Message from the President

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the background to this year's Annual Report *essay.*

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Nine years ago a research conference was held at this Bank, during which economists from around the world presented papers on one of the most vexing questions in economic history: What caused the great depressions of the 20th century? No reporters were in attendance. There were no heated debates in the blogosphere. There were no real-time policy implications drawn from the papers' conclusions. There was simply the lively and energizing discussion that is always present when economists get together to discuss their work. That's because the idea of another Great Depression occurring in the United States was more a theoretical exercise than a practical concern.

Those were the days. If such a conference were held today, it would not only be a news story but would likely become immediately politicized, with economists' work categorized as representing one political view over another, and thus being categorically dismissed by the opposing camp. Academics are accustomed to having their work dismissed, but it's usually by colleagues who have qualms about such things as models or methodology. However, given the recent financial crisis and the concomitant recession, economic analysis of the Great Depression has become fodder for columnists, cartoonists, pundits, bloggers and, oh yes, economists too.

I mention this context because I want readers to understand the background to this year's *Annual Report* essay. We are not trying to weigh in on a political debate; rather, we are trying to inform the discussion about economic policy by applying work that was begun here years ago. In that regard, the year before we held our conference, we published papers on this subject in a 1999 issue of our *Quarterly Review*. We also published an article about the conference in the December 2000 *Region,* and this Bank published a book in 2007 that gathered the conference papers and other contributions. Finally, I would add that I penned a 1987 *Annual Report* essay on the Great Depression following the stock market crash in October of that year. So we have established our *bona fides* on this subject.

And yes, for those of you who don't remember, many people said we were entering another depression 22 years ago following the stock market's plunge. Needless to say, it didn't happen. Indeed, quite the opposite happened—we experienced two decades of strong growth, interrupted by two relatively mild recessions. The current recession is anything but mild, but it too will end, and if history is any guide, we will once again return to normal rates of growth—and likely sometime in 2010, following a turnaround this year.

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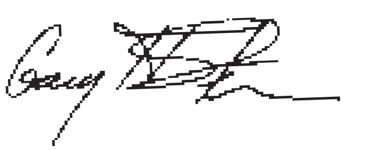
to what degree history is a guide for current policy. Do the lessons of the Great Depression have anything to teach us about our current situation? They almost certainly do. Do we claim that the authors of this essay have all the answers? Of course not. Do we think they have something useful to contribute? Yes.

tainly do. Do we claim that the authors of this essay have all the answers? Of course not. Do we think they have something useful to contribute? Yes. In that regard, this year's essay sounds a cautionary note about government's response to economic downturns. Views like those expressed in this essay challenge conventional wisdom about the government's role in an economy or the likely impact of government intervention. That doesn't mean the conventional wisdom is necessarily wrong, but if the views expressed in this essay have merit, then it means that conventional wisdom should at least confront these challenges.

Absolute certainty is a rare commodity even in tranquil times, and we shouldn't kid ourselves into thinking that it's more easily mined in times of crisis. One thing that current events have reinforced is the need for open-mindedness when it comes to policy response. The Treasury Department, the Federal Reserve, the Federal Deposit Insurance Corp., the Congress and many private-sector players have engaged in activity that none would have considered even remotely possible two years ago. It's become a cliché to suggest that these extraordinary times call for extraordinary measures, but it's no less true. However, they also call for extraordinary analysis, and now is the time for due consideration of challenging ideas, however iconoclastic. It is in that spirit that we offer this year's essay. As always, we welcome your comments, and doubtless you will have some.

Before I sign off, I want to note that this will be the final President's Message I will write for this Bank's *Annual Report,* as I plan to retire later this year. I have had the distinct honor to serve as president of the Federal Reserve Bank of Minneapolis for 24 years. For an economist with an interest in public policy, few jobs offer such challenges and rewards. Also, as someone who grew up in Wisconsin, it has been especially gratifying to serve the states of the Ninth District. I have traveled from western Montana to the Upper Peninsula of Michigan a number of times and met many people throughout the district, all with a keen interest in their central bank. A real strength of the Federal Reserve System is its decentralized nature that encourages the participation of bankers, business owners, farmers and laborers from every state. It has been my privilege to work with these people over the years, especially including those who have served on our Board of Directors and on our Advisory Councils, and to them is owed a special debt of gratitude. Thanks to all of you for your interest in this Bank and in the Federal Reserve.



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