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Business Cycles

The secret of the business cycle has challenged some of our best intellects from Adam Smith to Wesley Mitchell. The modern attack on the problem has been from a statistical approach. Interest rates, bond prices, and stock prices have figured largely in such studies, inasmuch as turning points in these series usually occur before business itself turns up or down. A study of twenty-five business cycles, going back to 1831, has been made by Col. Leonard P. Ayres, Vice President of The Cleveland Trust Company. His book, **Turning Points in Business Cycles** (The Macmillan Company, New York, $2.75), demonstrates in a series of charts that interest rates are of prime significance, then espouses the author's favorite theory, that "capital issues" are the causative factor. In his final analysis, the author embraces nearly all of the usual theories, including monetary factors, the flow of gold, and international complications. But he stresses more than any other the capital issues theory, that changes in the volume of new investment going into business enterprise cause business to turn up or down at the bottoms or tops.

Col. Ayres would like to see more "risk" capital put to work, assuming of course that this capital would be used in production, leading to increased wages and profits. He feels that this "risk" capital is not working because of SEC regulations. In reality, however, there seems to be a more fundamental reason why idle capital and labor do not get to work, something which is not brought out in his statistical analysis, namely, that they cannot produce without land. If the price of land is speculatively high, capital and labor cannot make a normal return from it.

Of particular interest to Georgists are Col. Ayres' comments on the function of speculation, particularly land speculation, in business cycles. He points out that speculation always precedes a major panic and that depressions are of long duration if they follow exceptionally great real estate speculation. The mortgage holders do not really want to own real estate and the depression lasts until the properties have passed to those who do. This was said to be the situation in the depression that followed the 1929 boom.

Like so many other writers on the subject, Col. Ayres does not quite convince us that he has discovered the key to business turning points. Perhaps if he pursued further the path indicated by his reflections on land speculation his search would be better rewarded.

—JULIA HARMON.