Our Economic Crisis
Is It Different this Time?

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INVARIABLY, DURING TIMES OF SEVERE economic crisis, comparisons to other gloomy periods are made in order to give investors, consumers, prognosticators, *et al.* a baseline with which to measure the latest downturn. It is only natural to speculate as to when a given economic crisis or recession will end, and wonder how severe it will ultimately become. Most dental practices have been affected to some degree this time around. Our clients, like all dental professionals, are left wondering what their practices will look like once they come out on the other side. It is not pleasant to live with that uncertainty but we believe that a look at history can often help our clients sleep a little better at night.

Economic crises are not a new phenomenon; they have pervaded the US economy since the formation of our nation. While they vary in size and scope, they also vary in cause, length, and magnitude. While no two have been alike, one factor that they share is that they have all ultimately ushered in a new age of economic growth and prosperity of varying length—hopefully with many lessons learned.

The credit and housing crises our economy has been mired in since 2007, and the resulting market fallout, is arguably the most serious we've faced in decades. While recent recessions and market pullbacks have usually been compared to either the oil crisis/bear market of 1973– 1975, or the stagflation/high unemployment of 1980–1982, the current recession (which the National Bureau of Economic Research recently determined began in December 2007) has evoked images of perhaps the darkest economic period in US history—the Great Depression.

The Depression vs. Today—Unemployment and Banking Comparison and Contrast

While the modern-day unemployment rate has been increasing, the current rate of 9% is a far cry from the 24.9% seen at the height of the Depression. While there were a few dozen bank failures in 2008, there were 659 in 1929, 1350 in 1930, and more than 9800 from 1929 through 1934. Runs on banks, common during the Depression, are all but a thing of the past, primarily due to the backstop provided by the Federal Deposit Insurance Corporation (FDIC).

The Depression vs. Today—Government Action Comparison and Contrast

Perhaps the biggest difference between the Great Depression and the current crisis is the active role that the government and Federal Reserve play today, versus a much more hands-off approach taken by the Hoover Administration at the onset of the Great Depression. Countless bailouts, loans, interventions, and rate cuts carried out by the Treasury or Federal Reserve demonstrate the vastly more active approach taken by policymakers today. None of these actions guarantee a swift end to the crisis, nor do they come without potential fallout in the future, but they do demonstrate an effort to avoid monetary and fiscal mistakes made in the past.

The Depression vs.Today—Similarity

One potential similarity between the 1930s and now is that both crises were fueled—and perhaps exacerbated—by a lack of confidence among investors and bank depositors. While this problem is difficult to rectify, the communication tools available today greatly exceed those of the 1930s; ultimately, confidence should be more easily restored today. Still, this too is a double-edged sword, due to the propensity of the media to paint a very grim picture when times are tough, and an overly optimistic picture when times are good.

The 1970s— Vietnam, Watergate, and the Energy Crisis

The early 1970s (primarily 1973–1975) were arguably one of the bleakest periods the US experienced during the second half of the 20th century. Mired in the Vietnam War, which had already spanned more than 10 years, the nation endured a confluence of several crises, the likes of which we'd not previously experienced. The Watergate Conspiracy ultimately brought down a US President in 1974—an event so unthinkable and devastating that, to some, it conceivably marked the end of our democracy. Meanwhile, a full-scale energy crisis gripped our nation beginning in 1973, and not only did oil prices rise—oil quadrupled from $3 per barrel to $12—there were also shortages. Long lines were common at gas stations, gasoline was rationed, and the government made matters worse by putting price controls in place. While oil prices spiked close to $150/barrel during our current crisis, shortages and rationing were never an issue, and oil prices have since pulled back dramatically.

1980–1982—Stagflation

By late 1979, unemployment had fallen below 6% once again, but a short recession from January through July, 1980 saw the jobless rate creep back up toward 8%. And another enemy had also resurfaced: inflation. By 1978 it had hit 7.6%. The next year, it jumped to 11.3%, on the road to a 33-year high of 13.5% in 1980. But this was not just any garden variety of inflation, it was "stagflation". Stagflation occurs when high inflation and economic stagnation occur simultaneously, and it began in the wake of the energy crisis of 1979. Although not as severe as the 1973 energy crisis, the 1979 version came amid a revolution in Iran and major tensions in the Middle East, including the taking of American hostages in Iran and a war between Iran and Iraq. As the economy worsened, unemployment breached the 8% mark by late 1981, and hit 10.8% by November of 1982. In fact, from November 1982 until June 1983, there were 10 consecutive months of 10%+ unemployment—including 7 months after the recession "officially" ended in November, 1982.

Conclusion

The "this time it's different" sentiment that has permeated opinions on the current economic crisis may indeed be valid. However, the same statement could have applied to many other such periods that we have faced. Each, as evidenced by the circumstances surrounding the Great Depression, the 1973–1975 bear market, and the 1980–1982 stagflation era, has brought with it a unique set of challenges that have combined to create very difficult economic circumstances.

Despite a rather gloomy near-term outlook, this does not seem to be the start of the next Great Depression. The similarities between the two periods are far outweighed by the differences. The same appears to be true about 2008 as compared to 1980–1982 and 1973–1975. If you combined the fear and uncertainty of the Depression with the unemployment and equity market situation of '73–'75 and the banking crises of the early 1980s, you might come closer to describing the current recession, rather than to compare it outright to any of the other three periods. But even that is a stretch. Although the current recession is unique, just like the others before, it will end—we're just not able to predict when. •

Recession Starts	Recession Ends	Recession Length *(months)*	DJIA Change	Recession Ends After Stocks Bottom *(months)*
August 1929	March 1933	43	–89%	7
May 1937	June 1938	13	–49%	3
February 1945	October 1945	8	18%	n/a
November 1948	October 1949	11	–16%	4
July 1953	May 1954	10	–13%	8
August 1957	April 1958	8	–19%	6
April 1960	February 1961	10	–17%	4
December 1969	November 1970	11	–36%	6
November 1973	March 1975	16	–46%	3
January 1980	July 1980	6	–16%	3
July 1981	November 1982	16	–24%	3
July 1990	March 1991	8	–21%	5
March 2001	November 2001	8	–30%	2
	Average	13	–28%	4
	Average since 1945	10	–20%	4

Source: Barron's, Bespoke Investment Group, Bloomberg, Stock Trader's Almanac.