

Haberler, the League of Nations, and the Search for Consensus in Business Cycle Theory in the 1930s

Mauro Boianovsky
Universidade de Brasília

Hans-Michael Trautwein
Oldenburg University

Resumo

O artigo discute o projeto da Liga das Nações nos anos 1930 de produzir consenso na interpretação das flutuações econômicas agregadas da economia. Em 1934 G. Haberler deu início, sob os auspícios da Liga das Nações em Genebra, a uma ampla pesquisa visando sintetizar as várias explicações divergentes das causas dos ciclos econômicos, que culminou com a publicação de seu livro clássico em 1937. Utilizando material de arquivo até então inexplorado, o artigo documenta como as discussões com economistas da época - através de correspondência e seminários - foram incorporadas no relatório final de Haberler, e interpreta em que medida a tentativa de obter consenso foi bem sucedida.

Abstract

The paper discusses the League of Nations's project to produce consensus in the interpretation of aggregate economic fluctuations in the 1930s. G. Haberler started working in 1934 at the League of Nations headquarters in Geneva on a broad enquiry that should lead to a synthesis of the several conflicting explanations of the causes of the business cycles, which culminated with the publication of his classic book in 1937. The paper makes use of archival material hitherto unexplored - such as correspondence and verbatim records of conferences - to show how the discussions with economists at the time were incorporated into Haberler's final report, and to interpret in what extent the attempt to reach a consensus was successful.

JEL: B22

“The indivisibility of the theories of the cycle, the belief that all phases of the cycle must be explained by applying one “leading principle”, seems to me a myth; and the fear of eclecticism, in the sense of utilizing and combining hypotheses of different theories of the cycle, a superstition.” (Haberler 1936c: 1)

I. INTRODUCTION

In October 1930, “impressed by the seriousness of the present situation, by the constant recurrence of such periods of economic depression and the failure up to the present to discover any concerted means for averting the losses incurred”, the Eleventh Assembly of the League of Nations decided that the Financial Section and Economic Intelligence Service “should undertake the study of the courses and phases of the present depression” (Ohlin 1931: 7-8; preface by Alexander Loveday, director of the Financial Section). Bertil Ohlin’s report, which came out a year later, was the first product of that resolution. It consisted of an empirical investigation of the depression up to mid-1931, without much theoretical discussion (cf. Endres and Fleming 2002:30-35). Ohlin’s study was based on country reports prepared by national Economic

Councils and Research Institutes, plus two meetings of their representatives held in Geneva in March and July 1931 (Ohlin 1931: 8-11). The minutes of the second conference (League of Nations Archive, Geneva) include a suggestion by Friedrich A. Hayek (then director of the Austrian Business Cycle Institute) to get a “distinguished economist to carry out a study of the recurrence of crises, a specialist who should not be burdened with any routine or administrative work, such as collecting data or obligations to publish forecasts”. Ohlin supported Hayek’s suggestion, stressing the difficulty of preparing an “authoritative report if, on every point, three or four different theories were advanced”. Both argued that a synthetic view of economic fluctuations was necessary. Yet it was only three years later that the League would start a long-term program of business cycle research, under a five-year grant from the Rockefeller Foundation. The grant was based on the decision to focus on economic stabilization as a program of concentration within social sciences, taken by 1933 by the trustees of the Foundation (cf. de Marchi 1991: 148-54).

In March 1934 Gottfried Haberler started working at the Economic Intelligence Service on an “Enquiry into the Causes of the Recurrence of Periods of Economic Depression”. He finished the first part of the enquiry, titled “Systematic Analysis of the Theories of the Business Cycle”, in August 1934. A revised version was completed in December 1935, reflecting correspondence with numerous fellow economists. In June 1936 a first draft of the second part, titled “Synthetic Exposition of the Nature and Causes of the Business Cycles”, was sent out and thoroughly discussed by a “committee of experts on the business cycle” in meetings held in Geneva from June 29th to July 2nd. In September 1936, just before leaving for a permanent appointment at Harvard University, Haberler finished the final version of his report, which was published by the League in 1937 under the title *Prosperity and Depression: A Theoretical Analysis of Cyclical Movements*.

The task faced by Haberler when he took up his appointment at the League of Nations was the development of a synthetic view of the business cycle on the basis of the seemingly conflicting theories that proliferated at the time. The terms of the debate would change with the publication of Keynes’s 1936 *General Theory*, which was written at the same time as the first drafts of Haberler’s book. However, while Keynes reacted to the proliferation of business cycle theories by coming up with a new theory that shifted the focus on the determination of the short-run equilibrium level of employment and income, Haberler sought a consensus on which a generally accepted explanation of the cycle could be built.

Haberler’s *Prosperity and Depression* (1937) has been acclaimed as the authoritative survey of pre-Keynesian business cycle theories. With its five editions (1937-64) the book attained the status of a classic, and Haberler’s synthesis of business cycle theories came to coexist with the “Neoclassical Synthesis” in macroeconomics, whose origins date back to the same year, to John Hicks’s “Mr Keynes and the Classics” (1937). At present, macroeconomics seems to be converging on a “New Neoclassical Synthesis” that combines Real Business Cycle theory, New Keynesian ideas and Wicksellian concepts of cumulative processes and monetary policy (cf. Woodford 2003: 6-10). It may therefore be instructive to take a look back at the genesis of *Prosperity and Depression* in the 1930s. This paper describes the process in which Haberler attempted to create a consensus in business cycle theory, and we discuss in how far his attempt was successful in the light of the reactions of his fellow economists. Our investigation is based mainly on the correspondence that followed the circulation of the first draft of Part I of the report, on the verbatim records of the meetings of June/July 1936, and on a comparison between the successive drafts and the published version of *Prosperity and Depression* (henceforth *PD*).

II. REACTIONS TO HABERLER’S 1934 SURVEY

Haberler’s 1934 memorandum on the theories of the business cycle (held at the League of Nations Archive) has six chapters: introduction; purely monetary theories; over-investment

theories; under-consumption theories; “horizontal maladjustments” and rise of costs as causes of crisis and depression; agriculture and the business cycle. The chapter on over-investment theories, which comprises almost half of the fifty-page survey, is divided into five sections on monetary and non-monetary theories (respectively), on over-investment resulting from changes in the demand for consumers’ goods, on the principle of the acceleration of derived demand, and on the course of the depression. Haberler’s (1934: 2; cf. 1937a: 6-7) starting point is that a complex phenomenon such as the business cycle is caused by many factors, so that there is room for a variety of explanations which are “not mutually exclusive and contradictory”. The memorandum was sent in August 1934 to a long list that reads like a “Who is Who?” in business cycle theory at the time.

1. *Reactions from Cambridge*

Keynes (30 August 1934) reacted negatively to the project, writing Haberler that “I cannot think that you have gone the right way to work. The method of taking various propositions in isolation is to bring authors into the same pigeon-hole who are really leagues apart and have very little in common”. Haberler (25 October 1934) replied that Keynes’s reaction was an exception:

“I appreciate the perfect frankness of your letter, although I am sorry that you are without sympathy for my paper. In the light, however, of the comments of a great number of very competent scholars... I wish to tell you quite frankly that I do not believe that my representation is so bad as you think... The comments which I have received on my memorandum from many of the writers concerned express on the whole considerable sympathy with my attempt at reconciliation.”

In his response Keynes (31 October 1934) rejected Haberler's strategy, indicating that he had adopted a completely different one in his own forthcoming “new book”:

“My essential point is that the method you have adopted forces you to a high degree of superficiality... I cannot believe that the solution can be reached by bringing together... excerpts from the views of a large number of writers, each differing from the other more or less in fundamentals. The answer must lie somewhere much deeper down, yet your method tempts you to skating rather than digging”.

The “terminological differences” mentioned in Haberler’s letter to Keynes were a central issue in the macroeconomic debate of the 1930s (cf. Andvig 1991). The definition of concepts, especially in connection with the saving-investment mechanism, attracted much attention, as illustrated by the correspondence between Haberler and *Kahn* about the 1934 memorandum. In a letter of 23 October 1934 Kahn anticipated central arguments of Keynes’s *General Theory* (1936), claiming that the equality of saving and investment as a truism follows from the definition of the terms, which rules out “forced saving” and the determination of the rate of interest by supply and demand for saving. Furthermore, Kahn found “remarkable that you pay so little attention to Mr Keynes’ theory of what determines the amount of output and employment... Nowhere in your analysis is there any suggestion that the sole direct cause of fluctuations in employment may be fluctuations in the rate of investment.”

Haberler (16 November 1934 and undated) rejected Kahn’s argument about saving and investment by referring to Robertson (1934), whose framework would be adopted in Part II of *PD*. Furthermore, he emphasized, the explanation of unemployment by changes in investment is “shared by a great number of economists (Spiethoff, Hansen, Hayek, Cassel). My memorandum is full of these theories”. He did not, however, reply on that occasion to Kahn’s claim (13 November 1934) that other economists are not able to establish a “simple relationship between

the rate of investment and total output” as expressed by the multiplier formula in Kahn (1931).¹

Robertson (6 September 1934) thanked Haberler for sending his “extremely able, illuminating and thought-provoking memorandum”. Robertson criticized Haberler’s statement that the phenomenon of “wasted saving” in the depression has no counterpart in the boom (1934: 32), pointing out that “forced saving” is precisely that counterpart.² Haberler deleted the passage in the published version of *PD*. Probably in reaction to another comment of Robertson, Haberler (1937a: 101) also eliminated his earlier observation that the rise of money-wages lags behind the rise of prices even in the later phases of the boom (Haberler 1934: 43). Furthermore, Robertson argued in critique of Haberler (1934: 35-37) that a “shortage of capital” and an “insufficiency of demand for consumers’ goods” need not be mutually exclusive. Haberler (21 September 1934) was not quite convinced, but reproduced Robertson’s argument in *PD* (1937a: 123-24).

2. *Reactions from Oxford and London*

The lack of detailed discussion of Keynes’s 1930 notion of a “natural rate of interest” and of Keynes’s analysis of the absence of forces to bring the market rate to its “natural” value was noticed by *Harrod* in letters of 19 October and 5 November 1934. In his first letter Harrod suggested that Haberler should remove passages indicating that non-monetary theories of the cycle imply a change in the “effective quantity of money” MV , since such remarks pertain rather to part II (“synthesis”). Haberler (1934: 33, 45-46; cf. 1937: 116, 151) removed the passages and discussed the matter in part II of *PD* (180). More substantially, Harrod criticized Haberler for suggesting that the acceleration principle implies a lengthening of the average period of production (1934: 27).

A similar comment was made by *Kaldor* (4 September 1934; League of Nations Archive). In his replies to both Kaldor (6 October) and Harrod (25 October) Haberler defended his point that the acceleration principle works together with an increase in roundaboutness and that, therefore, the acceleration principle and over-investment theory are closely connected (cf. 1937a: 95). Kaldor found Haberler’s “attempt to bring the various explanations into harmony with each other very skillful and interesting”. However, concerning the interpretation of the acceleration principle, Kaldor criticized Haberler’s (1934: 28) discussion of its operation when there is a shift in demand from commodity A to commodity B for a given aggregate income. Kaldor rejected Haberler’s claim that the increase in the demand for machines by B will be stronger than the decline in replacement demand by industry A. In the corresponding passage in *PD* (1937a: 93), Haberler pointed out that the argument applies if the demand for machinery producing A falls to zero, which is close to Kaldor’s point in the correspondence.

Asked by Haberler (11 September 1934) to give his opinion about the memorandum’s compromise between the monetary and non-monetary theories, *Hawtrey* (12 October 1934) staunchly reaffirmed his view that no non-monetary impulses need to be assumed for a full explanation of the business cycle. In particular, he described Spiethoff’s explanation of the upper turning point by a shortage of consumption goods as “rubbish” and criticized Haberler (1934:39) for accepting Hayek’s explanation of business cycles. Furthermore, Hawtrey discussed in detail the memorandum’s presentation of his theory. In his reply, Haberler (17 October 1934) wrote that “what you say about your own theory, I take, of course, as an authentic interpretation”. In his letter Haberler clarified that “of Hayek’s theory I accept only

¹ However, when Keynes’s *General Theory* came out, Haberler (1936d) immediately reacted with strong criticism of Keynes’s use of the multiplier concept (see Boianovsky 2000: 166-67).

² The same comment was made by Hayek and Kaldor, whose letters are both dated 4 September 1934.

certain parts; I do not accept, e.g., his analysis of the depression". Nevertheless, Haberler would eliminate from *PD* the whole paragraph on p. 39 of the memorandum, where he claimed that the explanation of the upper turning point by a shortage of capital – that is, Hayek's hypothesis – is "much more plausible" than a deficiency of consumers' demand.

Hayek (4 and 6 September 1934) provided detailed comments on the memorandum. He insisted that Haberler (1934: 13) should not put him in the same department as Mises who claimed that cycles are normally started by "money and banking factors" that "tend to depress the money rate below the natural rate of interest". In addition, he criticized Haberler (1934: 23-29) for attributing too much importance to the acceleration principle and for conceding that some under-consumption theories (such as those of Aftalion, Clark and Schumpeter) contain a "sound element" (1934: 35).

3. *Reactions from the Continent*

Tinbergen (16 November 1934) noticed the absence of any mathematical discussion in Haberler's memorandum, supposing that Haberler had "not given much attention to an exact statement of all relations forming a given closed system", because he had to write "for mathematically unskilled readers". Tinbergen referred to his forthcoming *Econometrica* survey of quantitative business cycle theories (Tinbergen 1935), which Haberler (1937a: 8) came to mention in connection with the distinction between "exogenous" and "endogenous" theories.³ Tinbergen criticized Haberler's (1934: 35) assertion that underconsumption theory overlooks the fact that the "accumulation of capital might go on for a very long time, practically indefinitely without any equally rapid increase in the output of consumers' goods". According to Tinbergen, "of course the question is whether quantitative relations in reality fulfill this assumption or not". Haberler (1937a: 118, italics in the original) changed the passage. In the same vein, Tinbergen suggested that Haberler's (1934: 39) implicit assumption that a investment demand is interest-elastic had not been statistically established, and expressed his interest to "see the statistical research in this field, you have in mind to perform".⁴ *Marschak* (20 September 1934) likewise referred to Tinbergen's quantitative approach and pointed out that, "for example, the emergence of a cumulative process in Wicksell's terms depends not only on the existence and signs of certain variables, but on their absolute quantitative values, too".

Wicksell was also the topic of a letter from *Johan Åkerman* (24 August 1934). He criticized Haberler (1934: 8 n.) for describing Hawtrey's theory as a "masterly blend of Fisher and Wicksell", pointing out that Wicksell's explanation of the business cycle was not based on his monetary theory. Haberler (5 September 1934) accepted the point (cf. 1937a: 30). *Einaudi* (28 January 1935) criticized that Haberler's discussion of some topics - such as underconsumption theory and the role of inventories in the working of the acceleration principle - was incomplete. This led to further elaboration of those themes in *PD* (1937a: 90; cf. 1934: 25). Furthermore, Haberler (1937a: 27-28) followed Einaudi's suggestion to move the definition of "horizontal" and "vertical" maladjustments from the end of the memorandum (1934: 40) to the beginning.

³ On that occasion, Tinbergen did not bring up the argument that a complete mathematical model of the business cycle would render the central theme of *PD* – the discussion of turning points – obsolete (cf. Tinbergen 1940, and Haberler 1943: 479-80).

⁴ This was nearly two years before it was decided that Tinbergen himself would replace Haberler in the second (econometric) stage of the League's business cycle project.

4. *Reactions from America*

Haberler's relatively brief discussion of Mitchell's contributions (1934: 42-44; cf. 1937a: 100-103) raised complaints by *Mills* (26 October 1934), who found it "rather inadequate". Haberler replied that he could not refer everywhere in the text to authors with a more consensual view, like Mitchell.⁵ *Schultz* (undated) rejected Haberler's claim that "shortage of capital" and "deficiency of consumers' demand... cannot be both true" as explanations of the upper turning point (1934: 39). "Why not?" asked Schultz. "It all depends on the definitions given to them". The whole passage was removed from *PD*. *Viner* (28 January 1935) reacted positively to the memorandum, but criticized it for "not giving adequate attention to the monetary aspects", that is, a study of the business cycle from the cash balance angle. This may have influenced Haberler's extensive discussion of the role of cyclical changes in real balances in part II of *PD*.

Angell (19 October 1934) wrote that "you rather dismiss psychological theories" (cf. Haberler 1934: 40). While accepting that such theories are not sufficient to explain the turning points, Angell claimed that they account for the generality of a given movement of rise or fall. Haberler (1937a: ch. 7) came to add a chapter on "psychological theories" (see below). *Marget* (6 October 1936) urged Haberler to bring the role of expectations more into the foreground when using the "natural rate of interest" concept, a point that was also made by *Kaldor*. In his reply to Marget, Haberler (23 October 1936) wrote that he was studying Myrdal's (1933) "extremely important contribution, which opens quite new vistas". Marget also commented on Wicksell's concept of a natural rate of interest, suggesting that, given the problems associated with this terminology, it should be replaced by the notion of an "equilibrium rate of interest". Haberler (1937a: 32) complied.

Lederer (26 May 1935) complained that Haberler (1934: 32-37) had misrepresented his approach by subsuming it under underconsumption theories (à la Hobson or Foster & Catchings) that explain depressions "by the fact that too large a proportion of current income is being saved". Haberler reacted by discussing Lederer's ideas in much greater detail in *PD* (1937a: 124-25; 128-30) than in the 1934 draft. In the same context *Neisser* (29 March 1935) rejected Haberler's remark that "[t]he over-saving theorists have completely overlooked the fact that new productive investments reduce the unit cost of production" (1934: 34). Furthermore, Neisser pointed out that the expression "reduction of unit costs" lacked clarity because of the missing distinction between technical progress and capital intensive growth. Haberler's remark was also criticized by *Kaldor* (4 September 1934) on the grounds that new productive investments will reduce unit costs only if entrepreneurs expect, as a result of the fall in the interest rate, that the prices of their products will fall, too. The corresponding paragraph of the draft (1934: 34) was eliminated in the final version.

In a short memorandum of 14 June 1935 titled "A Study of the Recurrence of Economic Cycles - Rockefeller Grant Research Work" Loveday reported that Haberler is now "redrafting [his survey] in the light of comments" received. The next section examines the more fundamental changes that Haberler made in addition to the aforementioned smaller revisions.

⁵ Haberler's sparse treatment of Mitchell may also be explained by his view that the Great Depression had exposed the "failure of the atheoretical approach" of the Harvard Committee and "the Mitchell School" (Haberler 1933b: 92) and that he found Mitchell's explanations of the crisis generally "vague and unhelpful" (1934: 42 n.).

III. BROADER CHANGES IN HABERLER'S SURVEY

The manuscript of Part I ("analysis") of *PD*, a second draft of the 1934 survey, was largely completed by December 1935 (Haberler 1936a; 1937a: 2). It was distributed in June 1936, together with Part II ("synthesis"), to a "committee of experts". The committee, however, was told to focus exclusively on Haberler's synthesis (1936b). Earlier in that year Haberler (1936c) provided a summary of the revised version of the 1934 survey and a first sketch of the synthesis.

1. *The Vanishing Attraction of Austrian Business Cycle Theory*

Haberler's examination of the literature had led him to the conclusion that there was a large measure of agreement about the nature of the cumulative processes, but not about the turning-points (1936c; 1937a: 185, 226). The description of the contraction as a cumulative process that carries the system away from equilibrium was not shared by an important group of economists.

"Many economists used to explain depression simply by the necessity of liquidating the maladjustments which were created during the preceding expansion and which led to the collapse of the boom...[H]owever one cannot thus explain why the depression spreads almost to *all* parts of the economic system." (Haberler 1936c: 2)

This criticism was clearly aimed at Hayek (1931). This is noteworthy because, a few years earlier, Haberler (1931, 1932b) had argued that the Austrian theory of the crisis was the only theory capable of explaining the depression at that time. The memorandum actually contained some skeptical remarks about Hayek's monetary over-investment theory (1934: 17-18).⁶ But in the revised draft (1936a: 53-58) and in *PD* (1937a: 48-57 and 119-24), in which "Hayek's theory of capital shortage" was set apart from other over-investment theories and discussed in great detail, Haberler took a much more critical stand. He argued that Hayek failed to prove his central points, namely that monetary expansion inevitably ends in a crisis and "that a stabilisation of prices in a progressive economy must always lead to over-production, crisis and depression" (1937a: 57; cf. Laidler 1999: 43-44; Boianovsky 2000: 163-65; Klausinger 2003: 230-34).

Haberler's change of mind about the explanatory power of the Hayek-Mises business cycle theory is partly reflected in his correspondence with Hayek, Machlup and Morgenstern. In a letter of 22 May 1934 to Morgenstern, Haberler expressed an opinion that was partly included in the memorandum: "My position on [the approach of] Mises-Hayek is now the following: the theory does a lot to explain the upswing and the situation that leads to the crisis. In this respect, however, it contradicts Spiethoff, Cassel and J. M. Clark. But what they [Hayek and Mises] say about the depression, and in particular about policies to fight it, is extremely primitive" (cf. Haberler 1933b: 97; 1934: 17). Neisser's (1934) review of Hayek's *Prices and Production* (2nd ed.) made a great impression on Haberler. This is evident from Hayek's reactions in letters of 14 April and 25 July 1935,⁷ in which he complained that Neisser's article "remains full of the most awful confusion, even though Marschak and I had cured him of his worst mistakes". A careful comparison of Hayek's notes with the final version of Haberler's survey indicates that practically all the passages criticized by Hayek have survived essentially unchanged and mostly in the

⁶ The account offered by Endres and Fleming (2002: 35-37) is marred by their mistake in dating 1932 as the start of Haberler's work at the League, which is behind their imprecise interpretation that Haberler's (1932b) Austrian formulation of the business cycle was part of his activities in Geneva. Yet, even before Haberler came to Geneva he had begun to show a rather critical attitude towards Hayek's approach in his contribution to the *Spiethoff-Festschrift* (1933b).

⁷ The Haberler-Hayek correspondence of the 1930s (held at the Hoover Institution) includes letters from Hayek to Haberler, but Haberler's letters have not survived; for other aspects of that correspondence, especially concerning Hayek's opinion about Keynes, see Howson (2001).

original wording, as quoted by Hayek. This shows that Haberler was not convinced by Hayek's anti-critique and reservations.⁸ In *PD* (1937a: 53-57) he used Neisser's criticism to demonstrate the limits of Hayek's theory. Moreover, under the impression of his work at the League and his frequent discussions with visiting economists, he changed his mind on active stabilization. In a letter to Morgenstern (21 September 1935), he revealed that "I am more and more inclined towards advocating expansionary policy... As far as I can see there is nothing that guarantees that the next boom will last longer or the next crisis will be milder if the liquidation of the present crisis is deferred, that is, if no expansion is enacted and one waits until the crisis has run its course".

2. *Accentuating the Acceleration Principle, and Other Changes*

In the final version of his survey Haberler (1937a: 80-98) paid special attention to the role of the acceleration principle. The discussion was more detailed than in the 1934 memorandum, probably elicited by comments received from Robertson, Kaldor and others. According to Haberler, the principle brings out the strong influence of fluctuations in the demand for consumers' goods on investment and the business cycle mechanism as a whole. Haberler (1934: 23; 1937a: 81) claimed that the acceleration principle and the over-investment theory are "in reality not alternative but complementary explanations". He also considered possible connections between the acceleration principle and under-consumption theories (1934: 35; 1937a: 119).

Haberler's critique of "crude" under-consumption theories, which explain the downturn by a sudden increase in saving and a corresponding fall in consumption, carried through from the 1934 memorandum to the final version. In *PD* (1937a: 119-29), however, he expanded his discussion of what he had earlier described as the "sound element" of under-consumption theories (1934: 35-36). This was the proposition that the insufficiency of demand for consumers' goods is caused by a rapid rise in their supply when the new roundabout methods of production mature - an idea he mainly ascribed to Aftalion, Clark and Schumpeter. Haberler (1937a: 119-21) referred to this proposition when contrasting the two main rival explanations of the upper turning-point: (i) the supply of capital becomes too small to complete the new roundabout methods of production, or (ii) consumers' demand is insufficient to sustain the increased productive capacity. In the memorandum Haberler (1934: 36-37) had held the opinion that the dispute could be settled by empirical studies, suggesting that the high rates of interest observed at the end of the prosperity period supported the capital-shortage hypothesis. That discussion is eliminated from the subsequent versions, which can be in part explained by Haberler's realization that the rise in the interest rate may be nominal only (due to an expected rise in prices), or that it may be due to an absorption of loanable funds into financial circulation: "There is no single unfailing statistical criterion" (Haberler 1936c: 6). Instead, the "critical question" is: "How should the flow of money between saving and spending and between the various branches of spending be modified in order to restore equilibrium?" (Haberler 1937a: 124; cf. 1936a: 147; 1936c: 5)

A more extensive addition was chapter 6 of *PD*, titled "psychological theories", which had no correspondence in both the 1934 and 1936 drafts of the survey. That new chapter was written in July and August 1936 to take account of Keynes's "notes on the trade cycle" (1936: ch. 22). Haberler (1937a: 141) considered Keynes, Arthur Cecil Pigou and Frederick Lavington as "psychological theorists", whose approach makes no specific contribution to the explanation of the upper turning-point, since the elements of expectation and uncertainty are compatible with any of the traditional hypotheses (capital shortage, insufficiency of consumers' demand, or horizontal misdirection of capital). In a long footnote Haberler (1937a: 135, n. 1) remarked that

⁸ Nor was Ragnar Nurkse, who at that time was Haberler's assistant and expressed his doubts about Hayek's arguments against Neisser in a letter to Haberler (30 July 1935).

“it has become fashionable to lay stress on the element of expectation” in economic theory. He mentioned Myrdal (1933), but did not discuss the Swedish *ex ante / ex post* approach. It was only in the second edition of *PD* (1939: 180-91; 252-53), in the new chapter 8 on “recent discussions on the trade cycle”, that Haberler would discuss the Swedish concepts and the general role of expectations in economics, taking a much more critical position than in his earlier correspondence (see section 2).

IV. THE MEETINGS OF THE COMMITTEE OF EXPERTS

In March 1936 Loveday invited a group of economists to meet in Geneva in late June to discuss Part II of Haberler’s enquiry. Apart from Robertson (Cambridge University) and Haberler (who acted as chairman), the meetings were attended by Otto Anderson (Economic Research Institute, Sofia), John Maurice Clark (Columbia University), Leon Dupriez (Catholic University of Leuven), Alvin Hansen (Department of State, Washington D.C.), Oskar Morgenstern (Austrian Business Cycle Institute), Bertil Ohlin (Stockholm School of Economics), Charles Rist (University of Paris), Lionel Robbins (London School of Economics), Wilhelm Röpke (University of Istanbul), and Jan Tinbergen (Dutch Institute of Economics). The initial list of invited economists included also Bresciani-Turroni, Mitchell and Schumpeter, who all declined.⁹ A short notice about the meetings was published in the June edition of the *Monthly Summary of the League of Nations* (vol. XVI, no. 6, p. 202). A verbatim record was kept in order to assist Haberler in the final revision of his report, and sent to all participants. Under the title “Committee of experts on the business cycle” the record reproduces the discussions that took place in seven meetings from the morning of 29 June until the afternoon of 2 July 1936.¹⁰

1. First Session

Haberler started by asking the participants if they agreed with his claim (1936b: ch. 1; 1937a: ch. 8) that the depression may be caused by various factors, so that “a fairly general theory can be given of the way it develops cumulatively, not given much attention at first to the way in which it has been started” (p. 21). There was general agreement about Haberler’s approach (including the division of the cycle into four phases), but Hansen disputed Haberler’s definition of prosperity and depression in terms of employment and volume of production (Haberler, 1936b: 6). Hansen claimed that changes in profit are a better index of cyclical fluctuation, since output could change for causes other than the business cycle. In the end, after some debate about index number problems involved in the distinction between real income and output, most of the conferees (especially Ohlin) supported Haberler’s suggested measurement of fluctuations.¹¹

2. Second Session

The second session addressed the cumulative process of expansion. Haberler proposed to start the analysis of the cycle at the low point of the depression, and not at full employment, in order to bring out the “essential” feature of the expansion process, namely the “reciprocal stimulation of

⁹ Hayek (15 February and 3 May 1936) regretted that he could not participate because Haberler had invited Robbins as representative of the LSE.

¹⁰ Haberler (1964: V; 1976: 10) wrongly recollected that the meetings took place in August or September, respectively.

¹¹ According to Haberler (1976: 11), Hansen “did not take a very Keynesian position in the discussions at the conference. For example, he stressed the ups and downs of profits as the essential characteristic of the business cycle, while Bertil Ohlin and I argued in favor of expansion and contraction in output and employment”.

investment and consumption” (second session, p. 14). There was no criticism of that, except for Ohlin’s remark that Haberler’s discussion of the monetary aspects of the expansion (1936b: ch. 2.B) did not go much beyond Wicksell’s original theory of the cumulative process.¹² Ohlin suggested that a more detailed discussion of the saving-investment mechanism should be provided, including recent contributions by Robertson (1934). According to Ohlin, this could show how a higher level of expenditure in public works brings about “unintentional savings” able to finance the public deficit (pp. 30-31). Haberler insisted on confining the concepts of investment and saving to effective flows of money, whereas Ohlin stressed the importance of including the effects of discrepancies between expectations and outcomes, which are best brought out under the (Wicksellian) assumption of “a perfectly elastic monetary system” (pp. 32-44).

Morgenstern (p. 45) asked Haberler to explain how his curves of the demand and supply of credit are constructed and equilibrium is determined, considering that demand is a function of the profit rate, whereas the relevant supply side variable is the interest rate (cf. Haberler 1936b: 34-37). Haberler answered that he “meant it here as being the same - the price of the investible funds” (p. 49). Ohlin disputed Haberler’s assumption that there is a rate of interest that will keep the price level stable (p. 64). However, instead of debating that point in detail, Haberler suggested that “we turn to the acceleration principle, because that goes to the heart of the problem for some members of this group”. After getting positive reactions (from Tinbergen, Hansen and Clark) to the role attributed to that principle in the expansion process (cf. 1936b: 42-51), Haberler asked Robbins if he agreed, since “the theory which you have does not stress this factor”. Robbins replied that “I find myself in substantial agreement with what you have said, but I should not have been in agreement had it not been developed in such close connection with the theory of mine”.

3. *Third Session*

In the morning of 30 June the conferees discussed a new section titled “saving and the expansion process” that had been circulated on the first day of the conference (cf. Haberler 1937a: ch. 9.A, sect. 6). The original draft has not survived. As Haberler pointed out, “these pages are largely written by Mr. Fleming and I must give the credit to him” (third session, p. 21).¹³ Haberler argued that, if savings increase, “this will put a brake on the rapidity of the expansion, but it will have a favorable influence, making it possible and easier then to reach equilibrium somewhere” (p. 29; cf. Haberler 1937a: 214-18). Robertson criticized Haberler’s statement that, even if the savers seek to invest all their savings, this will not increase actual investment to an equivalent extent, since it will be in part counteracted by hoarding in reaction to the decrease in the rate of interest (1937a: 215-16). According to Robertson, this would be true only if the “liquidity curve” were very elastic in the upswing, which he found doubtful.

Haberler next moved the discussion to the cumulative process of contraction. He started by reaffirming his view that the depression should be seen not as a process of readjustment towards equilibrium, but as a cumulative deflationary process that carries the system away from

¹² However, Wicksell (1898) based his theory on the full-employment assumption, and for Hayek (1931 and 1933) full-employment equilibrium was crucial as a starting-point, since he considered the cycle to be a deviation that was *corrected* by the crisis; see also Trautwein (1996).

¹³ Marcus Fleming (b. 1911; d. 1976) joined the League in 1935 as a research economist to assist Haberler. He is better known for his contribution to the “Mundell-Fleming” model in the 1960s. Strangely enough, there is no acknowledgement of Fleming’s, or other colleagues’, contributions to *PD* in the 1937 edition. It was only in the preface to the 1958 edition that Haberler (1964, p. V) referred to criticism and comment he had received in the 1930s from that “remarkable group of economists at Geneva”. Besides Fleming, he mentioned Loveday, Nurkse, Folke Hilgerdt, Rifaat Tirana, J. B. Condliffe and Luis Rasminsky.

equilibrium. Morgenstern agreed, but pointed out that “if no point of the whole business cycle ever passes through the equilibrium point,... that limits equilibrium analysis of static theory very much... and throws overboard the usefulness which one has so far seen in... starting from static conditions, which have been often, as you say yourself in the first part, used by Hayek” (third session, pp. 48-49).

According to Haberler, the main feature of the deflationary process is the reduction of the velocity of circulation of money and the increase of hoarding, which he described as a “striving for liquidity” (p.63). Ohlin complained that “you say nothing at all about how savings go, how losses come, and I should appreciate it if you added a paragraph on this” (p. 67). The discussion turned instead to Haberler’s (1937a: 226-39) detailed “monetary analysis of the contraction process”. Haberler called attention to his criticism of Keynes’s (1930) notion that sales of old assets to cover losses is a factor which makes for the intensification of deflation (Haberler 1936b: 67-69; 1937a: 236-38). Ohlin and Robertson agreed with Haberler’s objection that savings of a part of the public are compensated by dissaving on the part of entrepreneurs, but suggested that it should be stressed that the mechanism is deflationary to the extent that it prevents the rate of interest from falling (pp. 81-82). Another deflationary factor discussed at that session was “sales of securities or other assets for fear of a fall in their price” (pp. 90-92; cf. Haberler 1936b: 69; 1937: 238). This is reminiscent of Keynes’s (1936) speculative demand for money, but Haberler argued that hoarding has a deflationary effect irrespective of whether transactions actually take place (caused by a divergence of opinions) or not (as in the case of uniform expectations).

4. *Fourth Session*

The fourth meeting (afternoon of 30 June) dealt with “the most important and difficult problem of the whole theory of the cycle: namely, the upper turning-point” (fourth session, p. 1). Haberler (1936b: 84-90; 1937a: 254-59) suggested that the system becomes more and more sensitive to deflationary disturbing shocks when it approaches full employment. The process of expansion can only go on at the expense of rising prices “and if prices start to rise and rise continuously, I think you will agree that this cannot go on forever - that this rise in prices will become progressive and must be stopped” (p. 41).

Haberler was at pains to clarify that “full employment” is a relative, not absolute, concept, since it is not just a matter of the total amount of idle factors, but also of their distribution. Robbins then asked which rate of unemployment should be described as the “danger point” at which money-wages begin to rise. According to Robbins, one could “find some connection between the percentage of unemployed and the point at which wages rose, although with strong trade unions you might get a rise in wages with 5 per cent unemployment” (p. 45). Haberler, however, did not show much interest in Robbins’s suggestion of a statistical investigation of (what we now call) a Phillips curve, since “you cannot fix a certain point and say ‘Now the danger arises’”.

Haberler regarded full employment as a limiting point, in the sense that the expansion could be reversed by maladjustments even before that limit is reached. This led to the “most complicated and most difficult question: namely, that concerning those disturbances or maladjustments which are likely to be brought about by the expansion process itself” (p. 48). It was in this context that Haberler referred to the central question in Part I of his report, as to which changes in the flow of money would restore equilibrium at the end of the boom (see section 3). However, by the time he drafted Part II, Haberler (1936b: 102-03; cf. 1937a: 268-69) was no longer sure about the existence of a clear-cut answer to that question. “It seems to me the situation is more involved than I thought it was” (p. 49).

After dismissing the “old view” that there is one particular maladjustment that ends the expansion, Haberler maintained that a “very probable” explanation follows from the fact that, as the system approaches full employment and factors of production become scarce, “you still have

producers' goods industries on such a high level which is compatible only with a rise in output" (p.50). Eventually the production of capital goods is reduced because consumption goods industries had to contract when full employment was reached. Ohlin objected that the argument is only valid if a constant rate of interest is assumed, so that an expansion of the production of consumption goods through a higher capital/output ratio is ruled out. Haberler was not convinced, since that would "necessitate the assumption of a high flexibility of the system" (p. 63). Ohlin then suggested another explanation of the turning-point, based on the fact that consumption is a function of both the absolute size of income and of its rates of change. A rise in income could lead to changes in the consumption pattern that eventually produce maladjustments of supply and demand, "so we are bound to get excess supplies somewhere; a fall in prices and small contraction processes which may lead into general contraction processes" (p. 82).

5. *Fifth Session*

The upper turning-point was still the topic at the beginning of the fifth session (morning of 1 July). Haberler noted that several explanations had been considered, but "we have not reached a solution", despite the "great role" of the acceleration principle (fifth session, p.1). Hansen aptly characterized the core of disagreement as relating to "the question whether a large volume of increased saving in the period of expansion [is] deflationary or expansionary in its effect" (p.2). Robbins insisted that interpreting the downturn as being "brought about by some rather abrupt reduction in the rate of saving... seems plausible in regard to what we have come to look upon as the classical scheme", including the crises of 1907 and 1929 (p. 43). Ohlin retorted that over-saving, caused by discontinuities in the opportunities for profitable investment, was equally probable as a cause of the breakdown. In addition to the lack of balance between saving and investment, he emphasized the presence of horizontal maladjustments associated with the difficulty to transfer labor from one sector to another (pp. 46-47). Robertson and Robbins argued, against Ohlin, that historically an excess of saving over investment seldom comes before the breakdown, but only after the turn caused by over-investment. Ohlin replied that the under-saving (or capital shortage) hypothesis was not convincing as a general explanation of crises, since investment booms need not always end in crises and expansionary credit policies need not make depressions more severe (pp. 52-53).

Keynes's (1936) notion that the curve of investment opportunities goes down rather rapidly was mentioned by Haberler as a possible explanation of the upper turning point, but "I doubt whether it is very important" (p. 54). Haberler then returned to his previous definition of under-saving and over-saving as shortage of capital and insufficiency of consumers' demand, respectively. "I have the feeling that these types are not always kept separate". Ohlin went even further by suggesting that "the one is the same as the other" (p. 54). In particular, he claimed that the rate of interest should be reduced immediately after the downturn, which raised Robbins's criticism. Hansen suggested public works to fill the investment gap in the depression, but Haberler was not entirely convinced, since "this already implies a certain diagnosis of the situation. If you will accept, say, Professor Hayek's view, then you simply have to cut down investment somewhere or make people save more" (p. 59).

As the discussion about the upper turning-point could not settle the issue, Haberler decided to move on to the discussion about the lower turning-point and downward limits of a cumulative contraction process. He noticed an asymmetry between the upper and lower turning-points (1936b: 108; 1937a: 276): An expansion can always be stopped by an interest rate high enough, but there may be no positive nominal rate of interest able to encourage investment if

deflationary price expectations prevail in the depression (p. 61).¹⁴ Another asymmetry is that there is no lower limit in a contraction corresponding to the upper limit of full employment in an upturn (p. 65).

One of the main features of a cumulative contraction process is the slowing down of the velocity of circulation of money. Haberler claimed that there is a limit to the accumulation of hoards in terms of money, but even more so in real terms, because prices and wages fall (p. 66; cf. Haberler 1936b: 119-22; 1937a: 284-87). When this happens, people will become less disposed to save, and the demand for consumers' goods will cease to fall. "In Mr. Keynes' terminology, the propensity to consume will raise". This is an early formulation of the "Pigou effect", applied to the dynamics of the business cycle (instead of the stationary state, as in Pigou 1943).

After some discussion with Ohlin, Dupriez and Röpke about details of that mechanism (such as its effects on financial markets), Haberler suggested making a compromise: "We shall agree that as long as the process of contraction goes on, hoards are growing...; but it is important to stress this factor which has been much overlooked: that this process involves an increase in the value of hoards. Keynes at many points does not realize this factor and the conclusions which must be drawn from it. Let us make no assumption as to whether there is such a lower limit as I have indicated; it may be of no practical interest" (pp. 69-70). Before the lower limit is reached, the demand for investment may increase because of inventions or re-investment.

6. *Sixth and Seventh Session*

The entire sixth meeting (morning 2 July) and part of the seventh meeting (afternoon 2 July) were used to discuss Tinbergen's plans of statistical testing of business cycle theories after the conclusion of Haberler's work at the League. A large part of the discussion consisted of the presentation of the new statistical techniques, which most of the participants were not familiar with (the exceptions being Anderson and Morgenstern). The conversation about Haberler's report was resumed at the middle of the seventh and last session. Haberler pointed out that the opinions about the question posed at the end of the fifth session diverge very much in the literature, and contrasted Keynes's (1936) view - who "says quite frankly that if you reduce money wages, nothing is gained, because prices will fall just as much" - with the view of those "whom he likes to call classical economists", who hold that price and wage flexibility will lead the system out of the depression (seventh session, p. 49). Although the verbatim records make clear that this part of Haberler's report was an attempt to sort out the conflict between Keynes (1936, ch. 19) and the "classics", there is no reference to Keynes in the corresponding pages of the first edition of *PD*. However, Haberler (1939: 395, n. 2) would make clear in the second edition that his analysis of the effects of a fall in wages "has many points in common with Mr. Keynes' treatment".

Haberler asked whether a reduction in money-wages will lead to an increase or decrease in aggregate demand (p. 49). He made an example of money-wage reductions in a specific industry and concluded that employment in this industry would go up somewhat - with the exception of the case that, "as Keynes says", the wage reductions generate expectations of further reductions. He considered this to be unlikely, but conceded that the increase in employment could be smaller than the fall in price, in which case that the wage reductions would lead to an intensification of the depression. However, as the industry will save the money - that is, hoard or use it to repay bank loans - Haberler claimed that the (real balance) effect he had put forward before would come into action and bring the system to a higher level of aggregate employment. "If the contraction is intensified, money would fall in value and amount and the system becomes more liquid and sooner or later the point will come when entrepreneurs and people in general will

¹⁴ Such formulations of the idea that deflationary expectations could generate a liquidity trap were not rare in the pre-Keynesian literature; see Boianovsky (2004).

decide that their liquidity has risen enough” (p. 60).

Ohlin disagreed with Haberler’s conclusion. “This is the only part where this report does not only fulfill all expectations but even exceeds them as far as practical usefulness goes, in a most satisfying degree..., but may I say that in this chapter on wages there are certain conclusions which might do real harm if they stand unqualified” (pp. 61-62). Ohlin pointed out that the outcome depends on the different timing of the effects on consumption and investment, and that the time lags in the reactions of wage-earners and entrepreneurs tend to differ. Moreover, deflationary price expectations affect investment negatively. Ohlin concluded that nothing definitive could be said about the effects of wage reductions on the volume of production and employment, and his conclusion started a lively discussion. Robbins disagreed with what he called Ohlin’s “scepticism” and “intellectual nihilism” (p. 87 and 121). In the end, Haberler conceded that “everything is possible”, but “still I wonder if it is advisable to stress too much that wages should not be reduced” (p. 108). Ohlin pointed out that nobody had suggested that. He had only meant to say that the conditions in which wage reductions help to prevent or mitigate a depression are much too specific to propose them as general solution of the problem. Haberler’s remark that “we are not at the end of our discussions” (p. 122) brought the conference of the committee of experts to its end.

V. HABERLER’S SYNTHETIC THEORY OF BUSINESS CYCLES

The meetings of the committee of exports were reported in a brief memorandum, written by John Van Sickle (Rockefeller Foundation) on 25 July 1936. According to Van Sickle (1936: 2), “a number of those in attendance told me privately that they had come with considerable scepticism as to the usefulness of such a conference. At the end there was not a single one who did not feel that the meeting had been definitely worthwhile. Every one felt that Dr. Haberler had succeeded in bringing about a notable consensus of opinion as to the nature of the phenomenon under examination”. The key word was “consensus”, since the Rockefeller Foundation expected as one of the results of its five-year grant to the League of Nations, that “the divergence of views among economists as to the nature and the means of controlling the business cycle will be appreciably lessened”, which would be an “essential preliminary to the unification of national policies for dealing with the business cycle” (Van Sickle 1936: 3).

1. *The Impact of the 1936 Conference on ‘Prosperity and Depression’*

To what extent did the meetings in summer 1936 affect the text of Part II of *PD*? According to Haberler’s recollections in the preface to the 1958 edition of the book, the criticisms and suggestions made at that conference “led to extensive revisions” of the final draft (Haberler 1964, p. V). A careful comparison between Haberler (1936b) and Part II of *PD* (1937a) indicates that, although several revisions were indeed made after the meetings of June/July 1936, they usually did not change the essence of the argument. This may reflect the fact that many aspects of Haberler’s synthesis commanded a considerable degree of agreement. But Haberler’s persistence can also be interpreted as a reaction to the difficulties in reaching a consensus whenever there was fundamental controversy, as in the discussions of the upper and lower turning-points of the business cycle described above.

The first chapter of Part II of *PD* (1937a), chapter 8 (definition and measurement of the business cycle) did not change, as compared to the version in Haberler (1936b). Chapter 9-A (on the expansion process) was slightly revised to take into account criticisms by Morgenstern and Ohlin concerning the intelligibility of the text. The relation between the profit rate and the demand curve for investible funds was clarified (Haberler 1937a: 191-94). The Robertsonian concept of saving as a decision based on income earned in the previous period was explicitly adopted (1937a: 198), although without referring to Robertson in this connection (but Haberler 1939: 296 would later refer to the identity of his definition with Robertson’s). The section also

included a new discussion of the determinants of the elasticity of the saving and investment functions in respect to the rate of interest and other variables (1937a: 199-200). Some elements of the discussion in the third session of the meetings about saving in the expansion were reproduced in the following sentence: “The comparison, it must be noted, lies not between the state of affairs *after* the saving and *before* it, but between the state of affairs at a given time with the saving, and what it would have been had there been no saving” (1937a: 216; cf. the statement by Fleming, p. 42 of the third session).

Chapter 10-A (on the upper turning-point, or “crisis”) included a new footnote (1937a: 256 n. 1) that acknowledged the possibility - mentioned by Clark and Hansen - that prices may rise slowly for a long time without degenerating into progressive inflation. The most important changes in that chapter were the addition of new paragraphs (1937a: 270-74) on money-wage dynamics and on a drop in investment due to insufficient demand (“saturation”), which represented reactions to arguments put forward by Robbins and Robertson. Likewise, Haberler (1937a: 271) pointed out that the bargaining position of the trade unions becomes stronger with rising employment, and that “they use it to accelerate the rise in money wages”. He also discussed Robertson’s proposition that the upper turning-point may come even earlier than the limit set by the amount and distribution of the supply of production factors. Haberler concluded that this is a possible, but not inevitable outcome (1937a: 274).

The changes in chapter 10-B of *PD* (on the lower turning-point, or “revival”) can be found in three new footnotes, all of them written as reactions to Ohlin’s criticism at the last session of the meetings. The first one is a qualification of Haberler’s argument about the influence of real balances on consumption. Haberler (1937a: 286 n. 2) acknowledged that there may be a rational incentive for the indefinite continuation of hoarding when prices are expected to fall further. Note 1 on page 289 considers the possibility, mentioned by Haberler at the meetings, that his “theory of the automatic cessation of hoarding and contraction is not accepted”, which would make necessary to rely on other factors to explain the lower turning-point, such as the “return of confidence” in investment demand. Finally, the third note (Haberler 1937a: 295 n. 1) takes into account Ohlin’s point about the role of lags in the analysis of the effects of wage reductions on aggregate output.

The main difference between Haberler (1936b) and Part II of *PD* (1937a) was the addition of chapter 11 on “international aspects of business cycles”. That chapter was written after the meetings of the committee of experts, where international aspects had not been discussed. Hence, that chapter was neither circulated nor discussed before its publication, except probably for some feedback from other economists at the Economic Intelligence Service (such as Nurkse and Fleming). This may reflect the fact that, as noticed by Hart (1937: 698), the topic had not been discussed extensively in the literature prior to *PD*, and that Haberler’s (1937a, ch. 11) analysis therefore grew out of his own work in the field of international trade. In the same vein a review of *PD* published in *The Economist* pointed out that Haberler had begun to fill the “most serious gap in our knowledge of the trade cycle”, that is, “its international aspects”.¹⁵

2. *Reviews of ‘Prosperity and Depression’*

Haberler’s *Theoretical Analysis of Cyclical Movements* (the subtitle of *PD*, 1937a) was reviewed in the main economic journals (see Officer 1982: 152-53), with largely positive reactions to its synthetic approach, presented in Part II. Many of the reviews stressed that he had succeeded in increasing the area of consensus concerning the nature of economic fluctuations. Ellsworth (1938:

¹⁵ Haberler’s (1937a) treatment of the international propagation of business cycles in a general equilibrium setting that involves both current and capital accounts has been discussed by Flanders (1989: 275-81).

108) suggested that Haberler's explanation of the business cycle is "the most complete and coherent yet available". In a brief note, Harrod (1938) remarked that the synthetic view in Part II of *PD* was built on the common ground discovered in Part I, but that Haberler also revealed "irreconcilable points of divergence, in the hope that they may ultimately be settled by the test of experience". Hart (1937: 697) admired the balance in the survey in Part I of the book, relating it to Haberler's ability "to be almost completely free from the contemporary curse of being unable to understand what other people are saying". Hawtrey (1938), who had corresponded with Haberler about the 1934 draft of Part I, found that part of the book a "brilliant achievement, a lucid and concise survey of theories of multifarious variety" (1938: 93). Although he described Part II as "able and interesting", Hawtrey was critical of the monetary aspects of Haberler's synthesis, emphasizing the neglect of the role of working capital, which played a key role in his own framework.

Kahn's review in the *Economic Journal* (1937) stood out as the most detailed and negative reaction. It was the only review that prompted a reply from Haberler, after some correspondence with Keynes, the editor of *EJ*. According to Kahn (1937: 671), there is "one fundamental difficulty running throughout the book", and that is the definition of saving and investment. He disapproved, in particular, of Haberler's analysis of the effects of a divergence between saving and investment in monetary disequilibrium, as there is no such a thing as excess saving in his own framework. Kahn referred critically to *PD* (1937a: 40 and 197), where Haberler dismissed Keynes's objections to the doctrine of forced saving as "purely verbal". Kahn was also critical of Haberler's analysis of the effect of a reduction of money-wages on employment, which stressed dishoarding instead of the Keynesian route of a fall in the rate of interest. Kahn's (1937: 677-78) main criticism was provoked by Haberler's ambiguous answer (1937a: 268-69) to the central question in *PD*, namely: whether the crisis could be staved off by an increase or by a decrease in saving. Kahn drew attention to a similar ambiguity in Haberler's discussion of public works, reflecting "a major defect in this book, from the point of view of those who seek advice on matters of practical policy" (Kahn 1937: 678).¹⁶

VI. CONCLUSION

In an obituary note on Haberler Paul Samuelson, who was his student at Harvard in the mid-1930s, recalled a conversation with him. "Gottfried, your trouble is that you are so damnably *eclectic*" (1996: 1680, italics in the original). Haberler replied: "Paul, how do you know mother nature is not eclectic?" Although the danger of eclecticism was not a big issue for Haberler, he was at pains to differentiate an open-minded from the purely eclectic attitude that he defined in his obituary article on Schumpeter as the attempt to "reconcile the irreconcilable, or merely to assemble unconnected and uncoordinated theorems and facts" (Haberler [1950] 1952: 456). From this perspective, *PD* was not a book where all rival explanations of the business cycle would find a room, but primarily an expression of the League's quest for a consensus that would allow the formulation of a testable synthesis. The notion of consensus as a key concept in scientific progress can be found in the pragmatic theory of truth put forward by the American philosopher Charles S. Peirce (b. 1839; d. 1914). According to Peirce, propositions are true just because they are universally accepted. Investigators would move towards a common conclusion because evidence takes the form of perceptions that are controlled by a single objective reality that is

¹⁶ Haberler's somewhat surprising answer to the question whether his diagnosis of the breakdown should be classified as under-saving or over-saving (1937a: 265-70) was, as noted by Kahn, that both types of maladjustments could be associated with his analysis of the upper turning-point. The depression could only be avoided by a shift in the structure of production, but the outcome depends upon in which industries technical adaptation is more easily achieved.

public to all. In this sense, a proposition is true if it accurately reflects the reality. However, according to Peirce, reality is just a construct of the community of investigators, that is, “the real is the idea in which the community ultimately settles down” (Peirce 1931-58, vol. 6: 610; see also Kirkham 1998 for a critical account of Peirce’s theory of truth). In the same vein, Thomas Kuhn (1970: ch. 12) stressed that the ability to reach a consensus differentiates scientific from other communities. In Kuhnian terms, the situation of business cycle research in the early 1930s could be described as pre-paradigmatic.

The League’s business cycle project in the 1930s was based on the belief that it would be possible to separate the terminological differences from the substantive ones, and thus generate agreement about the relevant hypotheses and how to test them. The circulation of the 1934 draft of Haberler’s survey and the expert meetings on the 1936 draft of his synthesis were attempts to reach such a consensus. The reading of Haberler’s correspondence about the 1934 survey and of the verbatim records of the 1936 meetings, as well as the comparison of the final 1937 text of *PD* with the drafts of parts I and II, indicates that, even though Haberler paid attention to criticism, he generally argued it out with his fellow economists and did not make many substantial changes in the text. Generally speaking, Haberler revised the draft of the “analysis” of theories to a larger extent than the “synthetic exposition”. This may be interpreted as an attempt to avoid an excessive eclecticism that could jeopardize the internal coherence of the text, but it also reflects Haberler’s efforts to convey a balanced view of the literature.

What was driving the League’s quest for consensus in business cycle theory in the 1930s? As discussed by de Marchi (1991: 143-45) and Clavin (2003: 231-39), the League of Nations’ effort to coordinate international monetary policy to combat the depression in the early 1930s failed together with the World Economic Conference held in London in June and July 1933. It became gradually clear after the conference that a return to the pre-1914 international economic order was not the solution. From the point of view of the League of Nations there was need to regain authority in the 1930s, after success in combating hyperinflation in Europe in the 1920s. As documented above, reaching an agreement about the causes of economic fluctuations was perceived by both the League’s and the Rockefeller Foundation’s officers as necessary to the coordination of national policies to stabilize the business cycle. The intrinsic weakness of macroeconomic theory at the time, as shown by the proliferation of competing theories, helps to explain the search for a consensus that could protect and give credibility to the League’s effort to regain its role as a player in the world economy.

Haberler (1937a) was not the first attempt to build a synthetic approach to the business cycle based on a careful discussion of different theories. Hansen (1927, ch. 8) and especially Mitchell (1913: 19-20; 1927: 47-60; 1934) had adopted partly similar strategies of investigation. In a letter to Haberler Mitchell (5 March 1936) actually reacted positively to Haberler’s (1936c) article, which summarized central elements of *PD*. However, while Mitchell stressed the difficulty of using deductive arguments to choose among multiple hypotheses, Haberler focused on the discussion of the logical structure of the competing theories. According to Mitchell (1913: 19) “there is slight hope of getting answers” to questions about choice among multiple hypotheses “by a logical process of proving and criticizing the theories. For whatever merits of ingenuity and consistency they may possess, these theories have slight value except as they give keener insight into the phenomena of business cycles. It is by study of facts which they purport to interpret that the theories must be tested”. Hence, the use of a survey of theories is to “reveal certain facts” to be investigated statistically. Mitchell (1927: 59) claimed that this is the correct order of argument, instead of a “treatment which begins with a ‘theory’ and then looks for ‘facts’”. In contrast, Haberler’s (1937a) approach was based on the idea that the construction of the theoretical set-up should precede the statistical work, in the sense that the relations between variables are postulates and not results (cf. Schumpeter 1954: 1163). Reaching a consensus on the relevant theoretical issues was only the first stage of the League’s project. The researchers at the Economic

Intelligence Service were aware that “there are many points where no definite solution can be proposed, but where the existence of a number of possibilities will be indicated. The choice between these can then be made only on the basis of empirical investigations” (Haberler 1937a: 2).¹⁷ The task of statistical testing of the synthesis put forward in Part II of *PD* would be faced by Tinbergen (1939), who started to work for the League in autumn 1936, when Haberler had left for Harvard.

By the time Tinbergen published his reports, a new consensus had started to form around Keynesian macroeconomics, which addressed a different set of questions. The essentially static nature of Keynes (1936) framework was pointed out by Haberler (1939: 249) in the second edition of *PD*. Keynes’s *General Theory* did not and could not deal with cumulative processes of expansion and contraction. The various hypotheses concerning the forces which may bring about the upper and lower turning-points could nevertheless be expressed in Keynes’s terms of changes in the propensity to save, marginal efficiency of capital, or liquidity preference. This indicated that Keynes’s theoretical apparatus was not incompatible with the theories reviewed in Part I of *PD*. Keynes, who had had no sympathy for the League’s project since the beginning, reviewed anonymously the second edition of *PD*, noting that “Prof. Haberler accepts the broad line of Mr. Keynes’ theory as valid, but finds nothing significantly new in it” (Keynes 1939: 275).

Indeed, as is obvious from the verbatim records, Haberler referred often to Keynes (1936) in the Geneva 1936 meetings. Although many of his references were critical, the argument of Part II of *PD* is generally compatible with the Keynesian framework (pace Kahn 1937), as indicated by many passages where a reasoning similar to Hicks’s later IS-LM approach was deployed. As has been shown by Laidler (1999), the IS-LM model was itself a synthesis of different traditions of macroeconomics in the 1930s. That model was mentioned often by Haberler (1939, ch. 8) in his assessment of Keynesian economics. Although from Haberler’s perspective Keynes (1936) was largely part of the common ground discussed in Part I of *PD*, he acknowledged that the publication of *The General Theory* had changed the terms of discourse as far as economic policy is concerned (Haberler 1937a: 236). The dearth of clear-cut economic policy propositions in *PD* was noticed by contemporary reviewers (see above) and by modern commentators (Endres and Fleming 2002: 35). This is underlined by the final paragraph of Haberler’s (1937b: 697) review of Harrod, where he criticized the latter for supporting public works as the best policy in the depression. According to Haberler, Harrod’s prescription was based on a diagnosis that allows for only one type of maladjustment and overlooks the fact that “the process of contraction may be in the main features always the same, but the cause by which it is initiated need not be and probably is not always the same. Therefore the policy... can hardly be invariably identical”. This conclusion, based on Haberler’s (1937) synthetic view, was just too sophisticated to gain common consent from economists and policy makers in general.

¹⁷ Haberler’s approach to methodology was heavily influenced by the views of the Austrian philosopher Felix Kaufmann (b. 1895; d. 1949), who was, together with Haberler, a regular member of Mises’s famous private seminar in Vienna in the 1920s. Among other things, Kaufmann stressed the distinction between “tautological” and “empirical” statements, adopted by Haberler (cf. Kaufmann 1936; Boianovsky 2000: 158-59). Kaufmann’s philosophy of science was consistent with Karl Popper’s (1934) falsificationism, whose invitation (by Hayek) to come to the LSE in 1936 was probably influenced by Haberler (cf.. Howson 2001: 374).

References

- Andvig, Jens (1991). Verbalism and Definitions in Interwar Theoretical Macroeconomics. *History of Political Economy* 23: 431-55.
- Besomi, Daniele (2002). Löwe's and Hayek's Influence on Harrod's Trade Cycle Theory. *European Journal of the History of Economic Thought* 9: 42-56.
- Besomi, Daniele (2003). *The Collected Interwar Papers and Correspondence of Roy Harrod*. Aldershot: Edward Elgar.
- Boianovsky, Mauro (2000). In Search of a Canonical History of Macroeconomics in the Interwar Period: Haberler's *Prosperity and Depression* Revisited. In Michael Psalidopoulos (ed). *The Canon in the History of Economics - Critical Essays*, ch. 9. London: Routledge.
- Boianovsky, Mauro (2004). The IS-LM Model and the Liquidity Trap Concept: from Hicks to Krugman. *History of Political Economy*, annual supplement (forthcoming).
- Clavin, Patricia (2003). "Money Talks": competition and cooperation with the League of Nations, 1929-40. In *Money Doctors – The experience of international financial advising 1850-2000*, ed. by Marc Flandreau. London: Routledge.
- de Marchi, Neil (1991). League of Nations Economists and the Ideal of Peaceful Change in the Decade of the Thirties. In Craufurd Goodwin (ed.). *Economics and National Security: A History of Their Interaction*. Durham: Duke University Press (*History of Political Economy*, annual supplement). 143-78.
- Ellis, Howard (1938). Notes on Recent Business Cycle Literature. *Review of Economic Statistics* 20: 1111-19.
- Ellis, Howard (1941). Review of Haberler (1939). *Journal of Political Economy* 49: 289-91.
- Ellsworth, Paul T. (1938). Review of Haberler (1937a). *American Economic Review* 28: 108-110.
- Endres, Anthony and Grant Fleming (2002). *International Organizations and the Analysis of Economic Policy, 1919-1950*. Cambridge: Cambridge University Press.
- Fisher, Irving (1933). The Debt-Deflation Theory of Great Depressions. *Econometrica* 1: 337-59.
- Flanders, June (1989). *International Monetary Economics 1870-1960*. Cambridge: Cambridge University Press.
- Haberler, Gottfried (1931). Review of *Geldtheorie und Konjunkturtheorie*, by Friedrich A. Hayek. *Quarterly Journal of Economics* 39: 404-07.
- Haberler, Gottfried (1932a). Die Kaufkraft des Geldes und die Stabilität der Wirtschaft. *Schmollers Jahrbuch für Gesetzgebung, Verwaltung und Volkswirtschaft* 55: 993-1023.
- Haberler, Gottfried (1932b). Money and the Business Cycle. In Quincy Wright (ed). *Gold and Monetary Stabilization*. Chicago: Chicago University Press. As reprinted in Anthony Koo (ed) (1993). *The Liberal Economic Order: Essays by Gottfried Haberler*, vol. 2, ch. 9. Aldershot: E. Elgar.
- Haberler, Gottfried (1933a). *Der Internationale Handel*. Berlin: Springer.
- Haberler, Gottfried (1933b). [Contribution]. In Gustav Clausing (ed.), *Der Stand und die nächste Zukunft der Konjunkturforschung. Festschrift für Arthur Spiethoff*. Munich: Duncker & Humblot. 92-103.
- Haberler, Gottfried (1934). *Systematic Analysis of the Theories of the Business Cycle*. Unpublished typescript. League of Nations Archive.
- Haberler, Gottfried (1934-36). *Correspondence with:*
- Johan Åkerman (1934), Haberler Papers, Hoover Institution, Stanford University, and League of Nations Archive, Geneva.
 - Einaudi (1935), Haberler Papers, Hoover Institution.
 - Harrod (1934), Haberler Papers, Hoover Institution, and League of Nations Archive (also reproduced in Besomi 2003).
 - Hayek (1934-36), Haberler Papers, Hoover Institution.
 - Hawtrey (1934), Haberler Papers, Hoover Institution, and League of Nations Archive.
 - Kahn (1934), Kahn Papers, King's College Archive, Cambridge.
 - Kaldor (1934), Haberler Papers, Hoover Institution, and League of Nations Archive.
 - Keynes (1934), Keynes Papers, King's College Archive, Cambridge, and Haberler Papers, Hoover Institution.
 - Lederer (1934-35), Haberler Papers, Hoover Institution, and League of Nations Archive.
 - Loveday (1934), League of Nations Archive.
 - Marget (1934-35), Haberler Papers, Hoover Institution, and League of Nations Archive.

- Marschak (1934), Haberler Papers, Hoover Institution, and League of Nations Archive.
 - Mills (1934), Haberler Papers, Hoover Institution, and League of Nations Archive.
 - Mitchell (1936), Mitchell Papers, Butler Library, Columbia University.
 - Morgenstern (1934-36), Morgenstern Papers, Special Collections Library, Duke University.
 - Neisser (1935), Haberler Papers, Hoover Institution, and League of Nations Archive.
 - Nurkse (1935), Haberler Papers, Hoover Institution.
 - Robertson (1934-36), Haberler Papers, Hoover Institution, and League of Nations Archive.
 - Schultz (1935), Haberler Papers, Hoover Institution.
 - Tinbergen (1934-35), Haberler Papers, Hoover Institution, and League of Nations Archive.
 - Viner (1935), Haberler Papers, Hoover Institution, and League of Nations Archive.
- Haberler, Gottfried (1936a). *Enquiry into the Causes of the Recurrence of Periods of Economic Depression. Part I - Systematic Analysis of the Theories of the Business Cycle*. Unpublished typescript. League of Nations Archive.
- Haberler, Gottfried (1936b). *Enquiry into the Causes of the Recurrence of Periods of Economic Depression. Part II - Synthetic Exposition of the Nature and Causes of the Business Cycle*. Unpublished typescript. League of Nations Archive.
- Haberler, Gottfried (1936c). Some Reflections on the Present State of Business Cycle Theory. *Review of Economic Statistics* 18: 1-7.
- Haberler, Gottfried (1936d). Mr. Keynes' Theory of the "Multiplier": A Methodological Criticism. *Zeitschrift für Nationalökonomie* 7: 299-305.
- Haberler, Gottfried (1937a). *Prosperity and Depression: A Theoretical Analysis of Cyclical Movements*. Geneva: League of Nations.
- Haberler, Gottfried (1937b). Review of Harrod (1936). *Journal of Political Economy* 45: 690-97.
- Haberler, Gottfried (1938). Some Comments on Mr. Kahn's Review of *Prosperity and Depression*. *Economic Journal* 48: 322-33.
- Haberler, Gottfried (1939). *Prosperity and Depression: A Theoretical Analysis of Cyclical Movements*, 2nd edition. Geneva: League of Nations.
- Haberler, Gottfried (1943). *Prosperity and Depression: A Theoretical Analysis of Cyclical Movements*, 3rd edition. Geneva: League of Nations.
- Haberler, Gottfried ([1950] 1952). Haberler on Schumpeter. In Henry W. Spiegel (ed). *The Development of Economic Thought*, pp. 432-460. New York: Wiley and Sons.
- Haberler, Gottfried ([1953] 1958). Notes on the Present State of Business Cycle Theory. In Gottfried Haberler (1958). *Prosperity and Depression: A Theoretical Analysis of Cyclical Movements*, 4th edition, pp. 483-94. London: George Allen and Unwin.
- Haberler, Gottfried (1964). *Prosperity and Depression: A Theoretical Analysis of Cyclical Movements*, 5th edition. London: George Allen and Unwin.
- Haberler, Gottfried (1976). Some Reminiscences. *Quarterly Journal of Economics*. 90: 9-13.
- Haberler, Gottfried (1986). Reflections on Hayek's Business Cycle Theory. *Cato Journal* 6: 421-35.
- Hansen Alvin (1927). *Business-Cycle Theory: Its Development and Present Status*. Boston: Ginn and Company.
- Harrod, Roy (1936). *The Trade Cycle: An Essay*. Oxford: Clarendon Press.
- Harrod, Roy (1938). Review of Haberler (1937a). *International Affairs* 17: 101.
- Hart, Albert (1937). Review of Haberler (1937a). *Journal of Political Economy*. 45: 697-99.
- Hawtrey, Ralph (1937). Professor Haberler on the Trade Cycle. *Economica* 5: 93-97.
- Hayek, Friedrich August (1931). *Prices and Production*. London: Routledge and Kegan Paul.
- Hayek, Friedrich August ([1929] 1933). *Monetary Theory and the Trade Cycle*. London: Jonathan Cape.
- Hicks, John (1937). Mr. Keynes and the "Classics": A Suggested Interpretation. *Econometrica* 5: 147-59.
- Hicks, John (1950). *A Contribution to the Theory of the Trade Cycle*. Oxford: Clarendon Press.
- Howson, Susan (2001). Why Didn't Hayek Review Keynes's *General Theory*? A Partial Answer. *History of Political Economy* 33: 369-74.
- In Search of a Remedy. *The Economist*. 31 July 1937: 248-49.
- Kahn, Richard (1931). The Relation of Home Investment to Unemployment. *Economic Journal* 41: 173-98.
- Kahn, Richard (1937). The League of Nations Enquiry into the Trade Cycle. *Economic Journal* 47: 670-79.
- Kaufmann, Felix (1936). *Methodenlehre der Sozialwissenschaften*. Vienna: Springer.
- Keynes, John Maynard (1930). *A Treatise on Money*. London: Macmillan.

- Keynes, John Maynard (1936). *The General Theory of Employment, Interest and Money*. London: Macmillan.
- Keynes, John Maynard ([1939] 1979). Review of Haberler (1939). *Economic Journal*. Sept 1939. As reprinted in Moggridge (1979), pp. 274-75.
- Kirkham, Richard (1998). Truth, Pragmatic Theory Of. In Edward Craig (ed). *Routledge Encyclopedia of Philosophy*, vol. 10: 478-80. London and New York: Routledge.
- Klausinger, Hansjörg (2003). The Austrians on Relative Inflation as a Cause of Crisis. *Journal of the History of Economic Thought* 25: 221-37.
- Kuhn, Thomas S. (1970). *The Structure of Scientific Revolutions* (2nd edition). Chicago: University of Chicago Press.
- Laidler, David (1999). *Fabricating the Keynesian Revolution: Studies of the Interwar Literature on Money, the Cycle and Unemployment*. Cambridge: Cambridge University Press.
- Mitchell, Wesley (1913). *Business Cycles*. Berkeley: University of California Press.
- Mitchell, Wesley (1927). *Business Cycles: The Problem and Its Setting*. New York: NBER.
- Mitchell, Wesley (1934). Business Cycles. In Edwin Seligman (ed). *Encyclopaedia of Social Sciences*, vol. 3: 92-107. New York: Macmillan.
- Moggridge, Donald (ed., 1979). *The Collected Writings of John Maynard Keynes*, vol. 29. London: Macmillan.
- Moggridge, Donald (1995). The Diffusion of the Keynesian Revolution: The Young and the Graduate Schools. In Allin Cottrell and Michael Lawlor (eds). *New Perspectives on Keynes*. Durham: Duke University Press (*History of Political Economy*, annual supplement). 223-41.
- Myrdal, Gunnar (1933). Der Gleichgewichtsbegriff als Instrument der geldtheoretischen Analyse. In Friedrich A. Hayek (ed.). *Beiträge zur Geldtheorie*, pp. 361-487. Vienna: Julius Springer (tr. *Monetary Equilibrium*. London: William Hodge, 1939)
- Neisser, Hans (1934). Monetary Expansion and the Structure of Production. *Social Research* 1: 434-57.
- Officer, Lawrence (1982). Prosperity and Depression - And Beyond. *Quarterly Journal of Economics* 97: 149-59.
- Ohlin, Bertil (1931). *The Course and Phases of the World Economic Depression*. Geneva: League of Nations.
- Peirce, Charles (1931-1958). *Collected Papers of Charles Sanders Peirce*. Cambridge, MA: Harvard University Press, 8 vols.
- Pigou, Arthur Cecil (1943). The Classical Stationary State. *Economic Journal* 53: 343-51.
- Robertson, Dennis (1934). Industrial Fluctuations and the Natural Rate of Interest. *Economic Journal* 44: 650-56.
- Samuelson, Paul (1996). Gottfried Haberler (1900-1995). *Economic Journal* 106: 1679-87.
- Schumpeter, Joseph. Alois (1954). *History of Economic Analysis*. New York: Oxford University Press.
- Tinbergen, Jan (1935). Annual Survey: Suggestions on Quantitative Business Cycle Theory. *Econometrica* 3: 241-308.
- Tinbergen, Jan (1939). *Statistical Testing of Business Cycle Theories*. Geneva: League of Nations.
- Trautwein, Hans-Michael. Money, Equilibrium and the Cycle. Hayek's Wicksellian Dichotomy. *History of Political Economy* 28: 27-55.
- Van Sickle, John (1936). League of Nations Conference on the Business Cycle. June 29- July 2 1936. Unpublished typescript. Rockefeller Foundation Archive.
- Wicksell, Knut (1898). *Geldzins und Güterpreise. Eine Untersuchung über die den Tauschwert des Geldes bestimmenden Ursachen*). Jena: Gustav Fischer (tr. *Interest and Prices*. London: Macmillan, 1936).
- Woodford, Michael (2003). *Interest and Prices. Foundations of a Theory of Monetary Policy*. Princeton: Princeton University Press.