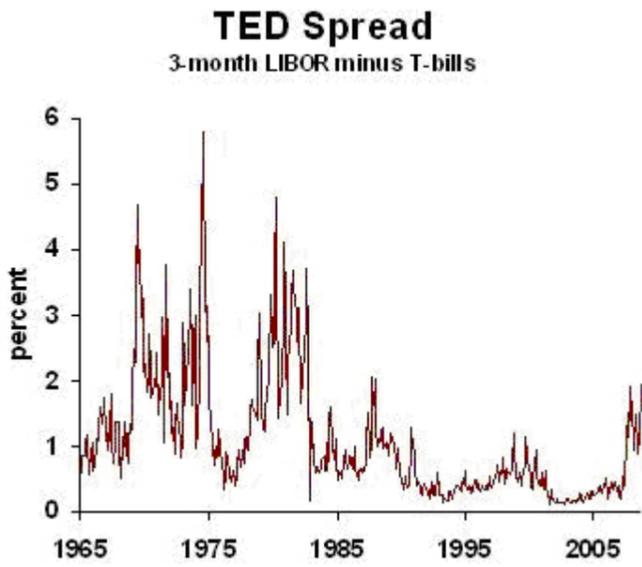


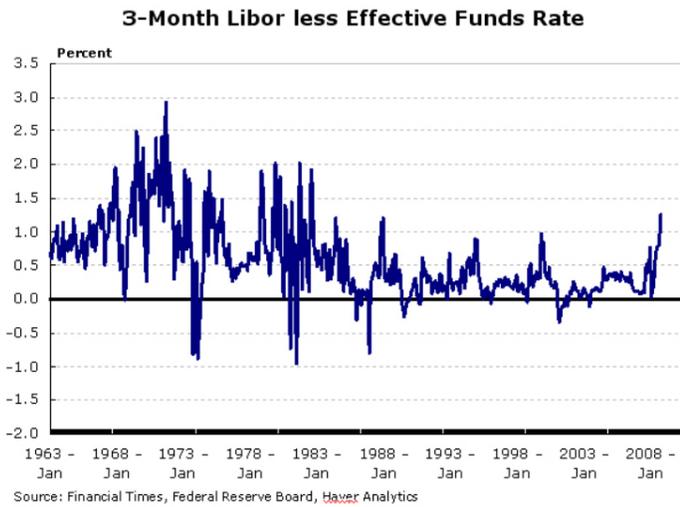
October 9, 2008

How high is financial risk today?

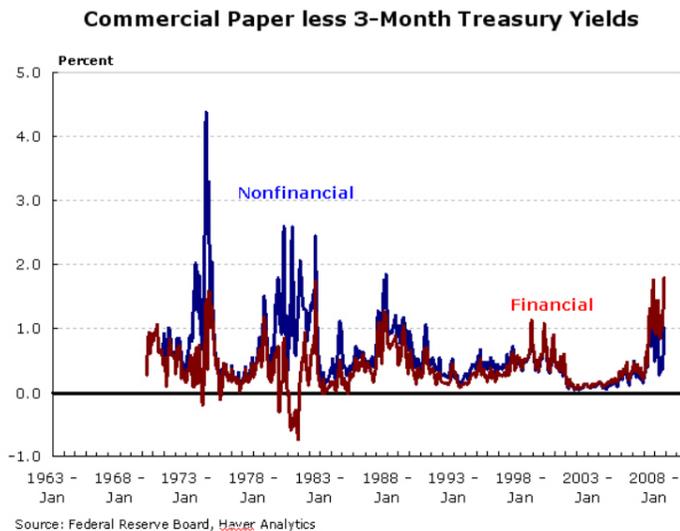
On a day as brutal as today, it is hard to find any port to hide from the storm. Maybe that is exactly the time for some perspective. At [Businomics Blog](#), [Bill Conerly does his best](#) (hat tip, [Mark Thoma](#)), making a point that I have heard repeated more than a few times: Taken from the long view, many measures of risk that we take as symptomatic of extreme market stress are not entirely without historical precedent. Dr. Conerly uses this graph of the “TED spread”—the 3-month [Libor rate](#) minus the yield on 3-month Treasury bills—to drive the point home:



Here are a couple more graphs on the same theme: The spread between 3-month LIBOR rates and the effective funds rate (which I emphasized in [an earlier post](#))...



... and the spread between yields on commercial paper and secondary-market 3-month Treasury bills.



Comforting? Maybe not. As Conerly notes, your perceptions of the ugliness of the past month or so depends very much on what you

believe to be the appropriate reference point. In the context of the period spanning the 60s and 70s the measures of risk and market stress depicted in these charts are not so impressive. However, if you believe that the world fundamentally changed in the 1980s—at the outset of [the so-called “Great Moderation”](#)—things are very dysfunctional at the moment.

For my part, I can’t help but recall the following exchange from the movie “No Country for Old Men” after two characters come across a gruesome murder scene.

Deputy Wendell: “It’s a mess, ain’t it sherriff.”

Sherriff Ed Tom Bell: “If it ain’t, it’ll do until the mess gets here.”

In other words, no matter what you compare it with the current environment is plenty challenging.

By David Altig, senior vice president and research director, Federal Reserve Bank of Atlanta

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