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# CHAPTER 2

## *Our Basic Concept*

Many writers on business cycles have dispensed with a formal definition. Assuming that they and their readers understood the term, they have plunged promptly into the subject matter. We cannot imitate this pleasant directness. For those who set out to observe certain phenomena must have at least a preliminary notion of what to look for. As they find and examine specimens, they may revise their first concept, but without some guiding idea they can hardly begin to observe.

The first step in our program, accordingly, was to develop a working definition of business cycles. To that end we studied theoretical writings to see what their authors believed to be the salient phenomena. Then we examined the descriptions of cyclical fluctuations in historical sources, the efforts of statisticians to isolate the cyclical component in time series, and 'indexes of business activity'. Our findings were published in 1927 under the title *Business Cycles: The Problem and Its Setting*. The book culminated in a definition of the kind we needed. Experience in using it as a guide to observation led to several emendations. In its present—still tentative—form, our working concept is as follows:

> Business cycles are a type of fluctuation found in the aggregate economic activity of nations that organize their work mainly in business enterprises: a cycle consists of expansions occurring at about the same time in many economic activities, followed by similarly general recessions, contractions, and revivals which merge into the expansion phase of the next cycle; this sequence of changes is recurrent but not periodic; in duration business cycles vary from more than one year to ten or twelve years; they are not divisible into shorter cycles of similar character with amplitudes approximating their own.[1]

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[1] A. F. Burns and W. C. Mitchell, *Measuring Business Cycles* (National Bureau, 1946), p. 3.

This definition stated our preliminary notion about the cultures in which business cycles appear, and described what we thought to be the common features by which they can be recognized and distinguished from movements of other types. Whether the definition would serve its purpose could be determined only by using it as a guide to observation. Do cyclical fluctuations of the alleged duration occur in most economic activities? If so, is there substantial agreement in their timing? What leads and lags appear? If a dominant pattern emerges, what activities share in it and what follow different courses? Do cyclical expansions and contractions run a continuous round, or is one cycle sometimes separated from its successor by an interval during which the tide neither ebbs nor flows? Do business cycles occur in all nations where private enterprise prevails, and only there? How far back can they be traced in history? What relations subsist among the cycles in different nations?

To answer all these questions with assurance would require wider ranging studies than we have been able to make. Our detailed observations have been confined to four nations—the United States, Great Britain, France, and pre-Nazi Germany. Relatively few of the time series we have found run back of 1900; many begin at the close of World War I, and some exceedingly valuable records are still shorter. Concerning the economic fluctuations of precapitalistic times in our four nations, in other nations practicing private enterprise, and in nations where private enterprise has been superseded by other forms of economic organization, our evidence is vague. Even within our four-nation, recent-time limits we have used only parts of the available data; but we have gone far enough to test the definition as a tool of research.

Since time series constitute the most definite records of economic fluctuations, we began collecting them while we were experimenting with our analytic technique. That the collection should and could cover a wide variety of activities had been shown by the work of our predecessors. Whenever possible we gathered monthly data, supposing from the first, and later proving by comparisons of test series in monthly and annual form, that annual entries often misrepresent cyclical movements in ways one cannot predict. However, annual totals are proper records of crop fluctuations, and we fall back upon them in other instances when monthly or quarterly figures cannot be had. We dared not economize by relying solely upon index numbers and broad aggregates to represent the movements of prices, production, employment, and the like; for these broad summaries conceal highly significant differences in the cyclical behavior of their components. To represent important types of activity, such as producing durable goods or disbursing wages, we sought groups of series; by so doing we gained a better chance of reaching valid conclusions than if we depended upon a single witness. Further, since business cycles are a highly variable species of phenomena, we wished to observe as many as possible. To meet that requirement, we usually included the full time span covered by each series. Though our collection has come to include well over a thousand series, we have gathered only a part of the evidence that can be and should be exploited.