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Introduction

In 2008 the UK economy suffered its deepest recession since the 1930s. The recession had several defining characteristics: it took place simultaneously with a global recession; the exchange rate depreciated sharply; and the fiscal deficit increased markedly. Perhaps more importantly the financial sector was arguably both the source and propagator of the crisis and epitomised the potential link between the business and credit cycles. However deflation was avoided in part due to a concerted effort by policymakers around the world to loosen monetary policy in response to the downturn. Many of the features of what has been called the "Great Recession" had been observed before, others had not. The main aim of this book is to place these recent events in a much longer historical context using the plethora of data available to researchers of the UK's economic history going back to the late C17th.

The time of writing (2019) is a propitious time for reviewing historical business and credit cycles. The last major historical review of economic cycles in the UK is almost 50 years old.[1] But the results of an

[1] We are thinking here of Aldcroft and Fearon (1972). Other studies that focus on particular periods or recessions are Dimsdale (1990), Solomou (1994), Dow (1998), Chadha and Nolan (2002), Broadberry and van Leeuwen (2010) and Morys (2014).

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enormous research effort since then means there is now an extensive range of macroeconomic and financial data reaching back as far as the late C17th that allows an updated review to be compiled. This in turn allows the narrative of those cycles to be reconsidered in the light of recent events and informed by the latest research. This book is the first of two volumes that intends to make a contribution to that review. Its aim is to compile an up-to-date overview of the key historical data and techniques available for analysing cyclical phenomena and to review the key features of historical recessions and recoveries, drawing on the extensive literature on the United Kingdom's economic history. This first volume reviews the evidence on the UK business cycle with a focus on cyclical fluctuations in output in the short-to-medium term. A second volume will focus on monetary and credit cycles, which many argue are of a longer duration. That volume will examine their interaction with business cycle fluctuations.

A further contribution of this book is to link analysis of the latest data with an updated narrative of the cycle based on contemporary and secondary sources. Most of the data used in this volume come from the Bank of England's Millennium dataset which was compiled by the authors using the latest research into historical UK statistics. That dataset is provided free online on the Bank of England's website alongside this publication.[2] Previous narratives based on earlier analyses of the data may (or may not) need revising as a result of recent research. It is also possible to review those narrative accounts through the lens of more modern concepts of the business cycle and its drivers. In particular, a recent feature of the literature since the Great Recession has been a focus on the intertwined nature of business and credit cycles. And a key question is whether they are separate but interlinked phenomena or are they one and the same. It is also important to recognise that many of the earlier narratives of business cycle were undertaken by those who were closer to the events they were writing about and had a better understanding of the institutions and infrastructure underpinning

[2] https://www.bankofengland.co.uk/-/media/boe/files/statistics/research-datasets/a-millennium-of-macroeconomic-data-for-the-uk.xlsx.

the economy at the time. As a result it is important to review theories of the business cycle as they developed over time and also consider institutional change so that old and new perspectives can be joined.

The book is primarily an overview and aimed at undergraduate students of the UK's economic history who want an introduction to the subject. But we also hope it will be of use to graduate students and economic historians as a reference guide to business cycles in the UK. The chronological narrative of business cycles in the UK we hope will also be of interest to the general reader.

The book is structured as follows. Chapter 2 provides a short review of theories of the economic cycle and how they developed. This does not pretend to be comprehensive and focuses on some of the key concepts and ideas from the vast literature on the subject. Our focus is the business cycle but many of these theories involve money and credit in both the impulse and propagation of the cycle.

Chapter 3 then considers the range of metrics for evaluating both business and credit cycles and their interaction. The statistical techniques used here are familiar to many economists and again we do not pretend to be exhaustive. We merely wish to summarise some of the key properties of the techniques available. The emphasis will be on univariate analysis of the business cycle using a single indicator such as GDP which has been the focus of much of the literature, although many of the features carry through to a multivariate analysis.

Chapter 4 then discusses the new national accounts data that have become available which allow us to review the basic chronology of UK economic cycles using a set of standard metrics. We argue that the second half of C17th provides the best starting place for an analysis of business cycles in the UK given developments in trade, banking, financial markets and the fiscal power of the state. Symptomatic of this, Crafts and Mills (2017) show the 1660s as the period when per capita incomes begin to take off and exhibit sustained positive growth over the subsequent three centuries (Chart 1.1), albeit coming to a plateau in the wake of the Great Recession in 2008.

Chapter 5 then brings together the results of Chapters 3 and 4 to provide a summary of business cycle metrics under the different

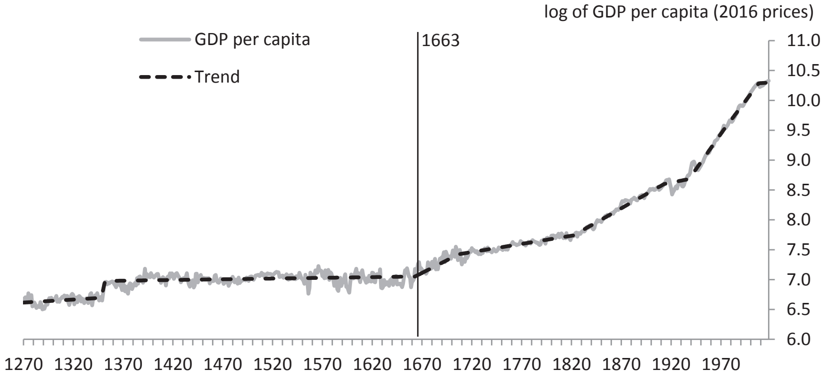

Chart 1.1 Trend and cycles in GDP per capita 1270–2018 (*Source* Thomas and Dimsdale [2017] based on the method of Crafts and Mills [2017])

approaches. As we show, the range of different business cycle estimates you can derive from the available techniques is very wide and depends almost entirely on the judgements and priors made by the investigator—what you put in is what you get out. In our view a statistical approach to the cycle is incomplete and will never be definitive given the judgements embodied in the choices that have to be made to de-trend data and extract cycles. This means supporting econometric analysis with a narrative approach to the cycle.

Chapter 6 then focuses on that alternative analysis—a simple narrative approach to the cycle linked as far as possible to the metrics developed in Chapter 5. It reviews the standard historical narrative of previous studies and re-evaluates them in the light of new data and research. It provides a complete chronology of the key cycles in the UK since 1660 and considers some of the key drivers of UK business cycles, including the role of external factors, and monetary and fiscal policies. The aim of the updated narrative is to highlight potential new research areas. Our hope is that these can be investigated in more detail and with more sophisticated techniques by other researchers who possess knowledge and skills that are greater than our own.

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