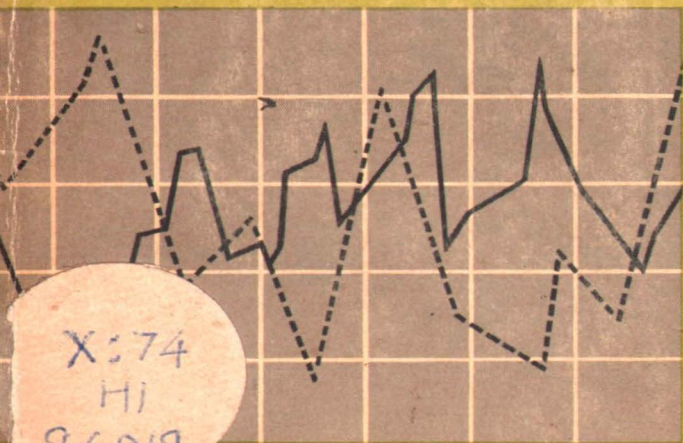


\$1.50

BUSINESS CYCLES

AND THEIR CAUSES



WESLEY CLAIR MITCHELL

UNIVERSITY OF CALIFORNIA PRESS

**BUSINESS
CYCLES
AND THEIR
CAUSES**

WESLEY CLAIR MITCHELL

BUSINESS
CYCLES
AND THEIR
CAUSES

UNIVERSITY OF CALIFORNIA PRESS
BERKELEY AND LOS ANGELES: 1960

**University of California Press
Berkeley and Los Angeles, California**

**Cambridge University Press
London, England**

**© 1941 by Wesley Clair Mitchell
Fourth printing, 1960
(First Paper-bound Edition, Second printing)**

Printed in the United States of America

BIBLIOGRAPHICAL NOTE

BUSINESS CYCLES, Part III of which is here reprinted, was published by the University of California Press in 1913 as a quarto of some six hundred pages. In the early 1920's, when all the copies printed had been sold, the Press invited me to prepare a revised edition. I declined on the ground that I could not tell what was wrong, what was doubtful, and what was sound in my first version until I had studied cyclical movements more thoroughly. By that time the National Bureau of Economic Research had begun cultivating the field, and I was eager to take full advantage of the counsel and assistance it put at my disposal, as well as of later materials, in a fresh attack upon the problem.

Now that the University of California Press has renewed its invitation, I can see no justification for reissuing the earlier parts of the 1913 volume. Part I contained a summary of the leading theories of business cycles then current, a sketch of economic organization, and a year-to-year account of cyclical fluctuations in the United States, England, France, and Germany from 1890 to 1911. Business Cycles: The Problem and Its Setting, published by the National Bureau in 1927, and kept in print, treats these topics more searchingly on the basis of more recent investigations. And the National Bureau is in process of superseding the statistical data and analyses of Part II. A much larger collection of time series, mainly in monthly form, is being analyzed by greatly improved methods, and

worked up by specialists who can interpret the findings in the light of fuller knowledge than I have. Their results will appear as a series of Studies in Cyclical Behavior, of which the first is nearly ready for the press. Why reprint business annals and statistics that end in 1911, or a review of business-cycle theories as they stood in 1912?

Perhaps a better case can be made for reprinting Part III of the quarto. While the Studies in Cyclical Behavior are being written, I am trying to piece their findings together in a volume to be called The Rhythm of Business Activity. At best, this effort will take several years, and there is no assurance that my working capacity will last long enough to let me be in at the finish. Nor would the immediate assumption of the task by others assure prompt completion. Thus there is no prospect that Part III of the quarto will soon be replaced by a more thorough version, as Part I has been and Part II is in process of being.

A contribution to economic theory does not pass out of date so automatically as do business annals and business statistics. Friends tell me, and I like to believe them, that Part III still has value as a realistic account of what goes on within a business cycle. The economic organization of which it treats has changed in many ways since war disrupted the world in 1914, but the fundamental institutions of private property, money economy, and free enterprise in search of profits persist in the countries that concern Americans most. Certainly the changes have not diminished the violence of business cycles or the need of understanding how they come about. The interrelations among economic activities, out of which I framed my explanation in 1913, have not been abrogated. No one writing now would distribute his emphasis as I did then, or make all the statements I thought warranted. But I am reluctant to attempt revisions suggested by an incomplete assimilation of the observations gathered by the National Bureau or hypotheses offered by theoretical writers. So this reprint is issued with no

BIBLIOGRAPHICAL NOTE

vii

changes beyond betterments in wording and the correction of an arithmetical blunder. The many references to Parts I and II of the quarto are retained primarily as reminders that Part III was woven out of observations, not excogitated from postulates. Also they will aid critical readers who may wish to look up in the quarto the evidence that shaped the conclusions.

Arthur F. Burns and Joseph Dorfman are morally responsible for the appearance of this volume, though they do not approve of omitting Parts I and II. For that I claim the merit. Martha Anderson edited the original text with characteristic care. My warm thanks go to these friends; also to Samuel T. Farquhar and Harold A. Small of the University of California Press, who have made reprinting an easy task for me.

April 21, 1941

WESLEY C. MITCHELL

PREFACE

THE REVIEW of theories in *Part I* of my *Business Cycles*¹ and the statistical study of the phenomena of cycles in *Part II* had a common purpose—to provide suggestions and materials for framing an account of the rhythmical alternations of prosperity, crisis, depression, and revival in the modern business world.

Now the recurrent phases presented by economic activity, wherever it is dominated by the quest of profits, grow out of and grow into each other. An incipient revival of activity, for example, develops into full prosperity, prosperity gradually breeds a crisis, the crisis merges into depression, depression becomes deeper for a while, but ultimately engenders a fresh revival of activity, which is the beginning of another cycle. A theory of business cycles must therefore be a descriptive analysis of the cumulative changes by which one set of business conditions transforms itself into another set.

The deepest-seated difficulty in the way of framing such a theory is that while business cycles recur decade after decade each new cycle present idiosyncrasies. Business history repeats itself, but always with a difference. This is part of what is implied by saying that the process of economic activity within which business cycles occur is a process of cumulative change.

A thoroughly adequate theory of business cycles, applicable to all cycles, is consequently unattainable. Even if some one

¹ *Memoirs of the University of California*, Vol. 3, 1913; now out of print.

cycle could be fully accounted for, the account would necessarily be inaccurate for cycles that were the outgrowth of earlier or of later conditions. Nor are all the differences between the successive cycles of one country and between the contemporary cycles of several countries minor. Even such an elementary matter as the order in which the phases of a business cycle succeed one another is not invariable. A revival of business activity does not always develop into prosperity—sometimes it relapses into depression. Such deviations from the usual course of events occurred in the United States in 1892, 1895, and 1910. A situation of intense strain, presenting the phenomena of crises, sometimes occurs in a period of depression, instead of following a period of prosperity; for example, the American stringency of 1896. It is needless to elaborate, however, for the points of difference between any two periods of prosperity, of crisis, or of depression are scarcely less numerous than the points of similarity. Every business cycle, strictly speaking, is a unique series of events and has a unique explanation, because it is the outgrowth of a preceding series of events, likewise unique.²

The theory of business cycles, however, need not be given up in despair because it cannot satisfy ideal requirements. The purposes scientific theory serves are met by explanations that stop far short of radical thoroughness. Much would be gained for the conduct of individual affairs and the guidance of legislation could we single out from the maze of sequences among business phenomena a few that are substantially uniform. For, with a degree of confidence that depends upon the regularity with which they recur, these sequences could be used as guides

² If theory is to be taken seriously as seeking to give really adequate understanding, it must be admitted that even this unique explanation of any single cycle cannot be completely worked out. For, obviously, analysis can never be carried back to the beginning of the chain of events in any cycle, and concerning even the proximate events it is obviously impossible to collect all the relevant information. Further, the intellectual instruments of analysis are unequal to the complex problem of handling simultaneous variations among many interrelated functions.

in forecasting the immediate business future. They could serve also as centers for organizing our knowledge concerning the variable sequences, and as beginnings in the search for new uniformities. Such regular sequences would help us to organize the tangled mass of facts presented by direct observation into coherent clusters. The latter would stimulate the imagination to unravel various lines of causal connection that are jumbled together in the annals of business and in the tables of statistics. Then it might be found that the irregularity of other sequences arises from varying combinations among sequences themselves regular.

The first aim of the descriptive analysis of business cycles, then, must be to look for the sequences that occur in every revival, prosperous period, crisis, and depression. The various lines of thought suggested by what lies on the surface may be followed boldly in the hope of discovering further uniformities that are obscured by the dissimilarities of the combinations in which they appear. These speculations, however, must be submitted to the pragmatic test. That is, they must be used in attempting to interpret the known phenomena of business cycles, and judged by the aid they render the mind in its effort to create order amidst the confusion of observations.

The sketch of economic organization in the second chapter of the first edition provided the framework into which the statistical chapters of Part II were fitted, and also the framework for a descriptive analysis of business cycles in Part III.

Since the quest of money profits by business enterprises is the controlling factor among the economic activities of men who live in a money economy, the whole discussion must center about the prospects of profits. On occasion, indeed, this central interest is eclipsed by a yet more vital issue—the avoidance of bankruptcy. But to make profits and to avoid bankruptcy are merely two sides of a single issue—one side concerns the well-being of business enterprises under ordinary circum-

stances, the other side concerns the life or death of the same enterprises under circumstances of acute strain.

Whatever affects profits and solvency, then, comes within the sweep of the analysis. And we already know the factors of chief significance: the prices that constitute business receipts and the prices that constitute business expenses, the volume of sales effected at the prevailing margins of profit, the need of having currency to make payments and of obtaining loans in adequate amount from banks and investors. But to know what these factors are, and even to know what fluctuations they undergo in severalty, is only half the battle. The other and the harder half is to follow the interactions of these factors through all the permutations that brighten or darken the prospects of profits and make easy or difficult the maintenance of solvency.

Since the processes of a nation's business life never cease or begin afresh, no natural starting point for the descriptive analysis to which we are committed exists. It is necessary to plunge in medias res by breaking into the unceasing processes at some arbitrarily chosen point. The grave disadvantage of this procedure is that the whole situation from which we start must be taken for granted. But, by following the interlacing processes forward through their successive phases we can work round again to our point of departure, and account for our original assumptions in the only way in which we can account for any of the intermediate phenomena—that is, by tracing the processes of cumulative change through which one set of business conditions gradually evolves into quite a different set.

The starting point chosen is that stage of the business cycle in which activity begins to quicken after a period of depression. How the characteristic features of this stage are evolved by the depression itself will be treated last of all.

W. C. M.

CONTENTS

The Cumulation of Prosperity

CHAPTER 1 · PAGE 1

How Prosperity Breeds Crisis

CHAPTER 2 · PAGE 29

Crises

CHAPTER 3 · PAGE 71

Business Depression

CHAPTER 4 · PAGE 129

Wider Aspects of Business Cycles

CHAPTER 5 · PAGE 149

Notes

PAGE 193

Index

PAGE 219

INDEX

- "Abnormal" events and business crises, 167-168
- Abortive revivals of business, 129-131
- Aftalion, A., theory of business cycles of, 60
- Agriculture, connection of, with business cycles, 2, 6-7, 146, 167
- Aldrich-Vreeland Act, 214, n. 49
- Andrew, A. P., 79, 81, 211, n. 5
- Applications for investment loans, 38, 41, 43, 136-137, 144-146
- Associated Banks of New York. *See* New York Clearing House
- Balance of trade. *See* Imports
- Bank checks. *See* Deposit currency
- Bank circulation. *See* Bank notes; Deposit currency
- Bank clearings, 101-105, 118-120
- Bank deposits. *See* Deposit currency
- Bank failures, 75-77, 124-125
- Bank notes: in panic of 1907, 78-83; in depression, 137
- Bank of England: discounts in 1906, 86; action of, in crisis of 1907, 110-115, 125-126; run on, in 1708, 169
- Bank of France, loan of, to Bank of England in 1907, 110, 114
- Bank rates. *See* Discount rates
- Bank reserves, 47-52, 80-84, 91-97, 110, 111, 125-128, 137-139
- Bankers' Magazine* (London), 115
- Banking reform, 124-128, 172-175
- Bankruptcies: in panic of 1907, 97-99, 122, 123-124; in depression, 140-142
- Banks, money held by, 47-52, 137-139
- Baring Brothers and Company, failure of, 124
- Barney, C. J., 211, n. 2
- Barometers of business conditions, 7-8, 179-187
- Beginnings of business cycles, 169-171
- Beveridge, W. H., theory of business cycles of, 163, 198, n. 3
- Bills of exchange. *See* Domestic exchange; Foreign exchange
- Birmingham clearings in 1907, 119-120
- Bonds: sales of, in prosperity, 42, 200, n. 20; yields and prices of, before crisis of 1907, 66-68; prices of, during panic, 87-88, and during depression, 135-136
- "Booms." *See* Prosperity of business
- Boston banks in panic of 1907, 89, 92, 96
- Bouniatian, M., theory of business cycles of, 218, n. 2
- Bowley, A. L., 174
- Bradstreet's*: statistics of bankruptcies, 96, 98, 123; index number, 100, 179
- Bristol: loan in 1907, 108; clearings in 1907, 119-120
- Bureau of Labor (U. S.): purchasing power of wage earners, 202, n. 39; wholesale prices, 213, n. 25
- Business activity: revivals of, 1-2; characteristics of, 3-27
- Business barometers, 7-8, 179-187
- Business costs: increase of, in prosperity, 29-39; encroachments of, upon profits, 52-63; decrease of, in depression, 139-142

- Business crises.** *See* Crises
- Business depression.** *See* Depression of business
- Business enterprises, capitalization of,** 63-70, 140-142
- Business equilibrium,** 25-27
- Business liquidation.** *See* Liquidation
- Business panics.** *See* Panics
- Business prosperity.** *See* Prosperity of business
- Business revivals.** *See* Revival of business activity
- Business, volume of,** 3-8, 99, 109, 122, 131-134, 142-146
- Call-loan rates,** 19, 89, 112
- Capacity for production.** *See* Industrial equipment
- Capital, bank, public applications for,** 136-137
- Capitalization of business enterprises:**
how affected by prosperity, 63-70;
how affected by depression, 140-142
- Cash reserves of banks,** 47-52, 79-83, 95-97, 110, 111, 125-128, 137-139
- Central reserve-city banks,** 84, 91-95, 102-105, 126
- Checking deposits.** *See* Deposit currency
- Checks.** *See* Deposit currency
- Chicago banks in panic of 1907,** 89, 91-92, 96, 102, 104
- Chile crisis of 1907,** 109
- Circulation, monetary.** *See* Currency
- Circulation, rapidity of monetary,** 48, 138
- Clearing-house loan certificates in 1907,** 78, 88, 127
- Clearings.** *See* Bank clearings
- Coal, statistics of production of,** 199, n. 14
- Commerce, foreign, volume of,** 85-86, 114, 116-117
- Commercial crises.** *See* Crises
- Commercial failures: in panic of 1907,** 97-99, 122, 123, 125; in depression, 140-142
- Commercial paper, discount rates,** 18-20, 38, 41-50, 58-59, 66-69, 89, 90, 112, 125, 135-136
- Commodity price statistic: in business revival,** 8-15; in high prosperity, 52-63; in months preceding a crisis, 68; during a panic, 99, 100; during depression, 134-135, 146
- Common stocks: prices in periods of revival,** 22-23; fluctuations preceding a crisis, 66-70; prices during a crisis, 87-88, 110, 115, and during depression, 136
- Compensated dollar,** 175. *See also* Stabilized dollar
- Competition and prices,** 194, n. 17; 196, n. 19
- Competition theory of business cycles,** 162-165
- Comptoir d'Escompte, failure of,** 124
- Condition of business, 1890-1911.** *See* Crises; Depression; Prosperity; Revival of business activity
- Confidence: increase of, in business revivals,** 5-6, 20; decline of, before crises, 69-74, 126; in periods of depression, 129, 131, 146
- Conjunctures, unforeseen, and business cycles,** 167-168
- Consolidation of business enterprises.** *See* Industrial consolidations
- Construction, costs of, in relation to business cycles.** *See* Costs of construction
- Construction of industrial equipment: in periods of revival,** 23, 25; in prosperity, 39-45, 57-58; in depression, 133, 144
- Consumers' demand: increase of, in business revivals,** 4; stability of, 14-15; supply absorbed by, 59-60; decrease of, in depression, 131, 143; expansion of, 145
- Consumers' goods: prices of,** 13-15, 56, 59-60, 99, 100, 134-135; production of, 188
- Consumption, volume of,** 60-63, 131, 143, 188-191
- Contract prices,** 55-56
- Contraction of business.** *See* Depression
- Control over business cycles,** 171-175
- Copper, prices of, in 1907,** 75

- "Corner." See Credits, manipulation of; Northern Pacific "corner"; Panics
- Cortelyou, G. B., 77, 82
- Costs of construction in relation to business cycles, 23, 25, 39-45, 57-59, 144-145
- Costs of doing business: increase of, in prosperity, 29-39; encroachments upon profits, 52-63, 108-109, 115, 121; decrease of, in depression, 139-146
- Country banks, 84
- Credit: relations of, with profits, 63-64; how affected by prosperity, 64-66; how undermined, 66-70; organization of, 169; manipulation of, and crises, 176-179
- Crises: theory of, Chap. V; history of economic, 169-171; effects of, upon economic welfare, 188-191
- Crisis: events preceding, of 1907 in America, 66-70; of 1907 in America, 74-107; in England, 107-122
- Crops, connection of, with business conditions, 2, 6-7, 146, 167
- Cultural discipline of the money economy, 190-191
- Cumulative change as characteristic of business cycles, 168
- Currency: in prosperity, 47-52; in panic of 1907, 77-83; in depression, 137-139
- Customary prices, 17, 55-56
- Daggett, S., 217, n. 24
- Demand: increase of, in times of revival, 4; effect of, upon price level, 8-10; decline of, in depression, 131-133, 142-144; increase of, in later stages of depression, 145
- Deposit currency, 51, 137-138
- Deposits subject to check. See Deposit currency
- Depression of business: business conditions resulting from, 1-2; periods of, 129-147; summary of theory of, 159-162; effect of, upon economic welfare, 188-191
- Dermietael, O., 21
- Diffusion of business activity in periods of revival, 3-8
- Diminishing utility and crises, 59-61
- Discount rates in periods of: revival, 18-20; prosperity, 38, 41-50, 58-59, 66-68; crisis, 89, 90, 112, 124-125; depression, 136-137
- Distribution of income and property, how affected by business cycles, 187-191
- Distribution of money among banks, public, and treasury, 47-48, 137-138
- "Disturbing causes" and crises, 167-168
- Diversities among business cycles, 166-168
- Domestic exchange rates in panic of 1907, 84, 85
- Dull times. See Depression
- Dun's Review, 98, 123
- Dun's statistics of bankruptcies, 98
- Early crises, 169-171
- East Indian Railway loan of 1907, 108
- Economic welfare and business cycles, 187-191. See also Money economy
- Economist (London), 108, 115
- Efficiency of business management, 38-39, 139-140
- Efficiency of labor, 31-35, 139-140, 175; decline in, 50
- Egypt, crisis of 1907 in, 109
- Ehrenberg, R., 218, n. 1
- Elasticity of currency, 50-52, 81-82, 126, 137, 138
- Emigrants, 143
- Emotional factor in business cycles, 5-6, 69-70, 129-130, 147
- Employment, irregularity of, 32, 109, 122, 131, 189; means of reducing, 175-175
- Encroachment of costs upon profits, 29-38, 52-63
- England, Mrs. M. T., 165
- England: concerning crisis of 1907 in, 107-122; early crises in, 169-171
- Enterprise. See Business enterprises
- Enterpriser. See Business enterprises
- Equilibrium of business, 25-27
- Exchequer, stoppage of, 169

- Expansion of business, 1-27
- Expenses, classification of, 36-37, 198, n. 7. *See also* Costs
- Exports, volume of, during crisis of 1907, 85-86, 113, 114, 116-117
- Failures of business enterprises: in panic of 1907, 96-99, 122, 123, 125; in depression, 141-142
- Farm products, relative prices of, 100, 135
- Financial cliques and crises, 176-179
Financial Review, 69, 89
- Financial stringency. *See* Stringency
- Fisher, I., 133, 165, 174, 182
- Fixed prices, 55-56, 140, 146
- Food, prices of, compared with relative wages, 202, n. 39
- Forecasting business conditions, 7-8, 175-187
- Foreclosure sales, 141-142
- Foreign commerce, volume of, 85-86, 113, 116-117
- Foreign exchange rates in panic of 1907, 86
- Foresight and crises, 175-176, 185-186
- Genesis of business cycles, 169-171
- Gold, currency, 50-52, 137-139
- Gold, imports and exports, 79, 80, 110, 113, 124, 125-126. *See also* Bank reserves; Currency
- Gold reserve, U. S. *See* Bank reserves; Gold, currency
- Goldmark, Josephine, 198, n. 5
- Goldsmith bankers, 169 *passim*
- Government purchases as means of steadying employment, 173-174
- Gross and Kleeberg, 75
- Hamburg crisis of 1907, 109
- Hamilton Bank, 77
- Hard times. *See* Depression of business
- Harriman, E. H., 218, n. 5
- Harvests, connection of, with business cycles, 2, 6-7, 146, 167
- Heinze, F. A., 75, 76
- Heinze, Otto, & Co., 75
- Henry, L. P., 198, n. 2
- Hill, J., 218, n. 5
- History of business cycles, 169-171
- Hoarding of money: in panic of 1907, 77, 78, 81; cessation of, 124
- Holland crisis of 1907, 109
- Hovey, C., 211, n. 3
- Hull, G. H., theory of business cycles of, 164, 182, 201, n. 21
- Ill-balanced production as cause of crises. *See* Hull, G. H.; Industrial equipment; Spiethoff, A.
- Immigrants, 143
- "Impair" savings. *See* Johannsen, N.
- Imports during crisis of 1907, 85-86, 113, 114, 116-117
- Incomes. *See* Distribution; Economic welfare; Saving; Underconsumption
- Index numbers, prices of commodities produced by trusts and under competitive conditions, 194, n. 17. *See also* Bankruptcies; Currency; Investment; Profits; Volume of business
- India Council, 110, 114
- Industrial consolidations in United States, price policy of, 194, n. 17
- Industrial equipment: increase of, in revival, 23, 25; in prosperity, 39-45, 57; in depression, 132-133, 137, 143, 144. *See also* Hull, G. H.; Spiethoff, A.
- Industrial Revolution and business cycles, 170, 171
- Industrial stocks, fluctuations preceding crisis of 1907, 69, 206, n. 46
- Inflation theory of crises. *See* Currency
- Insolvencies: in panic of 1907, 97-99, 122-124; in depression, 141-142
- Integration of industry, 172. *See also* Industrial consolidations
- Interest rates: in revival, 18-20; in prosperity, 38, 41-50, 58-59, 66-69; in crisis of 1907, 89, 90, 112, 125; in depression, 135-136
- Interior movements of currency in panic of 1907, 79-80
- Inventions, effect of, upon business cycles, 217, n. 30
- Investments in periods of: business revival, 23-25; prosperity, 39-45, 57-58; depression, 136-137

- Iron, statistics of production of, 199, n. 14
- Issues of capital. *See* Bank notes
- Johannsen, N., theory of industrial depressions of, 165
- Kelly, E., 211, n. 3; 218, n. 6
- Kemmerer, E. W., 85, 95, 133, 212, nn. 9, 12; 215, n. 4
- Knickerbocker Trust Company, suspension of, 76, 78, 123, 124
- Labor costs in periods of: revival, 16-18, 21; prosperity, 31-35, 36-37; depression, 139-140
- Labor in periods of: revival, 16-18; prosperity, 31-34; depression, 139-140
- Labor wages, purchasing power of, 202, n. 30
- Lasker, B., 218, n. 4
- Lauck, W. J., 211, n. 2
- Lavergne, A. de, 198, n. 2
- Layton, W. T., 202 (205), n. 39
- Leipzig Bank, failure of, 124
- Lescure, J., 164, 200, n. 15
- Lincoln Trust Company, 76
- Liquidation: conditions which cause, 70; character and consequences of, 71-74; following a crisis, 129-139; end of, 146-147
- Liverpool clearings in 1907, 119-120
- Lloyd George, David, 115
- Loans, bank. *See* Discount rates
- Loans in periods of: revival, 18-20; prosperity, 38, 41-50; depression, 136-137. *See also* Bonds; Call-loan rates; Credit; Discount rates; Investment
- London: discount rates, 112; bank clearings, 118
- Machine-building companies established in Germany. *See* Costs of construction; Hull, G. H.; Industrial equipment; Spiethoff, A.
- Manchester clearings in 1907, 119-120
- Manchurian Railway loan of 1907, guaranteed by Japan, 108
- Material prosperity and business cycles, 187-191. *See also* Money economy
- May, R. E., theory of business cycles of, 59-60. *See also* Underconsumption
- Mead, F. S., 214, n. 51
- Meade, E. S., 194, n. 17
- Mercantile National Bank, 75, 76
- Merchandise imports and exports, 85-86, 113, 114, 116-117
- Middlesex County Council loan of 1907, 108
- Mineral products, relative prices of, 100, 135. *See also* Sombart, W.
- Mining stocks, fluctuations in, preceding crisis of 1907, 206, n. 46
- Mississippi Bubble, 172
- Monetary stock. *See* Money
- Money: distribution of, 47-48, 137-138; in prosperity, 47-52; in crises, 77-83; in depression, 137-139
- Money economy: perfecting of, 171-175; effects of, upon welfare, 187-191
- Money making and economic welfare, 188-191
- Money market: in revival, 18-19; in prosperity, 45-52, 63-70; during crises, 83-97, 109-112, 124-128; in depression, 136, 139, 146-147. *See also* Discount rates
- Monopolies, price policy of, 194, n. 17. *See also* Industrial consolidations
- Morgan, J. P., 211, n. 3
- Morse, C. W., 75, 76
- National Bank of Commerce, 76
- National Banks (U. S.), defects of organization of, 124-126, 173
- National Prosperity Association of 1908, 214, n. 1
- National-bank notes, 77, 81-82, 126
- Net income. *See* Profits
- New Orleans banks in panic of 1907, 89, 94, 95, 103, 105
- New York City, condition of banks in, 75-97, 101-107, 215, n. 20
- New York Clearing House in panic of 1907, 75-94, 101-106

- New York State, unemployment in, 32
 Newcastle-on-Tyne clearings in 1907, 119-120
 Northern Pacific "corner" of 1901, 218, n. 5
 Noyes, A. D., 193, n. 11
- Optimism, growth of, in periods of revival, 5-6. *See also* Confidence
- Organic and inorganic goods, prices of, in relation to business cycles. *See* Sombart, W.
- Origin of business cycles, 169-171
- Overcapitalization as cause of crises. *See* Veblen, T. B.
- Overconfidence, 58. *See also* Confidence
- Overproduction theory of crises, 59-61, 163
- Oversaving. *See* Savings; Underconsumption
- Overhead charges. *See* Supplementary costs
- Panic of 1907 in America, 75-107; course of prices immediately preceding, 66-70; reaction of, on English crisis of 1907, 110, 125-126
- Panics: beginning and end of, 123-124; prevention of, 124-128, 171-172; summary of theory of, 158-159
- Paper money, 51, 84; inconvertible, 79. *See also* Bank notes
- Pecuniary factors in economic welfare, 187-191. *See also* Money economy
- Pecuniary volume of business, 3-8, 99-100, 109, 121-122, 131-134, 137
- Periodicity of business crises, 166
- Philadelphia banks in panic of 1907, 89, 92-93, 96, 102, 104
- Physical volume of business, 7, 45, 55, 146, 188. *See also* Volume of business
- Pig iron. *See* Iron
- Pittsburgh Stock Exchange, 77
- Population: growth of, 15; movement of, 143
- Portugal crisis of 1907, 109
- Predatory financiers, 176-179
- Premium on currency in panic of 1907, 78, 90
- Prevention of panics, 124-128, 171-172
- Price level: in business prosperity, 7-23; why the rise is checked, 52-63; in months preceding a crisis, 66-69; during depression, 134-135, 146, 150, 151
- Prices: public regulation of, 55-56; fall of, 134-136
- Prices, obstacles to advance of, at climax of prosperity, 52-63
- Prices of bonds: fluctuations in, preceding panic of 1907, 66-68; during the panic, 87-88; in depression, 136
- Prices of labor: in revival, 16-18; in prosperity, 31-35; in depression, 135, 139
- Prices of loans: in revival, 18-20; in prosperity, 38, 41-50; in depression, 135-136, 139. *See also* Interest rates
- Prices of stocks: rise in, 22-23; fluctuations in, preceding panic of 1907, 66-69; during crisis, 87-88, 110, 115; in depression, 136
- Prime costs: in revival, 21; in prosperity, 30-38; in depression, 139-140
- Producers' goods, 13, 14, 15, 43-45, 99, 100, 134, 135
- Production of coal, iron, and agricultural staples. *See* Overproduction
- Productive capacity. *See* Industrial equipment
- Professional forecasters of business conditions, 181
- Profits: in periods of business revival, 20-21; encroachments upon, in prosperity, 52-63; relation of, with credits, 63-64; effect of decline in prospective, 66-70; in England in summer of 1907, 108-109, 115; in depression, 130-131, 146. *See also* Money economy
- Prophesies of business conditions, 7-8; uncertainty attending forecasts, 175-187
- Prospective profits and business cycles: increase in, 20-21; during equilibrium, 25-27; decline in, 52-61, 66-70, and effect of, 130-131; an incentive to activity, 146. *See also* Money economy

- Prosperity of business: revivals of, 1, 2; cumulation of, 3-27; how prosperity breeds a crisis, 29-70; summary of theory of prosperity, 149, 153-157; effects upon economic welfare, 188-191
- Prostitution, 189
- "Psychic" income, 188
- Psychological factor in business cycles, 5-6, 69-70, 129-131, 147
- Public regulation of prices, 55-56
- Public utility stocks, fluctuations in, preceding panic of 1907, 206 (209), n. 46
- Public welfare, how affected by business cycles, 188-191
- Quantity theory of money, 50-52, 137-139
- Railway bonds, relative prices of, 67, 87
- Railway rates, 55-56
- Railway stocks: during the crisis, 87-88, 110, 115; during depression, 136; fluctuations in, prices preceding panic of 1907, 206 (209), n. 46
- Rapidity of circulation, 51, 137-138
- Rates of interest. *See* Interest rates
- Raw materials, prices of: in revival, 13, 14; in prosperity, 35, 38; in months preceding a crisis, 67, 68; in a crisis, 99, 100; in depression, 134, 135. *See also* Sombart, W.
- Refunding of loans, statistics of, 136-137, 140-141
- Regulation of prices by government, 55-56
- Rents. *See* Supplementary costs
- Reorganization of business enterprises, 140-142
- Reserve-city banks, 84
- Reserves, bank, 47-52, 80-84, 91-97, 110, 111, 125-128, 137-139
- Restriction of payments in crisis of 1907, 78, 79, 124-126
- Retail prices and wages, 202, n. 39; in periods of revival, 11-12; in prosperity and crisis, 100; in depression, 135
- Revival of business activity in America: causes of, 1-2; characteristics of, 3-27; blighting of, 129-131; summary of theory of, 150-153
- Rowntree, B. S., 218, n. 4
- St. Louis banks in panic of 1907, 89, 93, 95, 102, 104
- San Francisco: banks in panic of 1907, 89, 94-95, 95, 102, 104; fire, 26
- Sauerbeck, A., 100, 108
- Savings, volume of, 136-137
- Securities, prices of. *See* Bonds; Stocks
- Shares in business enterprises. *See* Business enterprises; Stocks
- Simmel, G., 191
- Snyder, C., 218, n. 3
- Sombart, W., 38, 164, 191, 200, n. 15
- South Africa, 1907 crisis in, 109
- South Sea scheme, 172
- Speculation, 166-167; diminution of, 170, 172
- Spiethoff, A., 163-164, 200, n. 15
- Sprague, O. M. W., 211, nn. 2, 3, 4, 8; 212, nn. 11, 13, 14, 21, 22; 214, nn. 52, 53
- Stabilized dollar, 173-175
- Stevens, A. C., 211, n. 2
- Stocks: prices of, in revival, 22-23; sales of, in prosperity, 42, 200, n. 20; fluctuation in, preceding panic of 1907, 66-70; prices and sales of, during panic, 87-88, 110, 115, and during depression, 136
- Stoppage of the Exchequer, 169
- Strauss, A., 212, n. 16
- Stringency: in investment market, 41-42; in money market, 45-50, 88-89, 97-107, 114-122, 124, 125-126
- Substitutes for cash in panic of 1907, 79, 124
- Summary of theory of business cycles, 149-162
- "Sunshine movements," 130-131
- Supplementary costs: decrease of, in revivals, 9, 12-13, 21, 29; increase of, in prosperity, 30, 52; readjustments of, in depression, 140-142
- Suspension of payments. *See* Bankruptcies; Restriction of payments

- Tension: in investment market, 41-43;
in money market, 45-52, 88-89, 97-
107, 114-122, 124-126
- Thomas, E. R., 75
- Thomas, O. P., 75, 76
- Trade, volume of, 3-8, 52, 99, 101, 109,
122, 131-134, 142-146
- Transportation companies, prices of
stocks of. *See* Stocks
- Trust Company of America, 77, 212,
n. 10
- Trusts. *See* Industrial consolidations;
United States Steel Corporation
- Tulip mania, 172
- Twelfth Ward Bank, 77
- Underconsumption theory of crises,
59-61, 163
- Unemployment, 32, 109, 122, 131, 189,
190; proposal for reducing, 173, 174
- United Copper Company, 75
- United Kingdom. *See* England
- United States: panic of 1907, 75-107;
need of reorganizing banking system
of, 124-128, 172-173
- United States statistics concerning
panic of 1907, 79-107. *See also* Bank-
ing; Bankruptcies; Currency; In-
vestment; Profits; Savings
- United States Steel Corporation, 181,
201, n. 22
- Veblen, T. B., 164, 191, 205, n. 40; 217,
n. 30; 218, n. 6
- Velocity of circulation, 51, 138
- Volume of business: increase of, in re-
vivals, 3-8; during crises, 99, 109,
122; in depression, 131-134, 142-146
- Wages. *See* Labor, prices of
- Wagon, E., 21
- Wall Street Journal*, 180
- Walsh, J. R., 26
- Webb, Mr. and Mrs. S., 173
- Welfare and money making, 187-191
- Westinghouse receivership, 76-77
- Wood, G. H., 202 (203), n. 39
- Woodlock, T. F., 196, n. 24; 212, n. 19
- Youngman, Anna, 218, n. 9

BUSINESS CYCLES AND THEIR CAUSES

This is a realistic account of what goes on within a business cycle.

The recurrent phases of economic activity—prosperity, crisis, depression, and revival—grow into and out of each other. They are here examined in terms of the characteristics and observed behavior of the economic system.

Originally published in 1913, Mitchell's germinal and familiar work marked the beginning of a distinctly new approach to the analysis of business cycles. The present volume, which is Part III of the larger work, has since become the classic statement of a theory of their causes. One of the reasons for its durability is not far to seek: it was woven out of observed phenomena of the money economy, not spun out of airy postulates.

Original contributions to economic theory outlast the individual and temporal variations which the annals of business and the tables of statistics show. This is such a contribution.

Wesley Clair Mitchell was for many years Professor of Economics at Columbia University and Director of the National Bureau of Economic Research, Inc.

