

## INTRODUCTION

THE present essay deals with the problem of cyclical fluctuations in business activity. It is an attempt to make use of the new data on sales and output for the United States which have become available since January, 1919. These data are first surveyed with the emphasis placed on the cyclical element in the series. In this survey certain tentative conclusions are reached, and the argumentative part which follows attempts to explain the nature and significance of these conclusions.

Before we survey the statistical series it would be advisable to recite briefly the peculiar features of the cycles that took place in the *United States during the years 1919-1925*. That will serve to keep in mind the specific conditions which have influenced the character of the data to be used.

During the six years, 1919-1924, the United States passed through one violent and one moderate business cycle. After a temporary span of hesitation and decline, immediately after the Armistice and continuing on the whole through the first quarter of 1919, prices, sales and production began to rise. The rate of increase was comparatively great, and the phenomena usually accompanying a period of cumulative prosperity developed rapidly and forcefully. It is possibly due to this fact that the whole period turned out to be of a shorter duration than the average.

The decline began at varying times in different branches of business activity. In some it started in November, 1919 (sales of shares on the New York Stock Exchange), in others in January, 1920 (sales by wholesalers, commodity volume),

in others still later. Mr. Snyder's index of the volume of trade shows the highest point in July, 1919, but a perceptible decline begins only in April of the year following.<sup>1</sup> At any rate it can be said that in the second half of 1920 the phenomena of the period of depression were already in full sway.

The decline continued on the whole up to and throughout July, 1921.<sup>2</sup> Thus the first post-war cycle took place during the short period of 28 months, from April, 1919, to August, 1921. The conditions in which this cycle developed were peculiar in the following respects (we note only the most important ones):

(1) There was a well-developed inflation with the currency and credit conditions facilitating speculation all through 1919. Accordingly, the deflation that began in 1920 and continued through 1921 was rather severe.

(2) The demand of ultimate consumers, domestic as well as foreign, was abnormally strong.

(3) The industrial system of the country was in a somewhat rundown condition, especially in regard to the railroads and the coal mines. The human element in industry and trade was not in a state which would make for increased efficiency, this being true both in respect to the laborers and the managing personnel.

(4) It was a post-war period, and this meant that the country's economic system must change from satisfying of war-time demands to meeting those of peace. The fluctuations in business were taking place in the conditions of a period of reconstruction.

<sup>1</sup> See the *Journal* of the American Statistical Association, December, 1923, p. 962.

<sup>2</sup> Cyclical fluctuations in the rate of business activity do not come simultaneously in all the various compartments of the economic system of the country, and thus cannot be pinned down to definite time limits. Any unqualified fixing of such limits is therefore arbitrary and tentative.

As a result of these peculiarities the first post-war business cycle seems to be exceptional in the following respects:

(a) The fluctuations in prices and the dollar volume of business activity were violent, great changes taking place in a very short time.

(b) The consumers' goods, trades and industries took the initiative in the recuperation of activity after the short slump that immediately followed the Armistice. The same groups led in the recession and the recovery.

(c) As compared to the price and the dollar volume fluctuations, the changes in commodity volume were not large. But the latter were probably larger than they would have been in a cycle marked by smaller and more gradual changes in price.

The developments beginning with the second half of 1921 are not as clear cut as those during the preceding two and a half years. The revival which started in the different branches of business activity at various times during 1921 (in some even at the end of 1920, in others only in the beginning of 1922) was developing on the whole continuously up to and throughout the first quarter or half of 1923.

There was, however, no sustained depression following these two years of continuous rise in the volume of business activity. There was, indeed, a decline through a half of the year 1923, this period covering different months in the various branches of business. But this was followed by a considerable rise of the dollar volume series during the first two months of 1924, a rise which in several of the indices reached a point higher than any in 1923 (in the dollar volume of sales by wholesalers, number of shares sold on the New York Stock Exchange). True, there came again a well-defined decline in the second quarter of 1924, but on the whole no well-marked depression can be said to have taken place in 1923-24.

The developments during 1921-24 might be tentatively

called the second post-war business cycle. The conditions in which the latter took place were peculiar in the following respects:

(1) There was a strong impression left on the business community of the bitter experience of the 1920-21 depression. The business men were inclined to be less daring in buying ahead, the bankers and the Federal Reserve System were more ready than ever to check any expansion of loans that looked like the beginning of another period of speculative increase of prices.

(2) While the first post-war cycle left unsatisfied a certain volume of demand for durable goods, as the need for buildings or the lack of equipment on the railroads, the industrial system of the country was in a state to take good care of this demand. On the other hand, exports decreased considerably and hence the burden of supplying foreign consumers became much lighter. As a result, the industrial apparatus of the country was in a condition well suited for a prompt response to any increase in demand which might take place.

Due to these two circumstances the cyclical developments during 1921-24 were of a rather attenuated character, presenting in this respect a contrast to the first post-war cycle. This seems to be true for the movements of both dollar and commodity volume of business activity.

As shown by most of the reliable business indices, the second post-war cycle terminated in July, 1924, and after that the country entered upon a new period of rise. While this rise was not carried on in sustained fashion through the year 1925, at the end of the year the business conditions were still in the prosperity phase of the cycle.