CHAPTER FOUR

BUSINESS CYCLE ANALYSIS:
THE TALMUDIC INSIGHT

One of the most important achievements . . . and one
of the few that were truly original, was the discovery
and preliminary analysis of business cycles.

—Joseph A. Schumpeter

History of Economic Analysis, 1954

This chapter attempts to show that the Talmudic scholars, in the course
of their discussions, have developed certain notions concerning busi-
ness disturbances which modern economists have come to recognize as
business cycles. We shall endeavor to analyze some of those passages
in the light of modern economics. But first a few words about the
development of business cycle theories.

Business cycle theories are concerned with rhythmic variations in
economic activity, with the ups and downs in output, employment and
income.¹ Today, the study of business cycles is a recognized branch
in the science of economics, with a vast apparatus of statistical and
theoretical tools of analysis.

This was not always so. The mercantilists, for instance, and even the
early classicists, did not regard economic disturbances as being recurrent
or cyclical. Although they showed some interest in the problem, they
tended to associate crises and depression with causes lying outside the
purview of economic science (i.e., Malthus, Say, etc.)

¹ There is an enormous business cycle literature extant. See in particular, Haberler,
G. von, Prosperity and Depression, 3rd ed., 1948, Readings in Business Cycle Theory, selected
under the chairmanship of G. von Haberler, (Richard Irwin, Inc., 1951), Readings in
Business Cycles selected by R.A. Gordon and Lawrence Klein, (Richard Irwin, Inc., 1965);
Wessley C. Mitchell, article in Encyclopedia of Social Sciences, Vol. III, Arthur M. Okun,
The Political Economy of Prosperity (New York, 1970), J.A. Schumpeter, History of Economic
Analysis (1954), pp. 668–750 and beyond . . . Regarding the relevance of the business
cycle, see Roman A. Ohrenstein, article, “Is the Business Cycle Still Relevant?” Nassau
Review, 1972. A recent contribution is the 593-page tome, Business Cycles: Theory, History,
Indicators and Forecasting, by Victor Zarnowitz (University of Chicago Press, 1992). See
also D.O. O’Brien (1997) The Foundations of Business Cycle Theory (Chaltenham UK and
It was not until the middle of the nineteenth century that two brilliant scientists, Clement Juglar and W.S. Jevons, developed systematic studies on business cycles. Since that time many theories have been advanced, and in Schumpeter’s view “all essential facts and ideas about the business cycle” had been put forward by 1914. The investigations that followed, though highly significant, are, in effect, clarifications, elaborations and statistical verifications.

The various business cycle theories fall into one of two categories, external (exogenous) and internal (endogenous). The former are caused by factors outside the economic system, such as sunspots, climactic conditions, war, innovations, etc. The latter are the result of internal factors, such as psychological, where people infect each other with either pessimistic or optimistic expectations, monetary aspects caused by the expansion and contraction of money in circulation, overproduction, underconsumption, and a host of other theories.

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THE CYCLE PHENOMENON IN ANTIQUITY

Although the “cycles” have been characterized as a product of the “Capitalist Age,” they are not entirely a modern phenomenon. From time immemorial, come comments on lean or bad years and fat or good years. A familiar example is the biblical story of Joseph (Gen. 41:1–57). Joseph, the “Divinely inspired” Hebrew slave, is hauled from Egyptian prison to interpret the meaning and message of Pharaoh’s frightening dreams. He does so with Freudian perspicacity and economic pragmatism.

As the biblical narrative unfolds, Joseph proves himself to be an expert in environmental as well as in agrarian affairs. Accordingly, he

2 Juglar’s study on business cycles was first published in his Les Crises Commerciales et leur Retour Periodique en France, En Angleterre Et Oux Etats Unis in 1862, 2nd ed. 1889, later translated into English by W. Thom in 1916. And Jevons, after having made early studies of “periodic commercial fluctuations” supported by statistical investigations in 1862, ascribed this tendency to sunspot cycles which cause rhythmic irregularities in business activity.

3 History of Economic Analysis, ibid., pp. 1122–3.