

SPIETHOFF'S VIEWS ON THE BUSINESS CYCLE *

The third number of *International Economic Papers* differs from the previous ones in several respects. Each of the others contained only two articles not of post-war origin, but only three papers in the present volume are post-war. Of the other papers in this issue, one was published in 1941, one in 1923, and five (four of which make up a single correspondence) in the first decade of the century. Also unlike the previous issues, most of this volume is devoted to macro-economics. One should not conclude, however, that this gives the volume any very substantial unity.

Dominating the volume are papers by Spiethoff, Wicksell, and Palander. SPIETHOFF'S paper, a translation of his *Handwörterbuch der Staatswissenschaften* article of 1923, is in every way the *pièce de résistance*. Together with a new introduction by the author, it occupies almost forty percent of the total number of pages.

English readers who (like the reviewer) have long known about the Spiethoff article but never had the courage to tackle it in German should be exceedingly grateful for the translation of this major work on cycles by a major student of the subject. (Previously available in English was only his brief and unsatisfactory selection on "overproduction" in the *Encyclopaedia of Social Sciences*.¹)

The paper has three major sections. The first is devoted to a description of the "characteristic phenomena" of the business cycle. The objective of this part is essentially the same as that of the National Bureau of Economic Research in the United States, well summarized in the title of Wesley Mitchell's posthumous volume, "What Happens During Business Cycles". Actually, there are many similarities to the National Bureau's approach and philosophy, although none of the statistical nicety of its "reference cycle patterns". The effort is made, for a wide range of activities, to construct typical patterns of behavior over business cycles, distinguishing the "insignificant from the decisive, the regular from the casual", constructing models of "reality purged of historical accidents". Data from France, U.K., U.S., and Germany are used (as by the Bureau), and Spiethoff does not hesitate to combine evidence from them all in his search for regularities. One is impressed that Spiethoff squeezed almost everything there was to be obtained from the data then available. The only major descriptive generalization which is probably incorrect—even for the period covered—is the conclusion that direct consumption had no clear cyclical pattern. Spiethoff's evidence related mainly to physical quantities of goods primarily of agricultural origin, which all studies show to be independent of cycles. This reminds us, however, that until very recently the largest part by far of total consumption has consisted of such goods and the services of durables (like housing) which do not fluctuate cyclically.

* Also a review of *International Economic Papers No. 3*. Translations prepared for the International Economic Association. Edited by ALAN T. PEACOCK, RALPH TURVEY, and ELIZABETH HENDERSON. London and New York, 1953. Macmillan. 255 p. S. 15.

1. The English reader has had, however, two good summaries of SPIETHOFF'S views, one by G. HABERLER, *Prosperity and Depression* (3rd ed., Geneva 1941, League of Nations), p. 72-85; the other by A. HANSEN, *Business Cycles and National Income* (New York 1951, W. W. Norton), p. 292-300. The emphasis of these two summarizers is different, but the translation shows that both were accurate.

The second major section is an impressive historical account of cycles over the period 1822–1913. Thus Spiethoff not only split business cycle phenomena longitudinally—summarizing the characteristic way in which each activity behaved during a series of cyclical fluctuations—but also split vertically—summarizing the characteristic features of business behavior in specific historical cycles and groups of cycles. In this respect Spiethoff's descriptive summary is conceived more broadly than Wesley Mitchell's—the National Bureau's descriptive work is largely confined to the longitudinal summary.

The final major section constitutes Spiethoff's "explanation" of the cycle. Although this must be accounted a failure, it surely represents the best effort of its time, and is far superior to many which came later. Further, it is full of the *materials* for a theory—or several theories—of the cycle.

In the first place, the theory emphasizes that it is fluctuations in investment activity which dominate, carrying along with it total production and employment (and, despite his previous uncertainty, this section suggests probably consumption, too). Fluctuations of investment are explained in psychological terms²; and as a result of waves of innovation, in a manner very reminiscent of Schumpeter.³ Interwoven with these quite adequate and impressive explanations is one which involves the confusions which Spiethoff shares with several other "overinvestment" theorists, particularly Tugan-Baranowsky and Cassel. These confusions involve, in one sense or another, the idea that during the depression saving exceeds investment, the excess accumulating to feed the boom, with the exhaustion of the excess bringing the boom to an end. There seem to be only two solid senses in which any real meaning can be given to this, neither one, quite obviously, what Spiethoff had in mind. First, during a downswing, if the quantity of money contracts by less than the money volume of transactions, idle balances will necessarily accrue somewhere. These can then help "finance" the upswing. Second, during depression, the bank reserves which drained into circulation during the preceding boom may flow back into the banks, becoming available to finance an expansion of notes or deposits. But Spiethoff clearly denies that it is only money that is lacking to keep the boom going.

What he does clearly show is that the investment boom is likely to lead to an overexpansion of capacity in the basic industries producing materials for investment goods (the steel industry is led to expand its capacity so that it can produce enough steel to expand steel capacity—at this point, it necessarily has overcapacity). In order for these overexpanded basic industries to keep operating at capacity, investment would have to be maintained at a high rate—a rate which, together with full-employment consumption expenditures, would exceed full employment output. Thus there is "under-saving" (investment could be maintained only with lower consumption), the symptoms of which are labor shortages and inflation.

But why should this lead to generalized "overproduction" and depression? Possibly because the recognition of overexpansion in basic materials has psychological repercussions elsewhere? Spiethoff does not give us a clear answer to the

2. P. 148.

3. P. 149–151; for further resemblances to Schumpeter, see also the concluding comments on the significance of the cycle, p. 165–171.

question how excess demand and inflation can create deficient demand. But if he would merely forget about undersaving, he has an adequate explanation for the end of the boom, in the using up not of savings but of investment opportunities. The investment opportunities arose from expansion and innovation—the immediate objectives are now fulfilled. This explanation almost reaches explicit form on p. 158, and Hansen apparently found it even more explicitly in some of Spiethoff's earlier writings⁴.

There is much more, on the positive side, to be said about Spiethoff's views on the business cycle, but space does not permit more than the reviewer's concluding reflection that if only the concepts of national income and product accounting had been available to Spiethoff how much better the results would have been. On the descriptive side, the concept of aggregate output and its subdivisions could replace his awkward and non-additive breakdowns of production. On the analytical side, the saving-investment confusions could have been avoided. Surely, macroeconomics could never really have developed without these concepts.

Having used up so much of his space on the *pièce de résistance*, the reviewer has only a sentence apiece available for the other items. If Spiethoff is represented by his major work, WICKSELL, a giant in the development of economic thought, is represented by a relatively trivial piece, in which he develops and tries to test the supposition that inventories move inversely to the business cycle. PALANDER's critique of Myrdal's *Monetary Equilibrium* provides a somewhat oblique analysis of the concepts and methods of the Swedish School. Some of its constructive content is less necessary in English since the publication of Bent Hansen's *A Study in the Theory of Inflation*⁵.

The exchange between CROCE, the philosopher, and PARETO, the objective scientist, on the methodology and basic postulates of economics is delightful; particularly the clarity of Pareto's thinking, the logic of his argument, and the aptness of his illustrations. There is not a sentence whose meaning fails to be crystal clear.

MAURICE BYÉ provides a nice blend of theory and practical sense in his fairly definitive discussion of customs unions. Written in early 1950, the discussion reflects a more optimistic approach to European integration than one could probably muster today.

In the reviewer's opinion, the final two selections (NAVARETTE and DE NAVARETTE, *Unemployment in Underdeveloped Economies*; and HANS PETER, *A Comparison of Marxian and Keynesian Dynamics*) were not worth their translators' efforts.

All told, the volume is of very uneven merit and importance. (It surely cannot be that the editors are running out of significant materials for translation into English.) Nevertheless, Spiethoff, Palander, Pareto, and Byé make the volume worth its price.

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4. HANSEN, *op. cit.*, p. 294/5.

5. London 1951, Allen and Unwin.