<u>Rothbard's *America's Great Depression*, Chapter 3, Part 2 notes</u>

- Dearth of Investment Opportunities Theory
    - Boom characterized by many open investment opportunities
    - Bust when those opportunities dry up
    - Opportunities need population growth, new resources or technological innovation
    - See references by Hansen and Terborgh for arguments for/against
    - Rothbard says this might explain booms but not depressions!
        - This derivation comes from Walrasian Equilibrium/Evenly Rotating Economy
            - Tastes, technology, and resources considered <u>given</u>
        - Changing tastes and time preference are enough to shatter this whole system!
    - New natural resources don't necessarily mean profitable investment opportunities
    - Pop. growth doesn't increase productivity without investment
        - Perhaps a local boom in construction but those resources have to come from somewhere else!
    - Technology is stressed but "state of tech. knowledge" isn't a strong indicator
        - Need investment to realize new tech. solutions
        - Some businesses will lag behind tech. advances
    - Quantity and quality are both valid routes for investment
    - Rothbard: This theory neglects prices
        - Check Jeff Herbener's talk for how prices are determined and "flow" through economy in different theoretical frameworks
        - In Austrian econ., prices originate in minds of consumers, flow out from there
    - Failure/depression occur when there is pervasive overbidding of producers' goods
        - Generated by credit expansion
    - Theory confuses fluctuations with cycles
- Schumpeter's Business Cycle Theory
    - Bank credit expansion creates technological innovations = boom
    - When those new innovations dry up, bust
    - Rothbard: Tissue of fallacies!
        - Why no accurate forecasting by entrepreneurs?
        - Cluster of innovations might take a long time to develop but increase output quickly
            - For this theory to work, output must only increase after cluster has done its work
        - Ignores time preference, savings, investment
        - Bank credit expansion is not the only way for tech. innovations to happen!
        - Periodic "cluster" of advances is not well-rationalized
            - Innovation happens continuously and hits many firms
            - Also assumes a cluster of entrepreneurial skill
        - Entrepreneurship is <u>not</u> just tech. advances!
    - Later versions of theory create a bunch of interacting cycles, not even really Schumpeterian anymore
        - More like extra cycles to explain planetary motion in geocentrism!
        - More cycles is just a retreat from original model
- Qualitative Credit Doctrines
    - Bank credit expansion causes problems <u>if</u> it is directed outside of self-liquidating short-term loans matched by real goods
        - E.g. a business taking a loan to buy inventory before the holidays, selling inventory pays for loan
    - Rothbard: Where loans go doesn't determine if they're inflationary!

    - So far as loans come from real savings, that's fine
    - Short-term loans can end up long-term by going through other brokers
    - Stock market loans aren't uniquely bad
    - Stock market can get loans from rest of economy if there's inflation!
    - Small good point: At least this theory sees a problem in the Boom!
    - Consumption credit isn't a problem because it's not used on malinvestments
        - Danger—easy credit for consumers might allow them to invest where they otherwise wouldn't!
- Overoptimism and Overpessimism theories
    - Theory suggests alternating psychological waves
    - Rothbard: Markets reward good forecasting and punish bad forecasting
        - The profit/loss mechanism solves this
        - Faulty signals from bank credit expansion distort signals!
    - Business psychology is derivative from (not causal to) business situations
        - Expectations are self-correcting
        - V. Lewis Bassie writes about this