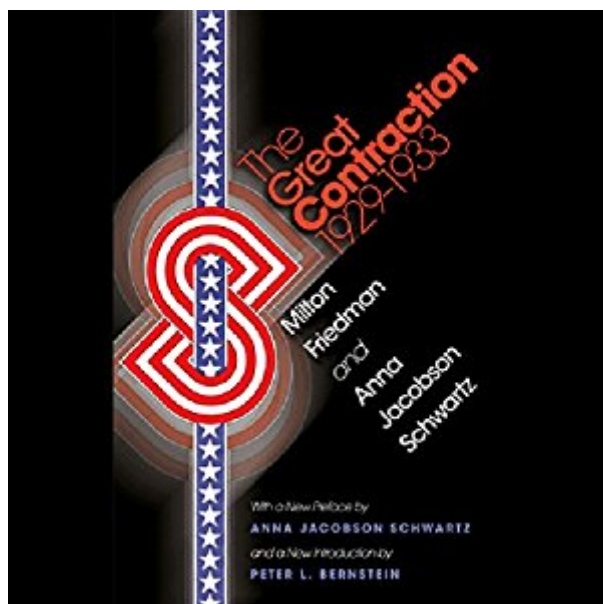


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# The Great Contraction, 1929-1933



## Synopsis

Friedman and Schwartz's *A Monetary History of the United States, 1867-1960*, published in 1963, stands as one of the most influential economics books of the twentieth century. A landmark achievement, the book marshaled massive historical data and sharp analytics to support the claim that monetary policy--steady control of the money supply--matters profoundly in the management of the nation's economy, especially in navigating serious economic fluctuations. The chapter entitled "The Great Contraction, 1929-33" addressed the central economic event of the century, the Great Depression. Published as a stand-alone paperback in 1965, *The Great Contraction, 1929-1933* argued that the Federal Reserve could have stemmed the severity of the Depression, but failed to exercise its role of managing the monetary system and ameliorating banking panics. The book served as a clarion call to the monetarist school of thought by emphasizing the importance of the money supply in the functioning of the economy--a concept that has come to inform the actions of central banks worldwide. This edition of the original text includes a new preface by Anna Jacobson Schwartz, as well as a new introduction by the economist Peter Bernstein. It also reprints comments from the current Federal Reserve chairman, Ben Bernanke, originally made on the occasion of Milton Friedman's 90th birthday, on the enduring influence of Friedman and Schwartz's work and vision. --This text refers to an out of print or unavailable edition of this title.

## Book Information

Audible Audio Edition

Listening Length: 8 hours and 53 minutes

Program Type: Audiobook

Version: Unabridged

Publisher: Audible Studios

Audible.com Release Date: September 17, 2009

Language: English

ASIN: B002PJ86M8

Best Sellers Rank: #290 in Books > Business & Money > Economics > Money & Monetary Policy

#1065 in Books > Business & Money > Biography & History > Economic History #3355

in Books > Audible Audiobooks > Business & Investing

## Customer Reviews

Friedman and Shwartz see two causes of the Great Contraction: 1) to a small extent bank failures; and 2) to a large extent a series of poor and inconsistent policies from the Federal Reserve

System. Popular belief is that the Stock Market crash of 1929 caused the Great Depression. From a statistical monetary analysis this is obviously false. For a year after the stock market crashed the economy experienced a recessionary business cycle but monetary factors remained relatively stable. After the bank panic of 1930 that all changed. The bank panics of 1931 and 1933 made matters far worse and at an accelerating rate. The United States caused the Great Depression which would later lead to an international depression. If the Federal Reserve had followed a policy of monetary easing the bank panic of 1930 probably would not have happened. This would have required a very small amount, ~\$80 million, in order to solve. The 1931 panic could have been prevented, even accounting for the 1930 panic with a ~\$250 million injection of capital into banks. The 1933 crisis could have been prevented with ~\$1 billion injection of capital. Instead the Federal Reserve decided to disregard conventional theory, which while not perfect would have solved the crisis, and submit to a deflationary set of policies. In the end it came down to the Federal Reserve System lacking internal leadership and acting in a fractured manner. The Great Contraction only partially explains the monetary history of the Great Depression. I highly recommend Friedman and Schwartz's 'Monetary History of the U.S., 1867-1960' for those wishing to know more. Unfortunately, Friedman and Schwartz's analysis only partially explains the Great Contraction and the subsequent Great Depression.

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