

## Rothbard's America's Great Depression, Chapter 11, part 2

### The Inflation Program

- Glass-Steagall Act in February
  - More assets eligible for rediscount
  - Federal reserve can no use government bonds as collateral for notes
- Ogden Mills replaces Andrew Mellon as Sec. of Treasury
  - Institutes massive government bond buying program
  - \$660M in under a year
- Split 1932 into two parts: end of Feb. to end of July, end of July to end of year
  - First, total reserves increase by \$213M, \$1.1B bonds bought in 5 months
    - \$290M decreased bank debts to Fed, \$380M decreased gold stock, \$122M increased notes in circulation counter this inflation
  - Second, banks stop maxing out their loans, excess reserves skyrocket
    - Signs of falling confidence
    - Gold withdrawals force money supply contraction
- Common explanation: “Demand for loans fell because of too few business opportunities”
  - Counter: Banks can always buy existing securities if they want to...
  - Therefore, reason for excess reserves must be within the banks
    - Typically reluctant for 2 reasons:
      - Avoid weakening customer confidence
      - Avoid risky lending to firms that may default
      - Lower interest rates also discourage lending! (Banks have less to gain)
- Bank failures
  - 1920s typical: 700 failures, \$170M in deposits per year
  - 1930: 1350 failures, \$837M deposits
  - 1931: 2293 failures, \$1.69B deposits
  - 1932: 1453 failures, \$706M deposits
- Foreigners withdraw gold, Americans withdraw Federal Reserve Notes, Bankers pay off their debts to the Fed
- Was deflation from July 1931-July 1932 the cause of summer uptick?
  - See footnote 25: 3.3% per annum deflation versus 1920s' 7.7% per annum inflation
- Second half 1932: security buying ends, some deposits flow back into the system
  - Excess bank reserves continue to hamper attempts to inflate
- Seymour Harris: Is there not enough liquidation yet?
- Hoover rants about “traitorous hoarding”
  - Citizens' Reconstruction Organization PR campaign
  - Fallacy of money = wealth by Hoover and others (see p. 307)
  - “Hoarding” stabilizes until Feb. 1933
    - This postponed and intensified problems in banks!
  - Anti-bank PR campaign: They must lend!
  - Hoover's efforts largely fail

### The Inflation Agitation

- Many pushes for much more inflation
  - Bimetallism proposal
  - “Stabilization” actually means reflation *then* stabilization
  - Pushes from Irving Fisher; the Stable Money Association; Committee for the Nation; soldiers' bonuses; fiat money proposals (**ominous**)
- The Goldsborough Bill

- Reflate to pre-depression price levels
- Give the Fed the power to raise/lower gold weight of the dollar (in practice, always lower)
- Becomes the Fletcher Bill, passed in House
- NY Merchants' Association, Commercial and Financial Chronicle, and even some Fed authorities oppose
- Wildest and worst: “Barter Schemes” for the unemployed
  - Backed by many famous economists and high officials (to their discredit)
- U. of Chicago, Institute of Gold and Monetary Stabilization
  - Yes to Glass-Steagall
  - FRB should buy securities
  - RFC should provide more aid to banks with ineligible assets
  - More public works and federal unemployment relief
  - Lower tariffs
  - Hoover largely followed their suggestions, except for lowering tariffs (Scott Horton's law)
- H. Parker Willis dissents
  - Correctly blames old inflation for gold outflow
  - Cautions that buying securities will make things worse, and aggravate malinvestments
- von Haberler, follower of Mises, presents Austrian Business Cycle Theory to the U.S. for the first time
  - His warning: “quacks... disregard real dislocation...”

#### Mr. Hoover's War on the Stock Market

- Hoover continues to rail against short sellers
- “True values” fallacy
- Bullies the NYSE into restricting short sales

#### The Home Loan Bank System

- Passed July 1932
- Discounted mortgages limited to 50% of total value, Hoover wanted 80%
- Mostly did its work in 1933: \$838k in 1932, up to \$94M in 1933!

#### The Bankruptcy Law

- Weakens the rights of creditors
- For individuals only, for now (FDR did corporations later)
- Majority of creditors can now force minority to accept a “plan” for payment instead of appropriating assets
- Prevents liquidation (Hoover rants on p. 319) (right when liquidation is needed!)

#### The Fight Against Immigration

- Hoover asks again for legal immigration suspension
- Congress does not pass
- Hoover's administrative methods were still successful (despite being illegal), however, and he bragged about it

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Rothbard's citation for the NYT article is quite fuzzy. Is this it? NYT says it's the wrong page, and I can't actually access the text.

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