COVER STORY

ECHOES OF 1933?

While the economy is in bad shape, right now it's nowhere near as dire as in 1933. Yet FDR's response to the Great Depression clearly holds lessons for President Obama and the nation today.

BY STEVE LOHR

When Franklin D. Roosevelt became President in 1933, the country was in the depths of the Great Depression. Four years after the 1929 stock market crash brought the economy to a halt, a quarter of the nation was jobless. Millions had lost their homes and farms to bank foreclosures, and in cities nationwide, people waited in long lines for handouts of food.

Today, as America deals with a severe recession, millions of people are losing their homes to foreclosure. Some of Wall Street's largest financial institutions are failing, and companies large and small are laying off workers, sending the unemployment rate to a 16-year high.

But however troubled the economy is now, the situation isn't nearly as serious as what FDR confronted in 1933. Why then are so many people comparing 2009 to the Depression and President Obama to FDR?

There are several reasons. First, the two men share some important qualities, such as a willingness to experiment and a talent for communicating with the American people—a critical skill at a time of crisis.

Second, everyone agrees the nation is now facing the worst economic crisis *since* the Great Depression, so it's natural for the media to compare today to the worst crisis.

THEN & NOW

	1933	2008-2009
UNEMPLOYMENT RATE	25%	7.6%*
STOCK MARKET	DOWN 75% FROM 1929	DOWN 45% FROM 2007
HOME FORECLOSURES	252,000	2,200,000 **

SOURCES: *THE NEW YORK TIMES; HISTORICAL STATISTICS OF THE UNITED STATES*

* JANUARY 2009 ** IN 2008

Finally, there's the fact that so many of FDR's New Deal programs remain in existence today and are, in fact, softening the impact of the current crisis *(see "Five Reasons Things Aren't Worse," p. 11)*.

But economists and historians say there are also cautionary lessons to be drawn from the Roosevelt years in the 1930s.

"Barack Obama should learn from FDR's failures as well as from his achievements," says *New York Times* columnist Paul Krugman. "The truth is that the New Deal wasn't as successful in the short run as it was in the long run. And the reason for FDR's limited short-run success, which almost undid his whole program, was the fact that his economic policies were too cautious."

WILL $789 BILLION DO THE TRICK?

The Obama administration's first major effort at repairing the ailing economy is the $789 billion economic stimulus package. It includes tax cuts for individuals, families, and businesses; help for jobless and low-income Americans; aid to states; and investments in infrastructure. It was the source of intense debate in Congress, and passed with very little of the Republican support Obama had hoped for.

"I can't tell you for sure that everything in this plan will work exactly as we hope,"

Steve Lohr covers economics, business, and technology for The New York Times.

TWO PARTIES, TWO APPROACHES

The debate over the President's stimulus plan highlighted the different views that Republicans and Democrats typically have on Washington's role in the economy.

REPUBLICANS generally favor lower taxes and a smaller government role in the economy. Their view is that the government is usually less efficient at spending money than individuals, and that higher taxes slow economic growth.

DEMOCRATS are generally more comfortable with a larger government role in the economy, including higher taxes and spending, and more regulation of private business. Their view is that there are things government can do that the private sector can't.

Obama said, "but I can tell you with complete confidence that a failure to act will only deepen this crisis."

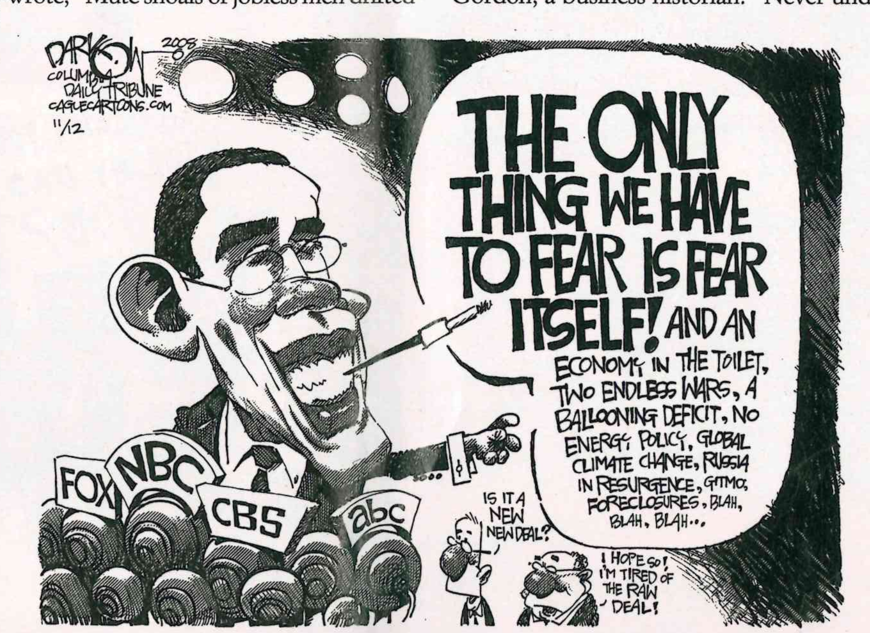
That's what happened after the 1929 stock-market crash that sparked the Depression. President Herbert Hoover's failure to use the spending power of the federal government to inject money into the economy is now seen as a disastrous mistake.

Another lesson from the 1930s, economists say, is how difficult it is to engineer a recovery when an economy has spiraled down as far as it had by 1933. Swift action early in a downturn, they say, can help avoid a much deeper decline. And President Obama has the advantage of taking over far earlier in an economic descent than Roosevelt did.

The economic picture today, however, is increasingly bleak. The U.S. has lost 3.6 million jobs since the recession began in late 2007, bringing the unemployment rate to 7.6 percent—the highest in 16 years. (For teens, the unemployment rate is 18.9 percent—the highest of any age group.) Stock markets are down 45 percent from their highs in 2007, decimating the savings and retirement accounts of millions.

But the situation today pales in comparison with what Roosevelt faced in 1933, when unemployment was 25 percent and the economy had shrunk by one third since 1929. As historian David M. Kennedy wrote, "Mute shoals of jobless men drifted through the streets of every American city in 1933."

Roosevelt was inaugurated on March 4, 1933, amid a bank panic. Afraid their money wasn't safe in banks, people across the country rushed to withdraw their savings. This was the impetus for FDR's famous inaugural address line, "The only thing we have to fear is fear itself."



Roosevelt was an extraordinary crisis manager. He immediately closed the banks and stock markets for four days and set the Federal Reserve and the Treasury to work on a program to sort good banks from bad ones, provide financing, and restore confidence in the banking system.

In his first fireside chat on March 12, Roosevelt addressed the nation to discuss the banking crisis. He explained how banks work, with most money not held in their vaults but lent out to people and businesses. That's why bank runs can so quickly bring the economy to a halt. He reassured his listeners, "It is safer to keep your money in a reopened bank than under the mattress." And he appealed: "You people must have faith; you must not be stampeded by rumors or guesses. Let us unite in banishing fear."

RESTORING CONFIDENCE

The truth is listeners had only Roosevelt's word that his plans to stabilize the financial system would work. But he had an uncanny ability to communicate in simple and convincing terms. When the stock market reopened on March 15, the Dow Jones Industrial Average jumped more than 15 percent, the biggest one-day percentage gain ever, and the bank panic had ended.

"Roosevelt was a genius at using those fireside chats to calm the national mood and restore confidence," says John Steele Gordon, a business historian. "Never underestimate the power of psychology in the economy. We're seeing that now."

Last month, as Congress debated the stimulus bill, President Obama spoke repeatedly about the urgency of passing the measure.

"Barack Obama appears to share FDR's instinctive grasp of crisis not as something to be managed but as an opportunity to

CARTOON BY JOHN DARKOW, COLUMBIA DAILY TRIBUNE/CAGLE; PHOTO BY MARK PETERSON/CORBIS SABA forge an emotional bond with those he will lead," says presidential historian Richard Norton Smith.

More government spending beyond the planned $789 billion economic recovery plan, economists say, is probably in the cards. And while Roosevelt is seen as the father of big-spending government, the judgment of history seems to be that in the 1930s he didn't spend enough.

"The lesson from the 1930s and early 1940s is that the government has to do much more than it has done so far, both to end the financial crisis and to get us out of the recession," says Richard Sylla, an economist at New York University.

In 1934, the British economist John Maynard Keynes visited Roosevelt to make his case for more deficit spending. FDR's New Deal is often portrayed as an embrace of Keynesian economics, which advocates increased government spending to combat economic downturns and generate jobs.

Yet despite New Deal programs, total government spending—federal, state, and local—as a share of the economy throughout the 1930s remained at just under 20 percent. (Today, total government spending is already more than 35 percent.)

WORLD WAR II TO THE RESCUE?

The unemployment rate fell somewhat under Roosevelt, but remained stubbornly high throughout the 1930s, averaging more than 17 percent—more than double the current rate. It was not until World War II, and the massive government spending required to fight it, that the Depression finally ended.

"Roosevelt had some successes, but we hope that Obama is going to do better," says Kenneth S. Rogoff, an economics professor at Harvard. "Otherwise, we're in trouble."

FIVE REASONS THINGS AREN'T WORSE TODAY

However tough it is now, things would be a lot harder without many of the New Deal programs we often take for granted 70 years later.

1. SOCIAL SECURITY

The elderly were particularly hard hit by the Depression, and Social Security was created in 1935 as a safety net. In 2009, it will provide 32 million Americans with $450 billion in retirement benefits. It also pays benefits to disabled workers, and to nearly 2 million children whose parents have died. If you're working, you and your employer pay the cost of today's beneficiaries: Look on your pay stub for the FICA taxes that have been deducted.

2. UNEMPLOYMENT INSURANCE

If anyone in your family has lost a job, chances are they're getting weekly unemployment checks while they look for a new job. Also created in 1935, unemployment insurance is run by the states, which pay a wide range of benefits. With the unemployment rate at 7.6 percent in January, 4.8 million Americans are currently receiving unemployment benefits—a 42-year high.

3. MINIMUM WAGE

The minimum wage is now $6.55 an hour—compared with 25 cents an hour when it was instituted in 1938. (Some states set their minimum wages higher than the federal rate.) While a minimum wage boosts millions of paychecks, some economists say it also discourages hiring by making new workers—particularly the young and inexperienced—more expensive to hire.

4. DEPOSIT INSURANCE

During the Depression, some 10,000 banks failed, and millions of people lost their life savings. The F.D.I.C. (Federal Deposit Insurance Corporation) was established in 1933 and now guarantees money in checking and savings accounts in member banks up to $250,000 per account. Last year, when banks like California's IndyMac collapsed, depositors were largely unharmed.

5. A FINANCIAL WATCHDOG

After Americans in the 1920s sank millions into stocks that turned out to be worthless or fraudulent, the S.E.C. (Securities and Exchange Commission) was created in 1934 to oversee the nation's stock and bond markets. The S.E.C. hunts for fraud and makes sure investors get the information they need to make sound investments. Today, the S.E.C. is taking heat from those who say it helped cause the current financial crisis by failing to properly regulate Wall Street and the banking system.

CARTOON BY JOHN DARKOW, COLUMBIA DAILY TRIBUNE/CAGLE; PHOTO BY MARK PETERSON/CORBIS SABA