

## AN EXCURSION THROUGH TWO HUNDRED YEARS OF FINANCIAL CRISES

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**Abstract:** This paper examines major U.S. financial crises from the beginning of the nineteenth century to the present. The financial crises of Poland are also discussed. Observing similarities and differences among various financial crises, including their causes and government responses, can shed light on the nature of financial crises. The current financial crisis is described and potential policies that may remedy the problem are discussed. Additionally, the paper briefly describes financial crises in Poland. The conclusion is that financial crises cannot be avoided.

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### INTRODUCTION

Former British Prime Minister Tony Blair, in his recent memoir, devotes the last chapter to the recent financial crisis. Blair (2010) points at governments, regulations, politicians, and monetary policies as the key culprits of the crisis. He sees the crisis as a consequence of the perception that expansionary monetary policy and low inflation could co-exist in the long run. Although Blair (2010) blames political leadership, he mainly accuses regulators who, in his opinion, are

responsible for alerting leaders that a serious crisis is about to break. He claims that if political leaders had a warning, they would have acted to prevent, or at least alleviate the impending crisis.

Nobel Laureate Joseph Stiglitz (2010) also notes that policymakers did not see the recent crisis coming and, once the bubble burst, thought that the consequences would be short lived. Addressing the issue of who should be blamed, Stiglitz (2010) emphasizes the roles of the financial institutions that did not understand the risks being taken, the regulators who failed to see what was coming, and not least, the economic profession. He observes that standard macroeconomic models did not incorporate adequate analyses of banks.

Similarly, Paul Krugman (2009), another Nobel Laureate, claims among other scholars that the current economic crisis parallels that of the Great Depression. Krugman (2009) traces the financial crisis -- the greatest since the 1930s -- to the failure of regulation to keep pace with what he calls an "out-of-control financial system."

Looking at financial crises through the lens of the last two centuries, this paper casts a doubt on the global rush to further empower the regulators who have failed to anticipate past panics and ballooning bubbles.

The paper is organized as follows: Section II provides a literature review. Section III discusses the main U.S. banking panics of the nineteenth century. Section IV explains the causes and effects of the current financial crisis. Section V briefly relays financial crises in Poland. Section VI is a conclusion.

## LITERATURE REVIEW

Recent literature highlights a variety of theories with regards to the causes and conditions engendering financial panics. Reinhart and Rogoff (2008, 2009A, 2009B) present evidence that these crises are not limited to the U.S. They assert that any parallels drawn between crises within the United States can be extended to other countries. Bordo (2003) examines the economic history of the United Kingdom and the United States and concludes that stock market crashes are worsened by unstable financial conditions.

Kaminsky and Reinhart (1999) claim that financial crises can be traced to deteriorating economic fundamentals, mainly increases in either private or national debt that at some point become impossible to refinance. Similarly, García-Herrero and Del Rio-Lopez (2003), studying episodes from seventy nine countries for the years 1979 until 1999, similarly conclude that when a central bank pursues an objective of financial stability, the likelihood of a crisis is reduced. Demirgüç-Kunt and Detragiache (1998) and Laeven and Valencia (2008) identify several conditions which encourage large-scale breakdowns, such as a ratio over ten percent of non-performing to total bank capital or a large cost of two percent of GDP as the cost of the government bailout.

Boyd, Nicolò, and Loukoianova (2009) postulate that banking crises are due to responses of the financial institutions to government intervention. Klomp (2010) examines 132 banking crises across 110 countries and concludes that the GDP growth rate and the real interest rate can indicate the onslaught of a financial crisis, but that not a single factor is significant in causing more than 60 percent of crises.

## NINETEENTH AND TWENTIETH CENTURY FINANCIAL CRISES IN THE UNITED STATES

As a newly developed country, the United States experienced a period of frequent banking panics in the nineteenth century with eight major crises. These eight episodes include the Panics of 1819, 1837, 1839, 1857, 1873, 1884, 1893 and 1896. The major crises of that century, which occurred in the years 1819, 1837, 1857, 1873, and 1893, are described below. Then the two major crises from the twentieth century, taking place in the years 1907 and 1929, are recounted.

### **The Panic of 1819**

The Panic of 1819 was the first national financial crisis in the United States. The panic began with a sharp expansion of the money supply, leading to a bubble that burst and caused a sharp downturn. Prior to the War of 1812, regulation of banks was minimal with only two main constraints. During the War of 1812 the government of the United States had limited means of raising revenue for the war effort. Following the expiration of the First Bank of the United States' Charter in 1811, the constraints on bank lending were loosened, and many banks extended credit beyond their reserves, thus creating a large expansion of the money supply. As this increased lending continued, banks saw their reserves flowing to other banks with safer lending practices. For example, since New England opposed the war, its banks did not extend credit to the government, causing reserves to flow from the rest of the nation to New England.

As these practices continued, the government tried to prevent further withdrawals from banks, and thus suspended convertibility of banknotes into specie, the main venue for extending the money supply. Following the war, it was apparent that convertibility could not be restored immediately. The Second Bank of the United States was created in 1817 to allow for the transition back to the bimetallic standard. However, while the creation of this bank allowed banks to resume convertibility, it facilitated further lending that expanded the money supply even more. For example, by 1818, the bank had lent out \$41 million and transferred the risk from bank balance sheets to its own balance sheet. The bank also increased the total banknote issue by \$23 million, with only \$2.5 million in reserves.

The policies of the new bank encouraged other banks to further expand their issuance of banknotes. This expansion caused a sharp increase in the price level, speculation in real estate and the founding of many banks. For example, the

number of banks increased from 208 to 245 in the year of 1815 alone. However, with the repayment of the “Louisiana debt” that was used for the Louisiana Purchase in 1818 and 1819, required in specie, The Second Bank of the United States had to engage in a series of policies to reverse the expansion in the money supply.

The actions of the bank facilitated the Panic of 1819 by creating a deflationary environment where debtors were no longer able to repay the banks, and the value of banknotes depreciated. By 1821, the panic and depression began to clear and the credit contraction ended. Though it had been painful, the United States had survived the first of the eight banking panics in the nineteenth century (Rothbard, 1962).

### **The Panic of 1837**

The next banking crisis was the Panic of 1837. In the five years following the suspension of specie payments, 194 of the 729 chartered banks failed. The book assets of state owned and controlled banks fell 45 percent. Five-year depression ensued. Rousseau (2002) enumerates two main causes of the crisis. The first was the Deposit Act of 1836, which forced the government to distribute \$28 million of the \$34 million in Federal surplus to state banks, other than New York City banks. The other was the “Specie Circular,” also passed in 1836, which required public lands to be paid for in specie. These two policies led to a drain in the reserves of deposit banks from New York City and other commercial centers to the rest of the country. The reserves in New York fell from \$7.2 million on September 1, 1836 to \$1.5 million on May 1, 1837. This drain in reserves from the commercial centers of the United States led to a loss of confidence in New York banks, making the panic inevitable. The policy of enacting regulations intended to respond to one problem simultaneously and inevitably creates other impediments, not less severe. This is the hallmark of financial regulations since these essential liquid instruments, just like water, will eventually find their way out to the unregulated high seas. This phenomenon repeats itself in many past, present and future crises.

Rolnick, Smith and Weber (1997) emphasize two different causes of the Panic of 1837. One view sees the culprit as President Andrew Jackson for not renewing the charter for The Second Bank of the United States, which had disciplined weaker banks by returning their paper. The other highlights the fall in cotton prices as conducive to the crisis.

Following the implementation of the Deposit Act and the Specie Circular, banks began suspension of converting banknotes into specie in May of 1837. Almost a year later, in April of 1838, banks began to resume convertibility. In the following year, a further economic slowdown occurred, causing banks to again suspend payments, leading to many additional bankruptcies. Two more years of recession followed (Rolnick, Smith and Weber, 1997).

**The Panic of 1857**

The Panic of 1857 was characterized by the closure of the Ohio Life and Trust Company, a collapse of the stock and bond markets and a sharp recession. The United States was on a bi-metallic (gold and silver) standard at the time. Thus the discovery of new gold deposits sharply increased the money supply. Consequently, a speculative bubble emerged, primarily in railroads and the land required to build them. Nearly \$700 million was spent over a nine year period to construct about 18,000 miles of rails, which at the time accounted for over 77 percent of all railroad mileage in the United States (Conant, 1915, p. 637).

When the bubble burst, speculators were unable to repay their debts causing some banks to fail. This increased the probability that other banks would go bankrupt. Bank runs resulted in the collapse of stock and bond markets, which further exacerbated the situation. As banks failed, many cities and states suspended the convertibility of bank deposits into gold. However, lacking a central monetary authority, nation-wide coordination among banks was impossible. Thus, when Philadelphia suspended convertibility in September of 1857 and New York City did not, fear-induced bank runs ensued in New York City. Consequently, on October 13, 1857, New York City suspended convertibility. Only on November 20 did New York resume partial convertibility, thus averting a major crisis (Calomiris and Schweikart, 1991, p. 822-828).

**The Panic of 1873**

The Panic of 1873 was caused by rapid overexpansion following the American Civil War. From the mid-1860s to the early 1870s, the United States railroad industry thrived. As tracks were laid, railroad companies benefited from government grants and subsidies. These grants and subsidies, in turn, spurred private investment in the industry (Oberholtzer, 1926). The railroad industry grew at a fast pace, eventually creating an excess supply of railroads and dramatically reducing the returns to investment in new rails.

Significant debt accumulation led to failure of many large entities, including Jay Cooke & Company. The stock exchange closed for ten days starting on September 20, 1873, setting off a chain reaction. Bank runs ensued as people panicked due to losses from railroad investments, causing further failures of banks. The U.S. GDP decreased for the following six years.

As in previous panics, the Panic of 1873 was worsened by government policies. The Coinage Act of 1873, issued earlier in the year, moved the United States to a pure gold standard, so that silver was dethroned as a form of exchange. The amount of currency available decreased, which led to sudden and severe deflation. Furthermore, the monetary policy of President Ulysses Grant consisted of further contracting the money supply (Wheeler, 1973). The resultant sudden and unexpected high interest rates hindered the repayment of debt. Although the U.S.

government tried to mitigate the deflation by buying bonds, the attempt was insufficient to counter the decrease in GDP.

### **The Panic of 1893**

The Panic of 1893 is considered the worst financial crisis in the United States prior to the Great Depression (Timberlake, 1997). Similar to the Panic of 1873, it was caused by an array of factors, the most important being the overexpansion of the railroad industry and an expansionary monetary policy.

The previous decade of the 1880s was a time of high economic growth and optimism. However, the main engine of this growth was risky speculation. In the 1860s, citizens invested heavily in American railroads creating excess capacity in the industry, leading to bankruptcies. The dissolution of the Philadelphia and Reading Railroad was the first sign of the panic (Holton, 1990). As more railroads companies and their suppliers filed for bankruptcy, concern among the general public grew, and bank runs began. More entities failed, leading to widespread layoffs and causing unemployment to increase to 19 percent at the peak of the panic (Hoffman, 1970).

Analogous to the previous panics, the Panic of 1893 was worsened by a deflationary monetary policy. The Sherman Silver Purchase Act of 1890 required the U.S. government to purchase silver using currency backed by metallic specie. Soon there were not enough reserves in banks to exchange silver for gold. The value of silver became practically negligible, and deflation persisted for years, making it difficult for firms and individuals to repay debt.

### **The Panic of 1907**

The Panic of 1907, another of the most severe financial crises before the Great Depression, was triggered by a sudden downturn in the New York Stock Exchange. Stock prices fell almost fifty percent from the previous year (Braunstein, 2009). One of the most significant causes of the downturn was a failed bid to corner the stock of the United Copper Company. When the venture failed, entities that had banked on its success incurred substantial losses.

Bank runs began as concerns about decreased liquidity surfaced (Bruner and Carr, 2007). The runs only compounded the shortage of funds, and firms accrued significant amounts of debt. The lack of a U.S. central bank to inject liquidity meant that the crisis could only be temporarily ameliorated by the lending of emergency funds by wealthy magnates and large corporations.

In just a few months, however, the stock value of the Tennessee Coal, Iron, and Railroad Company (TCI) plummeted. Crisis was once again closely averted by another emergency purchase—J.P. Morgan bought TCI to bolster the value of its shares (Bruner and Carr, 2007).

Unlike in Panics of 1853, 1873, and 1893, economic overexpansion did not play a significant role in the Panic of 1907. Instead, the cause of the crisis was a lack of funds, exacerbated by the absence of a central banking system, which was

disbanded when President Andrew Jackson did not renew a charter for a central bank in 1823. However, the crisis was among a series of factors that led to the establishment of the Federal Reserve in 1913 (Caporale and McKiernan, 1998).

### **The Great Depression**

The most severe financial crisis of the twentieth century in the United States began after a dramatic stock market crash in October 1929. In just a few months, the Dow Jones Industrial Average fell from the high 300s to below 100 (PBS, 2008). The causes of the crash were similar to those of previous financial panics. There was a rise in speculation during the “Roaring Twenties” which led to a financial bubble. The bubble burst in 1929, and was followed by widespread panic. As many attempted to retrieve their bank deposits and to sell stocks, financial institutions incurred more debt and stock prices fell further. Other factors that led to the depression include the unbalanced world economy in the wake of World War I and the resulting inflation, left unchecked by the newly-established Federal Reserve.

The Great Depression lasted for several years, despite efforts at resolution by the U.S. government. The Hoover Administration directly lent capital to banks and individuals with the passing in 1932 of the Reconstruction Finance Corporation Act and the Federal Home Loan Bank Act. In the years from 1933 to 1938, President Franklin Roosevelt actuated the New Deal, a series of economic programs which generated millions of jobs for the unemployed. Ultimately, though, it was the build-up for World War II that bolstered spending and Gross Domestic Product, ending the depression (Klein, 1947).

The Great Depression led to the establishment of the Glass – Steagall Act in 1933, which regulated the economy for years to come. It divided banks into separate categories, and created the Federal Deposit Insurance Corporation (FDIC) to insure citizens in case of bank runs.

### **The Savings and Loan Crisis**

The Savings and Loan Crisis was rooted in the failure of many Savings and Loans (S&L) associations. These associations traditionally offer interest on savings deposits and use the deposits to make additional loans. Until 1980, the thrift industry was regulated by the U.S. government. However, with the passage of the Depository Institutions Deregulation and Monetary Control Act in 1980 and the Garn – St. Germain Depository Institutions Act of 1982, thrift institutions became financial intermediaries with the power of banks, but without the associated regulations (Mason, 1993). Risky speculation began, especially concerning real estate. With time, as yields on speculation declined, many Savings and Loans institutions failed.

Other factors which led to the crisis include the Tax Reform Act of 1986, which removed tax shelters and decreased values of many investments.

Government deposit insurance of thrift institutions led S&Ls to invest in riskier ventures. The collapse was ineluctable (Strunk and Case, 1988).

As a result of The Savings and Loan Crisis, the government repealed the Glass-Steagall Act. Furthermore, the federal government provided funds and bailed out many S&L institutions. Many point to these bailouts as contributing to the large budget deficit in the 1990s and beyond.

## THE CURRENT FINANCIAL CRISIS

The current financial crisis, which began in 2007, is said to be the worst economic crisis to strike the U.S. since the Great Depression. It was caused by a variety of factors, but once again, its roots can be traced to speculation and the bursting of a financial bubble. Before the crisis struck, in 2006, the value of real estate peaked. However, much of the rise in prices was hinged on speculation.

In the early- and mid-2000s, as many foreign and domestic citizens invested in mortgage-related companies and products, liquidity increased in the real estate industry. Companies took this availability of funds for granted and began to issue mortgages at very low rates. Financial innovations such as collateralized debt obligations (CDOs) and mortgage-backed securities (MBSs) surfaced. People who could not necessarily afford some homes in the long run began to purchase them. The effects of these new deals were not strictly internalized or regulated.

When mortgage rates began to rise due to declining prices and lagging investment in the housing industry around late 2006, new homeowners could not pay the amounts that were demanded by the subprime mortgage industry. A wave of home foreclosures began. Even when foreclosing, however, companies could not retrieve the full worth of the house that had been sold. This is because the U.S. government does not allow companies to claim assets besides the house itself to retrieve lost value. Though a landlord has the right to evict a tenant with five days notice if rent payments are late, banks must foreclose on a house and have a court order issued before a tenant can be evicted. Also, if the value of a house is lower than it was at the time of purchase, the owner loses money by having to pay more than the house is currently worth. Thus, the owner is technically permitted to walk away from paying the mortgage. The U.S. does not allow banks to seize assets in order to obtain repayment of loans.

As housing prices began to fall, buyers preferred to renege on payments of less-valued houses than to make an effort to pay for them. Thus, the value of the housing industry and its stocks declined further. Figure I shows the median and average sales prices of new homes sold in United States from 1963 until 2009. Whereas the median and average home prices were \$245,300 and \$301,200 in February 2008, the corresponding figures for July 2010 are \$204,000 and \$235,300, respectively. These figures represent a drop of about 17 percent in the median and a dive of about 22 percent in the price of the average house sold in the United States.

Figure II presents annual data of the number of housing units in thousands for sale in the United States and in its sub-regions from 1975 until 2009. Whereas in the year 2006 the numbers were 537, 54, 97, 267, and 119 for the U.S., North-East, Mid-West, South and West, respectively, these numbers dropped in 2009 to 232, 27, 38, 118, and 48. Percentage-wise these figures represent a drop of about 57 percent for the United States as a whole and decreases of 50, 61, 56 and 60 percent, for the North-East, Mid-West, South and West, respectively. Figure III presents annual data of the lots sold for future construction of housing units in the United States in what are called “permit-issuing areas that will never have a permit authorization.” This figure is useful because it indicates expectations for future development, since at the time of purchase people do not have permits to build on these lots. According to these data, whereas in 2005 the figures for the United States, the Northeast, the Midwest, the South and the West regions were 1,283, 81, 205, 638 and 358, respectively, these figures dropped in 2009 to 375, 31, 54, 202, and 87. Figure IV shows the current state of the U.S. housing market. The regions in the blue are the housing markets that were the most stable in August 2010. However, even in these “stable” locations, prices are dramatically lower than would be expected. For some houses, prices are currently more than 80% lower than they were in 2006.

The result of falling sales and prices of houses was manifested in devaluation of companies with mortgage-backed securities. Bear Sterns was taken over by J.P. Morgan Chase in 2008. Later that same year, Lehman Brothers filed for bankruptcy. Also in 2008, Fannie Mae and Freddie Mac, both companies that sold many risky deals and assets, were essentially taken over by the U.S. government. By October 2010, Fannie Mae and Freddie Mac have cost taxpayers an estimated \$400 billion, and there is currently no path to resolution. Merrill Lynch was sold at a price far below its market value. Goldman Sachs and Morgan Stanley, though avoiding failure, yielded to more government regulation (Labaton, 2008).

The sudden decline of large, well-known financial entities led to general concern and panic. As in other financial crises, bank runs began, and there was a sharp drop in investor confidence. Companies and industries that relied on credit from the financial services industry began to suffer as well. For example, the purchase of automobiles generally requires substantial credit, and consequently General Motors and Chrysler required government assistance to be bailed out in 2009. As companies tried to cut back on spending, unemployment rose and general spending declined, bringing the United States to a full-fledged recession.

Figure V shows the unemployment rate for U.S. citizens 16 years of age and over since 1948. A period of unemployment similar to the present state occurred in 1982-1983. For 18 months, from March 1982 to November 1983, the unemployment rate was above 9 percent. The U.S. actually had fifty-six months of unemployment at 7 percent or above, lasting from May 1980 until January 1986. In this most recent recession, the U.S. unemployment rate has been above 9 percent

for 16 months from May 2009 through August 2010, and above 7 percent for 21 months since December 2008 to August 2010. History again provides evidence of the difficulties in reducing unemployment. Recently released data from the U.S. Labor Department indicates that unemployment from month-to-month and year-to-year is still stagnant and remains high. Eleven of the fifty states showed no change in unemployment, and twenty-seven states showed only a slight increase (Izzo, 2010).

Such long-term high unemployment rates are intimately related to both demand and supply of labor. Unemployed laborers lose skills, making the process of rehiring slow and difficult. The effects on general standard of living are also detrimental. Figure VI and Table 1 show the poverty rate from 1959 to 2009. The poverty rate is currently at 14.3 percent - the highest it has been in fifteen years. The number is even higher among certain minorities. For example, more than one-fourth of both the African American and Hispanic American populations are estimated to be living "in poverty."

There have been significant government attempts to quell the recession beginning in 2008. During the Bush Administration, the U.S. government purchased troubled assets that were causing lack of funds. These policies, however, were not very successful. The Obama Administration introduced large stimulus packages, in order to increase employment and spending. However, the effect of the stimulus has not yet been particularly pronounced. In fact, some argue that the Keynesian multiplier, which determines how effective government spending is in combating recession, is much lower than it was in previous decade (Cogan, Cwik, Taylor, and Wieland, 2009). Significant public spending, monetarists argue, contributes to national debt more than it supports the economy.

As Figure VII and Table 2 show, federal outlays as a percent of GDP are currently very high—about 24.7 percent of GDP can be attributed to government spending. The only time the government spending comprised a larger percent of GDP was during WWII (41.88 percent in 1945). The comparable number for 1920, two years after the end of World War I was only 7.33 percent. Even during the American Civil War of 1861–1865, the number peaked at a mere 14.2 percent. Meanwhile, the Federal Reserve Bank is currently cutting and maintaining low interest rates. While there are concerns that inflation may result from the latter action, proponents claim that interest rates can and will be stabilized once the economy begins to recover.

What else can be done to help the U.S. out of the current recession? Shultz, Boskin, Cogan, Meltzer, and Taylor (2010) claim that it was deviating from sound economic principles which caused the recession. Policies, they argue, should take into account incentives and disincentives. Tax cuts are effective, but they only evince the intended incentives when they are permanent. Government intervention should be less than it is at the moment, given the current U.S. deficit and large federal budget, and the potentially stifling crowding out effect that it has on industries. To prevent future panic, the Fed should have a set of concrete rules to

follow in hypothetical situations. Rules which are simple and transparent, rather than discretionary economic policies, should be the norm. Any discretionary government interventions should be discouraged.

Additionally, in an increasingly globalized world, it is important to consider the role of world economies in the onset and the alleviation of recessions. There is implicit competition among countries in terms of regulation. Economies with fewer regulations inherently tend to attract more investment and resources.

## FINANCIAL CRISES IN POLAND

Poland experienced a major crisis in 1991. The Bank for Food Economy and the cooperative banking system, together with seven of the nine state-owned banks, which controlled ninety percent of the national credit market, all experienced solvency problems. It is estimated that the losses in the crisis amounted to seven percent of the Polish GDP (Klytchnikova, 2000).

Despite the banking crisis in the early 90s, Poland has fared well in the most recent crisis. As the International Monetary Fund (IMF) Managing Director Dominique Strauss-Kahn observes, Poland employs sound macroeconomic policies and financial management and thus has remained relatively unscathed. With Poland being one of the few European Union countries to register positive economic growth for 2009, his claims are not unfounded. Table 3 shows that Poland has a higher GDP growth rate compared with the average figure for the emerging markets in eastern and central Europe. Figure VIII shows the Warsaw Stock Exchange Index (WIG) from 1991 to 2009, as well as a narrower view to provide detail on recent fluctuations.

## CONCLUSION

Economic recession can often trace its roots back to unregulated expansion, as shown in many crises in the last three centuries. Almost every past panic has begun with rapid expansion in some industry. The rapidly expanding industry often falls into the pattern of acquiring assets and funding from new or risky financial institutions and instruments. The expanding bubble ultimately bursts when the growth slows. Millions lose money and assets, and the resulting failure of banks, companies and even government entities leads to panic, deflation and unemployment.

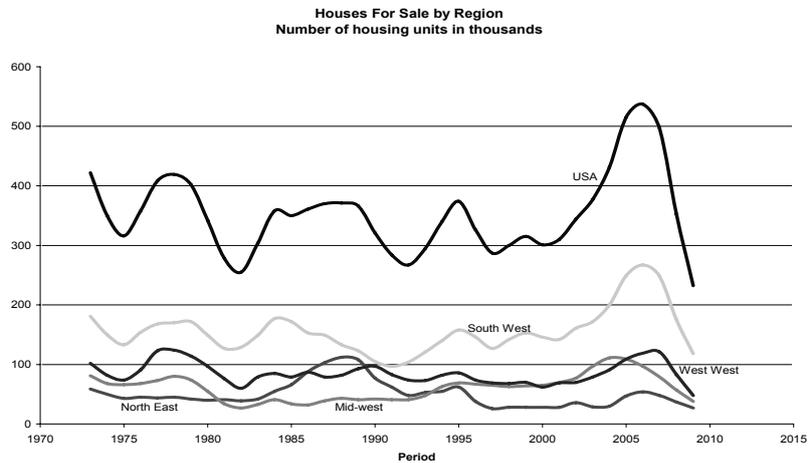
If expansion of an industry were to be kept in check, so that bubbles and artificial growth could be avoided, perhaps panics would be less pronounced. However, examining past crises shows one very important pattern. No matter what regulations a government attempts to impose, people find ways to circumvent them. The boom-bust cycle that is typical of a capitalist economy is seemingly unavoidable. Further regulations are no panacea because regulators systematically fail to foresee the extent of human ingenuity in circumventing their restrictions.

Figure I  
The Median and Average Sales Prices of New Homes Sold in United States  
Note that the median is above the average price



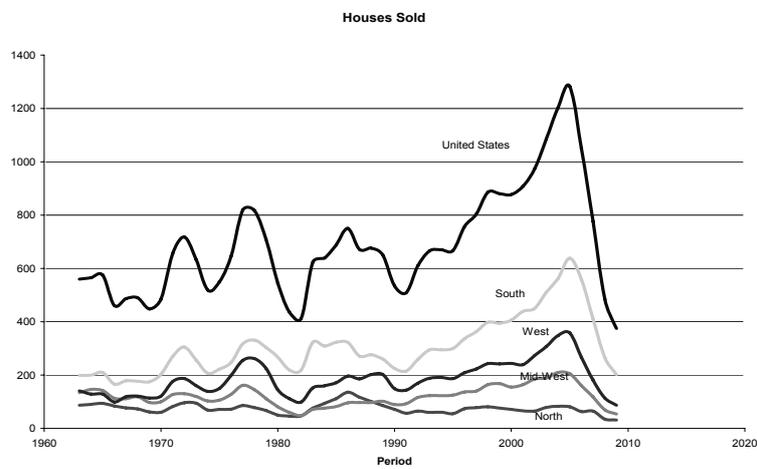
Source : [www.census.gov/const/uspricemon.pdf](http://www.census.gov/const/uspricemon.pdf)

Figure II  
Houses for Sale by Region



Source: [www.census.gov/const/fsalmon.pdf](http://www.census.gov/const/fsalmon.pdf)

Figure III  
The Annual Data of the Number of Housing Units in Thousands of Houses Sold in the United States by Region in Permit-issuing Areas That Will Never Have a Permit Authorization



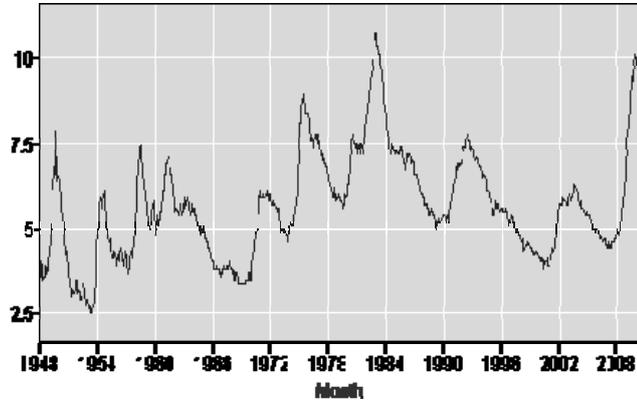
Source: [www.census.gov/const/soldann.pdf](http://www.census.gov/const/soldann.pdf)

Figure IV  
The Best and Worst Markets in the U.S. for Single-Family Real-Estate Investment Property



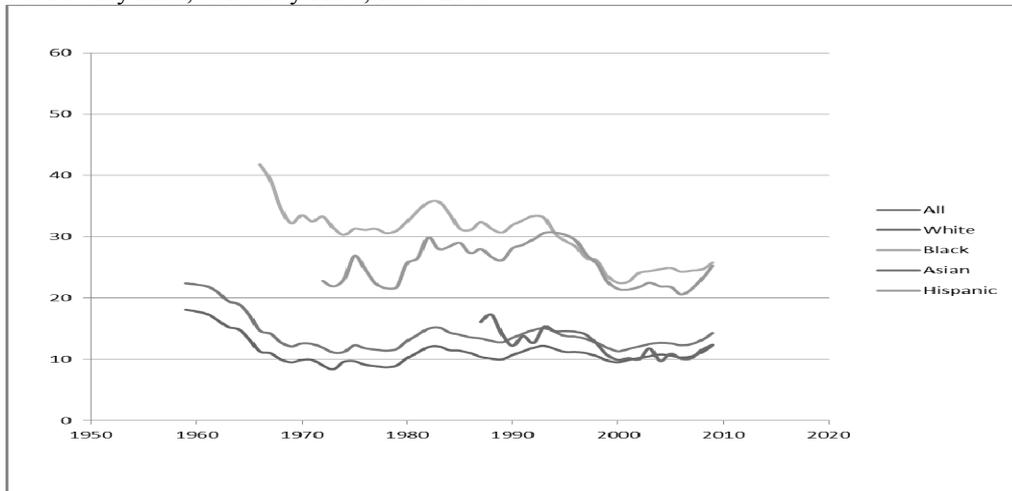
Source: Wall Street Journal-McQueen, M.P, August 2010

Figure V  
Unemployment Rate, 16+ Years of Age, 1948-Present



Source: Bureau of Labor Statistics (BLS), 2010

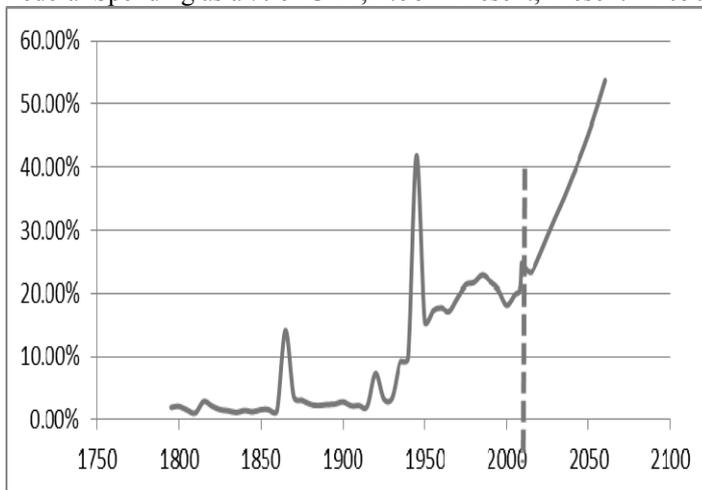
Figure VI  
 US Poverty Rate, Sorted by Race, 1959-2009



Source: DeNavas-Walt Carmen, Bernadette D. Proctor and Jessica C. Smith (2010) U.S. Census Bureau, September 2010; Table B1

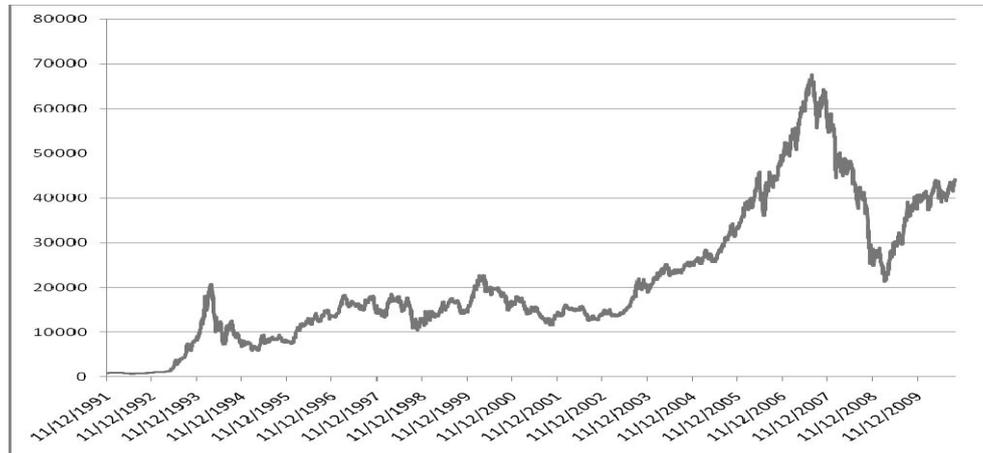
Figure VII

Federal Spending as a % of GDP, 1795 – Present; Present – 2050 (Projected)



Source: Wall Street Journal- Shultz, Taylor, Cogan, Meltzer, 2010

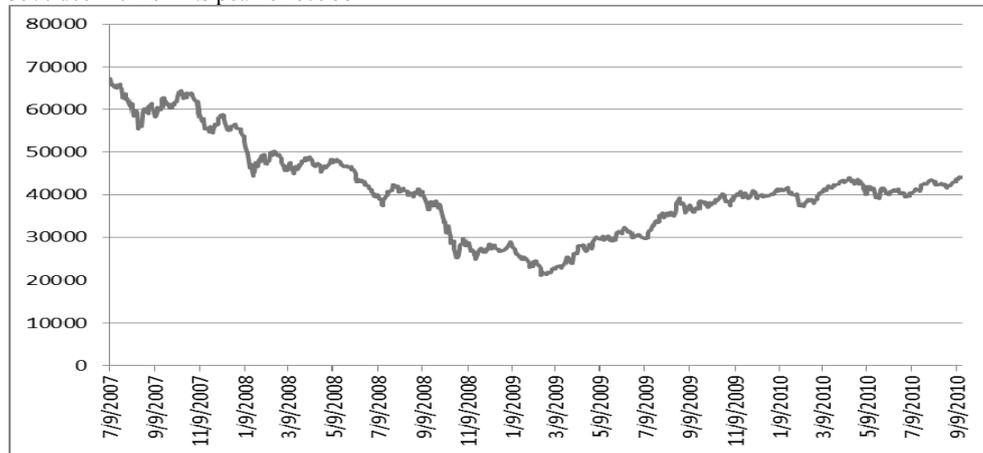
Figure VIII  
Warsaw Stock Exchange Index (WIG) 1991 – Present



Source : <http://www.bloomberg.com/markets/>

Figure VIII  
Warsaw Stock Exchange Index (WIG) 1991 – Present (continued)

This more close up view shows that though there was a rather consistent increase in the index until 2007, from July 2007 onwards, the index has been declining. The index is currently at 44249 – a 35% decline from its peak of 67568



Source : <http://www.bloomberg.com/markets/>

Table 1  
US Poverty Rate (%), Sorted by Race, 1959 – 2009

<b>Year</b>	<b>All</b>	<b>White</b>	<b>Black</b>	<b>Asian</b>	<b>Hispanic</b>
<b>2009</b>	14.3	12.3	25.8	12.4	25.3
<b>2008</b>	13.2	11.2	24.7	11.6	23.2
<b>2007</b>	12.5	10.5	24.5	10.2	21.5
<b>2006</b>	12.3	10.3	24.3	10.1	20.6
<b>2005</b>	12.6	10.6	24.9	10.9	21.8
<b>2004</b>	12.7	10.8	24.7	9.7	21.9
<b>2003</b>	12.5	10.5	24.4	11.8	22.5
<b>2002</b>	12.1	10.2	24.1	10	21.8
<b>2001</b>	11.7	9.9	22.7	10.2	21.4
<b>2000</b>	11.3	9.5	22.5	9.9	21.5
<b>1999</b>	11.9	9.8	23.6	10.7	22.7
<b>1998</b>	12.7	10.5	26.1	12.5	25.6
<b>1997</b>	13.3	11	26.5	14	27.1
<b>1996</b>	13.7	11.2	28.4	14.5	29.4
<b>1995</b>	13.8	11.2	29.3	14.6	30.3
<b>1994</b>	14.5	11.7	30.6	14.6	30.7
<b>1993</b>	15.1	12.2	33.1	15.3	30.6
<b>1992</b>	14.8	11.9	33.4	12.7	29.6
<b>1991</b>	14.2	11.3	32.7	13.8	28.7
<b>1990</b>	13.5	10.7	31.9	12.2	28.1
<b>1989</b>	12.8	10	30.7	14.1	26.2
<b>1988</b>	13	10.1	31.3	17.3	26.7
<b>1987</b>	13.4	10.4	32.4	16.1	28
<b>1986</b>	13.6	11	31.1		27.3
<b>1985</b>	14	11.4	31.3		29

Source: DeNavas-Walt Carmen, Bernadette D. Proctor and Jessica C. Smith (2010) U.S. Census Bureau, September 2010; Table B1

Table 1  
US Poverty Rate (%), Sorted by Race, 1959 – 2009 (continued)

<b>Year</b>	<b>All</b>	<b>White</b>	<b>Black</b>	<b>Asian</b>	<b>Hispanic</b>
<b>1984</b>	14.4	11.5	33.8		28.4
<b>1983</b>	15.2	12.1	35.7		28
<b>1982</b>	15	12	35.6		29.9
<b>1981</b>	14	11.1	34.2		26.5
<b>1980</b>	13	10.2	32.5		25.7
<b>1979</b>	11.7	9	31		21.8
<b>1978</b>	11.4	8.7	30.6		21.6
<b>1977</b>	11.6	8.9	31.3		22.4
<b>1976</b>	11.8	9.1	31.1		24.7
<b>1975</b>	12.3	9.7	31.3		26.9
<b>1974</b>	11.2	9.6	30.3		23
<b>1973</b>	11.1	8.4	31.4		21.9
<b>1972</b>	11.9	9	33.3		22.8
<b>1971</b>	12.5	9.9	32.5		
<b>1970</b>	12.6	9.9	33.5		
<b>1969</b>	12.1	9.5			
<b>1968</b>	12.8	10	32.2		
<b>1967</b>	14.2	11	34.7		
<b>1966</b>	14.7	11.3	39.3		
<b>1965</b>	17.3	13.3	41.8		
<b>1964</b>	19	14.9			
<b>1963</b>	19.5	15.3			
<b>1962</b>	21	16.4			
<b>1961</b>	21.9	17.4			
<b>1960</b>	22.2	17.8			
<b>1959</b>	22.4	18.1			
			55.1		

Source: DeNavas-Walt Carmen, Bernadette D. Proctor and Jessica C. Smith (2010) U.S. Census Bureau, September 2010; Table B1

Table 2  
Federal Spending as a % of GDP, 1795 – Present ; *Present – 2050 (projected)*

Year	Total Outlays	Year	Total Outlays
1795	1.90%	1935	9.21%
1800	2.07%	1940	9.78%
1805	1.50%	1945	41.88%
1810	1.01%	1950	15.59%
1815	2.84%	1955	17.35%
1820	2.12%	1960	17.80%
1825	1.52%	1965	17.21%
1830	1.39%	1970	19.33%
1835	1.10%	1975	21.29%
1840	1.41%	1980	21.67%
1845	1.21%	1985	22.85%
1850	1.56%	1990	21.85%
1855	1.54%	1995	20.60%
1860	1.41%	2000	18.20%
1865	14.20%	2005	19.90%
1870	3.65%	2008	20.66%
1875	3.04%	2009	24.71%
1880	2.40%	2010	24.30%
1885	2.21%	2015	23.30%
1890	2.35%	2020	25.90%
1895	2.43%	2025	29.10%
1900	2.79%	2030	32.20%
1905	2.16%	2035	35.20%
1910	2.22%	2040	38.50%
1915	2.06%	2045	41.70%
1920	7.33%	2050	45.30%
1925	3.22%	2055	49.30%
1930	3.41%	2060	53.70%

Source: Wall Street Journal- Shultz, Taylor, Cogan, Meltzer, 2010

Table 3  
Selected Emerging European Economies : Real GDP, Consumer Prices, and Current

(Annual percent change, unless noted otherwise)

	Real GDP				Consumer Prices <sup>1</sup>				Current Account Balance <sup>2</sup>			
	2007	2008	2009	2010	2007	2008	2009	2010	2007	2008	2009	2010
<b>Emerging Europe</b>	<b>5.4</b>	<b>2.9</b>	<b>-3.7</b>	<b>0.8</b>	<b>6.2</b>	<b>8.0</b>	<b>4.7</b>	<b>4.2</b>	<b>-7.7</b>	<b>-7.6</b>	<b>-3.9</b>	<b>-3.4</b>
Turkey	4.7	1.1	-5.1	1.5	8.8	10.4	6.9	6.8	-5.8	-5.7	-1.2	-1.6
Excluding Turkey	5.9	4.1	-2.9	0.3	4.5	6.5	3.3	2.5	-9.0	-8.8	-5.6	-4.4
<b>Baltics</b>	<b>8.7</b>	<b>-0.7</b>	<b>-10.6</b>	<b>-2.3</b>	<b>7.3</b>	<b>12.2</b>	<b>3.6</b>	<b>-1.0</b>	<b>-18.0</b>	<b>-11.6</b>	<b>-5.4</b>	<b>-5.4</b>
Estonia	6.3	-3.6	-10.0	-1.0	6.6	10.4	0.8	-1.3	-18.1	-9.2	-6.5	-5.4
Latvia	10.0	-4.6	-12.0	-2.0	10.1	15.3	3.3	-3.5	-22.6	-13.2	-6.7	-5.5
Lithuania	8.9	3.0	-10.0	-3.0	5.8	11.1	5.1	0.6	-14.6	-11.6	-4.0	-5.3
<b>Central Europe</b>	<b>5.4</b>	<b>3.8</b>	<b>-1.3</b>	<b>0.9</b>	<b>3.7</b>	<b>4.6</b>	<b>2.4</b>	<b>2.6</b>	<b>-5.2</b>	<b>-6.1</b>	<b>-4.3</b>	<b>-3.8</b>
Hungary	1.1	0.6	-3.3	-0.4	7.9	6.1	3.8	2.8	-6.4	-7.8	-3.9	-3.4
Poland	6.7	4.8	-0.7	1.3	2.5	4.2	2.1	2.6	-4.7	-5.5	-4.5	-3.9
<b>Southern and south-eastern Europe</b>	<b>6.1</b>	<b>6.1</b>	<b>-3.6</b>	<b>-0.2</b>	<b>5.1</b>	<b>8.4</b>	<b>4.9</b>	<b>3.2</b>	<b>-14.2</b>	<b>-13.8</b>	<b>-8.2</b>	<b>-5.5</b>
Bulgaria	6.2	6.0	-2.0	-1.0	7.6	12.0	3.7	1.3	-25.1	-24.4	-12.3	-3.6
Croatia	5.5	2.4	-3.5	0.3	2.9	6.1	2.5	2.8	-7.6	-9.4	-6.5	-4.1
Romania	6.2	7.1	-4.1	0.0	4.8	7.8	5.9	3.9	-13.9	-12.6	-7.5	-6.5
<i>Memorandum</i>												
Slovak Republic	10.4	6.4	-2.1	1.9	1.9	3.9	1.7	2.3	-5.4	-6.3	-5.7	-5.0
Czech Republic	6.0	3.2	-3.5	0.1	2.9	6.3	1.0	1.6	-3.2	-3.1	-2.7	-3.0

<sup>1</sup>Movements in consumer prices are shown as annual averages. December/December changes can be found in Table A7 in the Statistical Appendix.

<sup>2</sup>Percent of GDP.

Source: World Economic Outlook, 2009.

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