

Stretched comparisons

Federal Reserve VP says things aren't nearly as bad as the Great Depression

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Jim Lyon, Federal Reserve Bank of Minneapolis first vice president, addresses members of the Prospera Business Network on Thursday.

The economy is in a deep rut, but it's still a long road away from the economic disaster we now call the Great Depression, Jim Lyon, first vice president for the Federal Reserve Bank of Minneapolis said Thursday.

Although the United States' financial affairs are in worse shape than they have been since the end of World War II, the ramifications are nothing like the widespread unemployment, failing banks and a plummeting stock market of 1929.

"While severe relative to postwar experience, the current recession pales compared to the Great Depression," he told a gathering of Bozeman-area business people Thursday.

For example, he pointed out that the current unemployment rate is 8.5 percent and is predicted to peak at nearly 10 percent before the economy turns around.

Unemployment climaxed at 25 percent during the Great Depression.

Or consider the number of bank failures, he said. Since the beginning of 2008, 57 banks have failed.

When the economy nosedived in the late 1920s, 10,000 of the nation's 25,000 banks collapsed, he said.

Another way to measure the severity of the economic downturn is to look at the market, he said. The Dow has fallen 55 percent, from a high of 14,164 on Oct. 9, 2007, to a low of 6,440 on March 9.

"But as dramatic as that decline has been, it's well short of the more than 90 percent decline that equities markets experienced during the Great Depression," Lyon said.

To further his argument, he then pointed out that the decline in the gross domestic product during previous recessions has ranged from "virtually no decline" in 2001 to as much as 3.7 percent during the 1957 recession.

The GDP has declined 2.4 percent during this recession and could well tumble to 4 percent before things turn around. "If this forecast is realized, the current recession would be not only the longest of the postwar period, but also the most severe in terms of the decline in output," Lyon said.

However, GDP fell 27 percent between 1929 and 1932, during the Great Depression.

And although 3.3 percent of residential mortgages were in default at the end of 2008, some 50 percent of urban homes with mortgages were in default during the Depression.

"So if the current recession is shaping up to be as bad, and in some ways even worse, than anything we have experienced in the postwar period, it perhaps isn't totally surprising that comparisons between current circumstances and the Great Depression have emerged," Lyon said.

"But from my perspective, these comparisons are misplaced. As these statistical comparisons illustrate, as difficult at the current period is, comparisons to the Great Depression are stretched at best," he said.

Lyon went on to outline the Federal Reserve's response to the nation's economic status — providing loans to banks and failing credit markets — and offered some prudently positive remarks about the future.

"At present there are at least some signs that the deterioration in economic conditions is slowing," he said. Some financial institutions that have received help from the Fed have demonstrated "at least tentative signs of improvement."

"Obviously, it is still early and identifying economic turning points is notoriously difficult," he continued. "That said, I am cautiously optimistic that things will have begun to turn around by later this year and that we will see a gradual return to growth in 2010."

The program was presented by Prospera Business Network, a nonprofit economic development organization.

"We feel fortunate to get someone like Jim here to provide that view of the economy from a national perspective," Bob Hietala said, Prospera's chief executive officer. "Certainly it's a difficult time, but it's encouraging to hear from Jim that there's some improvement and stabilization."