Financial Crisis: What Goes Up…

The Fed has become the chief bubble creator, Abolish the Fed.

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Global Research, December 09, 2008
George Washington Blog 9 December 2008

Region: USA
Theme: Global Economy

Everyone knows that the Great Depression followed the "Roaring Twenties".

But how many Americans know that the easy credit and loose lending of the Twenties was what caused the Great Depression?

Japan's "lost decade" of deflation was also mainly caused by a credit bubble.

And the greatest financial crash of all time – the crash of 1340 in Venice, Italy, which brought on the Dark Ages – was similarly caused by too much credit. For example, Jesús Huerta De Soto's book Money, Bank Credit, and Economic Cycles, shows that:

> Real estate prices fell by 50 percent by 1349 in Florence when boom became bust. That boom was fed by bank money creation:
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> "Evidence shows that from the beginning of the fourteenth century bankers gradually began to make fraudulent use of a portion of the money on demand deposit, creating out of nowhere a significant amount of expansionary credit. Therefore, it is not surprising that an increase in the money supply (in the form of credit expansion) caused an artificial economic boom followed by a profound, inevitable recession."

A 50% fall in real estate prices is a lot, but the price of Southern California homes is already down 41%, Southern California hasn't fallen as fast as some areas, and we're nowhere near the bottom of the market.

The fact that crashes follow too-easy expansion of credit is so predictable that those in the know – like the Austrian school of economics – uses it to predict upcoming crashes.

And that is why, in June 2007, the BIS – the "central banks' central bank" – "warn[ed] of Great Depression dangers from [the] credit spree":

> The Bank for International Settlements, the world's most prestigious financial body, has warned that years of loose monetary policy has fueled a dangerous credit bubble, leaving the global economy more vulnerable to another 1930s-style slump than generally understood.
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> "Virtually nobody foresaw the Great Depression of the 1930s, or the crises which affected Japan and southeast Asia in the early and late 1990s. In fact, each downturn was preceded by a period of non-inflationary growth exuberant enough to lead many commentators to suggest that a 'new era' had arrived".

Will we ever learn? There can never be a "new era" where a horrible crash does not follow limitless credit expansion like night follows day.

But no one in Congress (other than a handful of members) understand this. Bush and Obama's economic advisors either don't know about our economic history or pretend they don't know.

Mark my words . . . if the politicos try to "kick the can down the road" by creating some new bubble, it will end the same way.

The law of booms and busts should be taught to every kid in school. Unless we learn – as a culture – to moderate our booms, we will always be subject to cruel busts.

And since the Fed has become the chief bubble creator in modern times, we should abolish the Fed.