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Karl Aiginger

Comparing the Current Crisis to the Great Depression

OECD - Nero Conference

Paris, September 21, 2009

Comparison of the two crises with regard to two aspects

- depth and length
- policy reactions

Non goals:

- causes, changes necessary to prevent further crises;
- long-run effects on economic growth;
- exit strategies;
- missed chances, lessons forgotten;
- regulatory changes, incentives, behavior.

- Karl Aiginger: Causes, cures and consequences, WIFO WP No 341
<http://www.wifo.ac.at/aiginger/crisis/>
- Karl Aiginger: Strengthening the resilience, WIFO WP No 338
(forthcoming in Intereconomics, October 2009)
<http://www.wifo.ac.at/aiginger/resilience/>
- Bernanke (2004), Eichengreen - O'Rourke (2009), Friedman-Schwartz (1963), Galbraith (1954), Hahn (2008), Kindleberger (1986), Krugman (2009), Mooslechner (2008), Romer (1991), Schulmeister (2009), Sim (2009), Tichy (2008), etc.

The understanding of the causes of the crisis is increasing – if not the weight for the individual reasons.

Triggers: subprime loans (for the lingering phase)
Lehman Brothers (for the showdown phase)

Causes:

■ **Macroeconomic causes**

- Surpluses and deficits, monetary policy US 2002ff
- Inflated expectations about returns, asset prices
- Shift from real economy to financial sector,

■ **Microeconomic causes**

- Short termism and overleveraging
- Financial innovations: originate to distribute

■ **Regulatory lenience and regulatory failure**

- Belief in self regulation, circumvention of regulation
- Competition policy uncritical merger, too big to fail,
- Neglect of systemic risks,
- Pro cyclicity of Basel 2 and accounting rules

Amplifiers: weakness in coordination, income distribution

- Shortages food, raw materials, energy (bubbles, speculation).

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- Some authors claim (*Eichengreen – O'Rourke*) that this crisis had been “**as severe** or stronger”
 - Whether policy made the difference and how policy should continue (2010/11)
- ⇒ Finally to learn whether further declines (“**steps**”) are probably in the short term; phases of hopes/despair.

-
- Assumption: crisis is currently leveling off (as it looks for production in 09/09)
 - Methodology: own research, literature, stylized facts
 - Concentrating on industrialized countries
 - Data are incomplete, not fully comparable
- ⇒ Data sets are increasing daily
- ⇒ Project: WIFO Long-term database.

-
- Crisis is definitely not over as far as **unemployment** is concerned
 - Policy is unknown for 2010
 - Fiscal consolidation strategies, regulatory reform
- ⇒ **History warns us that crises can continue and may come back.**

- In this crisis - if it ends in 2009 - **drop in activity** was much **smaller** than in the Great Recession
- Specifically for **GDP**, **employment**, less for manufacturing, exports; for world output, industrialized countries, US, France, Germany
- The drop in GDP and manufacturing is more **synchronized**; the Great Depression had two epicenters: Germany, Austria and USA
- High growth in build-up period, GD volatile, CC smooth
- **Deflationary** background and overcapacities in GD, **scarcities** of food, raw materials, energy in CC (incl. speculation).

				Great Depression		Current Crisis
GDP	- 10	%	- 2	% (- 5%)		
Manufacturing			- 30	%	-17	% (-19%)
Exports	- 43	%	- 18%	(-30%)		
Stock markets			- 69	%	- 48%	(+33%)
Employment	- 16	%	- 3%	(- 2%)		
Unemployment			15	% (1932)	8%	(2010)
Unemployment change			+ 12	PP	+ 3	PP (2010-2008)
Inflation	- 14	%	0.5%			

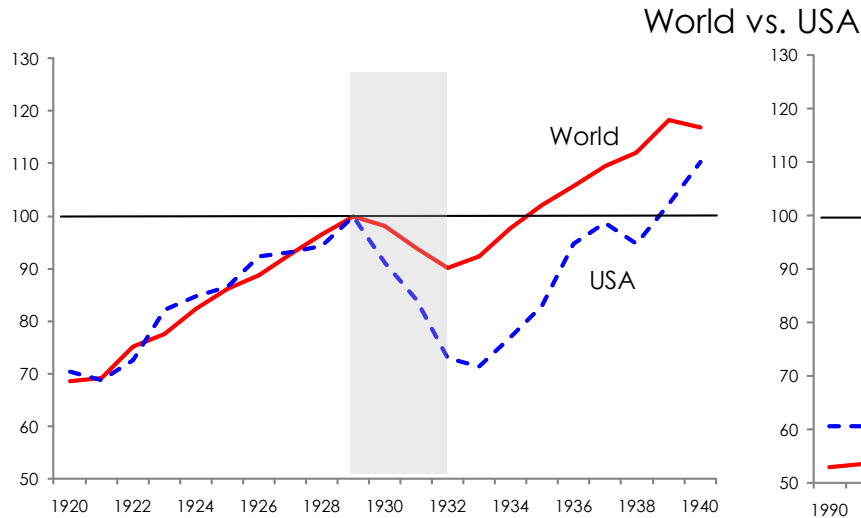
Data for world if existent, for subsets of mainly large industrial countries (GDP weighted) otherwise (in parenthesis quarterly data).

Comparison of two crises: Growth of GDP

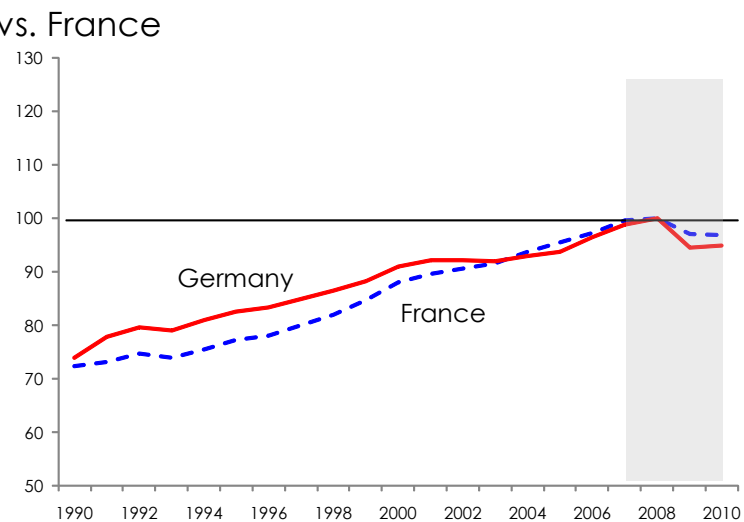
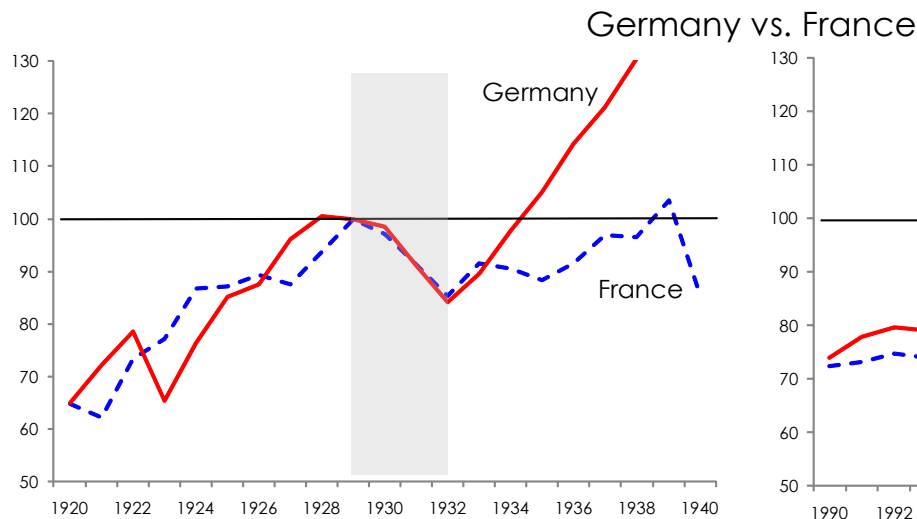
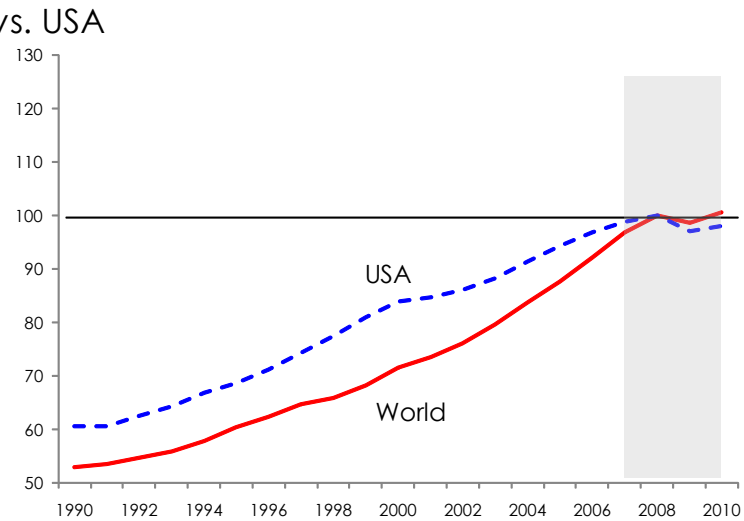
	Great Depression (1932)		Current crisis (2007ff)			
	1929/1921	1932/1929	2008/2000	2009 forecast	Trough 2009/ peak 2008	
	Annual data		Annual data	Quarterly data		
	Percentage change					
Austria	43.0	-19.8	17.3	-3.4	-4.4	1)
Germany	38.4	-15.8	9.8	-5.4	-6.7	2)
Belgium	33.4	-7.1	15.6	-3.5	-3.8	1)
Spain	34.2	-3.8	27.9	-3.2	-4.2	3)
France	61.0	-14.7	13.6	-3.0	-3.4	2)
Finland	55.7	-4.0	25.1	-4.7	-6.0	2)
Sweden	49.2	-4.3	20.9	-4.0	-6.4	3)
United Kingdom	28.5	-5.1	19.5	-3.8	-5.7	3)
USA	45.4	-27.0	19.0	-2.9	-3.9	1)
Japan	22.0	1.3	10.7	-5.3	-8.3	3)
World	44.7	-9.8	39.8	-1.3	-4.6	4)
Unweighted average over countries	41.1	-10.0	17.9	-3.9	-5.3	
Standard deviation	12.2	8.9	5.8	0.9	1.6	
Coefficient of variation	0.297	-0.886	0.325	-0.234	-0.301	

Comparison of two crises: Growth of GDP

Great Depression (1929=100)



Current crisis (2008=100)



- **GD: steep fall at the start, long recovery**
 - 70% (GDP weighted), US -84% (1929/1932)
 - **CC: steepest part 08/2008 to 03/2009**
 - Overall decline much smaller (44% vs. 69%; 4 big indices)
 - Rebound up to 33% (weighted), 45% unweighted (monthly)
 - Largest rebound in GD: +13% in world, 16% in US in 11/1929
 - Outsider Japan: now steeper than in GD (in Austria, too)
- ⇒ **Steeper decline (than in GD) from 08/2008 to 03/2009**
Proportionate decline now for given period (17 month) smaller
(Contrary to Eichengreen who started graphs in April 1929).

Comparison of two crises: Stock markets

Great Depression (1932)

Current crisis (2007ff)

Peak 1929/
trough 1921

Trough 1932/
peak 1929

Peak 2007/
trough 2003

Trough 2008/
peak 2007

August 2009/
trough 2009

Quarterly data; percentage change

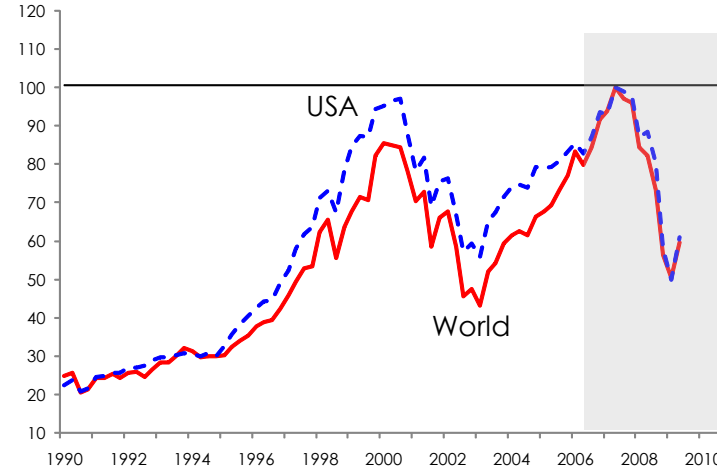
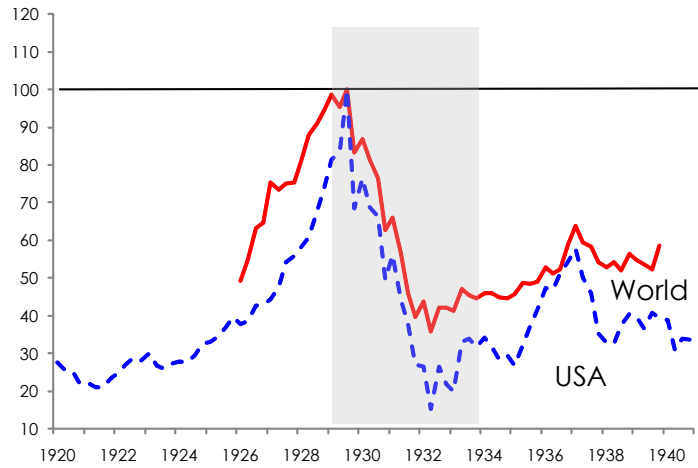
	Peak 1929/ trough 1921	Trough 1932/ peak 1929	Peak 2007/ trough 2003	Trough 2008/ peak 2007	August 2009/ trough 2009
Austria		-45.6	318.6	-65.2	69.0
Germany	-83.9	-62.1	237.7	-51.7	44.7
Belgium					
Spain					
France	335.3	-56.2	131.2	-53.6	36.7
Finland					
Sweden					
United Kingdom		-49.3	191.1	-44.7	45.8
USA	377.9	-84.8	78.8	-50.0	30.7
Japan		-34.2	127.5	-55.3	35.7
"World"		-68.9	130.1	-47.7	32.7
Unweighted average over countries	209.8	-59.6	191.5	-53.0	45.4
Standard deviation	255.2	15.4	93.0	7.5	14.6
Coefficient of variation	1.217	-0.259	0.486	-0.142	0.321

Comparison of two crises: Stock markets

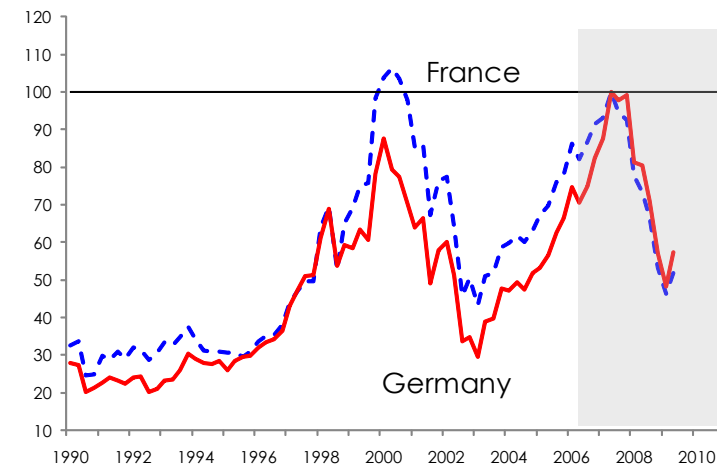
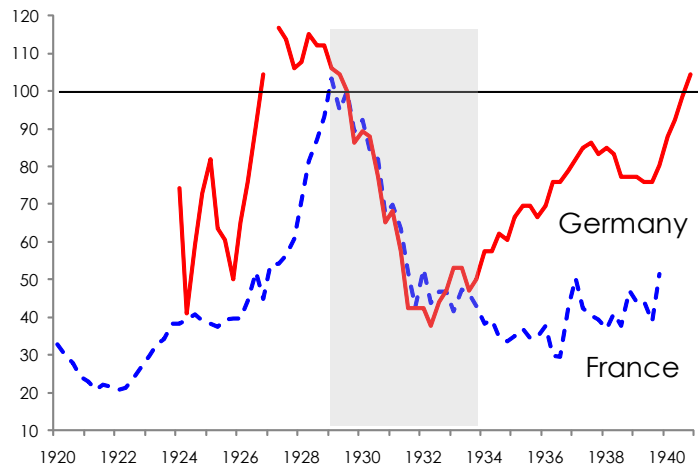
Great Depression (3Q1929=100)

Current crisis (2Q2007=100)

World vs. USA



Germany vs. France



- Exports declined by 25% between 2Q/2008 and 1Q/2009
 - Manufacturing by 19% between 4Q/2007 and 2Q/2009
 - Starting with a comparison in some month in 2008, leaving out the lingering phase of CC (after burst of US housing and Lehmann) gave rise to message “as strong or stronger”
- ⇒ **The Current Crisis had the potential to become a very deep and long depression.**

- **Recapitalization of banks, guarantees, support incl. nationalization**
- **Monetary policy**
- **Fiscal policy**
- **International coordination**
- **(Surprising) consensus of economists**
- **Better institutions**
- **Less protectionism – up to now.**

	Great Depression		Current Crisis
M1	-11 % (2008/2007)	% (1932/1929)	+ 8
Discount Rates	4% (1930)	0.5	% (2009)
Budget deficit/GDP	-2.5% (1932)	- 9	% (2009)

⇒ There are many indicators on monetary/fiscal policy
– all show quicker, stronger reactions in CC.

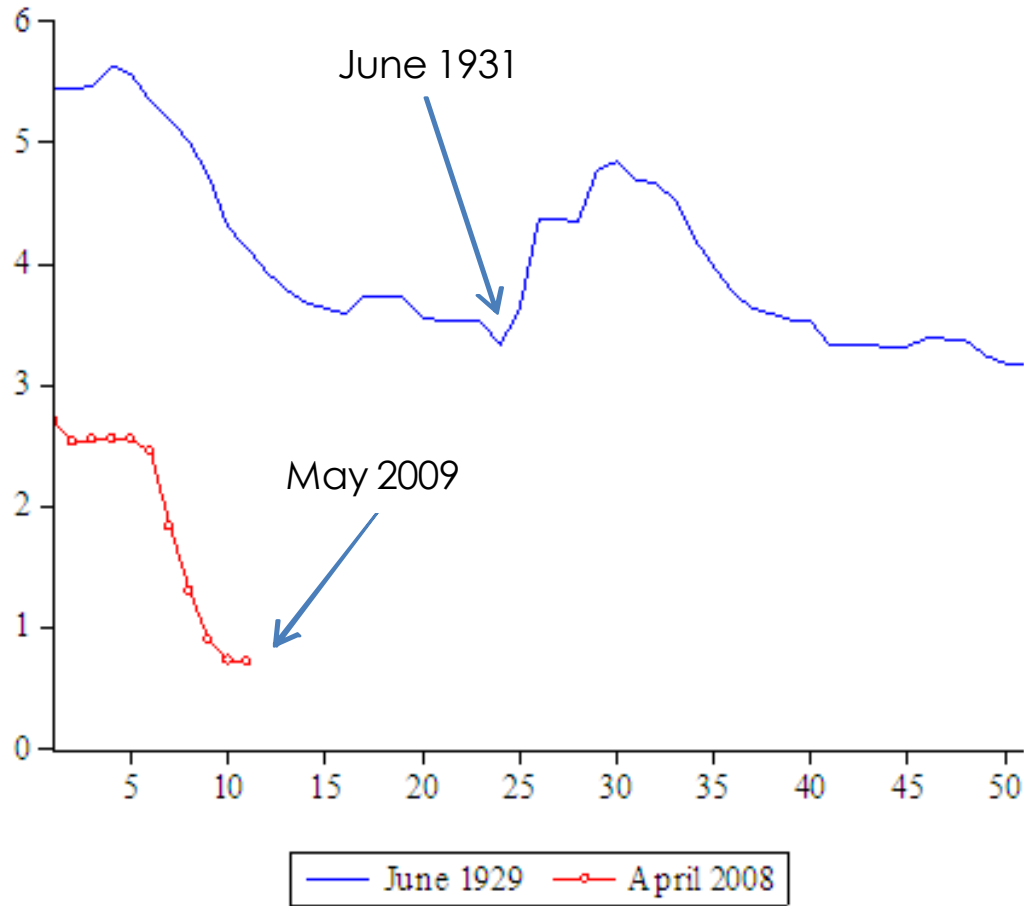
-
- **Great Depression**
 - **Increasing rate in 1928 to curb speculation**
 - **Reducing it slightly, increasing in some countries to prevent capital outflow**
 - **Asymmetric handling of gold standard**
 - **Imploding multipliers after bank runs and export decline.**

- Fed increased Rate in 1928 to curb stock market speculation
 - M1 flat in 1929/30 (18 countries), then -15% 1929/32
- Gold standard, currency goal, asymmetric reaction
 - Decreasing multiplier, higher reserve requirements, bank runs and failures
- Nominal discount rates reduced somewhat from 5.5 to less than 4
 - Deflation resulted in enormous (double digit) real rates!
- Real wage increases (despite lower nominal / lower working hours)
 - From 1934/35 rapidly increasing M1, the more the less gold standard

Current Crisis

- Discount rate $\Rightarrow 0$,
- Quantitative easing,
- Unconventional operations.

Central Bank Discount Rates in Great Depression vs. Current Crisis

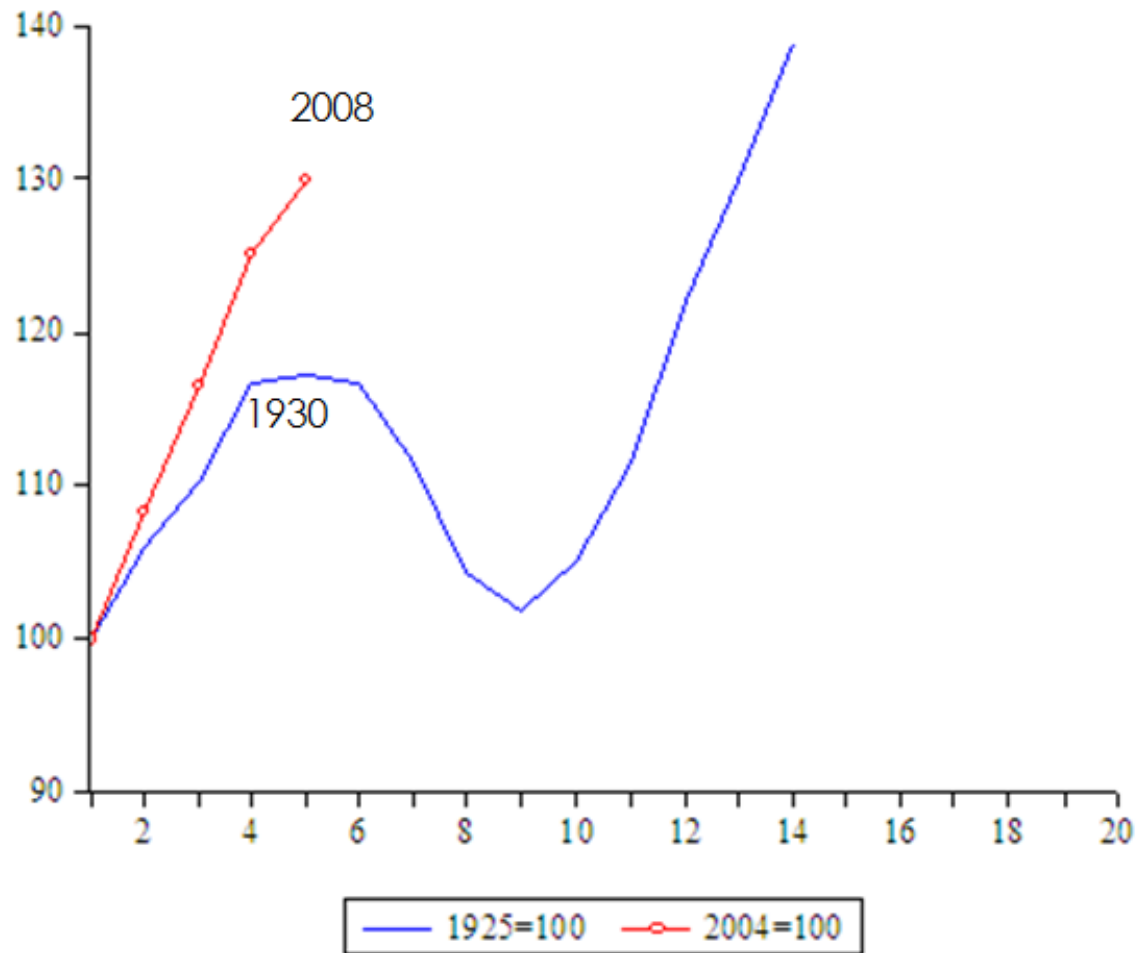


Source: Eichengreen–O'Rourke (2009).

Comparison of two crises: inflation/ deflation (consumer prices)

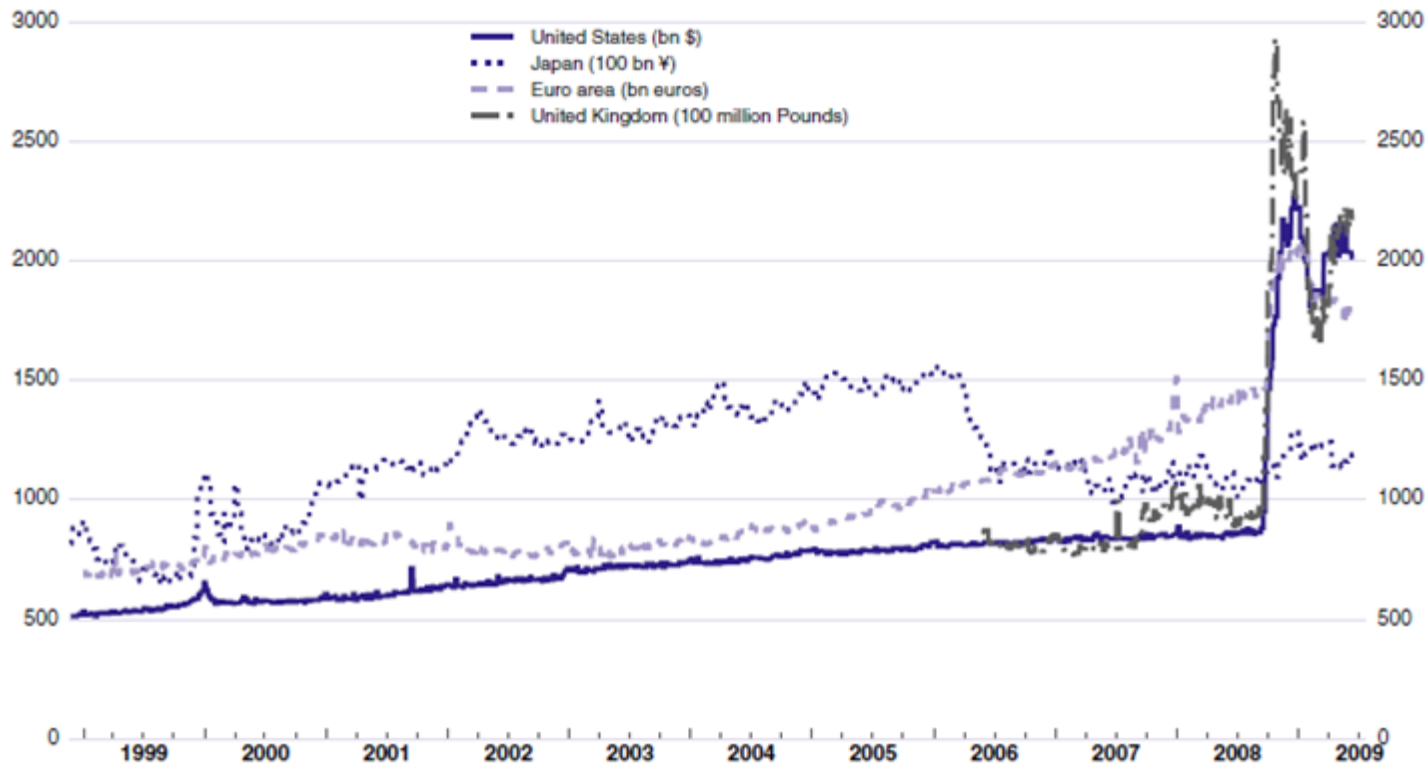
	Great Depression (1932)				Current crisis (2007ff)	
	1930	1931	1932	1932/1929 Percentage price change	2008	2009 forecast
	Change over previous year				Change over previous year	
Austria	0.0	-5.0	2.1	-3.0	3.2	1.1
Germany	-4.0	-8.3	-11.4	-22.0	2.6	0.7
Belgium						1.2
Spain						1.4
France	1.0	-4.0	-9.3	-12.0	2.8	0.9
Finland						1.1
Sweden	-3.6	-3.1	-1.3	-7.7	3.4	0.7
United Kingdom	-4.0	-6.3	-2.2	-12.0	4.0	1.3
USA	-2.9	-8.3	-10.4	-20.2	3.9	0.3
Japan						-0.5
"World" ⁴⁾	-2.2	-5.8	-6.9	-14.1	2.8	0.5
Unweighted average over countries	-2.2	-5.8	-5.4	-12.8	3.3	1.0
Standard deviation	2.2	2.2	5.6	7.2	0.5	0.4
Coefficient of variation	-0.975	-0.379	-1.043	-0.565	0.163	0.362

Money Supplies in Great Depression vs. Current Crisis



Source: Eichengreen–O'Rourke (2009).

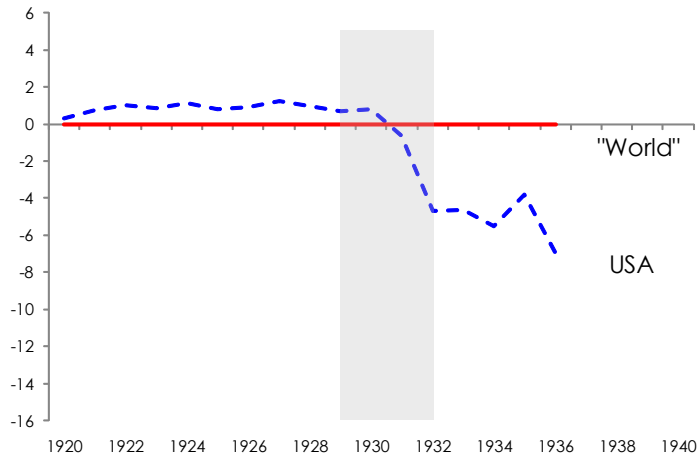
Expansion of Central Banks' balance sheets 2000/2009



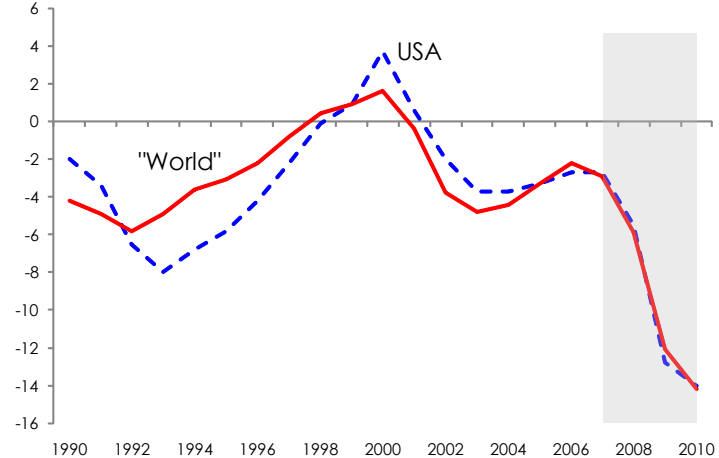
Source: IMF (2009) using Bloomberg, Bank of Japan, Datastream, ECB.

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- **Balancing budgets and hesitating vs. coordinated, aggressive**
 - **Great Depression:**
 - Mitigate or sterilize (smaller) automatic stabilizer
 - Balanced budgets at least up to 1932
afterwards expansion with hesitation and country difference
 - **Current Crisis:**
 - Larger automatic stabilizers
 - Adding stimulus packages (within 6 month, nearly all countries)
 - International help for countries who could not (deficits, currency problems)
 - China did an extra effort
 - We have to do and we can do mentality.

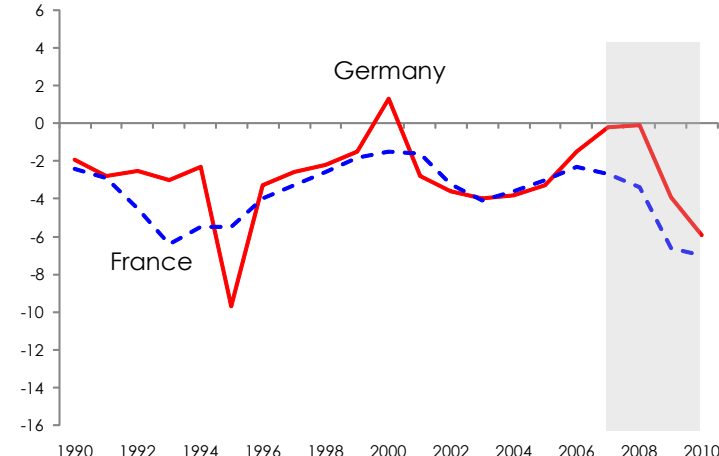
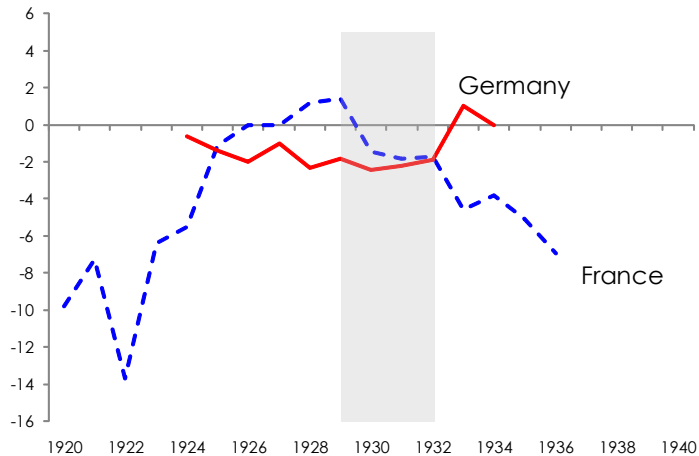
Great Depression



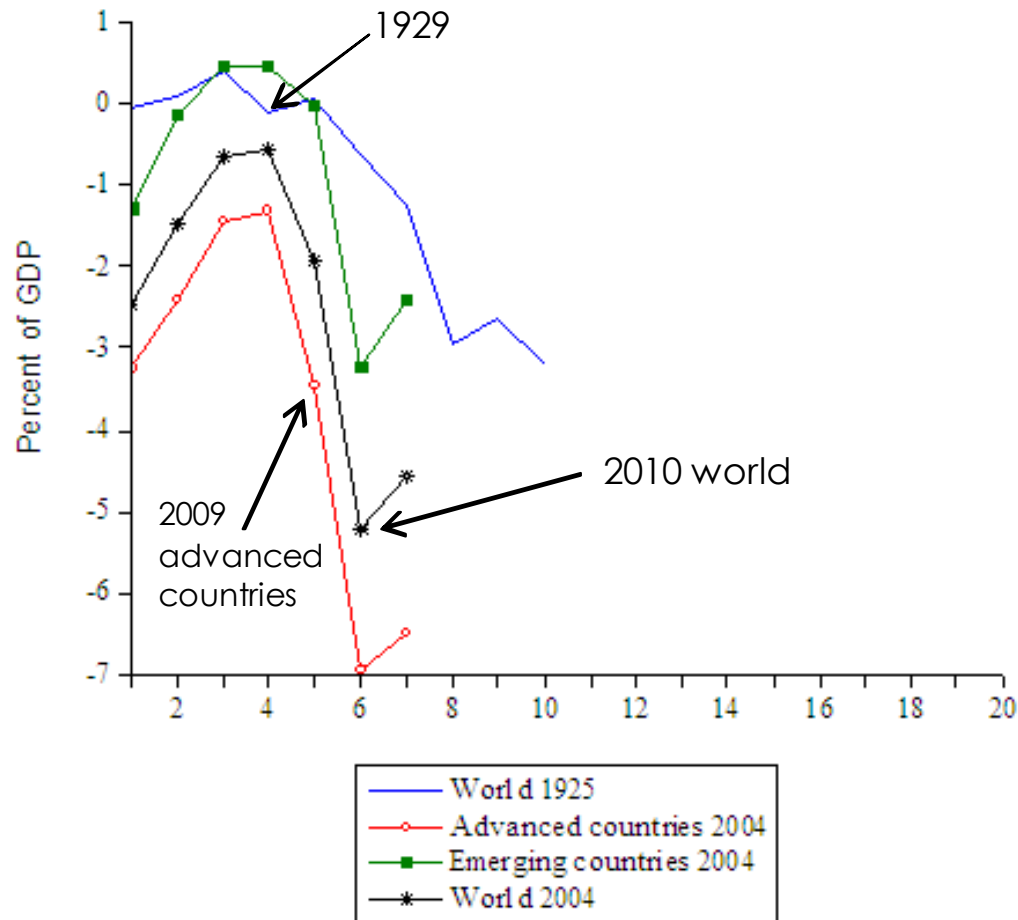
Current crisis



Germany vs. France



Government Budget Surpluses in the Great Depression vs. Current Crisis



Source: Eichengreen–O'Rourke (2009).

Fiscal balances 2006 to 2010: Per cent of GDP/Potential GDP

	2006	2007	2008	2009	2010
United States					
Actual balance	-2.2	-2.9	-5.9	-10.2	-11.2
Underlying balance ²	-3.0	-3.5	-5.8	-7.7	-8.5
Underlying primary balance ²	-1.0	-1.4	-3.8	-6.2	-6.8
Gross financial liabilities	61.7	62.9	71.1	87.4	97.5
Japan					
Actual balance	-1.6	-2.5	-2.7	-7.8	-8.7
Underlying balance ²	-4.0	-3.8	-4.3	-5.9	-6.0
Underlying primary balance ²	-3.3	-3.1	-3.5	-5.0	-4.7
Gross financial liabilities	172.1	167.1	172.1	189.6	199.8
Euro area					
Actual balance	-1.3	-0.7	-1.9	-5.6	-7.0
Underlying balance ²	-1.6	-1.4	-1.9	-2.6	-3.8
Underlying primary balance ²	1.0	1.2	0.7	0.0	-1.2
Gross financial liabilities	74.6	71.2	73.4	82.5	89.2
OECD¹					
Actual balance	-1.3	-1.4	-3.2	-7.7	-8.8
Underlying balance ²	-2.4	-2.5	-3.8	-5.5	-6.2
Underlying primary balance ²	-0.5	-0.6	-2.0	-3.8	-4.4
Gross financial liabilities	75.0	73.5	78.7	91.6	100.2

Source: IMF (2009) using OECD Economic Outlook 85 database.

- For production it could be over (decline stopped)
 - Not for unemployment
 - Lower growth expected in the medium term

 - **Mega burdens to be tackled:**
 - Consolidation of budgets without increasing taxes (too much)
 - Fighting unemployment while preparing for ageing society
 - Increasing economic growth while switching towards sustainability
 - Regulatory reforms without impairing financing of firms, consumers
- ⇒ **Prudent governments and excellent policy advice needed.**

Why there should be no further steps of decline (we hope)?

- **Everything happened in the beginning**
 - **Burst of bubbles, stock market decline, break down of exports, bank failures**
 - **These problems occurred step by step during GD, as hopes of end had come up**
- **The policy reacted this time with force, determinedness, coordinated**
- **In GD first un-decisive, partly restrictive**
 - **as fiscal policy started to stabilize - money supply collapsed**
 - **Bank failures were unexpected, at least policy reaction and repercussions**
- **No deflation this time**
- **No center periphery pattern - in the contrary: China, India restart the engine**
 - **Surplus money (sovereign state funds) available for recapitalization and reinvestment: Arab countries, Norway, Indonesia.**

- **Policy recommendation (learning from GD)**
 - Refrain from early exit: fiscal policy, monetary policy, bank support
 - Keep reserve funds and task forces for critical situations
 - Minimize protectionism
- **Policy recommendations (learning from causes of CC)**
 - Shift support from old structures (cash for clunkers) to future needs
 - Improve regulation and international coordination
 - Reduce imbalances in a consistent medium-run strategy
- **Will the consensus of economists last: if unemployment and fiscal deficits approach 10%? (in some countries, 7% in others).**

-
- The drop in activity was much smaller, the CC was shorter
 - The rebound of the stock market is larger and longer than during GD
 - The CC had the potential of a much greater crisis
 - Better institutions, higher globalization and synchronization potential but also multi polarity
 - Policy acted decisively, strong, early, partially coordinated
 - All policy lines were applied at the same time
 - Consensus of economists was surprisingly strong.

-
- Further steps can not to be excluded -
probability can be minimized by watchful policy
 - Exit phase very demanding
 - Long-run lessons not learned, long-run problems not attacked
- ⇒ The two crisis are siblings (not twins)
who got different foster parents
- ⇒ How will the younger one behave in adolescence
and as grown up (in adulthood).

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-
- Strong growth in build-up periods : +45%, +40%
 - Smoother in CC, turbulences in build-up of GD
 - **Decrease in Great Depression: between 10% and 25% in three years (1929/1933)**
 - Largest in US (27%), Germany (16%), France (15%), Austria (20%)
 - No decrease in Denmark, Sweden, Japan
- ⇒ **The GD was not totally global**

-
- **Decrease in Current Crisis: about 5% in quarterly data (2Q2009/peak 2008)**
 - Between 2% world, 4% US, 7% Germany, 8% Japan
 - More severe in Russia, Ukraine, Baltics, Turkey
 - Continued growth in Poland, China, India
 - This comparison overstates Current Crisis (quarterly data vs. annual)
 - ⇒ **Much smaller decline in GDP**
 - ⇒ **Less dispersion (for industrialized countries)**

-
- Much steeper decline in manufacturing (rel. to GDP)
 - More similar between CC and GD
 - 29% vs. 19% (annual vs. quarterly, weighted)
 - In most industrialized countries steeper decline in GD
 - Exception: Spain, Sweden, UK
 - Steepest in the US in GD: 46%, least in CC: 16%
 - Less dispersion in Current Crisis (globalization)
- ⇒ Very steep decline from 08/08 to 02/09

Comparison of two crises: Industrial production

Great depression (1932)

Current crisis (2007 ff)

1929/1921 1932/1929

Peak/2000

Peak/1990

2009
forecast

2Q2009/
peak 2008

Annual data

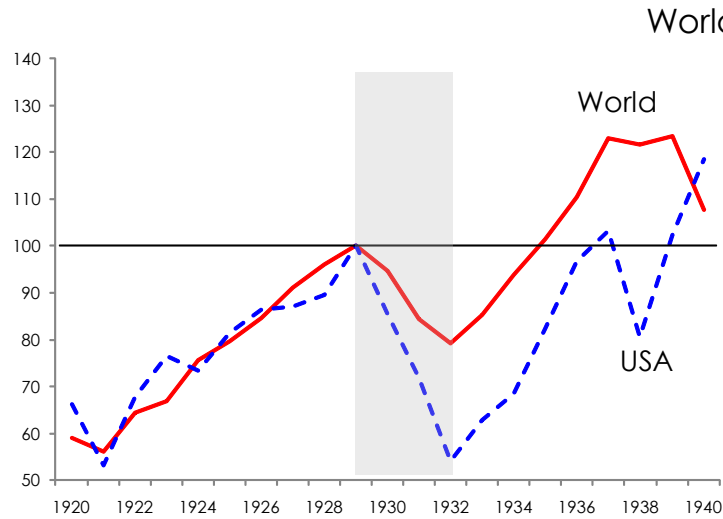
Quarterly data

Percentage change

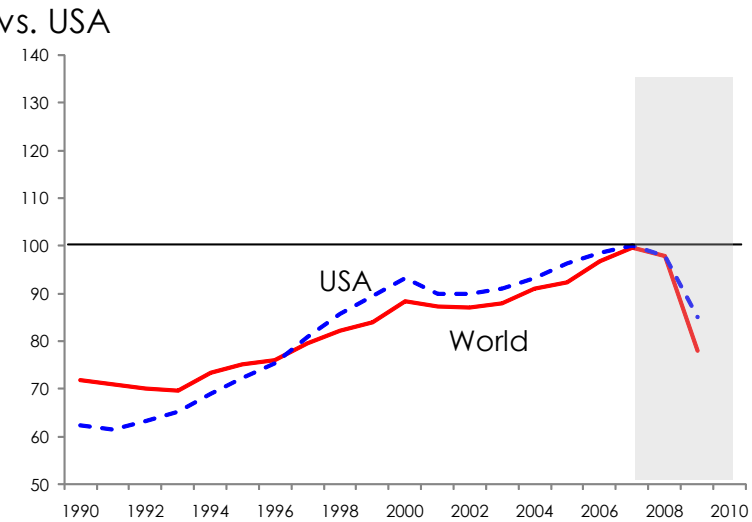
Austria	52.1	-39.0	33.0	77.2	-15.3	-20.5
Germany	51.8	-41.2	21.2	33.5	-21.8	-24.3
Belgium	113.0	-36.5	12.3	29.8	-19.0	-16.9
Spain	48.1	-6.4	8.5	23.8	-22.7	-22.8
France	127.8	-26.0	2.4	13.4	-18.2	-24.6
Finland	134.6	-13.1	25.4	108.6	-24.3	-28.2
Sweden	94.1	-10.6	19.1	73.9	-22.3	-26.9
United Kingdom	57.3	-10.8	0.9	7.1	-12.9	-18.4
USA	87.9	-46.0	7.3	56.6	-13.0	-15.7
Japan	50.0	-2.6	8.9	4.7	-32.2	-32.1
"World"	72.2	-29.5	8.0	34.3	-16.5	-18.9
Unweighted average over countries	81.7	-23.2	13.9	42.9	-20.2	-23.0
Standard deviation	34.3	16.3	10.4	34.8	5.9	5.2
Coefficient of variation	0.420	-0.703	0.750	0.811	-0.290	-0.227

Comparison of two crises: Industrial production

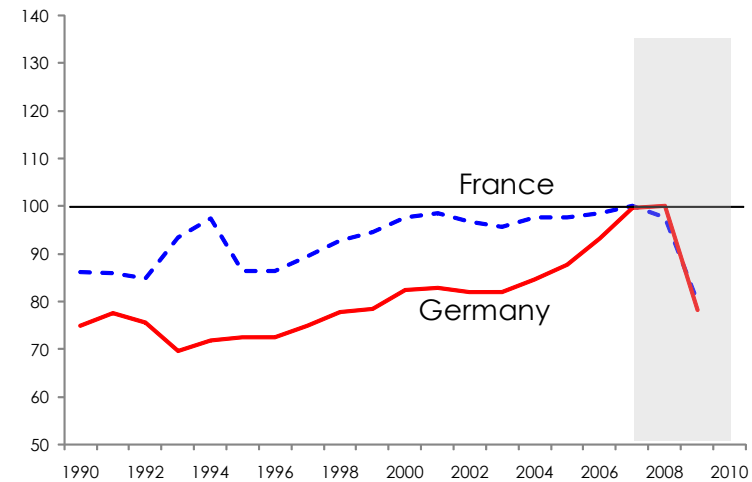
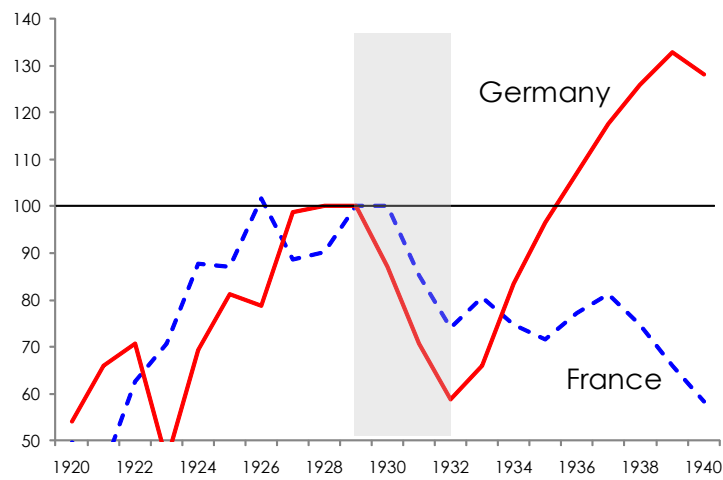
Great Depression (1929=100)



Current crisis (2008=100)



Germany vs. France

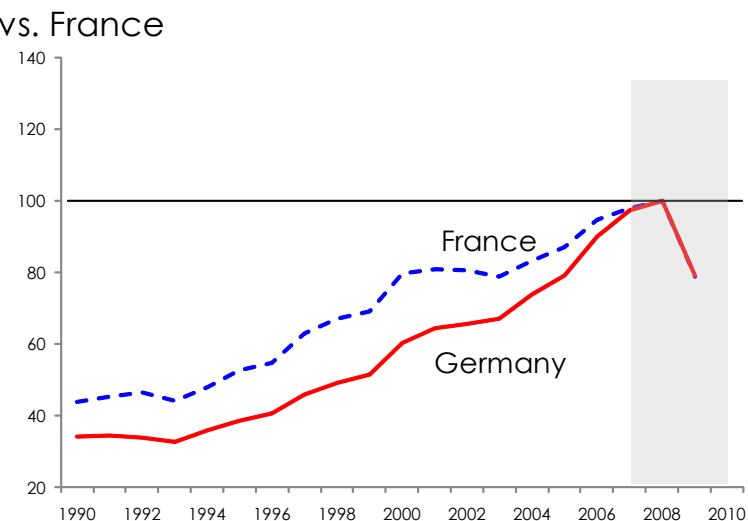
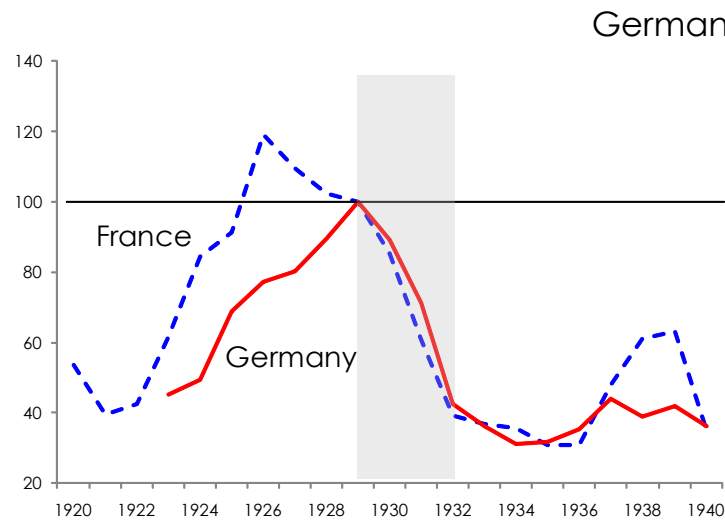
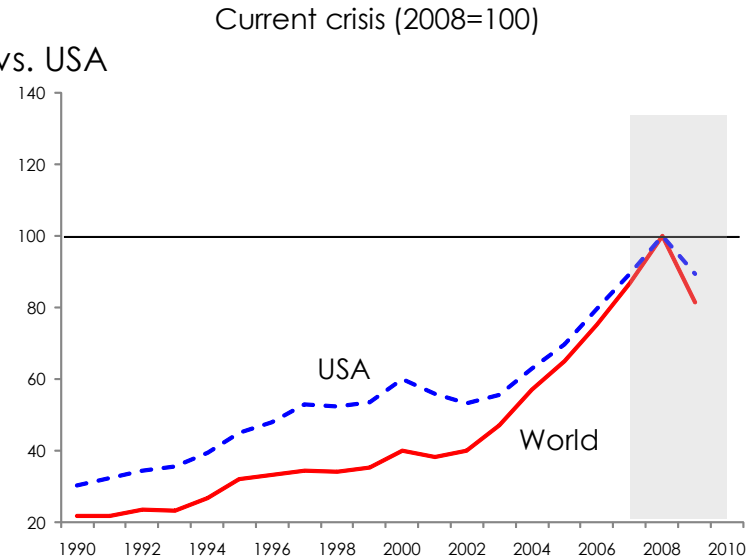
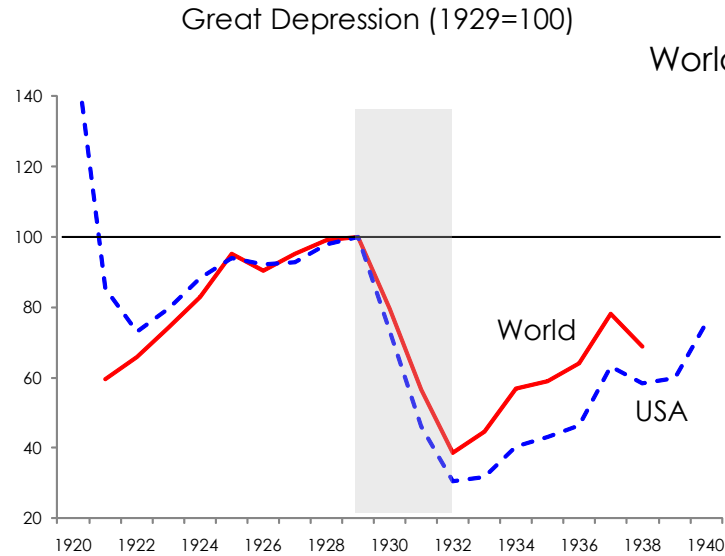


- World trade has more than quadrupled since 1990 !!!
 - World Trade: GD - 43%, CC -18.5% (annual), - 36% (quarterly data)
 - Specifically large differences between GD and CC:
US, UK, France (double as high in GD)
 - Strong and synchronized decline from 08/08 to 02/09
In this phase faster than in GD
 - Very low dispersion across industrialized countries
- ⇒ **Globalization works in terms of synchronization**
- ⇒ **World is now multi polar:
“periphery” recovered and autonomous;
China and India took lead out of crisis**

Comparison of two crises: Nominal export growth

	Great Depression (1932)		Current crisis (2007ff)		
	1929/1921	1932/1929	Peak/2000	2009 forecast	1Q2009/ peak 2008
	Annual data		Quarterly data		
	Percentage change				
Austria	68.1	-41.0	68.6	-22.9	-26.2
Germany	45.3	-28.9	66.1	-21.0	-22.9
Belgium					-24.2
Spain					-25.7
France	153.6	-39.3	25.6	-21.1	-21.5
Finland					-40.7
Sweden	65.2	-38.1	47.9	-30.0	-20.7
United Kingdom	3.6	-45.8	32.7	-19.8	-14.8
USA	17.3	-54.0	66.4	-10.6	-28.3
Japan					
World	67.5	-43.3	150.0	-18.4	-30.0
Unweighted average over countries	58.8	-41.2	51.2	-20.9	-25.0
Standard deviation	53.0	8.4	18.8	6.2	7.1
Coefficient of variation	0.901	-0.203	0.367	-0.298	-0.282

Comparison of two crises: Nominal export growth



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- **GD: steep fall at the start, long recovery**
 - 70% (GDP weighted), US -84% (1929/1932)
 - **CC: steepest part 08/2008 to 03/2009**
 - Overall decline much smaller (44% vs. 69%; 4 big indices)
 - Rebound up to 33% (weighted), 45% unweighted (monthly)
 - Largest rebound in GD: +13% in world, 16% in US in 11/1929
 - Outsider Japan: now steeper than in GD (in Austria, too)
- ⇒ **Steeper decline (than in GD) from 08/2008 to 03/2009**
Proportionate decline now for given period (17 month) smaller
(Contrary to Eichengreen who started graphs in April 1929)

- Unemployment rose from 3% (1929) to 12% (1932; world) in GD
 - From 3% to 24% (USA)
 - From 9% to 30% (Germany)
 - From 12% to 25% (Austria)

CC: from 5% to 7% (2009), maybe surpassing 10% in US, EU 2010/11

- Employment decreased by 16% (World, US: -18%, DE: -29%) in GD
 - And is expected to decrease by 2% to 3% in CC 2009
 - Employment doubled since GD, +8% since 2000
- Income (real, PPP) is 8 to 10fold of 1929 at the start of the crisis

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- Surplus or small deficits in 1929
 - Deficit of 0.5% (1930), 1% (1931), 3% (1932), and then finally more (data for general government)
 - This looks to be much less than automatic stabilizers (at least up to 1931)
 - Governments (and states) tried to keep deficits low, raised taxes
 - Restraints due to currency stabilization, gold standard, memories of war debt and hyperinflation

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- Starting from -2.7% in US, -0.7% in EU, -5.5% in UK (2008)
 - Allowed automatic stabilizers to work
 - And added stimulus packages as of 4-5% of GDP (08/10)
 - At the start (2008/09) larger part were automatic stabilizers, but intention to allow and to amplify them was clear from the start
- ⇒ Larger multipliers today
- ⇒ Political will to increase public demand/decrease taxes
- ⇒ (Nearly) all countries in (loosely) coordinated effort

Great Depression:

- 1929-1931 Attempts to mitigate (smaller) automatic stabilizers
 - to balance budget, secure currency
 - prevent money/gold outflow
 - small deficits or even surpluses
- from 1932 on more active (USA, France)
 - non coordinated internationally

Current Crisis:

- different starting level in US, EU, UK
 - all allowed automatic stabilizers to work
 - additional stimulus packages
 - coordinated

- **Fiscal/monetary intersection in CC**
 - Guarantees of deposits
 - Recapitalization of banks
 - State ownership (partly, temporary) from banks to car firms
- **Similar guarantees of deposits recapitalization also in GD, but late, eclectic, uncoordinated (no ex ante funds and rules)**
- **Employment policy: short-term working programs**
- **Protectionism: strong verbal opposition**
 - Opposition and mitigation where it occurred
 - Soft protectionism and “buy national” clauses exist and may become more frequent (US tires etc.)

- Decline of manufacturing (and exports) for several months similar
 - “Fast start” of CC – at least after it was transmitted to real sector in 2008
 - Short length (at least for production and given if it is over in 2009)
 - Soft start in GD (slower transmission of stock crash in less globalized world); cycle had leveled off before
- ⇒ **The final difference was in the length of the depression, not the speed at the beginning**

- Differences in institutions:

- Lower share of manufacturing, larger public sector
- New institutions (IMF, G20, World Bank), new coordination will
- No gold standard, no competitive devaluations, Euro members sheltered

- Difference in policy

- All strands of policy worked together (with national differences)
- Economists had a clear message: you can and should do something
 - Half of the economists did restrain from their usual advice or were sidelined ;
 - OECD adopted a proactive approach

⇒ **Politicians of all large countries wanted pro active policy at any costs, within or outside of existing rules**

- For production it could be over (decline stopped)
 - Not for unemployment
 - Lower growth expected in the medium term

 - **Mega burdens to be tackled:**
 - Consolidation of budgets without increasing taxes (too much)
 - Fighting unemployment while preparing for ageing society
 - Increasing economic growth while switching towards sustainability
 - Regulatory reforms without impairing financing of firms, consumers
- ⇒ **Prudent governments and excellent policy advice needed**

Why there should be no further steps of decline (we hope)?

- **Everything happened in the beginning**
 - **Burst of bubbles, stock market decline, break down of exports, bank failures**
 - **These problems occurred step by step during GD, as hopes of end had come up**
- **The policy reacted this time with force, determinedness, coordinated**
- **In GD first un-decisive, partly restrictive**
 - **as fiscal policy started to stabilize - money supply collapsed**
 - **Bank failures were unexpected, at least policy reaction and repercussions**
- **No deflation this time**
- **No center periphery pattern - in the contrary: China, India restart the engine**
 - **Surplus money (sovereign state funds) available for recapitalization and reinvestment: Arab countries, Norway, Indonesia**

- **Policy recommendation (learning from GD)**
 - Refrain from early exit: fiscal policy, monetary policy, bank support
 - Keep reserve funds and task forces for critical situations
 - Minimize protectionism
- **Policy recommendations (learning from causes of CC)**
 - Shift support from old structures (cash for clunkers) to future needs
 - Improve regulation and international coordination
 - Reduce imbalances in a consistent medium-run strategy
- **Will the consensus of economists last: if unemployment and fiscal deficits approach 10%? (in some countries, 7% in others)**

- **Given that policy decline has leveled off in summer 2009**
- **The drop in GDP has been much smaller than in GD**

Definitely for world output (-10% vs. -1% to -2%)

- **Specifically for all USA, France, Germany**
- **Not for Japan, and some countries less affected in GD**

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- Difference GD-CC is less in manufacturing and for exports but still smaller drop for most industrialized countries
 - Stock market decline has been less for big stock exchanges
 - Effect on unemployment (up to now and including forecasts 2010/11) much smaller, the same holds for employment loss
- ⇒ Difference is not so much in the speed of decline, but in the length, therefore the results depend on the recurrence of the crisis or not
- ⇒ Prudent policy can prevent the recurrence