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Scottsdale economist sees parallels to Great Depression

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Scottsdale economist Elliott Pollack is among financial experts drawing some parallels between the current financial situation and the Great Depression.

Those include the \$700 billion bailout plan backed by Federal Reserve Chairman Ben Bernanke and U.S. Treasury Secretary Henry Paulson as well as tax and economic policies put forward by presidential contender Barack Obama.

Pollack said Wednesday the Fed chairman's view of the Depression can be seen in the bailout plan being debated by Congress. Pollack spoke at an economic forum Wednesday sponsored by the Greater Phoenix Chamber of Commerce and Cox Communications.

Pollack says Bernanke, a noted Depression historian, sees the Fed's lack of support for the banking system among the major causes of the Depression. As a result, banks fell to public panic, the stock market crashed and money supplies were restricted.

In a 2004 speech at Washington & Lee University, Bernanke said the Fed "could have been more aggressive in lending cash to banking" and "that central banks and other governmental agencies have an important responsibility to maintain financial stability."

The bailout plan and recent cash infusions by the Fed and other central banks are aimed at rescuing the banking and mortgage sectors and opening clogged credit streams.

"He has stood behind the banking system. He's pumped money," said Pollack of Bernanke.

Bernanke, Paulson, Wall Street analyst Jim Cramer and Berkshire Hathaway Chairman Warren Buffett say the bailout is needed to prevent the credit crunch from getting worse with more banks failing and businesses and consumers unable to get loans.

"The credit markets are now blocked by fear," said Jeffrey DeBoer, president and CEO of Real Estate Roundtable, an industry group. "This fear is now causing, and will increasingly cause, pain to Main Street homeowners, small businesses and consumers of every type in every community in the nation. The Treasury rescue plan is the best solution to restore credit availability. Now is the time to take resolute action."

Lisa Von Barga, CEO of Phoenix-based Beyond Implementation Inc., said the credit crunch is hurting consumers and businesses, and if more banks, lenders and investment houses fail thousands of jobs could be lost.

"The move helps stabilize all financial providers as well as consumer confidence. Ultimately, (the bailout is) in the best interest of our clients and the long-term health of the economy," said Scott Cornelius, president of Johnson Bank.

That plan faces bipartisan skepticism from Congress with Democrats also pushing for assistance to distressed homeowners and some Republicans unwilling to waiver from a policy of keeping government out of private business.

Pollack, CEO of Scottsdale-based Elliott D. Pollack & Co., said economists and historians also blame protectionist tariffs in the Smoot-Hawley Tariff Act of 1930 and federal tax increases imposed by President Herbert Hoover for magnifying the Depression. He draws some parallels between Depression-era protectionism and tax increases and some of Obama's strategies.

Obama cites concern about U.S. jobs and foreign outsourcing in support of curtailing free trade policies. He also backs higher taxes on the wealthy, oil and gas companies and some other businesses.

The 1930 tariffs aimed to encourage the purchase of U.S. goods, but resulted in retaliation by other countries causing international trade to plummet, according to numerous analysis.

Bipartisan support for \$25 billion to \$50 billion in federal loans for U.S. auto makers also worries some economists who say possible provisions could impact foreign auto makers and spark a trade war.

Pollack, however, notes that the weak dollar has helped U.S. exports.

Looking back at tax policy, the federal government cut rates several times during the 1920s but raised them in 1932 under Hoover and again under Franklin Roosevelt in response to budget deficits and huge drops in revenue. Hoover raised the top personal income tax rate from 25 percent to 63 percent, according to the Cato Institute. Corporate taxes jumped from 12 percent to 24 percent and FDR added taxes on some profits.

Obama has proposed windfall profit taxes on oil companies with money going toward middle-class tax rebates. Obama also wants to raise taxes on households earning more than \$250,000.

Arizona State University economist Dennis Hoffman said, however, Obama's tax increases still are historically low with the top rate proposed to rise from 35 to 40 percent. That compares to top rates of 63 percent under Hoover, 94 percent under FDR and 40 percent under Ronald Reagan and Bill Clinton, according to the IRS.

Neither presidential campaign responded to requests for comment.

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