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BUSINESS CYCLES.

The Problem and Its Setting

By

WESLEY C. MITCHELL

DIRECTOR OF RESEARCH
IN THE
NATIONAL BUREAU OF ECONOMIC RESEARCH

WITH A FOREWORD BY
EDWIN F. GAY
DIRECTOR OF RESEARCH

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FOREWORD

There is printed with this volume a resolution on the relation of the directors of the National Bureau of Economic Research to the economic work of the Bureau. Since the establishment of the National Bureau it has been the practice to submit for the approval of the Board of Directors or their executive committee all proposals for new work to be undertaken by the staff, and reports on work in progress have been made regularly to the executive committee and to the annual meeting of the Board. The completed studies in draft form have been circulated for staff criticism and amendment and then have been sent by the directors of research to all the members of the Board. Only when the study had been approved in writing by a majority of the Board could it be released for publication, and dissenting views, if not accepted by the staff, were published with the book. The new resolution defines more precisely the steps in this procedure, by requiring a preliminary written statement of principles and methods and a synopsis to accompany the final manuscript. It states accurately the responsibility of the Board. It also fixes a time-limit on its voting.

The action of the Board implies a recognition of the success of the National Bureau's plan for securing from men of very divergent opinions a guarantee of the impartiality of its findings. Some friends of the enterprise feared at the outset that the plan might prove to be unworkable—for opposite reasons. Either, they said, the disagreements would be so serious as to embarrass the staff and impede publication, or it would be found impossible to induce busy men to give the time necessary for such scientific jury-service. But such men have been found, and their differences have been a source of strength instead of embarrassment. In practice, it is true, some members of the Board have occasionally given their approval after merely cursory examination of the work submitted to them. It is for the alleviation of conscience in such cases that the briefer synopsis is to be provided and that the last clause of the sixth paragraph of the resolution has been inserted. But the responsibility of the Board toward the public is obviously too great and too keenly realized to permit any relaxation

in the established custom. The majority of the members of the Board will in the future, as in the past, continue to read and criticize the manuscripts, often bulky, which are submitted by the staff of the National Bureau. Our jurymen, fairly representative of the various currents of thought in American economic life, have effectively manifested their desire, not to accommodate their opinions, but to seek a common basis of agreed facts. Since the staff of the National Bureau is animated by the same purpose, it has welcomed gratefully the criticism and coöperation of its governing Board, and it counts on the continuation of a relationship, unique in scientific research, which the new and more precise regulations promise to make even closer and more helpful.

It happens that Professor Mitchell's book, "Business Cycles, The Problem and Its Setting," is the first to which the new regulations apply. Since, therefore, it carries the first publication of the Board's resolution, it has seemed desirable to make this accompanying explanation. The coincidence, fortunately, gives me an opportunity to express on behalf of the National Bureau our lively satisfaction in presenting the first section of Professor Mitchell's work, which will give on its completion a rewriting, based on new and fuller statistical material, of his book on "Business Cycles," published in 1913. The National Bureau had already, in 1921, requested Professor Mitchell to undertake, with the assistance of its available resources, a comprehensive analysis of business cycles, when Mr. Hoover turned to it for aid in the work of the President's Commission on Unemployment. The Bureau's staff, under Professor Mitchell's direction, produced the report on "Business Cycles and Unemployment" which appeared as volume IV of the National Bureau's publications and was also issued by the Commission. The National Bureau was glad to make in this way its contribution, then especially timely, to that diffusion of knowledge which is essential if the severity of recurring business cycles is to be mitigated. But since its original undertaking, however much stimulated by the economic situation of 1921, was motivated primarily by scientific interest, it was also glad in 1923 to turn to the patient labor of fact collection and analysis. The first of the series of studies of business cycles, Dr. Thorp's "Business Annals," was published last year. The present volume will be followed by the publication, in successive installments, of an exceptionally complete collection of statistical material.

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now being utilized by Professor Mitchell in the preparation of the final section of his work.

Just as the estimating of the national income, which had been the first and remains the continuing task of the National Bureau, led to the need of inquiry into the causes of fluctuations in that income, and thus to the related study of business cycles, so Professor Mitchell's interest in business cycles was closely linked with his earlier investigation of prices and monetary instability. His book of 1908 on "Gold Prices and Wages under the Greenback Standard" was thus the forerunner of his "Business Cycles" of 1913 and of his fresh attack upon the problem which he has undertaken with the National Bureau of Economic Research. Two decades of a life-time, so consistently employed, approach, in statistical parlance, to the dignity of a "trend," and there are many, in addition to the professional statisticians, who will watch with keen interest this particular curve of development.

EDWIN F. GAY.

RESOLUTION
ON THE RELATION OF THE DIRECTORS TO THE
ECONOMIC WORK OF THE BUREAU

- 1—The object of the Bureau is to ascertain and to present to the public important economic facts and the interpretation thereof in a scientific and impartial manner, free from bias and propaganda. The Board of Directors is charged with the responsibility of ensuring and guaranteeing to the public that the work of the Bureau is carried out in strict conformity with this object.
- 2—The Directors shall appoint one or more directors of research chosen upon considerations of integrity, ability, character, and freedom from prejudice, who shall undertake to conduct economic researches in conformity with the principles of the Bureau.
- 3—The director or directors of research shall submit to the members of the Board, or to its executive committee when such is constituted and to which authority has been delegated by the Board, proposals in respect to researches to be instituted; and no research shall be instituted without the approval of the Board, or of its executive committee.
- 4—Following approval by the Board, or its executive committee, of a research proposed, the director or directors of research shall as soon as possible submit to the members of the Board, by written communication, a statement of the principles to be pursued in the study of the problem and the methods to be employed; and the director or directors of research shall not proceed to investigate, study, and report in detail, until the plan so outlined has been approved by the board or the executive committee thereof.
- 5—Before the publication of the results of any inquiry the director or directors of research shall submit to the Board a synopsis of such results, drawing attention to the main conclusions reached, the major problems encountered, and the solutions adopted, the nature of the sources from which the basic facts have been derived, and such other information as in their opinion shall have a material bearing on the validity of the conclusions and their suitability for publication in accordance with the principles of the Bureau.
- 6—A copy of any manuscript proposed to be published shall also be submitted to each member of the Board, and every member shall be entitled, if publication be approved, to have published also a memorandum of any dissent or reservation he may express, together with a brief statement of his reasons therefore, should he so desire. The publication of a volume does not, however, imply that each member of the Board of Directors has read the manuscript and passed upon its validity in every detail.
- 7—The results of any inquiry shall not be published except with the approval of at least a majority of the entire Board and a two-thirds majority of all those members of the Board who shall have voted on the proposal within the time fixed for the receipt of votes on the publication proposed; such limit shall be 45 days from the date of the submission of the synopsis and manuscript of the proposed publication, except that the Board may extend the limit in its absolute discretion, and shall upon the request of any member extend the limit for a period not exceeding 30 days.
- 8—A copy of this memorandum shall, unless otherwise determined by the Board, be printed in each copy of every work published by the Bureau.

PREFACE

Much has been learned about business cycles since 1913, when my first book on that problem was published. Economic theorists have been studying the phenomena with increasing energy and thoroughness—Albert Aftalion and Jean Lescure in France; Mentor Bouniatian and S. A. Pervushin in Russia; Gustav Cassel in Sweden; John Maurice Clark, William T. Foster; Waddill Catchings, Alvin H. Hansen, and Henry L. Moore in America; R. H. Hawtrey, John A. Hobson, A. C. Pigou, and Dennis H. Robertson in England; Emil Lederer, Joseph Schumpeter and Arthur Spiethoff in Germany, to name but a few. Economic statisticians have made rapid progress in analyzing time series—witness the accomplishment of Warren M. Persons and his many co-workers here and abroad. Most important of all in promise for the future, the leading commercial nations are learning to keep more adequate records of their economic activities. Of the extraordinary business fluctuations through which the world has been passing of late, we have fuller knowledge than of any earlier cycles.

For perhaps ten years my unwieldy quarto has been out of print. At least as long it has been out of date. Nor could it be brought abreast of current research by mere revision. It became plain that if I could add anything of value to the work in process it would be only by writing a new book. But single-handed, I could not manage the wealth of new materials, or apply the improved methods of statistical analysis. From this quandary I was rescued by the National Bureau of Economic Research, which offered to collect and analyze the data I needed, and to supply the gaps in my equipment. {

Despite the National Bureau's efficient aid, my resurvey of the field is taking more time than the first survey took. This work has been my chief concern since 1923, yet only one volume is ready for publication. It deals, as the sub-title indicates, with "The Problem and its Setting." A second volume on "The Rhythm of Business Activity" will follow as soon as I can finish it.

The present treatise resembles its forerunner in general plan. But the statistical data prove so extensive that they must be pub-

lished separately in a series of volumes, instead of being included as before with the theoretical discussion. There is the more reason for this change in that the National Bureau's collection of tables promises to be a source book of great value to many workers concerned with other problems than business cycles. Also, the collection of annals, which in the earlier treatise covered only four countries and 23 years, has grown into a survey embracing 17 countries and extending back to 1790 in the United States and England. That collection, made by Dr. Willard L. Thorp, has already appeared in print.

I have not been able to devise a new way of conducting the inquiry which seemed better than the way followed in 1913. My earlier impressions that business cycles consist of exceedingly complex interactions among a considerable number of economic processes, that to gain insight into these interactions one must combine historical studies with quantitative and qualitative analysis, that the phenomena are peculiar to a certain form of economic organization, and that understanding of this scheme of institutions is prerequisite to an understanding of cyclical fluctuations—these impressions have been confirmed by my efforts to treat the subject in a simpler fashion. Hence the new version is not shorter or easier than its predecessor. Much to my regret, it makes even heavier demands upon a reader's time and effort.

From the Staff and the Directors of the National Bureau of Economic Research I have had most generous help. Among the staff members Drs. Frederick C. Mills, Willford I. King, Willard L. Thorp and Simon S. Kuznets have put their technical skill freely at my disposal. Among the Directors, Professor Allyn A. Young and Colonel Malcolm C. Rorty have made especially searching criticisms of the first draft. Dr. Edwin F. Gay, Director of Research, has been my mainstay for counsel from the beginning of the undertaking. Several other friends have read parts of the manuscript and suggested improvements—Messrs. Carl Snyder and Karl Karsten, Professors Walter F. Willcox, Warren M. Persons, Vladimir G. Simkhovitch, and James W. Angell. The Harvard Committee on Economic Research through its chairman Professor Charles J. Bullock, the American Telephone and Telegraph Company through its statistician Mr. Seymour L. Andrew, Sir William Beveridge, Mr. Snyder, and Dr. Dorothy S. Thomas have kindly consented to the free use I have made of their contributions. Miss Edith Hapdler of the National

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Bureau has made most of the charts. My secretary, Miss Catherine Lochhead, has shared in the labors of proof reading and indexing.

To all these men and women, and to the many co-workers by whose criticisms and constructive suggestions I have sought to profit, my hearty thanks are due.

WESLEY C. MITCHELL.

New York City, June 1st, 1927.

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