The monetary policies on both sides of the Atlantic leading up to the global credit bubble (2003–7) and accompanying its burst (spring 2007 to spring 2009) may not have fully satisfied the definition of catastrophic. But how far short they were of that benchmark and the definition itself will doubtless long remain a matter of heated historical debate.

The global turmoil and distress (whether economic, political or geopolitical) associated with the monetary mess (especially in the US and Europe) – if that becomes the description – of the first decade in the twenty-first century seems from the viewpoint of 2010 to be of a lower order than for the years around the Great Crash and the Great Depression (say 1929–35). And there has not been the same degree of monetary nationalism this time round which so heavily contributed to the devilish chain of European political and geopolitical events in the 1930s. That is not a very exacting standard of comparison!

After all, what could get worse in Europe than the biggest economy (Germany) in the throes of perhaps the most severe credit and real estate bubble-bursting episode in modern history experiencing a savage tightening of monetary policy when already in deep slump (1929–31) with its own policymakers (and even well-meaning policymakers in leading foreign capitals) almost totally blind to the possibility of devaluing or floating the currency (Reichsmark).

Even if open-eyed, there were considerable obstacles to such a step given the commitment of Germany under the Dawes Plan – a US-sponsored treaty in 1924 under which the Weimar Republic obtained an international loan and re-scheduling of reparations obligations towards stabilizing its money in the wake of hyperinflation – to maintain a fixed parity between the mark and the gold dollar (see Brown, 1986).
Simultaneous with that German predicament, another large European country (the UK) unleashed a beggar-your-neighbour devaluation (September 1931), triggering a deep crisis of confidence in much of the remaining world on the gold standard (with the important exception of France which had returned to gold at a very cheap exchange rate level in 1926–8), most particularly the US.

Yet there are echoes of the earlier monetary catastrophe in the present-day monetary turmoil (or catastrophe?) which are eerie and troubling for those who believe strongly in human progress. Here was a renowned professor in monetary economics at the head of the Federal Reserve, who on the occasion of Milton Friedman’s ninetieth birthday party had said that the monetary mistakes which surrounded the Great Depression would never be made again. There were grounds to question whether the professor had learnt the wrong lessons.

No monetary progress in US or Europe?

The professor (Ben Bernanke) had been the key proponent (back in 2003 already) of the expansionary policy (breathing in inflation) which had played such a critical role in generating the bubble in the first place (even if the buck ultimately stopped at Alan Greenspan’s desk). Indeed, much of the ‘neo-Austrian’ critique (see Rothbard, 1972) of US monetary policy in the 1920s under the leadership of New York Federal Reserve Governor Benjamin Strong in the 1920s could be replicated against the Greenspan–Bernanke Federal Reserve.

At a time when real forces (productivity surge due to technological revolution and terms of trade improvement) were putting downward pressure on the equilibrium level of goods and services prices, the Federal Reserve was setting monetary conditions such as to produce a stable or gently rising price level. In doing so the Federal Reserve created grave monetary disequilibrium with its main symptom being a sharp rise of temperature in credit and asset markets.

Other critics, including in particular John Taylor (2009), highlighted how the ignoring of monetary rules (his own brand in particular – the so-called Taylor Rule!) – more complex than those of Milton Friedman – had sewn the seeds of crisis. And then, Milton Friedman’s co-author of *A Monetary History of the US*, Anna Schwartz, argued that Professor Bernanke had misdiagnosed the crisis which erupted in summer 2007 as a liquidity crisis (the situation in autumn 1930) when in fact it was a solvency crisis (in the 1929–33 episode as examined by Friedman and Schwartz a real solvency issue erupted only much later on in the depths of