

Rule 4 and Lessons from the Great Depression

With all our Yankee inventiveness we may never hope to find a way to spend continuously more than we earn.

—Charles Persons

THE NEXT RULE isn't exactly Minsky's financial instability hypothesis or Austrian business cycle theory, but it's in the same spirit. We'll look at four types of financiers who fund America's borrowing: *foreigners*, the *Fed*, *commercial banks*, and domestic, nonbank investors drawing on *prior domestic saving*. Over any period, we can examine the total amount of borrowing and divide it between those four financing sources with only a small residual. Figure 8.1 shows the breakdown for the last sixty years (omitting the residual for simplicity). The financing sources are important because of the implications for risk, as covered by Rule 4 . . .