

The Economy in Perspective

*Someday, perhaps, remembering even this
Will be a pleasure.*

—Virgil, *The Aeneid*

The Federal Reserve Bank of Cleveland moved to its present location 75 years ago, in September 1923. The date holds special significance because we have just completed a substantial renovation of our building, making it a safer, more efficient working environment than it has been in decades. At the same time, thanks to careful historic restoration, some portions of the building once again reveal the magnificent craftsmanship devoted to them three-quarters of a century ago.

It seems particularly fitting that a Federal Reserve Bank should occupy an updated, but still historic, building. Monetary policy requires a keen understanding of current economic conditions and, equally important, the ability to operate from a solid foundation and with a perspective on the past. The economy of 1998 clearly differs from that of 1923, but not in every respect. Recognizing the similarities may prove just as important for fashioning successful monetary policy as appreciating the differences.

Our economy's infrastructure has changed enormously since 1923. Comparing jet planes, interstate highways, and wireless telecommunications to their predecessors leaves little doubt about the relative productivity and safety levels of the two economies. Seventy-five years ago, our nation used a much greater share of its land, labor, and capital for agricultural and mining industries; the phrase "service economy" would have drawn blank stares. Women were seen less in the workplace, and the workweek was much longer. This is just the beginning of the list we could compile.

Policymaking was different as well. In 1923, the federal government's role in the economy was much smaller than it is today, in terms of both fiscal size and regulatory presence. Budgets were balanced, and private property rights were very strong. Although the Federal Reserve System had been created in 1914, the value of the dollar in 1923 was still keyed to the gold standard. Activist monetary and fiscal policies were more than

three decades away. In fact, Congress would not establish the Federal Open Market Committee for 10 more years; the Federal Reserve Banks were just beginning to comprehend the effect of their individual open market operations on banking and credit conditions.

But what about the similarities? How could we possibly liken today's economy to that of the early 1920s? Let's begin with people and the human condition. As the United States became industrialized, it developed a large middle class and with it a consumer-oriented economy. Then, as now, whatever our standard of living, Americans have always wanted to consume more. Fortunately, our desire for a higher standard of living is matched by our resolve to create wealth and an unshakable belief in the notion of human progress. Accompanying this "can-do" attitude is a culture that encourages risk-taking. But the world is a risky place, and our successes in hedging against some of its perils tempt us to imagine that we can avoid them all.

Economists have learned a great deal since 1923 about how economic systems work and how policies affect their operation. Nevertheless, our opinions should be rendered with humility, for even the wisest among us can claim only an imperfect understanding of our economy's workings. Who among the officials present at the dedication ceremony of the Cleveland Federal Reserve Bank in September 1923 could have foreseen the economy's trajectory over the ensuing decade? Who among them could have suspected that history would revile them as shortsighted—or worse? They undoubtedly had critics among their contemporaries as well, as do today's policymakers. And we try, as they did, to do our best with what we know and what we think we know.

Confidence in our nation's future abounded when the Federal Reserve Bank of Cleveland opened its new doors in 1923. Seventy-five years later, we can see that this confidence was justified, despite the Great Depression, despite World War II, despite the Cold War, and despite the stagflation and malaise of the 1970s. All the reasons that justified this confidence then still justify it today.