Part III

THE CONSENSUS OF CYCLICAL BEHAVIOR
CHAPTER 9

The Aim of Part III

Doubtless readers of Part II have remarked to themselves more than once that the charts and summary tables designed to exhibit varieties of cyclical behavior reveal also heavy concentrations at or about certain dominant types. Thus Chart 2 shows a dense concentration of our timing measures in the variety that fits our reference dates most closely. Chart 3 shows an only less striking concentration of conformity indexes at 100—a concentration we later had to pronounce exaggerated. Our basic definition alleges no tendency toward uniformity in reference-cycle amplitudes and there is no marked piling up of these measures in any one column of Chart 5; yet two-thirds of the entries are packed into one-eighth of the range. Even cycle-by-cycle deviations from average behavior are dominated by common features: Tables 21 and 22 show that they differ from stage to stage within series in ways that are predetermined by the characteristics of secular, cyclical, and irregular movements on the one side and on the other by certain features of our analytic technique, while we found that among series average deviations from reference-cycle patterns follow rather closely average amplitudes and conformity in combination.

The text, as well as the charts and tables of Part II, anticipates results that it is the task of Part III to demonstrate. For even while I was stressing the varieties of cyclical behavior, I could not avoid mentioning the consensus the varieties themselves reveal when taken as a whole. As with descriptive, so with explanatory passages. Many of the problems raised for discussion concern departures from a prevailing type of behavior that is taken for granted, and the solutions suggested often
invoke 'the cyclical tides'. In Section IVB of Chapter 7, for example, I asserted explicitly that the specific cycles of every activity in a national economy "are partially shaped by those congeries of specific cycles in other activities which we call business cycles". Thus I have not only exhibited part of the factual evidence of covariation among our series, but I have also assumed the full validation of the fundamental concept I profess to be examining.

These whirlpools in the onward flow of the investigation will not, I hope, give rise to confusion or misgivings. Nothing comes logically first and nothing comes logically last in a universe of discourse where all the elements are interdependent. At the outset we must assume relations that we cannot demonstrate until the end.

What may trouble the reader more is the implication that, at this late day, the concept of business cycles still needs to be tested. But impatience on that score would be a mark of scientific immaturity. A rather rough notion of some phenomenon may prove sufficient to guide early efforts to understand it. At a later stage, when rival explanations have accumulated, and competent judges differ as to which explanation best fits the facts, it becomes necessary to define concepts more rigorously and test them more systematically. What is put to the test in Part III is not merely the notion that business undergoes cyclical fluctuations of some sort, but the hypothesis that the cycles in question have the characteristics set down in the several clauses of our definition, that historical instances of these phenomena occurred within the intervals marked off by our reference dates, that the time series we have collected can be made to reveal the cyclical movements in different sectors and aspects of a national economy, and that the analytic methods we have devised are fit tools to that end. Surely, no one should take all this for granted unless adequate factual evidence is submitted to his scrutiny.

However, Part III is not limited to this general authentication of our definition, dates, sample of series, and statistical methods. It offers a summary of what happens during a typical
American business cycle—a summary derived from records of actual experience. In large part, this summary repeats what has been known to careful observers, merely putting familiar impressions into definite form, shoving under them a more solid foundation, and expressing them in the National Bureau’s quantitative form. But, generalized though it be, the summary also brings out certain features of business cycles that have not been hitherto observed, and that could hardly be discovered until investigators had at their disposal some such array of measures as the National Bureau’s long and costly labors have provided. If the aim of economic theory is to attain understanding of economic experience, any valid summary of the cyclical consensus is a basic contribution to the theory of business cycles. For such a summary presents the broad facts a theory should explain. On the one hand, it affords a better guide than has hitherto been available to the detailed investigations that should be made. On the other hand, it offers criteria by which to judge the validity and adequacy of explanations. A summary of actual experience is an empirical construction that can be improved upon, as what it helps to learn suggests clearer concepts, more efficient methods of analysis, and additional data that should be incorporated.

Concerning the consensus of cyclical behavior, our sample can be made to give two types of evidence. The most convincing type, and the type that tells us most about the nature of the consensus, is elicited by examining our full sample in detail. It is especially interesting to cross-examine series that at first seem to contradict the notion of a consensus in cyclical movements, but often turn out on more skillful questioning to be offering confirmation. However, using the full sample is a cumbersome process, especially when we have to go back of statistical lists and counts to economic weighings. So we had best begin with the less complete evidence offered by a relatively few comprehensive series that are widely known by name at least, and have the specious advantage of commanding more confidence than they merit.

"Obviously, no single time series can reveal business cycles
as we have defined them."¹ The most that a single series can accomplish is to show the net resultant of movements in many activities. To find out whether these net resultants arise from the covariation of many components or from fluctuations peculiar to a dominant few, one must examine the many components themselves. But if a man finds that the best accredited index numbers of physical production and commodity prices, the broadest samples of employment, the biggest totals of bank clearings, the most trustworthy estimates of gross national product and national income, the volume of freight hauled by all railroads, and retail sales have all expanded and then contracted in concert, he may be excused for jumping to the conclusion that covariation has prevailed among economic activities. His confidence in this conclusion may be a bit shaken, but it will not be destroyed, by reading what the several compilers of these series have to say about the limitations of their own figures. In any case, few consumers of statistics have the troublesome habit of going behind the titles of series that behave plausibly. Even the National Bureau's admission that it has used these comprehensive series whenever they were available as aids in fixing its own reference dates will not arouse grave suspicion of a trick, because it can be argued that the consensus of all these master indicators regarding the locations of peaks and troughs must be about right.

Taking full, and rather unfair, advantage of this happy confidence, let us begin our tests of the consensus alleged by our definition in the cyclical fluctuations of many economic activities, by examining the reference-cycle patterns of the most comprehensive American series we have analyzed.

¹ Measuring Business Cycles, p. 11.