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Federal Reserve vice president sees economy improving, no double-dip recession

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The current economic slump is nowhere near as bad as the Great Depression, and "the forces are there to get us back on track."

That was the encouraging message Terry Fitzgerald, Senior Economist and Assistant Vice President of the Federal Reserve Bank in Minneapolis (Ninth District), brought to Cass County Economic Development Corporation (EDC) members and guests.

Speaking Oct. 22 at the EDC's annual meeting at the Chase Hotel in Walker, Fitzgerald mixed realism, pragmatism, optimism and humor in his address, "Is the Economic Tank Half Full or Half Empty?"

The Federal Reserve "is a quintessential American institution," he began, one designed to draw on the insights of citizens to formulate its policies.

Set up after the financial panic of 1907, the Federal Reserve's 12 regions, their presidents and boards depend on input from people in local communities, including small business, to set policies; and, in so doing, they keep their fingers on the economic pulse of the country.

Although the current economic recovery has been sluggish, Fitzgerald said the Fed's Ninth District, which includes Minnesota, has done pretty well. He does not foresee a double-dip recession, as some have warned, and forecasts continued moderate output growth.

Where the news is not so good is the slower rate of employment growth. Although Fitzgerald believes the recovery will pick up in 2011, he thinks the unemployment rate will decline more slowly.

Asked what he would have done if he'd been Federal Reserve Chair Ben Bernanke, Fitzgerald said he probably would have done the same thing; bail out large firms that were on the brink of collapse. When your house is on fire, it's too late to think of all the fire prevention measures you should have done, he explained.

"The trick now is to address it beforehand and implement changes for the future!"

And while every effort should be made to reduce the possibility of future failures, sometimes businesses should be allowed to fail.

"The government is trying to be helpful, but we have got to get back to the market economy," he stated.

Taking a longer perspective Fitzgerald addressed the often-asked question, "Is our economy stagnating?" Will kids of today not have as good a standard of living as their parents?

Fitzgerald said that although the current recession is deep, when the United States' economic growth from 1870 to 2010 is examined, it reveals a steady average 2 percent increase in wages (except for a steep drop in the 1930s Great Depression).

"It doesn't matter what party is in power or what leader," he stated. "If you let the dynamic economy go, there will be growth. It's been very steady. What's there not a shortage of? Human ingenuity."

Middle America's wages and income have not stagnated, he continued, but income has become more inequitable in the top tiers.



Three of the speakers at the EDC's annual meeting were Minnesota EDC President Jim Tertin. Photos by Joe Sherman

Nevertheless, people in the middle are doing better. Over the past 30 years, middle income has actually risen by 50 percent.

Fitzgerald answered another question, "How do we live?" by comparing the average home size. In 1982, the average house had three bedrooms, two baths and was 1,520 square feet. By 2008, the average house had grown to 3.5 bathrooms, 2.5 baths and had 2,215 square feet.

Advertisements from the recession years of 1982, 2000 and 2010 compared technologies, starting with a 1982 19-inch color TV with rabbit ears for \$499, a 2000 TV for \$399, then a 32-inch flat screen TV in 2010 again for \$499.

Turntables and speakers in 1982 were contrasted with Walkmans and CD players in 2000 and iPods in 2010.

Cordless phones brought laughs from the audience when they saw a boxy 1982 model ("Works up to 500 feet; auto dialer; push buttons!"), smaller cell phones from 2000 and the iPhone4 in 2010.

"People say, 'I don't think life's getting better,' and they are holding an iPhone in their hand! In some societies, you'd be worshiped for having one!" Fitzgerald joked.

Life expectancies are increasing, and more people are living into healthy, active old age.

Mortality rates from heart disease, strokes and some cancers are declining; infant mortality rates are coming down.

Of course not everything is improving, he went on. Problem areas include the increased obesity rate; and birth rates to unmarried mothers, particularly in certain demographics.

"You could compare to Utopia, and you'd lose. But we are better than we were 30 years ago."

Asked to comment on rural versus urban economic development, Fitzgerald noted that the Ninth District's Advisory Council includes lots of small town business owners.

"You have to find your niche; you have to run with your strengths," he urged.

Earlier, the audience heard from owners of two of Cass County's newest business start-ups who appear to have found their niches — Greg Smith of Leech Lake Brewing Co. in Walker, and Paula Rocheleau of Riverside Assisted Living in Pillager. Both thanked the EDC and Director Gail Levenson for the considerable assistance they received with business plans, feasibility studies, cash flow analyses, finding financing and more.

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