Rothbard's *America's Great Depression*, Chapter Five

The Development of the Inflation
- Fed roles in Treasury Currency, Bills Discounted, Acceptances, and Gov't Securities in Ch. 4
- We've studied the "anatomy," now the "genetics"

Foreign Lending
- Fed wants to "help" the domestic economy after 1920-1921 recession
- Fed wants to "help" foreign gov'ts and American exporters
- 1921-1922: foreign bond flotations & drop in U.S. gov't yields
- 1923: restraint blunted by low rediscount rate
- Fordney-McCumber Tariff of September 1922
- Supply foreign gov'ts w/ dollars via easy money policy at home
    - tons of foreign loans from 1924-1928
    - partly the fault of protectionist policy
    - benefits the industries protected by tariffs, exporters, and investment bankers
        - hurts everyone else
- Although Republicans in power, active intervention in foreign lending
    - Harding's cabinet pushed for banks doing foreign loans to ensure some of that money was spent in the U.S.
    - Hoover's mistaken idea that all loans (even bad ones!) were cheap relief for U.S. citizens
    - Fortunately, they were mostly ignored
    - Public perception that State Dept. was intervening made public think foreign loans were better than they were—implicit approval and consequent buy-in

Helping Britain
- Great Britain wanted to return to pre-war gold par, higher value than their market at the time
- GB prices would have needed to drop 10-20%, but blocked by unions
- GB's idea: Convince the U.S. to inflate, stop gold bleed from England to U.S.
- Myth of isolationism at the time
- Benjamin Strong (U.S. Fed) and Montagu Norman (Bank of England) collaborate
- 1925: GB returns to gold standard with a massive guarantee from the Fed. Res. Bank of New York
    - Smaller guarantees to Belgium, Italy, Poland
- Lots of fiddling with interest rates
- Results were a mixed bag for farmers—prices up, but tariffs restricting trade
    - Bad deal for everyone else
- Constant wheedling by Norman for more U.S. inflation
- Rothbard notes: "Loss" of gold due to policy in the market is voluntary!
    - Stupid to blame a sounder money for your own shortcomings
- Gold standard fails in Europe, replaced with "gold bullion" and "gold exchange" standards
    - "bullion" standard: No coinage, only bars for international transactions
    - "exchange" standard: Other countries hold dollars or pounds instead of gold
- There was dangerous worldwide inflation and false prosperity (boom phase)
- GB encouraged false gold standards to bolster its exports
- Is this the last gasp of British monetary imperialism?
- 1924 expansion: gold drain, U.S. prices up, foreign lending up, interest rates down... Coolidge reelected!
    - These results were extremely temporary!
- Montagu Norman, the Mephistopheles of 1920s inflation
- Ben Strong kept aiding GB

    - very shady inter-central-bank conference (see p. 154, fifth edition!)
    - positive PR for Strong
    - more inflation and cheap credit in 1927
    - Hoover tried to check inflation from 1924 on, but was called alarmist
- Strong avoided openness because he knew the public would react badly
- post-1927: prime foreign commercial bills and lower interest rates to the rescue
- Continued slumps pushed into more inflation

The Crisis Approaches

- Stock market loans are exactly as inflationary as others
- 1927: Coolidge and Mellon cheerleaders for bull market
- Call rate on margin trading kept low
- 1928, 1st half: reserves and demand deposits fall, time deposits way up!
    - Fed *could* have raised penalty rates and crystallized a mild depression then
- 1928, 2nd half: boom in acceptances, stock market... rediscount rate kept low
- Europe clamors for more U.S. inflation
- Political pressure in an election year
- Economy responds slowly; depression begins in July
- Stock market zombies until October 1929
- Coolidge and Hoover keep hand-waving, try more “moral suasion” (it fails)
- Proposed taxes on short-term stock sales (just pushes the crash back 60 days and makes it worse)
- August 1929: rediscount rate up, acceptance rate down, (false) bull market!
    - Acceptance rate due to lobbying from Norman again...
- Money sent to “good” places eventually flows to “bad” ones!

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