



Why we are not entering a depression

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The deteriorating economic condition has led many "talking heads" in the media to believe that we are entering a depression or long term deflation, take your pick of the words. While there is always a chance of anything happening, we believe that there are a number of structural reasons why this is not in the cards. Unlike the 1930's :

1. Our currency is not based upon a gold standard i.e. the dollar is not backed by and hence freely convertible into gold. We have a fiat monetary system where the Treasury can "create" as many dollars as it wishes, subject only to the willingness of buyers and sellers to accept the currency.
2. Bank deposits are now insured by the government.
3. Fannie Mae and Freddie Mac own mortgages, having purchased them in the secondary market from mortgage originators.
4. We have a Federal Reserve Chairman who "gets it" in terms of providing monetary liquidity. (See our October 8 paper entitled "*Where we are now and what needs to be done*".)

While global economies have real issues of declining trade and fiscal imbalances, it is existential fear that rules today. Price stability will return to the markets. Federal Reserve policy will be a key factor to watch.

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