Notes on Chapter 1, Part 2, *America's Great Depression*
Note: possible issues identified by me are in RED

I. The Secondary Features of the Depression
   A. Deflationary Credit Contraction
      1. Deflation is not strictly necessary but almost always happens
         a. Banks "pull in horns" and contract their lending
         b. If on a gold standard, they must stop the outflow of gold reserves
         c. Banks want to avoid bank runs
   B. An increase in demand for money = "scramble for liquidity"
      1. People begin to expect prices to fall and put off optional consumption
      2. Borrowers try to pay off debts and may liquidate property to do so
         a. Debts get more expensive in deflation
      3. A rash of losses causes investors to become more cautious
      4. From footnote 10: It's not a lack of business opportunities that causes the contraction. Banks *could* invest in bonds/securities
   C. Rothbard argues these secondary effects are actually beneficial
      1. The hoarding fallacy: no objective standard means claims of "hoarding" have no basis
      2. Deflation effectively *increases* the value of existing cash balances
      3. The demand for money falls when liquidation is finished
         a. When/how do entrepreneurs know that liquidation is finished? What about dead cat bounces?
      4. Even Misesians deplore deflation (page 17)
      5. More saving helps adjust from the bust (original problem was too little savings)
      6. Demand for higher stage factors decreases
      7. Does not cause malinvestments because it doesn't encourage people to use capital goods wastefully, rather they are saved
      8. Cannot be worse than original inflation, whereas expansion is potentially limitless!
II. What policy during the depression?
   A. Laissez-faire, duh
      1. Don't interfere with adjustment. It only makes it worse.
      2. Don't lend to shaky businesses or encourage banks to do so
      3. Don't inflate or keep wage rates or prices up (including the bully pulpit)
      4. Don't encourage consumption or discourage saving
      5. Don't subsidize unemployment
      6. Reduce taxes and regulations; let people figure it out
      7. page 22, Footnote 19: No, "targeted" tax policies won't help
      8. Are all government expenditures consumption? Rothbard's response in footnote 15 Government spending gratifies government agents immediately, therefore consumption
   B. Why not perpetually expand credit?
      1. Hyperinflation, duh.
      2. Destroys people on fixed-incomes
      3. People waste time buying goods immediately
      4. Destroys the money and throws economy into confusion
   C. How to prevent depressions?
      1. STOP inflationary credit expansion!
      2. Government is inherently inflationary and often can print money
III. Private or central banks?
   A. Private banks can only do so much before they are punished

        1. Cartelization inherently unstable
        2. Pseudo-receipts end up in other banks' clients' hands and are redeemed-gold outflow
    B. Central banks make everything worse
        1. Artificially bolster public trust in banks as lender of last resort
        2. Outlaw real specie (e.g. gold)
        3. Force banks into compulsory cartels
        4. Standardize a fractional reserve rate and discourage excess reserves
    C. Wildcat banking problems were due to government
        1. Specie redemption holidays
        2. Prohibitions on interstate branches
    D. Rothbard recommends outlawing fractional reserve banking
        1. Fraud argument
        2. Fraud argument is shaky in my opinion, depends on certain things not being used as money substitutes, Rothbardian interpretation of contracts, etc.
        3. End the central bank

IV. Problems in the Theory
    A. The "assumption" of full employment
        1. Unemployed factors might be labor or capital goods
        2. Employment of labor by inflation is deceptive
        3. Idle capital might be malinvested—pushing it along the process is damaging!
    B. Is it malinvestment or overinvestment?
        1. The boom does not make more capital goods appear; it coopts existing capital goods
        2. It puts capital goods in the wrong places
        3. Page 31, footnote 33: it's also NOT too much circulating capital being turned into fixed capital
    C. What if natural interest rates rise and banks hold fast?
        1. The natural rate doesn't suddenly increase; it depends on time preferences of market participants
        2. Just avoid credit expansion! That drives capital into unprofitable projects
        3. Lowering rates without credit expansion is just a gift to borrowers
        4. Rothbard depends on pure time preference interest theory, there exist some Austrian School proponents of newer theories, e.g. Robert P. Murphy
    D. Why do cycles recur?
        1. Because banks and governments love credit expansion! It's "free" stuff for them!
        2. They also love to shift the blame because the negative effects happen *after* the expansion
    E. Does more gold cause the business cycle?
        1. Mises said maybe, Rothbard says no.
        2. Gold influx can be seen by entrepreneurs—mines selling more
        3. Entrepreneurs thus can handle new gold (or any commodity money) coming into the market
        4. Credit expansion is necessarily covert because otherwise it would cause bank runs