Free-Market Wealth
Building Solutions

Proudly Presents:

SWISS PERSPECTIVE

THE REAL CAUSES OF THE CURRENT ECONOMIC CRISIS:

- An analysis of inflationary and deflationary effects
- Why the monetarists got it fairly wrong
- How the debate educates us today

Prepared by:
Scott Smith

Understanding free market economics leads to exceptional investment success.

Meet Scott Smith, Editor of *Swiss Confidential*

Contributing Editor to **TheDailyBell.com**

Before his recent retirement, American-born Scott Smith spent nearly 30 years as a member of the Swiss investment banking community.

He spent most of his long career at legendary investment banking giant Credit Suisse, where he was an executive working in the foreign exchange and derivatives departments.

Over the course of his career, Scott became privy to the closely guarded, somewhat regimented, wealth building and asset-protection strategies that have made the Swiss among the wealthiest people in the world - wealthier even than Americans, according to the World Bank.

In addition to writing special reports, such as this Swiss Perspective, Scott is also a contributing editor to the TheDailyBell.com and the editor of a membership based investment newsletter called ***Swiss Confidential***.

In each issue of ***Swiss Confidential***, Scott shares with subscribers the valuable analytical techniques he learned while working within the fast-paced Swiss investment banking industry – techniques that often enable him to uncover investment opportunities before other mainstream financial commentators.

Scott's unique Swiss-inspired approach is to break down the propaganda and look for reasons not to invest. He was trained to humbly recognize that experts have a limited frame of reference for their so called expertise – including his own. And since he accepts full responsibility for the investment opportunities he introduces in ***Swiss Confidential***, you can be assured that he performs an extensive amount of due diligence.

When analyzing the merits of a potential investment opportunity, Scott believes it is imperative to assemble a due diligence team comprised of third party experts specifically for the purposes of analyzing that particular investment. His team approach is designed to probe deeply behind the curtains of propaganda and ask the real questions - the tough ones most people don't ask – the one's that allow for an intelligent decision to be made.

Armed with common sense information, real facts and figures, Scott is able to confidently offer his premium investment analysis and conclusions to his subscribers. It's the kind of financial information and guidance that can help you protect and grow your wealth as the global financial crisis deepens over the next few years.

Swiss Confidential also reflects Scott's reverence for personal responsibility and free-market principles. And in keeping with those principles, he accepts the duty to protect your personal information.

For more information about Scott Smith's Swiss Confidential, please visit **www.SwissConfidential.com**

The Real Causes Of The Current Economic Crisis:

- An analysis of inflationary and deflationary effects
- Why the monetarists got it fairly wrong
- How the debate educates us today

INSIDE

Introduction 04

Was the Depression Deflationary? 05

Antecedents of the Current Economic Crisis 06

The Business Cycle 07

Antecedents of the Great Depression 07

The Aftermath 09

Monetarist View 09

Bernanke's Approach 10

The Mainstream Meme and its Critics 11

The Monetarist Misunderstanding 12

Conclusion 13

Copyright 2009 Appenzeller Business Press AG. All Rights Reserved. Distribution for NON-COMMERCIAL USE only

DISCLAIMER: This white paper is an informative compendium of independent economic views and analysis, which is published by Appenzeller Business Press AG. The information contained in this white paper is for informational purposes only, is impersonal and not tailored to the investment needs of any particular person and should not be construed as financial or investment advice. As a business publisher, Appenzeller Business Press AG does form business relationships with third party companies some of which may be mentioned in this white paper. Appenzeller Business Press AG does not accept any liability or responsibility for, nor does it verify the accuracy of the information being provided. Readers must accept the responsibility for performing their own due diligence before acting on any of the information provided within this white paper regardless of the source.

A White Paper on the real causes of the current economic crisis

- **An analysis of inflationary and deflationary effects**
- **Why the monetarists got it fairly wrong**
- **How the debate educates us today**

A powerful, if rarified, historical debate in 20th century America (among other climes) was whether or not the Great Depression could have been avoided and, if so, how. Another equally important debate was whether or not inflation (especially price inflation) existed during the Great Depression in America or if deflation were the main monetary trend.

The answers to these questions are likely more important than ever, given the current financial crisis and people's need to understand the mechanics in order to respond in an appropriate way. This white paper will attempt to present these grave issues in more detail and then draw appropriate conclusions. Please bear in mind that the free-market definition of inflation is an increase in the money supply, whereas the popular definition of inflation has to do with price appreciation. We will endeavor to make this distinction clearly throughout this paper.

While these issues may be pertinent to Europe, they have been examined most closely in America. This makes sense, since even in the 1930s America was perhaps the world's major power and the Depression proved a great psychological shock. Throughout much of the 20th century, economists among others have sought answers to both the cause and duration of the Great Depression. What does this latest crisis have to teach us?

The leadership that counts in the world is still to a large degree American. Federal Reserve Chairman Ben Bernanke is responsible for the upkeep of the world's reserve currency, the dollar. Conveniently, Bernanke is not only chairman of the Fed, he is also a scholar on the Depression-era ramifications of monetary policy. He has written papers on the response of central banking, specifically the Federal Reserve, to the challenges faced by bankers in that era. And he has stated on many occasions that he drew certain conclusions from his studies.

Bernanke is, in fact, on record as saying that the conclusions he drew were twofold. First, he believes the Federal Reserve acted too late to try to forestall the 1929 market crash and subsequent depression. By this he means that the Fed did not attempt to bail out troubled banks, nor to print money to liquefy the sagging economy and plunging markets. Second, he believes the response, when it did come, was tepid and not strong enough. The Fed did not stimulate the economy by printing enough money.

Bernanke is particularly interested in the economic and political causes of the Great Depression, which he has written about extensively. In 2002, when the word "deflation" began appearing in the business

news, Bernanke gave a speech about deflation. In that speech, he mentioned that the government in a fiat money system owns the physical means of creating money. Control of the means of production for money implies that the government can always avoid deflation by simply issuing more money. (He referred to a statement made by Milton Friedman about using a "helicopter drop" of money into the economy to fight deflation.) Bernanke's critics have since referred to him as "Helicopter Ben" or to his "helicopter printing press." In a footnote to his speech, Bernanke noted that "people know that inflation erodes the real value of the government's debt and, therefore, that it is in the interest of the government to create some inflation." (Wikipedia)

Bernanke is also on record as saying that the Fed, under his watch, has attempted to rectify both these errors as regards the current crisis. During a time of grave financial instability, the Fed, along with the British central bank and various European banks, have acted aggressively and have printed literally trillions in currency to liquefy paralyzed lending facilities.

Here are the crux questions that must yet be asked (and that this white paper asks): Is the initial analysis of the Great Depression accurate (that it was a deflationary depression) and could aggressive central banking stimulation have ameliorated what occurred. Having asked and answered these questions, it will be more apparent what to do next, given the current problems.

Was the Depression Deflationary?

To fully examine the arguments that have raged endlessly over the Great Depression, we are fortunate to be able to use the lens of the current crisis, which has likely revealed a great deal about the mechanics of the previous one. Thus, our analysis shall focus not so much on statistical truth as observable reality, which in fact is the Austrian (free-market) approach to discovering economic truth.

Many who have gone before (including the Nobel prize-winning economist Milton Friedman) have dredged up a great deal of statistical information about the Great Depression, much of it contradictory, to establish the inflationary or deflationary tendencies of that terrible time. We would advance the perspective that it has not occurred to many that the lingering questions and contradictory data are not resolvable for lack of trying but because inflationary and deflationary trends may have existed together at once.

How do we know this? Because we are seeing the same trends today in the current crisis. We make this determination because it is available and evident to us. That is the advantage (if there is any) to rehearsing anew the destruction of the previous era. Oil, for instance, has fluctuated greatly in price in the past – leading one to believe that first inflation and then deflation was in play. The dollar, too, has stumbled and failed (inflation) and then strengthened relative to other currencies (deflation).

To really resolve these questions, it is probably best to go back to the beginning of the crisis (along with the beginnings of the Great Depression) and trace its evolution. By understanding where we have been, we can analyze more successfully where we are going.

Antecedents of the Current Economic Crisis

It is said in numerous authoritative reports that the current economic crisis was generated by a number of inter-related factors. These included regulatory malfunctions, overly enthusiastic interest rate hikes (Bernanke) that caused first an overabundance of unaffordable mortgages and then a repayment crisis when interest rate hikes made adjustable mortgages unfeasible. The subprime mortgage crisis, it is said, spread like a virus, first throughout America and then throughout the West, destabilizing every financial sector it touched.

How did it get this bad? For two years, economic turmoil in the United States throbbed from a few areas of isolated distress; dark bruises on a national map that was otherwise unscarred. Even the deflating housing bubble was confined mostly to areas like California's inland valleys, Las Vegas and Florida, while manufacturing communities in Michigan and the South struggled to keep workers in their jobs. … Then came the autumn of 2008. Banks failed, Congress poured billions into hopeful fixes, the Dow Jones Industrial Average plummeted, and soon the regional misery began expanding nationwide. Over the next six months, it spread along Interstate 5 in California, spilled out of Michigan into the rest of the Midwest, and sprouted like kudzu throughout the South. Only recently have there been signs that the pace is slowing. The Stress Map, which measures the recession's relative impact on local economies, offers new insight into how this tipping point changed the course of the recession, spiraling the world's wealthiest nation into an ongoing cycle of despair that has already seen millions of jobs and trillions of dollars lost. (AP - Anatomy of an Economic Meltdown)

However, free-market economics informs us that an economic sickness is not a fast-spreading plant or virus. In fact, the "regulatory-infection" theory of economic dysfunction may be seen as sorely lacking in logic. First of all the entire Western economic system has been affected by the crisis. And second, the vastness of the damage would seem to preclude an analysis that begins with the further impoverishment of the credit-worthy poor.

No, the real motor of economic destruction is most likely the business cycle itself which according to free-market analysis is the driving force behind recessions generally. What is the business cycle? It is an industrial construct that begins with money creation sparking an economic upturn. The upturn is then aggravated by additional money creation that engenders a bubble which eventually turns into a bust. Money creation cushions the downturn and eventually stimulates the beginning of the business cycle once again.

The Business Cycle

Free-market economic analysis shows us that the business cycle is immensely aggravated by the money printing privileges of central banking. Without the stimulating effects of paper money, business cycles might be both regional and mild. It is central banking money printing that homogenizes economic activity throughout the West and makes downturns far more destructive to wealth and prospects than they would be otherwise. Below is an explanation of the business cycle taken from Investopedia.com.

The recurring and fluctuating levels of economic activity that an economy experiences over a long period of time. The five stages of the business cycle are growth (expansion), peak, recession (contraction), trough and recovery. At one time, business cycles were thought to be extremely regular, with predictable durations, but today they are widely believed to be irregular, varying in frequency, magnitude and duration. Since World War II, most business cycles have lasted three to five years from peak to peak. The average duration of an expansion is 44.8 months and the average duration of a recession is 11 months. As a comparison, the Great Depression - which saw a decline in economic activity from 1929 to 1933 - lasted 43 months. Once upon a time, gold and silver circulated freely as money, but today the powers of money creation are fairly well restricted to central banks. Thus paper money and electronic money are generated via central banking facilities and interest rate manipulation and other tools are used to further create credit as necessary. Thus it is, there is a difference between money creation via central banking and money creation through the free market dissemination of money metals dug up out of the ground. (Investopedia, The Business Cycle)

The marketplace for gold and silver is self-regulating. When more gold or silver are needed in the economy, hoarders disgorge the necessary money metals from savings, or they are dug up out of the ground. But central banking short-circuits this process because the central bankers do not create money based on market need. Instead, the central banking facility prints money regardless of the turn of the economic cycle – thus aggravating the effects of the business cycle on the economy.

It is only the paper-money business cycle engendered by central banking money creation that can provide a motor powerful enough to create the kinds of bubbles and busts that have afflicted Western economies in the past century. It is this mechanism that doubtless created the current crisis as well. While various regulatory mechanisms may have provided the spark, the volume of money itself provided the fuel. The historical record provides a similar scenario.

Antecedents of the Great Depression

It is history itself that shows us that the great booms and busts of yesteryear from Tulipomania to the Mississippi Bubble all involved government initiated manias, and included some sort of government generated money. The Great Depression itself, triggered by British and American money policy can be attributed to this sort of mechanism as well.

In a 2007 paper, UCLA economics professor Earl A. Thompson … provides another explanation for Dutch tulip mania. The Dutch parliament was considering a decree (originally sponsored by Dutch tulip investors who had lost money because of a German setback in the Thirty Years' War) that changed the way tulip contracts functioned: On February 24, 1637, the self-regulating guild of Dutch florists, in a decision that was later ratified by the Dutch Parliament, announced that all futures contracts written after November 30, 1636 and before the re-opening of the cash market in the early Spring, were to be interpreted as option contracts. They did this by simply relieving the futures buyers of the obligation to buy the future tulips, forcing them merely to compensate the sellers with a small fixed percentage of the contract price. Before this parliamentary decree, the purchaser of a tulip contract—known in modern finance as a futures contract—was legally obliged to buy the bulbs. The decree changed the nature of these contracts, so that if the current market price fell, the purchaser could opt to pay a penalty and forgo receipt of the bulb, rather than pay the full contracted price. This change in law meant that, in

modern terminology, the futures contracts had been transformed into options contracts. … Thompson states that actual sales of tulip bulbs remained at ordinary levels throughout the period. Thus, Thompson concludes that the "mania" was a rational response to changes in contractual obligations. Using data about the specific payoffs present in the futures and option contracts, Thompson argues that tulip bulb contract prices hewed closely to what a rational economic model would dictate, "Tulip contract prices before, during, and after the 'tulipmania' appear to provide a remarkable illustration of 'market efficiency'." (Wikipedia)

In fact, the Great Depression, according to free-market economic analysis, probably would not have occurred without the creation of the American central bank in 1913. The American central bank provided the necessary leverage for financial dealings between Britain and America after the war. Britain's currency was gravely devalued by the First World War and necessary military outlays.

According to such free-market economists as Murray Rothbard and G. Edward Griffin, British leaders sought to return the pound to its pre-war glory. In order to do so, they approached American monetary authorities and requested that they devalue the dollar so as to positively affect the pound's value. As a result of the scheme, American monetary authorities began to print more dollars, eventually creating what is known today as the Roaring Twenties. Most people associate the Roaring Twenties with a great industrial boom, but in fact, the boom was of a monetary nature.

By 1929, the boom was on its last legs. Stock markets in America and around the world were over-extended and eventually equities began to move the other way. While the proximate trigger may be debatable, there is no doubt that after a certain point almost any regulatory or financial destabilization could have provided the necessary impetus. It was the over-extension generated by the British-American monetary pact that caused the great boom – and the subsequent bust was preordained.

The Aftermath

While the Great Depression itself was a result of the monetary stimulation that preceded it, we can see today with the advantage of hindsight that the American political process only aggravated the downturn. Franklin Delano Roosevelt's New Deal programs interfered with the purgative process that is necessary once a boom has turned to a bust. As a result of governmental job creation and regulatory interference, the aftermath of the 1920s boom extended nearly a decade.

The modern analysis of Roosevelt's participation in lengthening the Great Depression has been buttressed by Amity Shlaes recent book, The Forgotten Man: A New History of the Great Depression. Conservative Newt Gingrich writes of it, "This is a remarkable book which will forever change your understanding of the Great Depression, Franklin Delano Roosevelt's role and the lessons to be learned from government intervention. Amity Shlaes makes a compelling case that Hoover and Roosevelt actually lengthened the Depression. They did this, Shlaes argues, by following bad monetary policy, which further deflated the currency, and by raising tariff barriers, which broke up world trade and reduced economic activity everywhere." (Amazon review)

Initially, it is said (according to Shlaes and others), the American economy began to recover in the early 1930s and the stock market began to recover as well. But then Roosevelt's various regulatory and industrial programs began to take effect. The result was that capital and manpower were diverted from the private sector and was not therefore available to fuel new private initiatives.

Additionally, various Draconian regulatory efforts were launched which further stifled any potential private market resurgence. While Roosevelt's approach has been deified in statist history books, the reception of his programs was actually not so positive at the time. By 1938, Roosevelt was most unpopular and if not for the advent of the Second World War it is likely, according to modern reports that he would have been turned out of office.

Monetarist View

The monetarist (Friedmanite) anlaysis of the Great Depression doesn't deal with Roosevelt's regulatory regime. However, it recognizes a dominant role of central banking. postulating that the market crash itself was triggered in part by a tightening of loose credit in 1929 – and then a wave of bank panics. This analysis has eerie parallels today in that some of the blame for the initial crisis was said to lie with Bernanke who raised rates aggressively in the mid-2000s. This caused defaults in the mortgage market among so-called sub-prime borrowers who could no longer afford their mortgages after the higher resets.

While this may well be the case, it is only the proximate trigger. Tightening is in fact a necessary concomitant of monetary policy and may be brought on by an obvious overabundance of animal spirits as regards enterprises and market performance. It is the business cycle itself that creates first the boom and then the bust. Regulations, rate hikes – these are explanations for the mechanics of the cycle. But lacking the cycle itself these items would have little or not impact. It is the act of artificial money creation that grandly inflates the bubble and then leads to the inevitable deflation.

According to Friedman, the Fed made further mistakes as regards the Great Depression by continually tightening the money supply in the 1930s. This, he claims, was the result of misunderstanding the relationship of the Fed to the money supply. In classical economics (pre-central banking) the money supply tended to decrease during a time of economic contraction, so central bankers attempted to mimic this effect by tightening on their own. The result, Friedman says, was disastrous. Economic activity which could have been stimulated by a loose monetary policy, seized up.

A drastic fall in the money supply inevitably led to a massive decrease in aggregate demand. People's savings were wiped out so their natural response was to save more to compensate, leading to plummeting consumption spending. Naturally, total economic output also fell dramatically: GDP was 29 percent lower in 1933 than in 1929. And the unemployment rate hit its historic high of 25 percent in 1933. Friedman and Schwartz argued that all this was due to the Fed's failure to carry out its assigned role as the lender of last resort. Rather than providing liquidity through loans, the Fed just watched as banks dropped like flies, seemingly oblivious to the effect this would have on the money supply. The Fed could have offset the decrease created by bank failures by engaging in bond purchases, but it did not. As Milton and Rose Friedman wrote in Free to Choose: The [Federal Reserve] System could have provided a far better solution by engaging in large-scale open market purchases of government

bonds. That would have provided banks with additional cash to meet the demands of their depositors. That would have ended—or at least sharply reduced—the stream of bank failures and have prevented the public's attempted conversion of deposits into currency from reducing the quantity of money. Unfortunately, the Fed's actions were hesitant and small. In the main, it stood idly by and let the crisis take its course; a pattern of behavior that was to be repeated again and again during the next two years. According to Friedman and Schwartz, this was a complete abdication of the Fed's core responsibilities—responsibilities it had taken away from the commercial bank clearinghouses that had acted to mitigate panics before 1914—and was the primary cause of the Great Depression. (The Freeman – The Great Depression According to Milton Friedman)

When aggravated by Roosevelt's regulatory overlay and a massive government jobs program, the economy was effectively stifled in America especially, and did not truly recover until after the Second World War.

Bernanke's Approach

As a student of the Great Depression, Ben Bernanke has claimed that he has taken away two lessons from the central bank responses to that disastrous epoch. First, he has aggressively loosened the money supply – and second he has done so very quickly, attacking the problem with vigor and firmness.

Of course perhaps Bernanke and the nation would have been better off if he had not raised rates so aggressively to begin with, but ultimately this probably would not have mattered. The bubble economy has likely been building for 30 years, and thus any misstep would have punctured it. Bernanke provided the precedent, but lacking his aggressive rate hikes, something else may have come along instead: an oil price shock, a war or even some sort of derivatives disaster and subsequent bankruptcy.

To date, Bernanke has received praise, especially within the mainstream press, for his actions which are said to have lifted the spirits of investors and eventually the stock market. This in turn has begun to stimulate the economy itself and finally the employment market. In addition to Bernanke's policies, the activities of the Obama administration have come in for praise as well. The large government stimulus package is said to have laid the groundwork for additional economic stimulation.

The Mainstream Meme and its Critics

The storyline in the mainstream media is quite clear. There was an economic crisis brought on by the subprime crisis, which was engendered by the greed of Wall Street and unregulated hedge funds. The reaction of governmental forces via budgetary provisions for job creation and the aggressive liquidity provided by central banks helped ameliorate the situation and has put the Western World's economies back on track.

There is a good deal of parallelism here, given that this is the mainstream back story to how the Depression happened as well, and how it was ultimately defeated. According to this back story, as we

have seen above, the Depression itself – caused by Wall Street speculators – was effectively combated by Roosevelt's New Deal programs and the job creation that was led by the Federal Government.

While this meme is the one that the monetary elite would prefer to have presented in lieu of any other, the Internet and its free-market denizens have provided an entirely different narrative. This narrative explains that booms and busts are inherent to a central banking led economy and that any further monetary stimulation or bailouts of companies affected by the eventual shake out only retards the eventual recovery.

The logic is simple and based on the distortions that an over-abundance of money introduces into the economy. By printing too much money, central banks inevitably create booms that lead to monetary mal-investment. After the boom has turned to a bust it is imperative that the mal-investments be liquidated. These are enterprises that seemed logical during a boom but that are actually the result of misperceptions caused by the boom. If the mal-investments are not liquidated, then the economy cannot truly recover as money that would fuel the recovery is instead diverted to supporting failed initiatives. This is how Japan stumbled into its "lost decade" – propping up so called zombie banks and other enterprises that eventually collapsed, but only after additional years of agonizing support.

The Monetarist Misunderstanding

The current economic crisis has provided valuable insight when it comes to analyzing the Great Depression and drawing conclusions germane to both events. What is perhaps most interesting is that many of Friedman's conclusions have not really stood up. When one examines the monetarist argument in all its complexity, several factors emerge that militate against what might seem, absent real life examples, to be compelling arguments.

Monetarists like Friedman make the argument that the Great Depression was brought about by Fed expansion and then contraction of the money supply. While this may be accurate so far as it goes, we can see from the current crisis that such events are inevitable and are a result of the central banking mechanism itself. We have had first a boom and then a bust – even though the actions of central banks, or at least the rhetoric, may be construed as much different than during the Great Depression.

There is a corollary point here, which is that both the Great Depression and the current economic crisis were worldwide phenomena. Thus it cannot be said that any local monetary phenomena influenced either monetary debacle. It is likely the business cycle itself that brings on these occasional disasters, not a specific regulatory onslaught or an ill-advised tightening.

What else has the current crisis taught us? Probably it has given us the answer to the question of whether the Great Depression was brought on and extended by deflation or whether there were other causes. In fact there is conflicting evidence when it comes to the extent of the price deflation that took place in the 1930s, certainly in America. Not only that, but we have seen the same phenomenon in the 21st century during the current crisis. There has been a good deal of deleveraging of prices, especially housing prices. Hindsight may choose to call this deflation, but those who live through it will understand that it is the aftereffect of a housing price boom, not the aftereffect directly of additional monetary policy.

Central banks around the world have been generous with liquidity to counteract the effect of the crisis. Bernanke in particular has been aggressive when it comes to applying the lessons he has drawn from studying the Great Depression and its aftermath. There are however, three additional points to be made about Bernanke's conclusions. First of all, the mass of liquidity dumped into the system may not work in the long run because it will spark price inflation that central banks will have to respond to with interest rate hikes and other economy killing measures. Second, aggressive liquidity measures, when combined with governmental expenditures have merely propped up the detritus of the punctured bubble, those mal-invested enterprises that will be a drag on Western economies for years to come. Third, aggressive expansion of the money supply may not spark recovery because electronic money can easily become trapped in bank vaults (so to speak) and never get lent out. In such situations, combined with a downturn, it is fairly easy for the money supply to cease its growth or even contract. Thus we can see monetary expansion can exist simultaneously with a real-time deflation.

Conclusion

Free market economists such as Murray Rothbard who laid the stock market crash and the Depression at the feet of the central bank induced business cycle seem to have "got it right" after all. We can see from the perch of this newest crisis that history has repeated itself and that Bernanke's lessons may not prove anymore valuable in the near future than what came before.

By dumping money aggressively into the system, Bernanke has liquefied the current crisis but laid the groundwork for additional recovery-killing tightening or a large uptick in both real and price inflation (as banks disgorge their electronic money) which could even lead to hyperinflation. Additionally, central banking liquidity has propped up elements of the bubble that may now lay claim to precious resources that would otherwise be used to create new businesses and enterprises that would lead the way out of the crisis.

Ultimately what this crisis may be teaching us is that the business cycle has its own ineluctable logic. Just as in the 1930s, we have seen both inflationary and deflationary trends (from a monetary and price perspective). And just as in the 1920s, the various efforts by banking and political leader will likely have the effect of vastly prolonging what would otherwise have been a brutal but brief depression.

Much the same sort of elements were present in the 1970s, though not in such an exaggerated fashion. What did mark the 1970s economic downturn was the advent of stagflation that initially indicated the validity of the free market argument. The inflationary efforts of central banks during the current crisis have been far more aggressive, even than they were in the 1970s, and thus there is every reason to expect that eventually the inflationary result shall be more aggressive as well.

For those interested in investing during such tumultuous times, the only tried and true vehicle may be precious metals. There is evidence that precious metals would have proved a good investment during the 1930s had governments not brought pressure on citizens to reduce their holdings. Roosevelt went so far as to ban the use of gold as money in the 1930s and silver had been demonetized in America in the 1800s.

Data about gold and silver mining stocks, while sketchy, seems to show that such stocks were among the few that had long term uptrends during the 1930s. In any event, while confiscation remains a possibility, many free-market thinkers are buying gold and silver today because the evidence continues to point to an inflationary blow-off at some point before the business cycle turns again.

This is yet another point that Friedman doesn't seem to deal with. He postulates that a steady-state central bank that feeds just a little money into the economy would prove efficient and productive. What is lost in Friedman's argument is why he feels the need to justify central banking at all. In the end, the monetarist argument seems more of an apologia for central banking than a considered analysis of what really occurs in an economy that offers up a money monopoly to a handful of individuals. That the cycle has continually repeated itself with greater or lesser urgency on a regular basis shows the supremacy of the free-market model.

The Great Depression was not anomalous. Arguments about inflation and deflation (especially from a price perspective) are essentially puerile, or at least beside-the-point. Business cycles do in fact proceed from liquidity event to liquidity event, especially in the modern age. Deleveraging and even deflation may occur, or seem to occur, but price inflation is ultimately more dangerous. Money metals – for the savvy investor anyway – are the solution. Buying and holding gold and silver may prove a satisfactory solution, especially when the world's monetary system faces the kinds of uncertainty that it does late in the first decade of the 2000s.

NOTES

- Wikipedia – Ben Bernanke
- AP – Anatomy of an Economic Meltdown
- Investopedia – The Business Cycle
- Wikipedia – History of Tulipomania
- The Freeman – The Great Depression According to Milton Friedman

Copyright © Appenzeller Business Press • Distribution for NON-COMMERCIAL USE only

APPENZELLER BUSINESS PRESS AG
Appenzell Ausserrhoden, Switzerland
www.ARBP.ch

Welcome to the Intersection of Free-Market Economics and Investment Profitability

My name is Albert Kessler and I am proud to be the chairman of one of the most unique publishing houses in all the world, Appenzeller Business Press AG (ARBP). ARBP is located in the scenic Swiss region of Appenzell - one of the last bastions of free market thinking, culture and tradition. Appenzell is renowned for its free market traditions, respect for personal liberty, rejection of government intervention and reverence for Austrian economic principles.

Still to this day, Appenzellers gather each year in the village square to take part in one of the world's oldest and purest forms of direct democracy, the Landsgemeinde. It's a centuries old tradition that happens just minutes from our offices. Eligible citizens meet openly in the village square to decide on laws and expenditures by the council. Everyone can debate a question. And those in favor of an issue signify their vote by simply raising their arm in the air for all to see.

In that same tradition, ARBP is dedicated to supporting savvy and hardworking people who fully realize the danger of blindly entrusting their own welfare to government. We do this with publications and tools we create to help support investors and entrepreneurs who still believe in privacy, personal responsibility and personal freedom.

Each service we offer is based on Austrian economic principles. These principles, developed by Ludwig von Mises and Frederich Hayek, have proven over time to reflect human nature, the real world and economic progress.

For investors, these free market principles help us understand the business cycle, the investment and economic results of government involvement in the economy and how investment and cash flows react to geopolitical events. This results in an investment advantage, an early forecasting and early warning system for investors. Ultimately, investors find greater profitability and safety.

By creating products designed to support liberty and economic freedom, we like to think ARBP is offering people around the world an opportunity to have a voice in their own Landsgemeinde—just as their like-minded friends in Appenzell.

Freedom works in all cultures and countries. Free market economics can help all people prosper. That is why we try hard to support freedom and free enterprise around the world.

Sincerely,

Albert Kessler
Chairman, Appenzeller Business Press AG

P.S. Thank you for taking the time to read through this Special Report. We are confident you find many practical ideas and useful solutions that can help empower you to a make better informed social, political and financial decisions.