San Marco
MAGAZINE

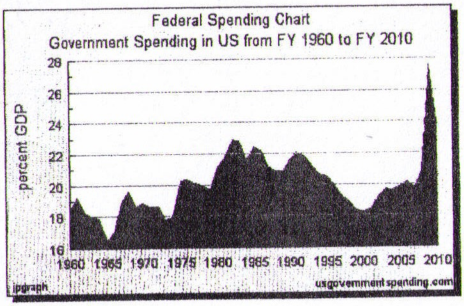
Are we in a Recession or Depression

by Steve Hyers

Though some would have us believe otherwise, in my opinion it's not even close. As a financial planner, sometimes I chuckle when reading a magazine or when watching a couple of the major financial news networks. A few weeks ago I happened to accidentally turn the volume up when watching CNBC. One of the commentators on a show called "Power-Lunch" mentioned our current downturn as a "depression" twice within 30 seconds. I immediately fired off an e-mail to the host asking her three simple questions:

1) What was the unemployment rate in 1933?
2) How low did the Dow-Jones Industrial Index go during the depression?
3) What was the root cause of the depressions onset and more importantly, its reason for continuing to 1941?

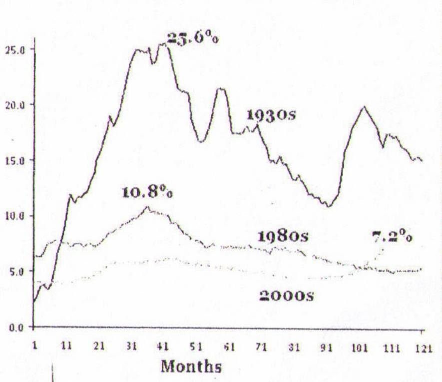
Of course the host did not respond. But any financial-planner worth his or her salt knows the answers to those questions. The first two are easy. The unemployment rate was 25% at its highpoint in 1933 (and almost as high in 1938 again after a series of legislative and government errors that extended the depression, rather than shortening it). The second questions answer is the Dow Jones Industrials dropped 90% between 1929 and into the first part of 1933. This article will concentrate on the third question, addressing the legislative and financial miscalculations made and only ask the readers to consider the potential parallels to our current governments reactions to our current _ e_ _ssion (I'll let you fill in the blanks).



Between 1929 and 1933, production from our nation's factories, mines and utilities fell by more than half. Almost 13 million people were unemployed. Real disposable income dropped almost 30%. Many economists suggest that there were three or four reasons that made the depression worse than it might have been otherwise, those being: The Federal Reserves early and erroneous policies and reactions toward monetary Policy (The "Fed" contracted the money supply after the 1929 stock-market crash, shrinking the money supply by 30%). The "Fed's" policies accelerated unemployment from 8.9% in 1930 to 25% in 1933. The U.S. Congress passed the infamous Smoot-Hawley tariff in 1930 and created barriers for trade (raising taxes on trading partner's imports to the U.S.) and the obvious retaliation resulting in decreased U.S. exports- creating in an international trade war. In 1932 the Democratic parties platform called for a 25% reduction in federal spending, a balanced budget and "removal of government barriers from the private sector". After the election, they went in completely the opposite direction.

The United States was on the gold standard at that time in our history (prior to the Bretton-Woods

U.S. Unemployment Rate: 1930s vs. 1980s vs. 2000s



agreement of 1974). After 1932 gold was devalued 40%, partly from seizures of private citizens gold. A bank holiday was declared and over 2000 banks out of 5000 banks at that time never reopened after the federal governments "bank-holiday." (Canada, during the same period, had NOT one bank fail). Between 1933 and 1936 the federal governments expenditures rose by more than 80%. After his election in 1932, the newly elected President (FDR) proposed spending 10 million dollars in his first year in office while revenues were projected at three million dollars. Stunningly, the top federal income tax bracket was raised to 90%.

Several departments and programs were created-i.e. NRA, AAA, CWA and others. Many needy people at the time were put to work that might not have found a job otherwise.

Many felt that the governments "Alphabet-Programs" actually slowed the advent of permanent private-sector jobs and many in Congress and on the U.S. Supreme Court argued that had Capitalism (the engine that has driven America to its great heights since 1941) been allowed to correct the markets, the depression might not have lasted as long as it did. They further suggested that unemployment, though dropping initially with the programs, eventually rose back up to 20% in 1938. What eventually brought us out of the depression it is said, was the United States entry into WWII and the re-ramping up of private-sector production.

We are in a recession folks, compounded and, many believe, extended by the politicizing and eventual collapse of Fannie Mae – created in 1938- and Freddie Mac (two government sponsored enterprises or GSE's which hold over 50% of all mortgages). If economic history repeats itself, as it has usually done in the past, the private sector will do the majority of the lifting as we come out of this one also. There are reasons for optimism going forward.

You can call Steve Hyers at Capital Dimensions Financial Services if you have any questions. You can reach him at (904) 730-3877 or drop by his office on University Blvd., three blocks off San Jose Blvd. and directly across from Lakewood Presbyterian Church. Capital Dimensions is located right here in the San Marco and San Jose neighborhoods.

Statistics derived for this article include: The Wall Street Journal and Steve Kangas' article on Timelines of the Great Depression.