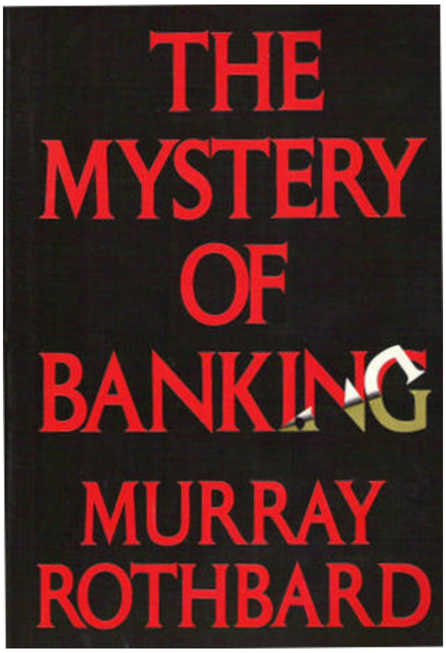

The Mystery of Banking

Murray N. Rothbard

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Talk about great timing. Rothbard's extraordinary book unravels the mystery of banking: what is legitimate enterprise and what is a government-backed shell game that can't last. His explanation is clear enough for anyone to follow and yet precise and rigorous enough to be the best, textbook for college classes on the topic. This is because its expositional clarity--in its hitosry and theory--is essentially unrivaled.

Most notably, he uses the T account method of explaining the relationship between deposits and loans, showing the inherent instability of fractional reserve banking and how it sets the stage for centralization, inflation, and the boost-bust cycle.

But there is more here. It is an explanation of money's origins and its meaning in the free market. The abstract theory is here but always with real application in history and in modern banking practice. Never does a paragraph go by without an example drawn from his massive knowledge of the subject.

The Mystery of Banking Details

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ISBN	:	9780943940045
Author	:	Murray N. Rothbard
Format	:	Hardcover 286 pages
Genre	:	Economics, Finance, Banking, History, Nonfiction, Business

From Reader Review The Mystery of Banking for online ebook

M00nlight says

Highly recommended

Vinh Nguyen says

I'm going to copy a review of this book from my original article at
http://blogmyway.com/bookreviews/2011....

“The Mystery of Banking” by Murray N. Rothbard inclines toward the idealism of free banking, and it insists that fractional reserve banking system is the force behind perpetual boom and bust cycle of inflationary economies where banks are likely to find themselves in bankruptcy and requiring bailouts from central banks, in our case it would be the Federal Reserve. Whether you and I even care or want to believe in a free banking system, this book is still a great read for us since it’s so good at explaining the inner workings of our modern fractional reserve banking system. To clarify if you misread, free banking isn’t the same as fractional reserve banking, and this book supports the ideal of free banking system. I surmise even a person who has the most naive perspectives on economy and banking in general will be able to eventually understand fully of the important roles of the FED, the fractional reserve banking system, the money supply, the demand and supply of the money supply, the inflation and deflation, loan and depositing banking, and open market operations; by then this person probably has the idea why the media and so many other entities pay close attention to what the FED will do next.

Going beyond the technical side of things, this book also delves into history of how central banks got started. It also refers several times about how paper money got started such as it was started very early in China. The book isn’t too hard to read in general, and mostly in words rather than math. If I’m correct, this book was written 25 years ago, but through the efforts of Lew Rockwell and the staff of Ludwig Von Mises Institute that this book is revived in this modern form. I have no idea how extensive the modification had carried out from the original work to arrive at this modern version, but everything in “The Mystery of Banking” is rather surprisingly very relevant, especially for the people who think fractional reserve banking system is to be blamed for recent waves of bankruptcies of reputable commercial and investment banks. This book is great for proponents of gold standard, but like I say the people who aren’t fond of free banking can still appreciate this masterpiece since it’s truly vivid in describing the fractional reserve banking system. By the time I had finished the first half of the book, I was able to know how fractional reserve banking system works its magic; the last half of the book concentrates on the history of the central banks and delivering the conclusion (i.e., how to return to sound money).

Zachary Moore says

A fantastic read for our current times, as yet another bank-credit bubble bursts around us. Rothbard does an excellent job explaining the technicalities of money and banking in a refreshingly readable way. I also found his narrative histories of central banking in Britain and the United States in the later chapters of the book to be immensely informative. The author's steadfast attention to the fact that the bankers and thier friends in government are the chief (and essentially the only) beneficiaries of our currebt financial system also gives one a good sense of exactly who has been behind the crisis-plagues development of our modern economic world.

Erik says

Presents a great argument for a gold standard, free banking, non-fractional banking, and the abolishment of the federal reserve. There is a good exposition of the current fractional banking system, the history leading up to it, and arguments as well as a plan for changes. The author is very biased and sharply critiques other views, without properly explaining opposing positions.

Brannon says

This is a great book. I'm rating it five stars for its content and clarity. It's information that I wish that I would have understood in junior high. It's information that the vast majority of the world never learns. Alas, we are beaten over the head by it daily.

The book begins with a review of supply and demand theory written in a very approachable manor. It then proves that the amount of money in the system is irrelevant as long as its stable. The book then launches into a review of how the modern monetary system is anything but stable.

The book is bold enough to announce that the fractional reserve system is actually counterfeiting -- a very unpopular sentiment. It includes a number of analogies supporting that statement that I quite appreciate.

This book is comparable to "The Creature from Jekyll Island". However, I feel that this book by Rothbard contains more truth and less speculation.

Andrew Skretvedt says

This book is an excellent primer on money, banking, and the concept of monetary systems and policy. It will take anyone with at least a vague recollection of their Econ101 and bring one quickly up to a useful, practical, and serviceable knowledge of banking systems from the perspective of the brilliantly lucid Austrian school.

This book is great, eye-opening, gobsmacking fun for anyone with the curiosity to want to learn what's happening when they deposit funds in their bank, and what's all the fuss you hear on the news when you start hearing about Federal Reserve policy.

Key concepts explored:

Hard money vs. fiat currency (money based on precious metals, gold in particular, vs. paper money with no intrinsic value except that a government as "blessed" it as money)

100% reserve banking vs. fractional-reserve banking

(you'll learn how banks can and do "magically" cause money to be created out of thin air, and now it can equally quickly vanish again if people should stop believing in it, or demand it physically)

Central banking
(This is a big subject. It's an eye opener. It's the lynch-pin to how a government can debase a currency, thereby funding itself, creating inflation, triggering boom and bust cycles, and generally short-shrifting you, in the name of control and stability.)

Supply and demand for money
(This is the key to understanding why what you probably know about inflation and deflation is more than likely wrong.)

A proposal for returning the US to a hard currency, unencumbered by government manipulation, and systematic liquidation of the Federal Reserve System.

The book starts by giving you a short history of money and money systems, then transitions into a few lessons on basic supply and demand and how money is supplied and demanded like anything else. The book explains how supply and demand for money influence supply and demand of the things that money can buy.

This first section is essential to everything that follows. It's perhaps also the most dry in the Ben Stein "Bueler...Bueler" sense. If you're totally green on economics, read this slow and develop an intuitive sense for what's happening in the examples. People recalling their Econ101 will pick up the ball faster. Once you have an intuitive sense, proven to be properly oriented against the examples, feel free to skim and skip into the next sections.

Following sections introduce and develop the other concepts and along the way, pepper you with fascinating historical trivia and facts. Most importantly, the author relates all this knowledge back to you in your real world.

You'll begin to understand how your knowledge of the processes explained is not required for them to operate and give rise to the phenomena seen across the economy. The normal choices made by individuals in isolation as they weigh the benefits of their options is enough. What this book is giving you, then, is the power to understand how these economic forces arise and interplay, and how the landscape changes when factors like fiat paper money, central banking, fractional-reserve banking, and government monetary policy come into play.

The book is fully cited and footnoted, with a complete notes a bibliography section, making it a scholarly, yet still very accessible book. It will serve as idea fodder for those whose curiosity is stoked and wish to learn more.

I recommend this book be read first, along next with Rothbard's "America's Great Depression" as a way to rapidly come up to speed with economic self-interest, free (as in unfettered) market capitalism, and government intervention in an economy.

The parallels with current events as of 2008 and into the new Obama administration commenced in 2009 are erie, and reinforce the folk sayings, "Those who fail to learn from history are condemned to repeat it," and, "History doesn't exactly repeat itself, but it rhymes."

You'll gain the sort of education that will make you a more informed citizen, consumer, employee, and perhaps especially important for the future, voter. With that extra knowledge of how these systems work, you'll have an edge in positioning yourself to make the best of your circumstances.

(For those Peter Schiff devotees and gold investors out there, try plugging in current modern data into the author's Fed. liquidation plan. I did this in 4th quarter 2008 using Fed. data and a current Treasury gold report and was shocked to see that liquidating the Fed. yielded a gold price of more than $5000 an ounce! Just this prospect makes a strong bull case for the long-term value of gold as a way to preserve the value of your labor, and hedge against any destabilizing or harmful government economic policy debacles.)

Hector Combe says

Probably the best analysis out there of fractional reserve banking, the public subsidies granted to private banks, and the devastating effects this has on the economy, .

Essentially, central banking exists to co-ordinate inflation amongst banks in order that natural limits on credit expansion are removed. A central bank can effectively control expansion of the monetary base via reserve requirements and creation of new base money, client commerical banks then pyramid circulating bank credit on top of this. This frees banks from the restraints of the profit-and-loss system by allowing them to create credit out of thin air, instead of being dependent on customer deposits for funds. Once these conditions are achieve they basicaly skim resources out of the economy via the monetary system, rather than serve economic needs by allocating capital efficiently. In the process, these banks spend the new money into the economy, creating a boom, distorting prices and the structure of production towards what the money is spent on, creating the malinvestments and misallocations necesarry for a following readjustment (depression).

There is also a great deal of the history of central banking in England and The US. Rothbard really hit the nail on the head with this one, and while some of the earlier passages are technical and dry, the knowledge and understanding gained by reading this book are invaluable. Rothbard's prose is clear and understandable.

Essential reading for anyone interested in economics and the current recession.

Adrián Sánchez says

Lo bueno de Rothbard es que no solo realiza el análisis desde el punto de vista económico sino que también añade a su análisis algo de descripción de sucesos en la historia, obviamente enfocado en la historia de Estados Unidos donde surgió el keynesianismo, en esta obra describe cómo fue el proceso de centralización bancaria y cómo funcionan las políticas monetarias que salen a partir de éste, además formula su propuesta basada en el patrón oro y el 100% de reserva bancaria. Este libro, a pesar de los años que tiene, aún describe el funcionamiento de las políticas monetarias que utilizan los países con banca centralizada y dinero fiduciario actualmente y se puede captar rápidamente el por qué de las fallas de estas medidas, se puede complementar con What Has Government Done to Our Money? and The Case for the 100 Percent Gold Dollar de este mismo autor y la Teoría del dinero y del crédito de Ludwig von Mises.

Praveen says

Far beyond Economics Textbook...and deeper analysis of Fractional Reserve Banking.

Loránd says

A good overview of the inner workings of fractional reserve banking. The strongest characteristic of this book is that it can be easily understood by just about anyone. Second strongest feature of it is that this edition contains a critique of the book itself, the author readily admits that in treating the free Scottish banking system relied on poorly researched historical data; a truly commendable attitude on the part of the author.

I do recommend this book to anyone interested in learning about the workings of the modern banking system, and *one facet* of its historical development. Unfortunately it suffers from the classic problem of free market proponents: the alternatives are poorly explored at best, and outright misleading at best. The reader should be cautious and take everything herein with a grain of salt.

Justin Tapp says

The Mystery of Banking by Murray N. Rothbard. Austrians have made pretty much all of their books free, which is part of why their ideas are far-reaching.

This book reads like a well-written textbook and has basically three parts:
1) A primer on supply and demand for money. (Those are parts I quoted from in my previous post).
2) An explanation of how fractional reserve banking works.
3) A history of banking in the U.K. and U.S., with some prescriptions to how an ideal Rothbardian system would work.

While Von Mises and Rothbard build and develop from much earlier monetarists, they reach radically different conclusions from them: Any increase in the overall price level is evil. Fractional reserve banking is immoral because it creates something out of nothing. Our modern banking system is built to create inflation to enrich some at the expense of others. Only by returning to a gold standard and eliminating our central bank and all fractional reserve banking can we achieve a completely stable business cycle (utopia with no involuntary unemployment).

Except for these ideas, parts 1 & 2 are similar to any textbook on Money and Banking, or a Principles of Macro text. Part 3 is very jaded, there is a lot of history that Rothbard omits or reinterprets. For example, there was a lot more going into the Panic of 1873 for the U.S. than Jay Cooke's bubble bursting-- the crisis started in Europe, which doesn't get mentioned. That said, there are a lot of interesting facts I was unaware of. I also liked having a Money & Banking text that didn't deal with interest rates at all, everything was in terms of supply and demand for money. That monetarist bent is badly needed in today's world focusing on a mythical "zero bound."

The book really illustrated for me the quixotic nature of the Austrian cause. Since coinage was invented, the makers of those coins have been debasing them in order to profit or inflate away debt. Since people have gotten used to calling their currency the "pound," "dollar," etc. instead of it just being "gold," people don't notice the debasement. But it would take a radical departure from thousands of years of human nature to move people away from this problem, even if currency was "denationalized."

Rothbard compares the fixing of a price of gold as the same as a government determining uniform weights and measures -- a centimeter is the same everywhere. But the value of a centimeter never changes whereas gold-- being a commodity-- sees its value change with supply and demand, which then changes the value of any currency whose price is fixed to it. The Austrians seemingly ignore this. For example, the late 1800s period in the U.S. the population was growing, output was increasing, but gold supplies were not growing so much so the value of gold rose and prices fell. Rothbard would say this is a naturally good thing, lower prices mean people can afford to buy more. But if you're a farmer who has fixed obligations -- contracted workers, a loan from a bank, etc. lower prices means it's much harder to stay in business and not default. (Hence we had a bimetallic inflationist political movement as a result.) Rothbard completely ignores this.

These fluctuations in the value of gold can happen suddenly and unexpectedly. Given so much of the (correct) emphasis that I see Von Mises placing on expectations of entrepreneurs, I find Rothbard's position pretty problematic.

As mentioned in my previous post, Rothbard and Mises acknowledge that prices are often sticky, but have a one-size-fits-all explanation for this that doesn't actually fit everywhere. All weight is put on the evil of prices inflation, no weight is put on the harmful effects of deflation.

I now see the Austrians as on par with the hard-core left-wing Communists who want to issue in a utopia that is impossible due to human nature. The idea that simply by moving to a 100% reserve gold system and moving to anarcho-capitalism will solve all of our ills and make everyone purely rational yet benevolent is pure nonsense. It's odd to me that as such an astute student of history, Rothbard doesn't see the continual "Road to Serfdom"-like cycle that all civilizations have ridden since the Fall of Man.

In the end, there is an Appendix where Rothbard absolutely rips Lawrence White, also an Austrian, for what Rothbard sees as an incorrect interpretation of the history of free banking. Austrians, like Keynesians, have a good reputation for trying to destroy and humiliate those they don't like.

George Selgin, whose Theory of Free Banking will be my next read, is a former Rothbardian disciple who sums it up thus:

Rothbard, on the other hand, was only too determined to identify himself with the Austrian School and, more than that, to both take part in a personality cult, built around von Mises, and attract such a cult himself. One sign of the presence of such a cult is precisely the scorn its members heap on potential rivals to the cult figure.
As a monetary economist (I don't pretend to judge Rothbard's other economic contributions) Rothbard was mediocre to bad. His version of the Austrian business cycle theory was naive--in essence it equated behavior of M consistent with keeping interest rates at their "natural" levels with the elimination of fractional-reserve banking, an equation that holds only with the help of about a dozen auxilliary assumptions, all of which are patently false. He then went on to conjure up an equally false history of banking and of bank contracts designed to square his theory of the cycle, with its implied condemnation of fractional reserve banking, with his libertarian ethics.

As such, I give this book 3 stars out of 5. It's very readable, and you can learn a good deal of history, monetary economics, and how banking works from it. However, if you don't take it with a large grain of salt you may not see the many errors and omissions that cause it to be quite slanted.

Sylvester Kuo says

The Mystery of Banking is a full on attack of the central banking system by Rothbard. Rothbard began with basic concepts such as supply and demand, Says law, gold standard, etc to complex ideas on demand deposit, fiat money, reserve banking etc. While attacking the fiat money, Rothbard explained the history of the finance system and examples on how different systems in the world have drastically different results. A well written book for people interested in basic econometrics.

Clinton says

The Mystery of Banking exposes fractional reserve banking as a highly sophisticated ponzi scheme through practical, theoretical and historical perspectives. It is an inherently fraudulent and inflationary monetary system that is operated by a central bank granted special privilege from government decree. Money is pyramided on top of reserves where credit is arbitrarily created out of thin air and injected into the economy as if it were actual savings. The early holders of the new money benefit at the expense of the rest of society; the most afflicted are fixed income groups because the new money increases demand; thus, it drives up prices also known as inflation.
Money is subject to supply and demand schedules just as any other commodity except money is determined by purchasing power provided by an inverse sloping curve. By increasing the money supply, it adds no more economic value because money can't be exhausted in production or consumption as opposed to increasing the supply of food or water, for money is just a medium of exchange. Furthermore, any supply of money would function adequately just as any other in performing cash balance exchanges; in other words, the supply of money doesn’t matter. Cash balances will always adjust to fluctuating money supplies.
Rothbard depicts how free banking actually averts and limits bank credit inflation while on the other hand, he also explains how central banking removes limitations placed by free banking on bank credit inflation to how total bank reserves are determined as well as how banks pyramid on top of reserves.
It should be no surprise that central banking originated in the United Kingdom where a colluded deal was forged between a near bankrupt English government and a clique of unscrupulous bankers. Throughout the history of central banking, it has perpetually plagued monetary affairs with fraud marked by inflation and periodic crises and panics including numerous suspension of specie payments. The record of central banking in the United States has been poor consisting of multiple failed systems resulting from the same formula as aforementioned.
The Mystery of Banking is an outstanding analysis of the shortcomings and pitbulls of fractional reserve banking perpetrated by central banking. America will suffer with each and every boom and bust cycle permanently until the Federal Reserve is abolished. America must return to a gold standard with full reserve banking. Of all the Austrian economists, Rothbard is my favorite author considering this is my eighth book of his that I have read.

Clarence says

(I actually read this as a PDF.)

This is classic Rothbard. Well written, well within the reach of the average person, and even humorous. Like

What Has Government Done to Our Money?, it's short and sweet. This one quickly covers the concept of money, then gets into how increasingly sophisticated civilization has made it a bit harder to comprehend the actual definition of money supply, and then deals with the meat of the mystery of banking: the conflating of loan banking and deposit banking. There is then talk of the development of central banks, some history of banking in the United States, including the concept of free banking and the observation that it was tried only in name but not in actuality, and lastly, as any such treatment must, ends with a light coverage of the Federal Reserve. Finally, the concluding chapter presents a plan to return the US to sound money.

All of this has been written before, by Rothbard and others, but The Mystery of Banking is an excellent and concise introduction to reality for any of the majority these days that have no understanding of money.

David says

All the things this book says about how the current monetary system is flawed have actually gotten worse with time...

I'd really like to know if there's an updated version of this book.
