“Easy Money and the Decapitalization of America” – Cato

Future of Money, History of Money, Policy Papers — By Tom Duncan on February 17, 2011 at 9:39 AM

“Federal Reserve monetary policy over the past 15 years or so has produced bubble after bubble,and each bubble (or each group of contemporaneous bubbles) is bigger in aggregate and more damaging than the one that preceded it. Each bubble destroys part of the capital stock by diverting capital into economically unjustified uses—artificially low interest rates make investments appear more profitable than they really are, and this is especially so for investments with long-term horizons: that is, in Austrian terms, there is an artificial lengthening of the investment horizon. These distortions and resulting losses are magnified further once a bubble takes hold and inflicts its damage, too: the end result is a lot of ruined investors and “bubble blight”—massive overcapacity in the sectors affected. This has happened again and again, in one sector after another: tech, real estate, Treasuries, and now financial stocks, junk bonds, and commodities—and the same policy also helps to spawn bubbles overseas, mostly notably in emerging markets right now.” Read more.

“Easy Money and the Decapitalization of America”
Kevin Dowd and Mark Hutchinson
Cato Policy Report, Volume 33, Number 1, January/February 2011.
Via the Cato Institute.

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