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GREAT DEPRESSION
LESSONS RECALLED

The Great Depression, which began 80 years ago this week with Black Tuesday, has many parallels to the Great Recession.

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STAFF WRITER

Charlie Mills Jr. remembers when his father sold the family car. It was the early days of the Great Depression. Charles Mills Sr., a civil engineer who built row homes in Philadelphia, quickly found himself out of a job.

The younger Mills was only 6 years old on Oct. 29, 1929, the day the New York Stock Exchange crashed and sent the U.S. spiraling into the decade-long Great Depression.

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Temple’s Fox School of Business. But the lessons learned during the 1930s prevented the Great Recession from becoming another Depression, they said.

“We have learned a lot about how to stabilize the economy,” said Jack Worrall, professor of economics and chairman of the College of Arts Sciences at Rutgers in Camden. “We have a much better grasp of monetary policy. We have automatic stabilizers built into the economy and they help soften the blow of recessions.”

Said Naroff, “We learned a lot about what not to do.”

The 1929 stock market crash brought the Roaring ’20s to a screeching halt. By 1933, 11,000 U.S. banks would fail. Unemployment reached between 12 million and 15 million workers, or about 25 percent of the work force.

Slow to act

The U.S. government was slow to react.

“For the most part, the Federal Reserve policymakers were happy,” Kopecky said. “Back then, they felt there had been a speculative bubble, and the best thing for monetary policy was to wash out all the individuals who in some sense were ‘responsible’ for the bubble. They presumed it would go back to normal again.”

Even Franklin Roosevelt’s public works projects couldn’t pull the country out of the Depression. The country didn’t start to recover until World War II, which sparked massive wartime spending.

The current recession officially began in December 2007. But it wasn’t until last October, with the collapse of financial industry, that many Americans began to feel the effects, economists say.

“The banking system collapsed during the Great Depression,” Worrall said. “Clearly, the near collapse of financial markets played a key role in the onset of the current recession.”

Most economists agree that it was the swift action of the government and the Federal Reserve that prevented the recession from getting any worse.

“What the Fed did is very consistent with following the completely opposite game plan (than during the Depression),” Kopecky said. “When you see things deteriorating, instead of staying aloof, you go right after it. Of course, you can make mistakes. But I think from any economist’s perspective, the mistakes have been more of the minor sorts. The major problem is to prevent the Great Depression. I think that’s more or less a fait accompli now.”

No one, however, expects a speedy recovery. It could be at least a decade before unemployment, which hit 9.8 percent in September, could start to rebound.

“There’s a good chance it could take five years to get the unemployment rate down from wherever it peaks,” Naroff said. “So we’re looking at sometime around 2014, maybe. You add it onto the period of time where the unemployment rate started going up, you see a good portion of a decade faced with substandard employment levels.”

Mills, now 87, and his wife Dorothy, 84, aren’t too concerned about their financial health during the recession. If the Great Depression taught them anything, they said, it was how to live within their means and budget conservatively.

Throughout their 60-year marriage, their only debt was the mortgage on their home, which has since been paid off. They have credit cards, but only for convenience “and air miles,” Charlie Mills said.

“I’d this day,” Dorothy noted, “if we want to get something, we think about it. Do we really need it?”

Staff writer Chris Bishop contributed to this report.

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