Chumley's Restaurant in Greenwich Village back in 1931), I could believe that distribution of purchasing power was a proper function of government. But I have lived to notice that governments, instead of insuring plenty when they intervene in the economic process, always accomplish the opposite. Inflation always destroys purchasing power. The Ezekiel Plan, applied to U.S. agriculture, has kept the price of bread high. In France, rent control has resulted in a chronic housing shortgage. In England, socialized medicine is depopulating the medical schools and driving older doctors into emigrating to Australia and Canada. In Russia, state planning keeps a hard goods consumer economy from coming into existence and inadvertently saddles the Russian countryside with a chronic slowdown in wheat and meat production.

Mr. Bazelon thinks that capitalism is supported by "myths" and "superstitions." Is it a "superstition" to expect a broker to deliver something he has promised to deliver? When a Harry Scherman writes a book called *The Promises Men Live By*, is he the victim of "mythology"? No, the truth is that capitalism is supported by performances that cannot be equaled by economies that are run on the gun standard instead of by the free contract standard.

Behind Mr. Bazelon's elaborate fun-making, there lurks the threat of the ugly mailed fist. Comes his revolution and nobody would be eating strawberries. Or anything else, for that matter, besides rationed bread. ◈

▸ AMERICA'S GREAT DEPRESSION by Murray N. Rothbard (Princeton, N. J.: D. Van Nostrand Company, 1963, 361 pp., $8.95).

Reviewed by Percy L. Greaves, Jr.

THE BASIC fallacy that underlies many of our modern economic maladies can unquestionably be traced to the old Marxian myth:

Free enterprise will not work. It contains the seeds of its own destruction. Every succeeding capitalistic crisis creates more economic chaos and more human suffering than the one before. Eventually, capitalism must collapse of its own weight and be replaced by the heavenly harmonies of socialism.

As proof, millions of Americans point to the Great Depression that began in 1929. We tried *laissez faire* capitalism in the twenties, they say, and it did not work. Left alone, capitalism crashed, bringing years of misery to millions.

Many of our contemporaries, opposed to Marxism, hold that only governmental action can save us from socialism and protect free enterprise from its inherent weaknesses. In their opinion, our economic salvation requires that government should restrain and regulate the excesses of uncontrolled capitalists, redistribute the cream of the capitalistically created wealth, and, whenever the pace of capitalism seems to slacken, then government should prime the pump of perpetual prosperity.

For a full generation, various versions of this basic fallacy have persuaded most Americans that depressions are the inevitable result of *laissez faire* capitalism. There have been countless books written on the depression. A few have made valuable contributions, but not one has pinpointed the part that politicians play in producing and prolonging depressions. Unfortunately, none of the existing books has been written by an economic historian who grasped the full significance of the "trade cycle" theory expounded by Ludwig von Mises.

Dr. Rothbard, a brilliant student of Mises, has that understanding. His is a great and much needed book. It may not be the perfect answer, but it certainly towers far above any other book on this most important subject. He may err on some fine points, but he certainly blasts the Marxist myth to smithereens. If this book is widely read and its relevance realized, we can all hope for a more realistic approach to our many economic problems.

When Government Interferes

Part I deals with the theory. Dr. Rothbard presents the positive Mises theory quite simply, perhaps too simply. He very aptly puts his finger on the fractional reserve defect in "the banking principle." He shows how a politically sponsored expansion of the supply of money-substitutes – bank deposits, and paper-backed paper money – misleads the thoughts and actions of free enterprisers. Under such conditions, businessmen, induced to borrow the newly created funds, act as though the additional supplies of money represent additional real savings available for starting ventures previously frustrated for lack of the needed capital.

This monetary expansion is produced by irresistible official pressures on banks to buy government paper and set artificially low interest rates on bank loans. The reduction in interest costs induces businessmen to borrow and start new enterprises, chiefly those that require a lot of capital for a long time. Ventures are started for which the available real savings are not sufficient at current prices.

The capital goods industries then use their expanded funds to bid men and materials away from those industries most likely to prosper in a free market – those that best supply what consumers most want. The boom is on. The malinvestment multiplies as wage rates and prices rise above what they would be, if the money supply had not been artificially expanded.

Such politically inspired booms cannot continue forever. When the bubble bursts, society must recognize the insufficiency of real savings for the grandiose plans started with false hopes. Business must readjust. Men and materials must be shifted from making goods for which consumers will not repay costs to those producing what consumers can and will buy at prices that cover current costs.

At this point, the ideal solution is for government to let market forces direct the correction. Free and flexible prices, wage rates, and interest rates will quickly redirect the economy with the least unemployment, the least loss of capital, and a minimum of human misery. Every government interference with the market indicators misdirects men and materials and thus unnecessarily deepens the distress and lengthens the period of readjustment.

In Part II, Dr. Rothbard reveals how the upward political manipulation of the supply of money-substitutes, *not free enterprise*, created the inflationary boom of the twenties and made the depression inevitable. He touches on the dilemma of government officials in 1928 and early 1929. Arguing and groping behind closed doors, they sought in vain for some easy way to stop the stock market boom without also stopping the highly artificial spiral of business and agricultural activity that they had instigated with their well-meaning expansion of the supply of money-substitutes.

The "New Deal" Before 1933

Part III is entitled, "The Great Depression: 1929-1933." Here, Dr. Rothbard is at his best. He presents a masterly account of the development of the depression policies of the Hoover Administration. He shows how wrong they were and how such political interventions made matters far, far worse. He also depicts the role of business leaders and respected economists in the parade toward more and more bureaucratic interference with the self-correcting tendencies of *laissez faire* capitalism. He pulls no punches to prove his point, which is:

"The guilt for the Great Depression must, at long last, be lifted from the shoulders of the free market economy, and placed where it properly belongs: at the doors of politicians, bureaucrats, and the mass of 'enlightened' economists. And in any other depression, past or future, the story will be the same."

While this reviewer, a longtime student of depressions and of Professor Mises, learned much from this book and recommends it highly, he cannot agree with all its premises. Perhaps the most serious objection is to Dr. Rothbard's predilection for deflation as an antidote for prior politically created inflation. As Mises has pointed out, this is a little like helping a man who has been run over by backing the car over him again. A second injury in reverse does not erase the first injury.

The best solution for such a situation is to stop immediately all political manipulation of the money supply, that is, prevent any further politically induced inflation or deflation. Mises has described the process in the "Monetary Reconstruction" chapters of his *Theory of Money and Credit.* Such a solution would interfere least with existing contracts and help reduce the required readjustment to the very minimum.

The Money Supply

This reviewer cannot agree that life insurance net policy reserves are part of the money supply. In fact, they are not even the cash surrender sums, which Dr. Rothbard considers money because they are obtainable on demand. Actually, such cash surrenders entail a loss of insurance coverage and often a loss of interest. Demanding gold for your paper money or bank checks involves no such loss. Life insurance policies are no more money substitutes than any other forms of easily cashable wealth.

Considering such claims as money also tends to weaken the major thesis of the book. The basic cause of depressions is the creation of several titles to the same sum of money, producing an illusion that permits several people to act as though the same bank reserves belonged to each of them at the same time. Such multiple titles to the same money are only possible within a banking system operating with a fractional reserve. A dollar of reserves can thus be pyramided into many dollars of spendable money substitutes. The illusion of more dollars can continue only so long as depositors manage their finances by check and refrain from asking for metallic money.

Neither life insurance companies, nor savings banks, nor savings and loan institutions can give two or more titles to the same reserves. The inclusion of such assets in the money supply hides the actual deflation of 1930 and thus obscures this conformity with the Mises theory. It also weakens and complicates other parts of an otherwise excellent historical analysis.

Dr. Rothbard knows well that the GNP, generally known as the Gross National Product, might better be called the Great National Panegyric for inflation. Yet he tries to correct GNP by using official statistics to recalculate changes in the right direction. This reviewer must hold that such politically created guestimates are beyond salvage. They should be provided a prompt burial where they can no longer mislead an innocent and unsuspecting public.

There are other minor flaws, but it is a great book. Written more for economists and students of affairs than for the general reader, it merits reading by all who seek a better understanding of the dangers of a politically run economy. ◈

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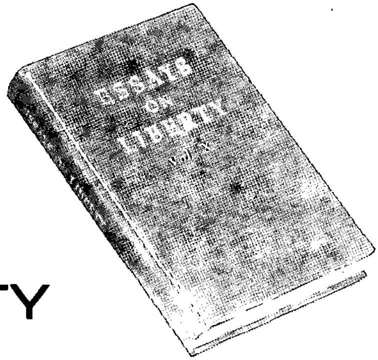

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JAMES KENT
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