Friedman LuVed Greenspan
Greenspan "caused" the Meltdown
Friedman was an Idiot

I have written previously about my readings of and dislike for **Milton Friedman** and his gangs' economic policies. Of their interference with foreign country's economies, on behalf of designed subservience to the USA and its control of the IMF, World Bank etc, but I also find it interesting to think about what he would say about the current economic situation, if he hadn't died in 2006?

Milton Friedman preached that the Federal Reserve Board can control inflation by keeping a tight lid on the money supply. Others argued that following this policy would keep interest rates artificially high stifling the growth of the economy. He disagreed.

When the dot.com bubble burst, Friedman dictated that the Federal Reserve should temporarily pour in money to cushion the economy using the Great Depression as an example: **M**ilton **F**riedman- When the "bubble burst" in 1929, from peak to trough, the equities market lost about 80% of its value over about 3 years. I believe that if the Federal Reserve had followed "correct" policy, the market would have bottomed sooner and not fallen so far. How much money and how long to pour it in is tricky to figure out.

Hoover Institution's **Peter Robinson** interview by with **MF**, March 10, 2000:

Milton **F**riedman: In the 1920s the big technological development was in automobiles and electricity. In the middle of the '20s there were dozens of IPOs of automobile companies almost every year coming out. There were hundreds of automobile companies started, of which only a small number, of course, survived.

The second thing that people say is well, now, we have a good monetary policy. We don't have to worry about inflation. In the 1920s you had exactly the same argument. Because the Federal Reserve which had been established in '14 had started to learn how to run things, and from 1923 to 1928 it did an extremely good job and PR: ices were very stable.

Peter **R**obinson: From 1923 to '28, so there were five golden years.

MF: Right, prices were very stable. People talk about the change in the industrial composition, all the mergers and so on. It was a big merger movement in the 1920s. Indeed, Irving Fisher who was the greatest economist of the time, gave a talk the night before Bloody Thursday or whatever the day was in '29, in which he talked about all of these elements.

Every single element in there you can find in today's, in which he included in talking about how the stock market was in for a long good run. He lost his shirt on it. But he was a great economist, and in a way, I don't think he was wrong. Because you would not have had the terrible debacle if the Federal Reserve hadn't behaved very badly. And it never occurred to him that the Federal Reserve would behave that badly.

PR: Well, we better go into that for a moment. So the Great Depression was the fault of the Fed?

MF: That's right. Now the stock market–I'm not saying that the stock market collapse was the fault of the Fed.

PR: That was a genuine bubble.

MF: The Fed may have contributed to it, but it was primarily a genuine bubble. And it was a bubble that was stimulated, a boom, the boom market of the 20s was stimulated by exactly the same kind of forces that have been stimulating our present bull market, technological development–

PR: So there were real change–real changes in the economy, that were indeed impressive–

MF: That's right.

PR: They were objectively taking place; that wasn't nonsense. But the bubble–now you'd better actually define what you mean by a bubble?

MF: I don't know that I want to talk about a bubble. I want to talk about a bull market that gets very high and then is reversed and comes down again. We've had three comparable bull markets since the '20s. We've had the '20s in the United States, we've had the '80s in Japan, and the '90s in the United States. And if you pluck them one on top of the other they almost coincide, they have exactly the same pattern.

So if this is new, the '80s was new, if that was new, the '20s are new.

PR: So we're inching our way toward the edge of the precipice?

MF: No, that's a different question. What happens after–no doubt such a bull market tends to overshoot. By how much and when, those are much more difficult questions. And especially by how much, because that partly depends on what happens after the bull market breaks. In the United States, in the three years after the bull market broke–

PR: In '29.

MF: '29, from '29 to '32 or '33, the Federal Reserve permitted or forced the stock of money to go down by a third. For every $100 in existence in money–I'm now talking about bank deposits and currency in your pocket–for every $100 in existence in 1929, there were only $67 in 1933. And as a result, when that collapsed, I think it was a decline of 80 percent.

And even the Fed has learned from experience. And I believe that the performance of the Fed under Mr. Greenspan has been better than any prior chairman. You may know personally I'm in favor of abolishing the Fed.

PR: Yes, I know. I know. I'm going to get to that.

MF: I would rather substitute a computer for it.

PR: Okay. Now, 1920–excuse me, 1929, the bubble burst. Equity markets in this country collapsed 80 percent.

MF: Now, hold on, go slowly. In 1929 when it burst, they did not collapse 80 percent. It was 80 percent over the course of the next three years. In fact by early 1930, the market had almost recovered from the collapse in October.

PR: So let me rephrase it then. From peak to trough, recognizing that some years elapsed, but from peak to trough the equity market fell 80 percent–

MF: The reason I think I emphasize this is because I believe if the Federal Reserve had followed correct policy, the bottom of the market would have come in '30 or '31 rather than '33, and would have been nothing like 80 percent below what it was.

PR: So you're anticipating my question. So from '29 to '33 we drop 80 percent. In Japan when the bubble bursts, the equity market drops about half. Now the bubble bursts sometime here in the United States–

MF: We'll have to see what the Federal Reserve does afterwards.

PR: What should it do?

MF: What it should do–

PR: Note to Alan Greenspan.

MF: Alan Greenspan doesn't need a note. He understands monetary affairs every bit as much as I do. But I will tell you what he will do. Not what he should do, but what he will do, is exactly what he did in 1988, '87, when you had the stock market decline, the big decline.

PR: Right about 25 percent in a couple of days.

MF: That's right. He poured in money. He had the Federal Reserve follow a very easy money policy. And that's what he will do again if the market tanks. Not indefinitely, but for a time, to give it some cushion.

PR: The Fed knows now, we know now, what to do in the case of a serious fall.

MF: Well, when I say, we know what to do, I don't mean to suggest it's an easy and obvious thing. How much? How rapidly? When do you overdo it? Do you move the economy into–see, you have to be careful. You don't want to restart the bubble.

PR: So this is not like having a computer all set up to do it and all you have to do is push the button. This is complicated tricky business.

MF: My computer set-up instead of the Fed would be for the long term purpose, and would eliminate all of this fine-tuning, we'd have none of this. We'd simply have the quantity of money go up regularly, day by day, week by week.

PR: Even in the event of a market fall-off? You would make no adjustment?

MF: No adjustment. Because adjustments–there are times when the adjustment is desired and good. But if you look over the record of the Federal Reserve over its whole history, its done harm more often than its done good. There are only a few periods–'23 to '28, as it happens is one of them, and the recent few years is another. But if you tally the number of years in which they behaved in a way that I would score as excellent, or in a way which I would score as terrible, the terrible years greatly outnumber the excellent years.

The price you pay for a big Depression like '29 to '33 cannot be redeemed by softening the effect of the '87 stock market collapse.

MF: The Federal Reserve has never had control of the stock market. But it has as much control over the economy as a whole, over the monetary growth of the economy as a whole, as it ever had. Nothing in this new economy that in anyway at all reduces the powers of the Fed.

Now of course when I say that, I think that the market enormously overestimated the powers of the Fed, that they attribute to Greenspan a capacity to fine-tune anything in the world that he does not have. And that's a source of danger, because what affects price level is partly what people expect the price level to be; price expectations. And at the moment there is so much confidence in Greenspan's handling of the economy–

PR: Leave it to Alan.

MF: Right, that people are forming price expectations that it is very hard to see as realistic.

PR: MF, thank you very much.

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