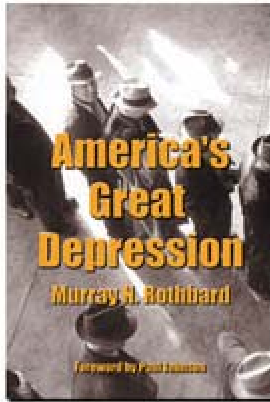

America's Great Depression Fifth Edition (2000), **Dr. Murray Rothbard.**

For more on Dr. Rothbard, see review of **A History of Money and Banking in the United States**. If one is to really understand the level of risk in the banking and financial industry today, this book is a necessity. The voluminous amount of data and the wide array of sources, cause one to come to recognize Rothbard as a true scholar of history.

One period of history that anyone in the world of money should be acquainted with is the Great Depression. In fact, every American should be familiar with it. For that awareness will lead the answers to questions such as: What lead to the massive bank runs? What caused real estate and stock prices to decline so sharply? What did the Federal Reserve do at that time? What can we learn that could help us today? Do the parallels from that period logically lead us today to a "stocks for the long run" mindset and to a conclusion that stocks are safer today than they were for the investors of that era?

The best way to understand the Depression is to understand inflation. Webster's defines inflation as an increase in the volume of money and credit relative to available goods and services, resulting in the continued rise in the general price level. Remember, the Federal Reserve was founded in 1913 in order to stabilize the US monetary system by acting as a lender of last resort and increasing and decreasing the supply of money as needed. As Rothbard points out, this task of expanding the money supply was accomplished quite well in the roaring 20's. On June 30, 1921 the money supply stood at $45.3 billion. By July 1929, it had grown by $28 billion. The money supply increased 61.8%, or 7.7% annually, over an eight-year period, a very sizable degree of inflation. *Pgs.91, 93*

Contrarily, we are told that the reason for the crash was the money supply contracted and the Federal Reserve did not respond fast enough to this problem. Dr. Rothbard's book, **A History of Money and Banking**, shows the numbers do not in any way support this position. Did the money supply drop? Yes. However, not in the way we have heard. Consider this. The more US government securities the Fed buys, the more dollars are pushed out into the market. In 1930 the Fed's holdings of US government securities stood at $465 million. By December 1933 they stood at 2,432 million – a 401% increase. So, if the Federal Reserve was trying desperately to increase the money supply, why did it contract? While the Fed can give an incentive to borrow, it cannot induce borrowing nor does it pay off private loans. So during the depression, when banks were failing because the rampant credit boom was coming unraveled, the money supply contracted by $3.5 billion. In 1930, 1,350 banks failed; in 1931, 2,293 banks collapsed; and in 1932, 1,453 failed. America just stopped borrowing. *Pg.304*

From 1982 to 2000 the money supply (M3) grew from $2 trillion to $6.6 trillion, an increase of 226%. Since 2000 the money supply has grown to 9.5 trillion (through March 2005), an increase of 44%, or 7.5% annually. Altogether, the United States has experienced a credit expansion of close to $10 trillion dollars from 2000 to 2004. If you take the time to study this enormous period in US history, particularly the government and monetary policy aspects, you will gain vast insight into how our current state of affairs is, in many respects, similar to this era.