28 10 2009 Anniversario del primo crollo di Wall Street del 1929 ed esplosione della Grande Depressione

Echoes of another great crash -- and the lessons we refuse to learn

This is the anniversary of Black Monday, the day in October 1929 when the stock market crashed. The Dow saw a record drop and things only got worse as the week progressed (there was a Black Tuesday, too).

It's clear now that the crash of that day was not the beginning of the Great Depression but its loudest symptom. Other areas of the economy had been faltering for years and income inequality was near record highs, but this was cloaked by the mania on Wall Street, back in the day when banks could engage in highly speculative trading.

Of course, that toxic environment was rekindled in our time by the repeal of the Depression-era Glass-Steagall Act in 1999, and we got just what the reformers of the 1930s would have feared.

Milton Friedman made his mark as a great economist (as opposed to a great polemicist) by work with Anna Schwartz showing how the Federal Reserve botched its response to the crash, turning what might have been a short-term panic into a deep depression. This was a lesson current Fed Chairman Ben Bernanke was determined to implement -- and indeed, Fed action pulled us back from the brink.

Where, exactly, "back from the brink is" nobody can say with precision. Average Americans are still hurting and the job market is a disaster, although nowhere along the lines of the Great Depression. We have yet to see the unintended consequences of Bernanke's "anything it takes" strategy, which was not followed by meaningful regulatory reform.

Time will tell. But the severity of the Depression forced major changes, such as the prohibition of commercial banks from engaging in high-risk ventures. This time, no such overhaul is happening. None of the swindlers who created the bubble have been called to account -- Bernie Madoff is penny-ante -- and the systemic risks that existed before our crash continue.

In other words, this time things didn't get bad enough. But the risk of new crashes is if anything higher than ever. And our current predicament seems to have no quick solution or the will to push one through. So we rattle along on a bottom -- better, to be sure, than in 1929, but more perilous in its own ways.

The Midweek Briefing: Subprime mortgages could turn into the Michael Myers of the economy. More option ARMS are going to reset in 2010 and 2011, raising the risk of a second wave of defaults and foreclosures, according to Chris Mayer in a post on Agora Financial's 5 Min. Forecast.

Of particular attention is the chart from Credit Suisse, which shows the big spike to come. That could complicate the conventional wisdom that the housing market has finally found bottom.

Coincidentally, or not, FT's Alphaville blog reports that S&P has issued a fresh warning on the entire private mortgage sector: "We believe that the macroeconomic environment may be having an increasingly negative impact on the prime mortgage insurance books, suggesting an elongation of the loss cycle beyond our prior expectations."

- More bad news for restaurants. A Harris Poll finds that two-thirds of Americans plan to cut back on eating out.

- FT reports that Goldman Sachs has scaled back its forecast for the U.S. GDP forecast due out Thursday. Weaker capital goods shipments are a key. "Based on this information as well as

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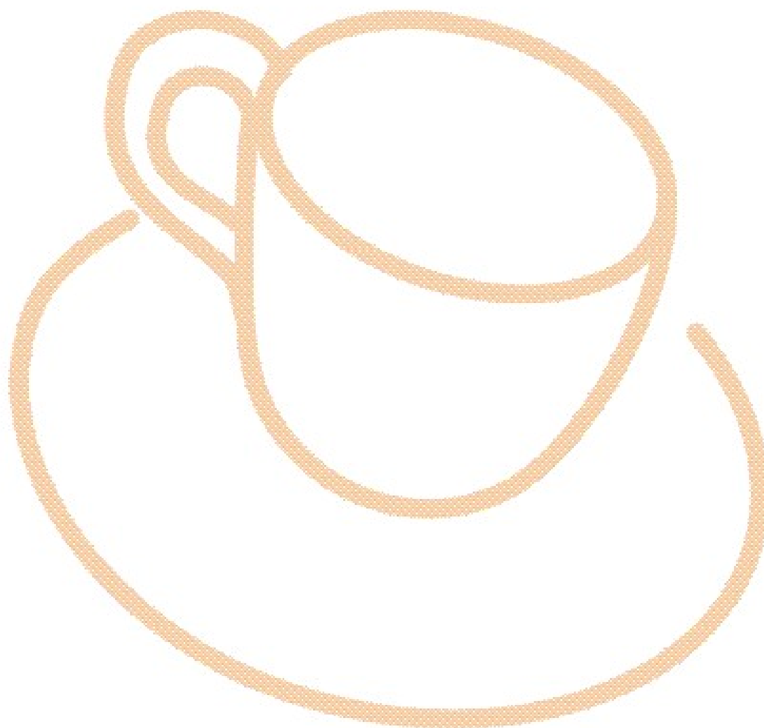
other data released in the past couple of weeks -- including complete book value inventory data for August -- we now estimate that real GDP rose at a 2.7% annual rate, somewhat less than the 3% annual rate that we had previously thought."

- As loan-modification scams hit an angry America, one LA couple went too far. They're charged with beating and torturing two agents they suspected of fraud.

- Seattle comes in with high marks in the latest survey of "brain gain" cities attracting college graduates. Others include Portland, Austin, Raleigh and Charlotte -- we'll see if the last city holds as its banks implode.

- 50 Cent says he's willing to run the U.S. economy if President Obama needs him. Could he possibly do worse than Tim Geithner?



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