An Austrian Perspective of the American Great Depression

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Though the Great Depression had many apparent causes, they are all traceable to government intervention. It is safe to say that every economic problem encountered leading up to the Great Depression, through it, and after it was traceable to state intervention. Economists like Dr. Murray Rothbard, Dr. Hans Sennholz, and Dr. Benjamin Anderson provide valuable insight into how business cycle theory, monetary inflation, and the gold standard worked in the Great Depression.

Dr. Rothbard makes the fundamental claim concerning business cycle theory that interest rates are caused to be lower than the market rate because of credit expansion. (Rothbard, “America’s Great Depression,” 81) Dr. Sennholz echoes this claim in terms of the American financial system, citing money creation and credit expansion as the cause of the depressed interest rates. (Sennholz, “Great Depression: Will We Repeat It?” 1)

**Theory of the Cycle**

The defining factor of expansion is that output and productive activity are increasing faster than usual. This is done by depressing the interest rate. In the United States’ system, the Federal Reserve is the central bank, and manipulates the interest rate by open market operations. One type of open market operation is to adjust the reserve requirement that banks are required to keep in order to back their deposits. If the reserve requirement is raised, then the bank cannot lend out as much money and the interest rate rises. This results in fewer loans to businesses and the economy constricts. If the reserve requirement is lowered, banks will lend out more money and the interest rate will fall. Businesses will borrow more money and the economy will expand. Another form of open market operation is the purchase of treasury bonds from the Federal Reserve. This
puts more money into circulation for the banks to loan out and depresses the interest rate. The sale of treasury bonds has the reciprocal effect but is hardly employed in a predominantly expansionist system. (Herbener, Macroeconomics)

The Boom

The goal is generally to expand the money supply and cause a boom, so the Federal Reserve usually lowers the reserve requirement or sells treasury bonds to the Treasury Department. This puts more money in the banking system, lowers the interest rate, and causes economic expansion. When the new money goes into the loan market, it appears as if the supply of savings is greater than it actually is. Because the demand remains close to the same and the supply of loanable funds increases by this inflation, the interest rate falls. (Rothbard, “America’s Great Depression,” 18)

The falling interest rates attract marginal borrowers into the loan market who could not have borrowed profitably had the interest rate remained at its prior level. The businesses that borrow the money invest it in capital, so capital values are bid up. But this is artificial because the money they are using to bid up the capital values was created out of thin air. The real worth of the capital goods is lower than the inflated prices. (Herbener, Macroeconomics)

Rothbard makes it clear the business cycle analyzes only general booms and busts. A normally functioning economy will have shifts of capital between sectors in response to changing demand, but falling prices in one place will always be compensated by rising prices in another. But when all the prices in the economy rise or fall, then there must have been a change in the overall money supply. If the money supply is expanded,
then the purchasing power of money drops throughout the economy. This makes the prices of consumer goods and factors of production rise over the whole economy. (Rothbard, “America’s Great Depression,” 14)

The twofold effect of this inflation is that the interest rate declines and the values of some goods rise disproportionately to other goods. Prices rise first in the markets were the new money is first spent. The bulk of the new money is usually lent to commercial enterprises which invest it in durable capital goods to expand their businesses or start new ones. (Herbener, Macroeconomics) This is known as “lengthening the production structure,” and it means a “shift of investment from lower areas of production close to the consumer to higher orders of production further away from the consumer.” (Rothbard, “America’s Great Depression,” 18) Simply put, entrepreneurs shift investment from producing consumer goods to producing capital goods because demand appears to have shifted. But in reality, there has been no increase in savings, only new money that enters the economy with an appearance of an increase in savings. (Rothbard, “America’s Great Depression,” 18)

This causes a change in the production structure. Prices of capital goods are bid up as businesses use the new money to purchase them. Profit increases for the production of capital goods and there is an increase in entrepreneurial incentive to invest in these areas. But there was no actual increase in demand for these capital goods. It only appeared as demand in the price system because of the influx of new money. (Herbener, Macroeconomics)
The boom may be concisely termed as a period of time in which malinvestment occurs and the production structure is built up unsustainably. This period lasts until the crisis hits. (Herbener, Macroeconomics) When the money finally works its way through the economy, consumers re-establish their demand in proportion to the new money supply. (Rothbard, “America’s Great Depression,” 19)

The Crisis

Entrepreneurs who received the loans purchased factors of production with them, and the entrepreneurs they purchased the factors from used the money to pay workers, who used the money on consumer goods and so forth. Eventually the inflationary money wave is evenly distributed throughout the economy. The crisis hits when this money is again simply satisfying consumer preferences and no longer creating the illusion of increased savings. (Rothbard, “America’s Great Depression,” 19)

There is an overall decrease in the supply of credit and the interest rate rises. The money that the Federal Reserve initially placed into the credit market moved out from the credit market into other markets. If it had all remained in the credit market, then presumably the interest rate would have stayed lower, but the whole point of the boom and bust is that the inflation of the credit market was illusionary and did not represent true demand. Once true demand was realized, the credit market was arbitraged across the rest of the economy in accordance with that demand. (Rothbard, “America’s Great Depression,” 19)

Because there is an increase in the supply of money in the economy, but the amount of goods remains the same, there is a decrease in the purchasing power of money.
This means that a given amount of money before the boom will purchase fewer goods and services after the inflationary money has worked throughout the economy. This is happening at the same time as the rise in the interest rate. This causes an upward spike in the interest rate and a decrease in capital value. The Federal Reserve cannot perpetuate this boom arithmetically, and if it were to attempt to do so geometrically, hyperinflation would eventually set in and the money would lose all its value. The interest rates are already high and will continue to rise in spite of what the Federal Reserve does in the present because this readjustment is a result of action taken by the Federal Reserve in the past and no action of theirs in the present can undo or alleviate the damage. (Herbener, Macroeconomics)

So a crisis phase always follows a boom phase. It is a financial reversal of the boom and losses are realized. Rothbard makes it clear that credit expansion by banks is wholly responsible for the boom, crisis, depression, and recovery. The extent to which banks engage in credit expansion is the extent to which malinvestment occurs, and the extent to which economy will suffer economic loss. (Rothbard, “America’s Great Depression,” 20)

**The Recession**

The depression or recession phase of the cycle follows the crisis phase. It begins in the shift of spending from capital goods to consumer goods. When the money was being spent on capital goods, it bid up the prices of capital goods and shifted investment to the production of capital goods because of the appearance of increased demand. But when the new money finally worked its way through the economy it became apparent
that the demand really was not there and the capital goods were overvalued. Prices of consumer goods began to rise because the money has shifted into that area of the market. Entrepreneurs now realize their mistake, liquidate their investments in capital goods production and attempt to shift back to the production of consumer goods. However, the prices of capital goods have fallen because of the shift in demand. They have also fallen because entrepreneurs are no longer borrowing to invest in capital goods as a result of the increase in the interest rate. So entrepreneurs must liquidate their bad investments and shift production back to consumer goods. They must sell the capital goods at a discount because of the fall in prices. Bankruptcy is common as losses are realized and adjustments are made. As stated above, the severity of this bust phase is proportional to the degree of credit expansion that took place prior to the boom phase. (Herbener, Macroeconomics)

**The Recovery**

As the wave of inflation peaks in each sector of the economy, prices rise up to the crest of the inflation. As the new money becomes evenly spread throughout the economy, deflation occurs and the purchasing power of money rises. It does not fall back to its pre-cycle level because of the overall increase in the money supply, but there is an evening effect as the money is spread out. (Herbener, Macroeconomics) An illustration of this would be a rock dropped in a bucket of water. The water ripples outward from the rock in large waves, but they eventually even out. The level of water in the bucket is higher than before the rock was dropped into it, but the final level of the water is lower than the highest ripple.
Another contributing cause of the purchasing power of money increase is the increasing demand for liquidity in the economy. People hold onto their money as the prices are falling because they expect the prices to continue to fall, and investment slows because entrepreneurs are waiting until liquidation is complete. (Rothbard, “America’s Great Depression,” 22)

The other side of the credit expansion coin is credit contraction. Like the other effects, the severity of this contraction is proportional to the degree of credit expansion that took place in the boom phase. If there is a significant amount of bankruptcy, banks may collapse. The money that remains in the banks must remain to back checking accounts. If there are too many bankruptcies, the banks will collapse. (Herbener, Macroeconomics)

This credit contraction would result in deflation throughout the economy as prices fall. This fall is due to the leveling of prices throughout the economy. Falling prices encourage savings by businesses and entrepreneurs because during the boom when all the prices were going up, profits appeared larger than they really were. This caused entrepreneurs to spend more on capital goods than they could afford. During the recession, the opposite effect occurs. As general prices fall and deflation occurs, losses are over-exaggerated on the books because capital prices are falling faster than the value of capital consumption. But the appearance of loss causes entrepreneurs to restrict consumption and save. (Rothbard, “America’s Great Depression” 24)

Even as credit expansion caused a shift of production from lower stages of production to higher stages of production, credit contraction causes a re-shift from higher
stages of production back to the lower stages. This drop in demand for factors causes factor prices to drop and increases the speed of the re-shift of investment. Credit contraction does not go beyond the prior expansion in scope, as it is the negation of the credit expansion and restoration of the market equilibrium. It has no positive power to cause businesses to mal-invest their capital; rather it causes them to save it. (Rothbard, “America’s Great Depression” 24-25)

So the business cycle consists of four phases: boom, crisis, recession/depression, and recovery. The boom is a period of malinvestment where the production structure is distorted from lower stages of production to higher stages of production in response to a false increase in the supply of loanable funds. The crisis is the financial reversal of the boom, when the losses are realized and prices begin rising. The recession/depression is when malinvestment is liquidated and the factors of production and the division of labor are reallocated to their most efficient place in the production structure. The final recovery phase is when the economy returns to normal and the capital structure once again efficiently satisfies consumer demands. These are the four basic stages of the business cycle. They are set in motion by credit expansion and they are irrevocable once they are set in motion. (Herbener, Macroeconomics)

**Theory to History**

In a free market, the government would never engage in credit expansion initially, so a free market analysis of government policy in a depression is rather ironic. However, a government that engages in credit expansion can mitigate the damage by allowing the free market to restore the economy and the production structure to reflect true supply and
demand. In the analysis of the Great Depression, it will be considered a given that it was started by credit expansion and the relevant facts will be laid forth to prove this point. Then it will be shown that the government of the United States aggravated and prolonged the Depression through its interventionist policies. Rothbard lays out six ways in which governments intervene in economies to attempt to stop depressions, but only make them worse (Rothbard, “America’s Great Depression” 26):

1. **Prevent and delay liquidation by propping up inefficient industry with mal-invested capital instead of letting the capital be reallocated to its most efficient uses.**

2. **Continue inflation, which delays the fall in prices and causes more malinvestment in the production structure.**

3. **Prop up wages, aggravating unemployment and pushing real wages artificially high because consumer prices are falling at the same time.**

4. **Price floors on goods, causing surpluses and further mal-investment.**

5. **Tax increases and stimulation of consumption, which causes an increase in spending and a decrease in savings.**

6. **Subsidies on unemployment by welfare or insurance cause prolonged and greater unemployment.**

The analysis of the Great Depression will cover the rise and function of the Federal Reserve and its role in credit expansion. It will cover the boom phase, the crisis, the depression, and the recovery. It will consider the government’s actions in all these areas and attempt to show how government intervention through credit expansion was
responsible for the depression in the first place, and how intervention during the Depression prolonged and worsened the situation.

The Boom

The boom leading to the Great Depression began in 1921. Many historical analyses fall short of understanding the causes of the Great Depression because they began their analysis with the depression itself and consider the pre-depression boom as a normal and positive state of affairs. But this approach exonerates the boom and everything connected to it, including the government intervention, credit expansion and subsequent inflation. But because these actions result in the bust, analysis of the Great Depression must include the boom of the 1920’s.

To this point in the history of the United States, institutionalized inflation was not part of government economic policy. The United States had sought to maintain a gold standard since the economic disasters of the colonial era. It did allow for privatized fiduciary media and there was some inflation under the First and Second National Banks until the time of Jackson, but barring that and the brief inflation during the Civil War, America had enjoyed a free banking system without the inflation of a central bank. This changed in 1914 with the creation of the Federal Reserve System and manipulation of the money supply by inflation and credit expansion. (Anderson, 41)

The call for the Federal Reserve System came from a group of discontented bankers on Wall Street who wanted more flexibility in manipulating the money supply. The banks were too disconnected and did not have the ability to cause a general boom in the economy. They believed that if given the power, they could cause a continual
artificial growth in the economy through credit expansion. (Rothbard, “A History of Money and Banking in the United States, 187)

Rothbard concludes his analysis of the origin of the Federal Reserve Banking System by plainly stating that the Morgan, Rockefeller, Kuhn, and Loeb banking families were the responsible for its establishment. They had to legitimize it in the public eye of course, but they clearly brought it into being for their own purposes. This bears remembrance in the analysis of the Great Depression. (Rothbard, “A History of Money and Banking in the United States, 259)

When analyzing this period of history, it is difficult to avoid the ominous shadow that men such as J.P. Morgan and John D. Rockefeller cast upon economic and even political events. Even if one wished to focus purely upon the economics of the situation, one comes to a point at which large amounts of wealth have been transferred from one group to another. The mechanism of this transfer is the Federal Reserve System, so it does not require a great leap of logic to reach these financial chess players and conclude that they probably had a strategy all along by which to pad their own pockets at the expense of the general public. This boils the Great Depression down to an elaborate, highly confusing and misleading scheme of theft. Even if one left out the Morgans and the Rockefellers as the primary catalysts, one is still left with a wealth transferring system that is meant to transfer wealth from one group to another via deceitful coercion. (Rothbard, “A History of Money and Banking in the United States,” Part 3)

During the years 1921 to 1929, the Federal Reserve expanded the money supply by money substitutes through the purchase of treasury bonds. There was a 61.8 percent
increase in the money supply over the years 1921 to 1929, an average of 7.7 percent per year. Most of this inflation was early on and began to level off toward the end of the decade, but the damage had already been done. (Rothbard, “America’s Great Depression,” 86) The money supply increased from $45.3 billion to $73.3 billion, a $28 billion increase over a period of eight years. The Federal Reserve was printing up more money substitutes than it had gold to back those substitutes, and it purchased United States Treasury Bonds with them. These substitutes were introduced through the banking system in the form of loans to businesses. (Rothbard, “America’s Great Depression,” 86-87)

Another way in which the Federal Reserve can cause credit expansion is by manipulating the reserve requirement. This is the percentage amount of specie that the Reserve banks have to keep to back their loans. If the Fed lowers this, then banks will loan out more money against less specie, depressing the interest rate. When the total amount of reserves (not the percentage amount) are increased in a fractional reserve banking system, inflation increases dramatically. For example, if a 1925 bank had a ten percent reserve requirement, and it had $10 million of gold reserves, then it could loan out $100 million. However, if it received another million dollars of reserve money, it could then loan out $110 million, ten million more dollars than before. If this effect is compounded throughout all the banks in the economy, it adds up to a lot of inflation. (Rothbard, “America’s Great Depression,” 90-96) In the last week of October, 1929, the Federal Reserve added $1.6 billion to the reserve amount of the New York City banks alone, and tanked the interest rate 1.5%! This had dramatic consequences in terms of
delaying liquidation and reallocation, which will be discussed later. (Rothbard, “America’s Great Depression,” 191)

In 1924, The Federal Reserve bought $540.16 million in treasury bonds, resulting in a $5.6 billion credit expansion. This took place in the time span of one year and set the stage for the crash of 1929 and the subsequent depression. (Sennholz, “Great Depression: Will We Repeat It?” 8-9)

This large credit expansion caused a large increase in industrial, financial, and government debt. Industrial debt went from $4.8 billion to $10.2 billion, financial debt from $6.7 billion to $19.8 billion and government debt from $9.4 billion to $16.6 billion. When the economy began to rock from the massive inflation and credit expansion, the government put a halt to inflation in 1928. The Federal Reserve sold securities to the treasury department, effectively enacting deflation. But five years of frenzied credit expansion left a greatly misallocated and top-heavy production structure because of the shift in investment from lower order goods to higher order goods. Capital goods industries had ballooned on the easy credit and were in for an unpleasant surprise as the inflation ceased. The whole economy was due for a large depression and reallocation. (Sennholz, “Great Depression: Will We Repeat It?” 10-11)

The Crisis

On October 24, 1929, the stock market crashed, and on October 29, 1929, “Black Tuesday,” the bottom fell out of the market. The market had been in decline for several weeks, but on these days everyone realized that the stock market was over-inflated and prices bottomed out. The recession had begun in August, as annual production rates fell
twenty percent. In the month of October, losses totaled $16 billion. (Nothiger, “Timeline of the Great Depression,” section 1929) The stock market represents the value of capital goods in the economy, and the capital goods represented in the 1929 stock market were the capital goods purchased with the easy credit of the inflation. This caused them to be overpriced and the crash was the readjustment of capital goods prices to more realistic values. (Sennholz, “Great Depression: Will We Repeat It?” 11 and Anderson, “Economics and the Public Welfare,” 211)

The stock market crash did not bring about the Great Depression. It was a symptom of the greater problem of credit expansion and government intervention in the economy. The October crash was rather a symptom of the real problem, which was skewed capital value. According to Dr. Sennholz this was expected and normal, considering the credit expansion that preceded it. Though the outlook was bleak for the highly mal-invested industries facing liquidation, most industry was in a good position. Costs and debts were low and unemployment was at 7.8%, which was not bad considering the extent of the mal-investment and the crash. Dr. Sennholz estimated that if the economy had been left alone, it would have recovered in about a year through liquidation and reallocation, just like the recovery from 1921-1922. The production structure would have returned to its normal, efficient satisfaction of consumer demands and the “Great Depression” would have been only a minor event compared to what really happened. (Sennholz, “Great Depression: Will We Repeat It?” 12)
The Recession and Its Aggravation

Instead of adopting the historical position of the government and simply allowing the market to readjust as it had in every other economic crisis in American history, Hoover and his cohorts decided that the economy needed some help. First, Hoover tried the friendly, non-coercive route. He called a meeting of leading industrialists and entrepreneurs and asked them to agree to hold wages and prices steady in order to stabilize the economy. He also asked them to increase their demand for capital. This was a mistake because that was the problem in the first place. The production structure had shifted from lower order goods to higher order goods and so during the recession and recovery phases, the businesses which had mal-invested in higher order capital goods were in trouble because of the falling prices of their goods as a result of decreased demand. Hoover was asking industry to prop up the mal-invested capital goods production, delaying the efficient reallocation of this capital. Needless to say, because it was not an economically efficient or viable move, most businesses did not cooperate. (Anderson, “Economics and the Public Welfare,” 220)

In December 1929, the Federal Reserve and those who understood what was happening wanted to simply allow the market to take its own course and adopt a laissez-faire policy toward it. But in the beginning of 1930, the government began inflating again and interest rates fell from 4.5% to 2 percent in ten months. In spite of this, the money was soaked up by needy banks which were already in trouble, and not in a position to loan out large amounts of the new money. Instead, they used to back the loans on which they had already overextended themselves. The overall result of this
action was a continual decline in production and unemployment. Stock prices rose for a little while, but because of the credit expansion they were a false reflection of the real worth of the capital they represented. They soon fell back down again. (Rothbard, “America’s Great Depression,” 212-213)

Many analysts consider the Hawley-Smoot Tariff Act of 1930 to be the initiator of the Great Depression. But in view of the understanding of the credit expansion and intervention that took place beforehand, it was more of the proverbial “straw that broke the camel’s back.” This tariff act jacked the tariff rate up to forty percent. (Nothiger, “Timeline of the Great Depression,” section 1930) This tariff rate effectively shut down trade between the United States and foreign countries at a time when domestic industry desperately needed a market for goods, especially farmers. (Rothbard, “America’s Great Depression,” 217) The day Hoover signed the bill, the stock market dropped significantly as investors realized that many businesses would by hurt by the loss of foreign exports and the increase in the cost for goods formerly imported. (Anderson, “Economics and the Public Welfare,” 225) As mentioned before, American farming was devastated. Almost half of the market for many crops was in exports to foreign countries, and when international trade broke down, not only were American farmers ruined, a worldwide depression was triggered. Again, the tariff was not the only cause or even the primary cause, but it pushed an already unstable situation over the edge. (Sennholz, “Great Depression: Will We Repeat It?” 14-15)
**Depression Worsens**

Farmers went bankrupt all over the country. Because their income was cut off, they could no longer pay back loans and had to simply default on them. Banks could no longer back their deposits because they lost the money. The assets of the farmers were not worth as much as the loans defaulted because those assets were capital goods in the production of crops which could no longer be profitable produced. Decrease in demand for crops as the consumer good had caused a decrease in the demand for the producer goods, i.e. land, equipment, etc. So the losses fell heavily on rural banks and thousands of them failed. Depositors lost all their savings. Farmers on the margin who did not have to declare bankruptcy but still had loans they could not immediately pay off lost their assets when the desperate banks called in their loans, and the effect spread. It spread from the rural areas to the national banking system and caused instability, bank failure and bankruptcy across America. (Sennholz, “Great Depression: Will We Repeat It?” 15-16)

As 1932 came around, Hoover was getting impatient. It was election year and the economy was still in depression. Hoover needed to do something drastic to bring the economy back out of depression so he could get reelected. Because of the great drop in production and incomes over 1931, tax revenues had been low. The budget had fallen $2 billion into deficit. So Hoover signed into law the Revenue Act of 1932. It was one of the greatest tax increases in United States history. (Rothbard, “America’s Great Depression,” 16) It doubled the income tax and greatly increased other auxiliary taxes.
State and local governments also increased taxes because their revenues were falling too. (Sennholz, “Great Depression: Will We Repeat It?” 16-17)

So all of Hoover’s attempts failed to prevent the readjustment following the boom. He tried to prop up wages but only caused unemployment. He tried to stabilize prices but only caused waste and surplus. Finally, he hiked the tax rate in an attempt to bring more money into the government so it could try and fix the problem. It all failed. (Sennholz, “Great Depression: Will We Repeat It?” 17) Hoover left the economy in a shambles when he left in March of 1933. Production was down by over half, unemployment stood at twenty-five percent, and business construction investment had fallen from $8.7 billion to $1.4 billion. Wages rates and prices fell dramatically from deflation. For the first time in American history, laissez-faire economics were completely thrown out and every type of government intervention was tried to alleviate the bust. It was a total failure. (Rothbard, “America’s Great Depression,” 290-295)

Roosevelt was elected in 1932 on the promise of a “New Deal” that would correct the economy and bring stability. Unfortunately, what he meant by this grand statement was more government intervention. He passed working codes and minimum wage laws. He unilaterally confiscated the people’s gold and in effect ended the gold standard. Then he devalued the dollar forty percent in an attempt to continue the inflation. He tried to enforce labor laws and helped the unions grow powerful. Strikes, seizures, and violence against business further hurt production. Unemployment increased to ten million men. The free market had no chance at all. (Sennholz, “Great Depression: Will We Repeat It?” 18-19)
The “Recovery”

This story has no happy ending. World War II came, and unemployment was effectively ended when ten million men were forcibly hired to go overseas and fight a war. The government simply started inflating the dollar arbitrarily and has been doing so ever since, with occasional lurches. (Sennholz, “The Great Depression: Will We Repeat It?” 19) They are now caught in a trap. If they stop inflating, there will be a massive recession and reallocation. If they continue inflating at ever-increasing rates, hyperinflation is unavoidable. (Sennholz, “The Great Depression: Will We Repeat It?” 32)

It is safe to say that the free market in America died during this period of time. One needs only to take a look at history to recognize the all-too-familiar story of government inflation, intervention, centralization and eventual wealth transfer to those in power who use the chaos they themselves create as a means of bringing the masses in slavery to themselves. Given the circumstances of the Depression and the sheer foolishness of the measures taken, it is impossible to believe that it came about from mere ignorance of the market process. This ignorance in the masses allowed those in power to get away with their intervention, as it does today, but make no mistake, those in power knew exactly what they were doing and used the situation to consolidate power to themselves. Rothbard clearly lays this out in A History of Money and Banking in the United States. Simply put, the Great Depression was a result of vast businesses empires struggling for control of the government of the United States in order to squelch their
competition and enrich themselves, under the guise of helping the economy and improving economic conditions for everyone.

If the free market had been allowed to operate, there would have been no Federal Reserve as a central bank, and no credit expansion. If the free market had been put into effect after the credit expansion and inflation had already taken place, there would have been a recession and then the economy would have been back to normal. The production structure would have shifted back to lower order goods where it met the people’s demand the most efficiently. Deflation would have brought prices and wages back to market level and entrepreneurs would have been able to resume accurate economic calculation. But this did not happen, and we still suffer the effects of the Great Depression to this day.

There has been no real recovery. Most people are deep in debt, and many are in debt over their heads. They are basically owned by the central bank through wealth transfer via inflation and credit expansion. We are still in the Great Depression, only we do not realize it yet because we are afloat in an ocean of credit expansion. But be advised. The boat is leaking at an ever-increasing rate. If the economy is not allowed to go through the liquidation and reallocation phase, it will surely sink. No economy in history has ever survived such government intervention. Rothbard concludes America’s Great Depression with this scathing comment:

“For the first time, laissez-faire was boldly thrown overboard and every governmental weapon thrown into the breach...The guilt for the Great Depression must at long last be lifted from the shoulders of the free market economy, and placed where it properly belongs: at the doors of politicians, bureaucrats, and the mass of “enlightened”
economists. And in any other depression, past or future, the story will be the same.”

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Works Cited


