



This crisis is not on par with 1929

The headlines of late have compared the current credit crisis with the crash of 1929. Here are five reasons why I disagree with this assessment.

- 1. Bank deposit insurance.** This program was created after the events of 1929. The Federal Deposit Insurance Corporation was set up in 1933 to guarantee the safety of checking and savings deposits. Today, with that insurance in place, the average investor is assured that his or her deposits up to certain amounts are safe.
- 2. Knowledge.** The year 1929 has been very closely studied. U.S. Federal Reserve Board Chairman Ben S. Bernanke made his career and fame as an academic by studying the causes, ramifications, and solutions to the events of 1929. Has he acted on this? He sure has. As head of the central bank, he began cutting rates a year ago, and since then he has implemented very creative and unusual liquidity plans in the United States to help shore up both the economy and the financial system. Under his leadership, we have seen the creation of an extremely decisive and activist Fed.
- 3. A manufacturing versus a service economy.** In 1929 the U.S. economy was much more oriented toward manufacturing, which is cyclical. Today, the economy is service oriented, which tends to be more stable. Federal, state, and local government workers are a big component of our service economy today and make up about 20% of the work force. The number of these workers is increasing not declining. Health care and education, which compose about 8% and 3% to 4% of the economy, respectively, are industries that are not as susceptible to cycles and whose work forces are expanding.
- 4. Farming.** Back in 1929 one in five workers was employed in agriculture. Today that number has declined to 2 out of 100 workers. Back then, irrigation was unsophisticated, and many of the grain-producing states were in the midst of a drought. Given the large numbers of workers employed in farming, unemployment became a problem. We are not experiencing this type of labor crisis today.
- 5. Trade.** During the 1920s and 1930s trade laws were extremely draconian and restrictive. These laws essentially created an environment of tit for tat among various countries. This environment had the effect of restricting trade among nations. We are not experiencing a similar situation today. Trade is flowing very freely compared with that era.

This is not a perfect world, but it is too easy to make dramatic comparisons to a distant age when many of those comparisons are invalid.

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MFSP-SWANSON-NL-9/08 PDF
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