Journal of Economic Perspectives—Volume 13, Number 2—Spring 1999—Pages 19–22

Introduction to the Symposium on Business Cycles

J. Bradford De Long

Nearly every long economic expansion in the United States generates intellectual currents claiming that the boom-bust business cycle is over, that there is a "new economy." The expansion of the 1920s led economists to hope that the new Federal Reserve had learned how to stabilize output—that the decade truly had seen a "New Era"—and to Irving Fisher's claim on the eve of the 1929 crash that stock prices had reached a "permanent and high plateau" (Galbraith, 1955). The expansion of the 1960s led the Department of Commerce to change the name of its *Business Cycle Digest* to the *Business Conditions Digest*, for the *New Dimensions of Political Economy* (Heller, 1966) opened up by the Keynesian revolution had led to substantial "Progress Toward Economic Stability" (Burns, 1960). Only the long expansion of the 1980s—under the shadow of the just-past Volcker disinflation, the deepest recession of the post-World War II period—failed to generate a large and vocal faction of economists claiming that the business cycle was at an end.

The expansion of the 1990s has been impressive along some dimensions, and unimpressive on others. The current long expansion has attained a remarkably low level of unemployment without inflation. Yet it has been accompanied by increases in real wages that have been disappointingly low, even considering the low underlying rate of measured trend total factor productivity growth.

One straightforward way to compare the long business cycle expansion of the 1990s to the two previous long expansions in the 1960s and 1980s is to compare the states of all three 30 quarters after their beginning, a comparison presented in Table 1. Thirty quarters after the beginning of the 1980s expansion takes us to the

■ *J. Bradford De Long is Professor of Economics, University of California, Berkeley, California, and Research Associate, National Bureau of Economic Research, Cambridge, Massachusetts. His e-mail address is ⟨delong@econ.berkeley.edu⟩.*

Table 1
Comparing Long Business Cycle Expansions

	1960s	*1980s*	*1990s*
Previous trough:	1960.4	1982.4	1991.1
30 quarters later:	1968.2	1990.2	1998.3
End of expansion:	1969.3	1990.2	—
Annual growth in real GDP:	5.3%	3.9%	2.9%
Annual growth in employment:	2.1%	2.5%	1.5%
Annual growth in GDP/worker	3.2%	1.4%	1.5%
Annual growth in weekly earnings:	1.6%	−0.1%	0.3%
Annual change in unemployment rate:	−0.3%	−0.7%	−0.3%
Starting unemployment:	6.3%	10.7%	6.6%
Ending unemployment:	3.6%	5.3%	4.5%
Underlying trend productivity growth:	2.9%	0.7%	1.2%
Employment at start (millions):	65.3	99.1	117.7
Employment at end (millions):	76.1	119	131.3

second quarter of 1990 and to the eve of the expansion's end. Thirty quarters after the beginning of the 1960s expansion takes us to the second quarter of 1968, a little more than a year before its end. Thirty quarters after the beginning of the current expansion takes us to the third quarter of 1998.

Claims of a "new economy" have always proven wrong (until this writing, at least). Expansions end. They are followed by recessions in which real, nominal, and financial variables follow patterns that bear a close resemblance to the ideal type of "recession." A look abroad at Japan, the newly industrialized countries of East Asia, and Mexico or a look at the sudden surprise increase in asset risk premia in the United States last summer seems to confirm that the business cycle mechanisms pointed to by Wesley Clair Mitchell and Arthur Burns are still there.

From one perspective, it is surprising that predictions of a "new economy" as far as the business cycle is concerned have never (or not yet) come true. Structural changes over the past century have been immense, carrying the United States from a largely agricultural economy with poor communications, small firms, and relatively unproductive and rigid technologies to today's largely service economy with extraordinary access to information and giant firms. Yet the phenomenon of the business cycle persists, with at least qualitative continuity in its mechanisms and effects. How can this be?

In this symposium, Christina Romer demonstrates that the qualitative continuity in business cycle mechanisms over the past century has been accompanied, in the United States at least, by a quantitative continuity as well: business cycles today are about as large as they were a century ago, if measured as a proportion of total economic activity. Whether they are exactly as large or somewhat smaller depends on the exact metric. But triumphalist claims that the post-World War II business cycle is but a pale shadow of the pre-Depression phenomenon (like those made in De Long and Summers, 1986) cannot stand. Romer, however, does not argue that

there have been no changes in the business cycle. The coming of automatic stabilizers and the rise of central banks have allowed monetary policy to offset many of the kinds of shocks that generated pre-Depression business cycles. The absence of significant stabilization springs from the fact that the rise of monetary policy has created a new class of shocks: recessions deliberately induced by monetary authorities to curb rising inflation.

Susanto Basu and Alan Taylor turn their attention not to the size but to the mechanisms of business cycles, arguing that we should be able to learn a lot about which models of business cycles are potentially useful by turning theories "loose on perhaps the greatest macroeconomic laboratory available: the extant record of macroeconomic historical statistics . . . " for "a robust and useful theory of business cycles should be able to account for the patterns seen in the long-run data for many countries . . . " They conclude that business cycle models that do not put monetary economics at the center of analysis are grossly inconsistent with the evidence on the behavior of real exchange rates, and that the comparative pattern of national recoveries from the Great Depression cannot be understood without placing prices that are sticky–either because of imperfect information or other considerations–at the center of the analysis as well.

Victor Zarnowitz presents a different approach: the over-investment approach according to which each boom contains within it the seeds of the subsequent recession, and each recession contains within it the seeds of the subsequent boom. Observers of business cycles have long felt that this approach contains profound truth–yet it has never been well-integrated into old Keynesian, new Keynesian, monetarist, or new classical business cycle theories. Just what is it about the structure of capitalist market economies that causes real economic activity to rise and fall in ways that seem to show certain regularities? My assessment at least is that economists will not be able to claim that they understand the business cycle until they have successfully integrated Zarnowitz's approach—which is Wesley C. Mitchell's approach as well—with that of other, currently more popular approaches.

For nearly two decades, many economists have been arguing that the profession spends too much time on economic fluctuations and too little time on long-term economic growth. As Robert Lucas (1988, p. 5) wrote in a well-known paper, "On the Mechanics of Economic Development": "Once one starts to think about them, it is hard to think about anything else." I am not sure this is correct. For one thing, I believe that we economists understand growth less well—and have a harder time making progress studying growth—than we do fluctuations. Moreover, it looks to be harder to convince governments to adopt policies that are good for growth than it is to convince them to adopt policies that are good for macroeconomic stability. Three-quarters of a century ago, John Maynard Keynes (1923 [1971–89], vol. IV, p. 65) offered the definitive response to those who would downplay the study of economic fluctuations, on the grounds that in the longer term, such fluctuations average out to zero. He wrote: "Now 'in the long run' this is probably true. . . . But this long run is a misleading guide to current affairs. In the long run we are all dead. Economists set themselves too easy, too useless a task if in

tempestuous seasons they can only tell us that when the storm is long past the ocean is flat again."

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