The Bursting of the Bubble

The monetary policies on both sides of the Atlantic leading up to the global credit bubble (2003–7) and accompanying its burst (spring 2007 onwards) 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 global monetary disequilibrium, especially in the US, China and Europe, during the years 2004–15 in the twenty-first century may turn out to be of a lower order than for the years around the Great Crash and the Great Depression (say 1925–38). It is arguable that 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 still an open question, though, given the legitimization and use of currency war by the Bernanke Federal Reserve, euro-nationalism as practised by the Trichet ECB, President Sarkozy’s ‘Napoleon III’ euro-policy (turning EMU into a ‘transfer union’ in large part via the ECB under M. Trichet expanding massively its bad bank operations in defiance of German remonstrance) which raised the danger of an eventual rupture between Paris and Berlin, and the aggressive currency policy of Beijing.

Even so, the financial crisis in Europe early in the twenty-first century has not featured as in the inter-war years the biggest economy (Germany) in the throes of 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) unwilling or unable to to contemplate the possibility of devaluing or floating the currency (Reichsmark).

B. Brown, *Euro Crash*
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There were considerable obstacles to such a step (devaluing or floating the Reichsmark) 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 catastrophe in the present-day monetary tumult (or catastrophe?) which are eerie and troubling for those who believe strongly in human progress. True there is now a renowned professor in monetary economics at the head of the Federal Reserve, who on the occasion of Milton Friedman’s ninetieth birthday party said that the monetary mistakes which surrounded the Great Depression would never be made again. There are grounds to question, though, whether the professor had learnt the right 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. This had already happened in the second half of the 1990s, culminating in the severe recession of 2001–2. Then the Greenspan/Bernanke Federal Reserve (Professor Bernanke joined the Board in autumn 2002) had sought to force-feed