this planet. In effect, the High-Tech Revolution has created a fourth factor of production—namely, Information. The original three factors are Land, Labor, and Capital. Factors of production are substitutable for each other. Until recently, Information was hard to substitute for Land, Labor, or Capital. It was very expensive to gather, process, and manage. There were usually long lags between the creation of the raw data and its conversion into useful information. The lags made the information less useful once it was available. It was old news by the time it was available to decision makers.

With the High-Tech Revolution, enormous quantities of information can be gathered, processed, and managed on a "real-time" basis at lower and lower cost. The price of information is deflating. As it gets cheaper and cheaper, it also becomes more substitutable for the other factors of production. Increasingly, real-time information is replacing labor and capital in the production process. For example, insurance companies can eliminate warehouses of archived files and the associated support staff with scanners that can transfer information to optical disks. The automakers have slashed their inventories with real-time information systems that can automatically place orders with

vendors, schedule just-in-time deliveries, and monitor the transportation progress of the orders. As a result, inventories-on-the-shelves can be replaced with “inventories-on-wheels.” Information replaces working capital.

It is conceivable that by the end of the 20th century, many Americans might spend as much as 10-15% of their discretionary disposable income on goods and services purchased over the Internet. If so, the economic consequences would be extraordinary. Inflation probably would drop to zero. Conceivably, it could fall below zero. Deflation, or falling prices, could be one of the most significant and pervasive consequences of the widespread acceptance of the Internet by consumers. The Internet has the potential to provide at virtually no cost a wealth of information about the specifications, price, availability, and deliverability of any good and any service on this planet. Computers are linking producers and consumers directly. Indeed, I think that a case can be made for classifying consumer purchases of computers as capital spending rather than as consumer durable goods expenditures.

Even today, Internet-savvy consumers are using so-called Internet Search Engines—like Yahoo, Alta Vista, and Excite—to find the lowest prices for the goods and services they desire to buy. The Internet is fast becoming a global auction market and could commoditize most markets for products and services. The Internet lowers the cost of comparison shopping to zero. Increasingly, the consumer can easily and quickly find the lowest price for any good or service. In the cybereconomy, the low-cost producer will offer the lowest price and provide this information at no cost to any and all potential customers anywhere on the planet.

In the low-tech economy, the cost of searching for the lowest price was relatively high, thereby limiting a customer’s search process to local or well-established vendors. Now vendors anywhere in the world can bid for business anywhere in the world. Only the lowest-cost producers are likely to survive and prosper in the global cyber-marketplace. The resulting competitive pressures will force every business to strive to be among the lowest-cost producers. Prices for identical products will rapidly converge to the lowest price offered on the Internet. This dynamic pricing environment could lead to a deflationary price spiral as global competitors slash prices. To survive, they will be forced to slash costs and boost productivity. The simplest way to boost productivity is to sell more units by cutting prices.

Internet-driven sales of high-tech gear will generate the cash flow and attract the financial capital needed by the computer industry to develop even more powerful computers at constantly falling prices. More powerful computers permit software developers to create more powerful multimedia programs. These processing and memory hogs, in turn, force computer users to upgrade to the latest generation of hardware, which is required to run the latest versions of the operating systems and applications. In Biblical terms, better computers beget better software applications beget more demand to upgrade to even better hardware and software. The Internet begets more upgraders and more newbies.

The biggest booster for the proliferation of the High-Tech Revolution among consumers is the recent introduction of true multimedia computers that can be used to watch regular cable television. Soon these entertainment units will also include access to the Internet through the cable box. Once the consumer can enter the Internet with his TV remote control, the demand for the new Internet-accessing technologies will explode. In other words, the best is yet to come.

V. The American Challenge

Of all the major industrial nations, the United States has responded best to the economic challenges of the post-Cold War world. That's mostly because labor markets have become more flexible in the United States; they remain relatively rigid in Europe, and very much so in Japan. American workers tend to be more mobile than their European counterparts. They are willing to move very far within the United States to find employment. Between March 1993 and March 1994, nearly 43 million Americans moved, with nearly 7 million of them moving to a different state. They accept the fact that job security no longer exists. Instead of automatic raises each year, more of workers' pay is in the form of incentives and profit-sharing.

Most American workers are probably working harder than they did five or ten years ago. With the unemployment rate at 4.9%, they seem to have more job security. However, American workers recognize that in highly competitive markets there is no business security. They seem to understand the importance of keeping costs down to keep their companies competitive and to keep their jobs.

They also seem to know that a large federal deficit, open-ended social welfare programs, and high taxes aren't good for the competitive position of the United States. They increasingly are inclined to set limits on the role of the government in the economy—real limits on the social welfare state before it becomes completely bankrupt just in time for their retirement. They made this quite clear during the November 1994 elections.

The Democrats lost their stranglehold on Congress after the Republican's 1994 sweep. For the first time since 1948, Democrats held fewer than 200 seats in the House of Representatives. The results of the 1996 elections confirmed the sea-change among American voters. The Republicans held onto both houses. Ross Perot's vote dropped from 19% to 8% of the popular presidential vote between 1992 and 1996. This was a clear sign that Americans have turned less protectionist.

If Americans succeed in shrinking both the welfare state and in reducing the role of government in the economy, then the competitive pressures on other industrial nations—especially in Western Europe—to do the same will intensify. Of course, the European nanny states are far bigger relative to their economies than is the American version.

Moreover, European beneficiaries of social welfare seem to be much less willing to accept reductions in their benefits than are Americans. Resistance to change and social unrest may be the Europeans' initial response. But they don't have much choice. The end of the Cold War dramatically increased the global competitive pressures on the industrial social welfare state from newly emerging countries with much lower labor, tax, and welfare cost structures.

In Europe, there is much less labor mobility than in the US. National loyalties and ties remain very strong. Within each European nation, ties to local communities often go back several generations. This is very unusual in the US. In France, the workers aren't as accommodating as in the US: They go to the streets to protest. When their jobs or wage gains are threatened, they've been known to shut down the airport in Paris, join a national strike, or kidnap their boss. While workers in France seem to walk out at the slightest provocation, Germans rarely strike. But the price for industrial peace is so high it has become untenable. Saddled with the world's highest-paid employees and shortest working hours, Germany is feeling the heat from foreign competitors, particularly low-wage Eastern Europe. The bargaining system is being blamed for everything from high unemployment—currently more than 10%—to absenteeism double that of the US rate.

Germany's collective bargaining system was created by the Allies after World War II. The centralized system provided for one set of negotiations to cover an entire industry by setting one wage scale. For decades, it worked well to promote labor peace and boost productivity. But it no longer works. It is too rigid and too slow to adapt to the new forces of global competition. So is the tax system. Germany's corporate tax rate is by far the highest of any OECD country. For average production workers, Germany has the fifth heaviest tax burden among all OECD countries. The top tax rate on income is 53%, well above the US top rate of 39.6%.

European leaders hope that a Europe united by a common currency will emerge as a more competitive economic force in the coming century. European Monetary Union is a very daring economic experiment. It could fail at the polls in France at the end of May. The EMU may come to pass by the end of this century and fail because monetary unification can't work without labor market mobility. More likely, labor markets will become less rigid as European companies pressure their workers to be more flexible or lose their jobs to workers in Eastern Europe, China, and South Carolina.

VI. Japan's Karaoke Capitalism

For all too long, Japan has been a rich country with poor consumers. The economic system has favored and enriched the producers while the standard of living of average Japanese consumers has stagnated and certainly declined relative to their counterparts in other industrialized nations. Of course, there has been more job security in Japan than in

other industrial economies. There is a greater respect for the well-being of others, less crime, and more social cohesion. But surely all these highly desirable traits of Japan's society can be maintained while providing a better life for the average worker.

In the 1980s, many observers of Japan both there and overseas began to believe that Japan had created a new and more successful form of capitalism. In America, we feared that it might be superior to our own competitive system. We didn't understand their "keiretsu" system of cross-ownership and cooperation very well. Still, we were very impressed by the apparent successes of Keiretsu Capitalism.

With the benefit of hindsight, I believe that what appeared to be a new form of capitalism was really mostly old-fashioned corruption. My impression is that few, if any, business and economic relationships were conducted on an arm's-length basis. There was too much colluding, conspiring, and rigging occurring among the business elite, the government bureaucrats, and even the mob. I prefer calling Japan's economic system "Karaoke Capitalism." The all-too-cozy cross-ownership relations among and between manufacturers, distributors, and bankers worked well for all concerned when real estate values and stock prices were soaring and exports were strong. It must have been fun going to the karaoke bars to celebrate the boom during the 1980s.

But that was then, and this is now. Japan has only 3% of the world's landmass, yet it had 60% of the world's real estate value in 1989, by one estimate. It was the biggest speculative bubble of all times. It burst at the start of the decade. The resulting bad loans created a horrendous banking crisis, which is proving harder to fix than was the S&L debacle in the US.

Japan's leaders are once again promising to reform their political and economic systems. Many similar promises have been made before. They weren't kept. However, Japan is likely to change for the better.

VII. Emerging Economies: Something Missing

In some ways, the emerging economies of today resemble the US economy when it was emerging during the 1800s. The US economy grew dramatically during that century. But there were lots of busts and panics along the way. There was plenty of corruption. Foreign investors lost huge sums of money on railroad deals that were either poorly conceived or just plain fraudulent. Long periods of inflation were followed by long periods of deflation. Despite all the turmoil and upheaval, the history of the US economy is the history of one of the greatest emerging economies of all times.

There were at least two very important ingredients in America's success story. The country had a solid legal system and a relatively egalitarian distribution of income. Capitalism is first and foremost a legal system. It requires laws that protect property

rights. It depends on the enforceability of contracts. The legal system has to be anchored in a body of precedent, but it must be flexible enough to adapt to the changing requirements of a dynamic economy. The rulings of the Supreme Court during most of the 1800s consistently favored the advocates of economic progress.

Many emerging markets today don't have legal systems that can accommodate the needs of a rapidly growing economy. Without this legal infrastructure, economic activities become less and less efficient. Without well-defined property rights and contracts, it becomes harder and harder to organize and execute the larger scale of transactions that are the milestones of growth. (In the Russian version of capitalism, entrepreneurs sell stolen goods in free markets.)

Another major deficiency of many emerging economies is their income distribution. Fast economic growth requires a certain level of social stability and consensus. If, during periods of rapid growth, the rich get richer while the poor are left behind and see no prospects for sharing in some minimal way in the new bounty, then rebels will emerge as they did in Mexico.

VIII. Conclusion

In 1919, John Maynard Keynes published a short book titled *The Economic Consequences of the Peace*. It was an emotional and vicious attack on the Treaty of Versailles, which he argued was imposing a Carthaginian peace on the Germans and would set the stage for years of economic suffering and political turmoil in Europe. As events unfolded, it was a remarkably accurate forecast. It was also a worldwide sensation. In fact, Paul Johnson suggests that the book turned US public opinion against the Treaty and the League of Nations. The Senate voted against the Treaty, and the overwhelming defeat of the Democrats in the autumn of 1920 was seen as a repudiation of Wilson's European policy in its entirety.

After World War II, many economists predicted a depression, or at least stagnation, as the wartime economy was depressed by a slower pace of business during the peace. The stock market ignored these dire predictions. The S&P 500 index soared 139% from April 1942 to May 1946. Industrial production did dip right after the war, but the revival of consumer spending fueled a long period of prosperity until the late 1950s.

Fortunately for us, the economic scenario of the current peacetime is following the prosperity script so far. The US stock market is up a whopping 164% since the end of 1989. The end of the Cold War was a liberating event of historic proportions. The global economy was liberated from protectionism. The subsequent proliferation of free trade should continue to generate prosperity for Americans and all other humans on this planet who are willing to accept the competitive challenges.

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- #11 Dr. Edward Yardeni and Deborah Johnson, *The Restructuring Of Corporate America Is Bullish*, December 9, 1987

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Economic consequences of war / institute for economics & peace. Executive summary. One of the enduring beliefs of modern times is that war and its associated military spending has created positive economic outcomes for the U.S. economy. This has been supported by recent public opinion polling in the U.S. which shows a significant number of people believe that war and military spending has improved the economy.