

Readings in Business Cycle Theory

Sir Dennis Robertson J. A. Schumpeter
R. G. Hawtrey F. A. Hayek
Alvin H. Hansen Bertil Ohlin
Jan Tinbergen Wesley C. Mitchell
A. P. Lerner Oscar Lange
and others

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BUSINESS CYCLE
THEORY

SELECTED BY A COMMITTEE OF
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To
The Memory of

DR. HORACE G. WHITE, JR.

Whose diligence, scholarship and enthusiasm were of invaluable help in starting this series of republished articles in economics.

The ship on which he sailed, on a government mission, was torpedoed in the North Atlantic in February, 1943.

PREFACE

The Blakiston Series of Republished Articles on Economics is designed to make accessible in its successive volumes the most useful periodical literature in the various fields of economic analysis and policy. By an agreement between The Blakiston Company and the American Economic Association, the Company, during an initial experimental term, will undertake the publication of an annual volume devoted to a subject chosen by a standing committee of the Association and edited by a special committee of experts on that subject. The favorable reception of the first volume in the series—*Social Control of Industry*—has encouraged the publishers to continue the venture without interruption despite technical and editorial difficulties entailed by the war.

Primarily the Series is oriented toward the tuition of senior and graduate university students; but there is also the hope that professional economists will find it a useful means of keeping abreast of developments in other fields than their own. Thus the Series may help to lessen the intellectual provincialism of specialists, which, it is said, threatens them with having nothing in common, not even an education. Furthermore, despite the aridity which economists seem to cherish, and despite their affectation of technical jargon and even of terminological monsters called up for the occasion, the intelligent layman will in general be able to find his way successfully through these collections to his lasting benefit, if not delight.

It should go without saying that the editorial committees desire not only to acquaint the reader with doctrines common to many or all of the scholars in the field, with the contentious issues, and with the more interesting idiosyncracies of certain writers, but also to do all this without bias in the selection of content.

These requirements imposed upon the editors of the present volume, under the chairmanship of Professor Gottfried Haberler,

a singularly arduous task, since the subject matter includes, beside the technical analysis of cyclical variations, the expression of profound and sometimes violent differences in economic and social philosophy extending far beyond the sphere of the immediate subject.

The Series will be continued in a third collection of articles, edited by a committee of which Professor Bernard F. Haley is chairman, devoted to distribution theory, the national income, and the distributive shares. Suggestions regarding future volumes are welcome; they may be sent to Professor James Washington Bell, Secretary, American Economic Association, Evanston, Illinois.

HOWARD S. ELLIS.

Chairman, General Committee
on Republications.

WASHINGTON, D. C.

March, 1944.

INTRODUCTION

The primary purpose of the present volume, as well as of the others in this series, is usefulness in teaching graduate and advanced undergraduate courses. Originality of articles is only a subsidiary consideration. The inclusion of chapters from books, which in some cases might have served better than articles in periodicals, would raise more cumbersome copyright questions and is not within the scope of the present series as delineated in the agreement between the publishers and the American Economic Association. The choice of articles for this volume was in some cases influenced by the fact that companion volumes are contemplated in related fields, such as Economic Theory and Money and Banking.

The members of the Selection Committee found it extremely difficult to decide what to include in the selection. They are under no illusion that they were able to do a perfect job. It is simply impossible to satisfy, within the allotted space, all legitimate demands and to comply with all wishes expressed by those interested in the field.

The procedure of making the selection was as follows: A comprehensive list of articles was sent to a small group of experts with the request to indicate their first and second choices. This ballot was, however, very inconclusive. Only a few articles were selected by more than one member of the group.

The items selected by at least one member of the first group were then combined in a second list. This list was again circulated among approximately the same group. The outcome was again discouraging because it revealed little agreement. The chairman of the Committee then drew up a list, which after numerous discussions and consultations with many experts in the field resulted in the selection here offered.

The following persons were kind enough to serve on the selection committee or to give generous advice: J. W. Angell, J. Bain, A. F.

Burns, H. S. Ellis, W. Fellner, G. N. Halm, A. H. Hansen, S. Kuznets, O. Lange, F. Lutz, F. Machlup, A. Marget, C. E. Puffer, A. P. Lerner, P. A. Samuelson, A. Smithies, J. A. Schumpeter, H. M. Somers, H. Staehle, W. Stolper, J. H. Williams. Many of them permitted the inspection of reading lists used in their business cycle courses.

.

It was decided to limit the present book to business cycle *theory* and to present only a minimum of descriptive and statistical-methodological material. The reasons are lack of space and the hope that it will be possible to prepare a special volume on statistical methodology in the field of economics.

No articles in foreign language have been translated for the present volume, but some of the included articles, taken from American or English periodicals have originally appeared in foreign languages or have foreigners as authors. It will be observed that the group of authors represented in the present volume is quite cosmopolitan.

There is one serious gap which requires a word of justification. The name of Arthur Spiethoff is absent from our list. The reason is that his *chef-d'oeuvre*, the famous article "Krisen,"¹ which is a full-fledged descriptive and theoretical monograph on business cycles, will be published in an English translation as a separate book by the University of California. His earlier articles² are today only of historical value for the expert and his article "Over-production"³ does not give an adequate picture of his thinking.

The inclusion of Professor Schumpeter's little classic does not call for special explanation. Kondratieff's famous article is still the best material in article-form available in English on the long waves. The interested reader should, however, consult the instructive article "Kondratieff's Theory of Long Cycles" by

¹ *Handwörterbuch der Staatswissenschaften*, Vol. vi, Jena 1925, pages 8-91 (large quarto size).

² See Bibliography page 493.

³ *Encyclopaedia of the Social Sciences*, Vol. xi, pages 513-517.

George Garvy¹ which contains a critical review of the extensive literature in Russian, by Kondratieff and other writers, on the subject of the long waves. Professor Mitchell's article is probably the best suited short exposition of his views on business cycles which underlies the well-known National Bureau technique of cycle analysis. No detailed, technical analysis of the latter has, however, been included, because such an article would take much space and belongs rather to a volume on economic-statistical methodology. Professor Tinbergen's admirable paper is short and it deals with the logic rather than the statistical technique of his approach. Therefore it was included. An alternative choice might have been Dr. Koopman's "Logic of Econometric Business Cycle Research."²

In every business cycle course it is found necessary to devote much time to the discussion of the relationships between saving, investment, consumption and national income, which play such a great role in many explanations of the cycle. To distinguish between definitional and causal relationships is not easy and the student should get a good feeling for this distinction. He also should become familiar with the logical pitfalls and the opportunities of terminological tangles and controversies provided by the existence of overlapping alternative definitions. For these reasons some space was allotted to a subject of which many scholars have become weary in recent years.

The last item in this group—Professor Lange's celebrated article—constitutes a transition to the next subject. The literature on the multiplier, acceleration principle and Government deficit spending is enormous as can be seen from the bibliography. It is hoped that the present selection will be found useful.

The monetary theories of the business cycle are no longer so much in vogue as they were ten years ago. Professor Robertson's admirable article, however, goes much beyond the purely monetary theories. The included contributions by Professors Hawtrey and

¹ *The Review of Economic Statistics*, November 1943, Vol. xxv, pages 203–220.

² *Journal of Political Economy*, Vol. II, pages 157–181.

Hayek are probably the best short statements of their respective theories.

Professor Hansen's presidential address is still the best presentation in article-form of the secular stagnation thesis, the long-run version of the underconsumption theory. Professor Neisser's somewhat unconventional statement of the underconsumption theory has the great advantage that it discusses the Marxian and other older doctrines. These two papers and Professor Ellis' subtle criticism should give a fairly rounded picture of the subject.

Dr. Ezekiel's paper does not confine itself to the cobweb cycles, but contains also a brief discussion of other mechanisms used for the explanation of special commodity cycles. And all of these mechanisms find their place also in the explanation of the general business cycle.

It should be mentioned that some of the authors have been kind enough to make a number of revisions. A few articles have been shortened, others adorned with more footnotes.

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The reprints of articles are followed by a very extensive bibliography, which was compiled by Professor H. M. Somers. It is hoped that the bibliography will be useful not only for teaching purposes, but also as a reference list for the expert. Because of the great number of items included, it was possible to use in the bibliography a much more detailed classification than in the collection of articles. The principles of the classification and the difficulties encountered are fully described by Dr. Somers' on page 443.

GOTTFRIED HABERLER.
Chairman, Selection Committee



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