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INTRODUCTION TO J. C. CACHANOSKY'S *THE GREAT DEPRESSION*

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Hardly any episode in recent history has had more economic significance than the Great Depression of the 1930's. It cast a long shadow, ushering in a tectonic shift in economic theory and policy that continues until today. Economists and historians have struggled to explain the causes of this traumatic period, and explanations have varied greatly, some being diametrically opposed.

It was in the context of this economic crisis that John Maynard Keynes came to the definitive version of his new revolutionary economic framework, later dubbed macroeconomics. In parallel, economic policy was evolving in a direction compatible with this new economic vision. And in the aftermath of World War II (WWII), under the influence of these new "cures," the causes of the Depression were attributed to an antiquated adherence to the obsolete rules and practices of the gold standard. Despite competent, credible dissident works (Anderson 1949, Robbins 1934), this was the conventional wisdom of the postwar period, at least until the Monetarist Revolution of the late 1970's and 1980's.

The latter refers to work of Milton Friedman and his collaborators who successfully pushed back against the Keynesian orthodoxy as a result of the mounting evidence of its failure. The New Deal, LBJ's Great Society and the breakdown of the Bretton Woods system of international finance, was followed by a period of high inflation and unemployment and an openness to the consideration of old wisdoms of fiscal and monetary responsibility and constraints on government, reflected in the administrations of Ronald Reagan and Margaret Thatcher. Indeed, the period following from the 1980's to the end of the 1990's has come to be known as the Great Moderation for its low inflation, low unemployment, steady growth, dynamic innovation, and rising world trade.[1] The retreat from the broad Monetarist and post-Monetarist consensus started with the dot.com bust of 2001 and the rest is history. Sitting here in April of 2021, one might profitably contemplate the run up to the Great Depression as brilliantly outlined by the late Juan Carlos Cachanosky in this article. After the passing of one whole century we might wonder: has the sweep of history come full circle?

It is easy to lose sight of the similarities. The received Monetarist interpretation of the Great Depression was rather superficial focusing on monetary aggregates and neglecting structural changes in financial markets and production. The seminal work of Milton Friedman and Anna Schwartz (1963) attributed the secondary depression, the deepening and lengthening of the early recession, to a precipitous decline of the money supply that occurred – and this may well have been a significant impact effect. But it neglects completely the long meandering floundering monetary policy that preceded the 1929 bursting of the financial asset bubble. Cachanosky, using the works of Anderson, Robbins, Rothbard and others, provides a compelling account of the building chaos that finally erupted and are the real fundamental causes for the Great Depression.

It plausibly starts with World War I (WWI), with put the proverbial cat among the financial pigeons. The departure from the gold standard was never reversed and in its place, in a series of confusing vacillating steps, was put an array of ad hoc rules and procedures of which the gold-exchange standard (implicitly creating the modern era of anchorless fiat money) was just the first. It was the period of the gradual replacement of British financial centrality with that of New York. The USA becomes the key arbiter in the world of governmental financial affairs.

While people in the US economy were relishing the heady thrill of the roaring twenties, Europeans were experiencing protracted economic malaise. And the newly created Federal Reserve was relentlessly pursuing an unprecedented low-interest, easy-money policy to boost the value of the British pound (GBP) against the dollar in the vain hope of restoring a semblance of the prewar financial stability. It becomes increasingly uncontrollable and, in the end, … a crash.

[1] To be sure, neither the Reagan nor Thatcher regimes were what we could call perfect example of classical free markets, nor what followed. But compared to what preceded them they were a significant move in that direction.

Once again, in a different context, and for different reasons, the Federal Reserve is frenetically purchasing Treasuries and even private financial assets at unprecedentedly low interest rates. For its sheer illumination of a dark period in economic history, one insufficiently understood, and for the pause it should give us about what can happen, the publication of this wonderful article, ably translated by his son Nicolás Cachanosky (a worthy successor to the legacy of his father) is most welcome. I heartily recommend reading it.