

PROSPERITY AND DEPRESSION

PROSPERITY AND DEPRESSION

A Theoretical Analysis of Cyclical Movements

BY

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PREFACE TO THE ORIGINAL EDITION

This book has its origin in a resolution adopted by the Assembly of the League of Nations in September 1930 by which it was decided that an attempt should be made to co-ordinate the analytical work then being done on the problem of the recurrence of periods of economic depression.

The literature concerning economic depressions and what is currently and somewhat loosely described as the trade cycle is abundant, and the publication of a further book on the theory of such cycles was not the primary object of the enquiry undertaken as a result of this resolution. This book is incidental to the first step in that enquiry.

It is apparent from the persistence with which depressions occur, from the gravity of their economic and social effects, and from the growing consciousness of that gravity, that—however abundant the literature on the subject, however elaborate and specious the theories—our knowledge of the causes of depressions has not yet reached a stage at which measures can be designed to avert them. This failure of society to control its own destinies may be due to one of three causes. It may be due to the fact that the causal relationship of events has not up to the present been ascertained; it may be due to the fact that, although the truth has been discovered and stated, it lies buried and obscured in a mass of false theory; finally, it may be due to the fact that, although the truth is known and recognised, depressions are as inevitable a phenomenon of our present economic structure as famines were of a more primitive economy which lacked means of transport and of storage.

The ultimate object of all enquiries into the occurrence of depressions must be to find ways and means to avert depressions or, if they are in fact inevitable, to render the structure of society

more apt to meet the shock which they cause. But, if practical measures to avert depressions, or to lessen their intensity or duration, or to adapt the economic structure to them can in the end be found, their discovery is likely to result from a slow and protracted process of research and their practical value is likely to result from a slow and painful process of trial and error.

With these considerations in mind, the enquiry undertaken by the League has been designed, not with a view to the elaboration of a new and complete theory of the cycle, but with the object of analysing and sifting (if necessary, supplementing) the theories which already exist and subjecting those theories to the test of fact.

The first stage in the League enquiry, therefore, has been to examine existing theories with a view to ascertaining what they had in common, the points at which differences of opinion arose and, in so far as possible, the causes of those differences.

In the second stage, which has now just been initiated, an endeavour will be made to confront these various theories with the historical facts—to subject them in so far as these facts can be quantitatively expressed to statistical analysis, in so far as they are not quantitatively expressed to the recounted records of the past.

This present volume is concerned with the first stage only. Professor Haberler, to whom the conduct of the enquiry in its initial stages was entrusted, has divided it into two parts. The first part contains a systematic analysis of existing theories; the second an attempt to weave from those theories a general synthesis.

A first draft of the systematic analysis was sent to the authors quoted for comments and criticisms. While this precaution was clearly necessary (and ready and most valuable help was afforded), it must not be interpreted as implying that the various authors have thus made themselves responsible for the summary of their reasoning contained in the following pages. A summary can never be a perfect reflection of what it summarises, and indeed one author—though only one—replied that his exposition would not remain recognisable if thus compressed.

In the course of this analysis of existing theories, it became apparent that many of the seeming differences of doctrine were due rather to the use of different terminologies than to any more fundamental causes.

The measure of agreement which appeared to exist between those who have devoted special attention to the problem of the trade cycle seemed to justify an attempt to make from their theories even at this early stage of the work the general synthesis which constitutes the second part of this volume. This synthesis, however, is more than a simple patching together of the theorems of others : it is an attempt to create a living and coherent, if incomplete, theory on the basis of the knowledge at present available. But it is confessedly tentative and preliminary : as Professor Haberler states in his Introduction, there are many points at which no definite solution can be proposed. At such points, various possibilities are suggested and these possibilities will be examined during the second stage of the enquiry. Indeed, the whole of this general synthesis will be subjected, together with the first part, to statistical control and test during the second stage of the enquiry. The intention is to confront the theories with the ascertainable facts—at first with those which can be expressed in terms of figures and later with those less tangible facts which the annals of the past record—with a view at once to testing the accuracy of the explanations or partial explanations of the cycle now current and to furnishing the basis of fact necessary for the further development of theory where theory is weak, views are discordant or doubt exists.

The publication of this work may, it is hoped, give rise to further discussion in a wider circle than could be approached by direct correspondence or by meetings.

A. LOVEDAY,

*Director of the Financial Section
and Economic Intelligence Service.*

Geneva, September 1936.

PREFACE TO THE 1939 EDITION

In preparing the new edition of this book, Professor HABERLER has subjected the whole manuscript to a thorough revision. The references to the literature on the subject with which he deals have been brought up to date. In the light of criticisms received, each step in the analysis has been carefully reconsidered and, in a number of cases, the argument has been modified or clarified. The main innovation, however, is the addition of a new chapter at the end of the first part. This chapter deals with the very rich literature on the subject which has come into existence since the completion of the manuscript of the first edition. The manuscript of Part I of that edition was substantially completed as long ago as December 1935, and that of Part II by the middle of 1936.

The objects of this new chapter are to assess the contribution of this recent literature to business-cycle theory as a whole and, as in earlier chapters, to consider how far apparent differences between theories are real or due only to the use of different terminologies.

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Geneva, April 1939.

PREFACE TO THE 1941 EDITION

In the preface to the first edition of this book, I wrote that "our knowledge of the causes of depressions has not yet reached the stage at which measures can be designed to avoid them." Anyone studying the 1939 edition, or more especially the new Part III which Professor Haberler has prepared for this edition, cannot fail to be struck by the exceptional advance which has been made in recent years in the particular branch of economic science with which this volume is concerned. Is our knowledge today sufficient to enable us to avert depressions? Will governments be able to use it successfully after the war? No one, I imagine, would reply to either of these questions with a categorical affirmative; but at least the categorical pessimism I expressed in 1936 would no longer be justified.

The interest that has been stimulated in this problem of the alternation of prosperity and depression and the abundant literature that has been published since the first edition of Professor Haberler's book was issued have given rise to the need for these two enlarged editions. This edition contains no changes in Parts I and II. But a third part has been added, in which Professor Haberler deals successively with the theory of the multiplier; the foreign trade multiplier; the multiplier and the acceleration principle in dynamic models; the problem of the turning points; the so-called "Ricardo effect"; price inflexibility, wage rigidity and unemployment. He adds a final section which is directly concerned with certain problems of policy.

The analytical table of contents has been expanded, and supplementary name and subject indexes have been added to cover Part III. The manuscript of Part III was completed in June, 1941.

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Princeton, July 1941

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