Current Scholarship

State Building for a Free Market: The Great Depression and the Rise of Monetary Orthodoxy

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The U.S. government transformed American finance between 1913 and 1935 by assuming extraordinary new powers over the banking sector and the money supply. And the government's actions were reliably controversial. Beginning soon after the Federal Reserve began operations and lasting through the reforms that restructured the institution during the New Deal, critics warned that federal overreach in financial markets posed an existential threat to the free-enterprise system. But critics were silenced, in the end, by an argument about money—about its origins, nature, and relationship to the productive process—that helped reconcile contemporaries to the government's new authority. Moreover, that view of money—today's "monetary orthodoxy"—has long been foundational to scholarship on financial history and policy. For this reason, the early twentieth-century debate over the Federal Reserve's powers has fundamentally shaped our understanding of state building in the United States. It helped produce a broad consensus about banking and public policy that has prevented scholars from reckoning with some of the federal government's most powerful tools for driving economic growth and allocating its benefits. The first quarter century of central banking in the United States prompted a series of political and scholarly contests that together helped codify enduring myths about money.

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