Fed exec: It's not the worst of times
Official helps puts U.S. crisis in perspective
By Dave Munday
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A recent Time magazine cover showed the food lines during the Great Depression under the headline "The New Hard Times."

If the idea was to compare then and now, it's not even close, according to Gerald Dwyer, vice president of the Federal Reserve Bank of Atlanta. "There is a lot of overwrought discussion," Dwyer told about 120 business students Friday at the College of Charleston.

Under no credible definition can anybody say we're in a depression now, Dwyer said. The country has only had one depression, and that was the Great Depression of 1929 to 1933, he said. Unemployment skyrocketed to 25 percent, domestic output dropped by a third, and the stock market lost up to 90 percent of its value.

The stock market has fallen in recent months, but unemployment is a little over 6 percent, well below the 10 percent in the 1980s. "This is not even remotely like 1933," he said. "It may be hard times, but it's not that hard."

The likelihood of another depression on that scale is extremely slim and could only occur if the federal government makes a massive number of mistakes in tending to the economy, he said.

During the Great Depression, there was no federal insurance on bank deposits, which is one reason so many people started pulling their money from banks, fueling the financial meltdown. The government made the situation worse by trying to regulate prices and limit imports, as well as raising taxes to reduce the federal debt, he said.

The main problem today is that banks are reluctant to loan to each other because they can't be sure the borrower is solvent, he said. The U.S. Treasury is buying securities from banks to get the money flowing, with the expectation of eventual repayment. That was a major component of the recent bailout plan.

But it may take time for these measures to show some results, he said. "It's going to take a while for all this to work out," he said.

Dwyer declined to predict how long that might be. He acknowledged there is a "financial crisis," and "it's hard to be sure what the effects of that are going to be."

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