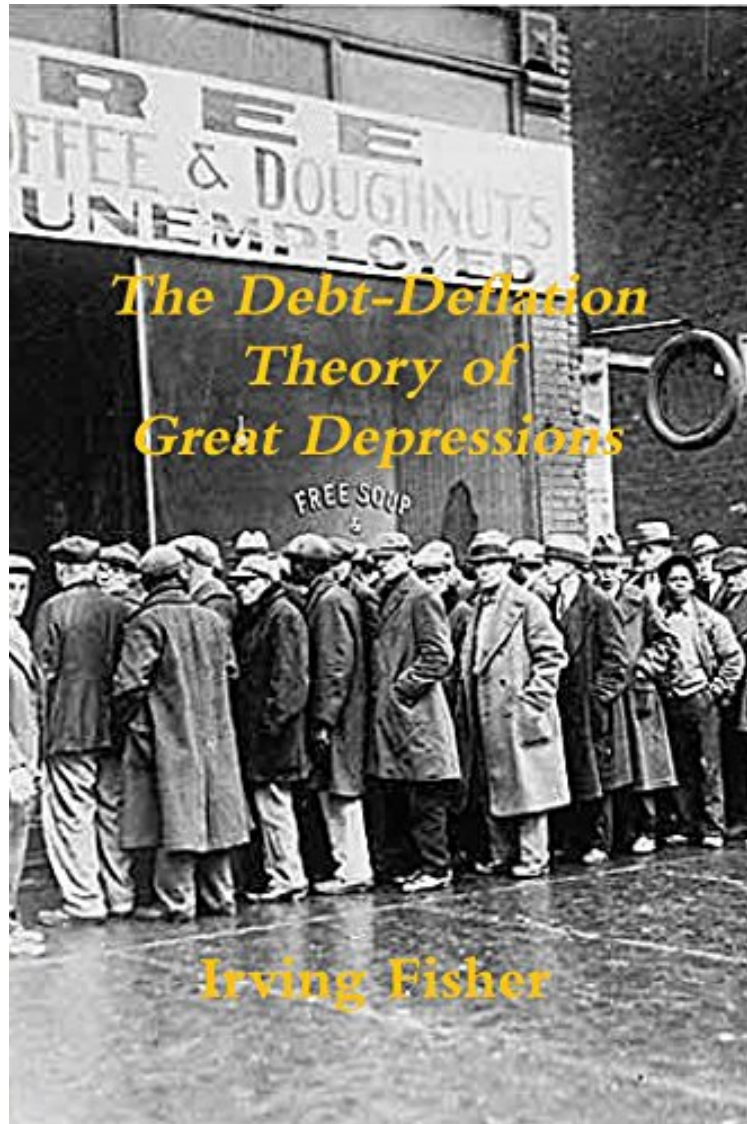


The Debt-Deflation Theory of Great Depressions

Irving Fisher

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Irving Fisher : The Debt-Deflation Theory of Great Depressions before purchasing it in order to gage whether or not it would be worth my time, and all praised The Debt-Deflation Theory of Great Depressions:

76 of 78 people found the following review helpful. One of the most insightful books about the current financial crisis was written in 1933!By AbacusIrving Fisher's Debt-Deflation Theory was so prescient vs what occurred 75 years later. This short book written in 1933 is more insightful about the cause of the recent financial crisis than the majority of the current books written after it.The main points of his theory are that the drivers of depressions and financial crisis are over-indebtedness and ensuing deflation as borrowers eventually default and creditors have to resell their collateral at

liquidation prices. Fisher also argued that at any point in time at least one economic activity (production, consumption, savings, investments) is in a state of disequilibrium. Economies are nearly always over- or under- doing something (whether it is investing in a specific sector, or producing in another, or whether it is overall consumer demand or savings, etc...). And, eventually one of those market driven disturbances is related to over-indebtedness followed by deflation resulting in another cycle of bubble and crash. This is a vicious cycle because during deflation collateral (asset) prices go down; meanwhile debt outstanding does not. This leads to borrowers defaults and creditors capital write downs. It also leads to contracting credit, income, earnings, demand, GDP, and employment. Fisher's disequilibrium is a foundational concept for John Maynard Keynes' *The General Theory of Employment, Interest, and Money* (Great Minds Series) published in 1936. Keynes expressed that a market economy is typically in a chronic state of disequilibrium. Thus, a market economy needs to be managed through expansive or contracting fiscal policies (generating Budget Deficits during recessions and Budget Surpluses during expansions). Keynes considered Fisher "the great grandparent" of "The General Theory..." For Fisher, over-indebtedness was a main cause of severe contractions. And, he differentiated between the economic disequilibriums with or without over-indebtedness. The ones with over-indebtedness are the ones causing the likes of the Great Depression. The ones without are more benign. We can observe that in modern times. The abrupt stock market crash in October 1929, in the absence of over-indebtedness, hardly left a footprint on the economy. Meanwhile, over-indebtedness proved lethal in our current housing/financial crisis. Hyman Minsky is another famous economist who fully credits Fisher. As stated in his *Stabilizing an Unstable Economy* Minsky advances that the credit cycle chronically exacerbates the business cycle. Minsky's theory means that while a sector is booming, creditors are only too eager to lend leading to bubbles. While, when the bubble breaks creditors are now too eager to eliminate credit. By doing so, the creditors exacerbate both the up and down swings of the overall economy. Minsky's theory is a direct ramification from Fisher's Debt-Deflation Theory. Also, both economists made the exact same distinction between economic disequilibriums with or without over-indebtedness. Ever since our current housing/financial crisis Minsky has enjoyed a much renewed legacy. Hopefully, the 2010 publication of this short but seminal book will contribute to Fisher becoming fully recognized for his prescience regarding our current financial crisis.

1 of 1 people found the following review helpful. Important Paper, Bad Edition
By J. Edgar Mihelic, MBA
The version I have is a version put out by "ThaiSunset Publications". It includes the paper, which is a very important paper in terms of the history of economic thought, and it includes some poorly reproduced graphs that Fisher talks about in the paper. It is also fleshed out with a biographical note that might have come from anywhere - pedia. I didn't catch out any glaring inconsistencies in the history. My guess is that you can get this somewhere else for less. Even with all the padding, my copy is just over a hundred pages. One more thing. Yes, Fisher might be most famous in our time for being the prominent economist who claimed before the 1929 crash that stock prices had reached a permanently high plateau. He was wrong on that call. But prior to that and after that he did a lot of important theoretical work that should be his legacy. At the very least he invented some data storage techniques that made him a rich man. So, the paper shows the mechanism how debt leads to great depressions. Prefigures Keynes "General Theory," and should be in your bag of tricks. Maybe just not the edition I have.

0 of 0 people found the following review helpful. The key to understanding the Fed's money-pumping agenda
By Mr. Ian W. Williams
Yale University economics professor Irving Fisher lost up to \$10 million after having famously predicted "stock prices had reached a permanently high plateau" in September 1929, just in the lead up to the Great Crash. Despite this he is still regarded as one of America's premier economists. Professor Irving set about analysing the causes of this financial catastrophe and published this work in 1933. It is one of his many great contributions to economic theory. This short book offers a good theoretical basis for how debt-fuelled speculation in markets, particularly the sharemarket, leads to a deepening depression if a fall in market values leads to deflation - resulting a spiral of declining asset prices. This little book is reasonably easy to understand and is useful for anyone, particularly investors, wanting to understand the thought processes of Government policy makers. You can find the book as a PDF on the internet, but I found it much easier to take in as a printed version. After the sub-prime mortgage crisis of 2008 until now, the Fed has been acting on the implications of Professor Irving's debt and deflation warning. We have all been living through one of the most important economic experiments in history. The story is not over yet - we hope it ends well!

This book is for anyone interested in understanding the failure of the economic policies which are today destroying the U.S. economy and most of the world economies. The credit crunch today is not destroying capital but recognising that capital was destroyed by misallocation in the years of irrational exuberance. If that is so, then we are entering a spiral of debt deflation that will play out slowly for years to come. To understand how that works, we turn to Professor Irving Fisher of Yale and this book of his.