COMMENT

Contemporary to business cycle empirics, of which this paper is an example, is strong on statistical methodology, but weak both on economic theory and on looking for strong regularities in the data. Only GDP is looked at and any deviation from trend is considered to be an instance of a 'business cycle' movement. The purpose of this comment is to bring to the attention of researchers in this area the existence of an approach that has obtained much stronger results both with respect to theory and empirical regularities.

I am referring to what I have called the 'classical theory of business cycles' which had evolved roughly over the period 1850-1950. The approach faded from the economic mainstream for reasons that I have argued were ideological rather than scientific. Specifically the rise of monetarism and the associated belief that the economy was intrinsically stable and only disturbed by exogenous shocks, particularly from the monetary sector. The classical theory was developed further over several decades at my institute SEMECON at the University of Munich. References are given at the end of this note. The main findings are outlined in the Survey Hillinger () from which I copied the following abstract:

ABSTRACT

The paper reports the principal findings of a long term research project on the description and explanation of business cycles. The research strongly confirmed the older view that business cycles have large systematic components that take the form of investment cycles. These quasi-periodic movements can be represented as low order, stochastic, dynamic processes with complex eigenvalues. Specifically, there is a fixed investment cycle of about 8 years and an inventory cycle of about 4 years. Maximum entropy spectral analysis was employed for the description of the cycles and continuous time econometrics for the explanatory models. The central explanatory mechanism is the second order accelerator, which incorporates adjustment costs both in relation to the capital stock and the rate of investment. By means of parametric resonance it was possible to show, both theoretically and empirically, how cycles aggregate from the micro to the macro level. The same mathematical tool was also used to explain the international convergence of cycles. I argue that the theory of investment cycles was abandoned for ideological, not for evidential reasons. Methodological issues are also discussed.

The abstract is taken from:

Hillinger, Claude (2005), Evidence and Ideology in Macroeconomics: The Case of Investment Cycles. Available at SSRN: http://ssrn.com/abstract=814527

Further references to the SEMECON research as well as to investment cycles generally can be found there.