

Rothbard's America's Great Depression, Chapter 6 Notes

Theory and Inflation: Economists and the Lure of Stable Price Level

- In the 1920s, many economists and politicians considered a stable price level desirable
- However, forcing stability through credit expansion still causes a boom/bust cycle
 - The apparent price stability *obscured* the cycle and growing malinvestments
 - However, we still do see a special boom in the prices of capital goods
- Mild inflation/deflation cycle from 1921-1929 in wholesale prices
 - Wholesale price index went from 93.4 ('21) to 104.5 ('25) to 95.2 ('29)
 - Synder price index includes more capital goods, and increased by 13% over that time
 - Stocks went way up, durable goods way up, non-durable goods relatively stable
 - Wages in manufacturing went up, wages in consumer industries were stable

Why Price Stabilization is a Fool's Errand

- From *Man, Economy, and State*, chapter 11, section 14
 - Prices don't increase or decrease all at the same time
 - It depends on where innovations are happening and, in the case of credit expansion, who gets the new money first
 - Defining a price index mixes unlike goods and creates confusion and opportunities to game the system
 - E.g., shrinkflation: smaller amounts of some good sold for the same price
 - E.g., substitution: changing one good in the index for another to affect results
 - These allow governments to massage numbers to their advantage
- From *Making Economic Sense*, essay 68
 - Fear of deflation is very common among economists—not just Keynes but even Ricardo!
 - Deflation blamed for depressions, business contractions, unemployment
 - Adjustment for deflation is necessary and possible if not blocked by governments
 - Deflation is a big part of many growth industries, e.g., computers, and shows the market can handle it

Names, Groups, and Legislation for Stable Prices

- Rothbard spends the rest of the chapter essentially listing a large number of supporters of “stable prices” in the 1920s
- List includes Keynes, Irving Fisher, President Taft, Samuel Gompers, etc...
- Pressure from both U.S. and European sources
- Various groups and attempts at legislation
- 1929 article by Young calls desire for good gold reserve ratio a “fetish”

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