

How Quickly Can We Recover from the Global Financial Crisis?

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It is a pleasure to participate in the inaugural symposium of the US-Japan Research Institute along with my longtime friend and colleague in arms Takatoshi Ito. I should confess that in the past much of our jousting was shoulder to shoulder, but a bit of it was face to face. Today again, I suspect there will be some of each.

My simple answer to the question posed in the title of this symposium is that we can *recover* from the global financial crisis more quickly than we thought would be possible a year ago or six months ago when the global economy and financial system stopped its freefall. We are in the recovery phase from the financial crisis. The important questions are: What will be the nature of that *recovery*? And what will be the nature of the subsequent *expansion*?

In my remarks this afternoon, I first will present my views on where we have been, where we are, and where we may be going in macroeconomic terms. In the second part of my remarks, I will discuss the confused topic of exit strategies and the implications of those strategies for the global expansion.

Where We Have Been, Where We Are, and Where We May Be Going

It is an axiom of sound macroeconomic policymaking and analysis not to be guided by looking in the rearview window. On the other hand, it is also essential to sound policymaking to examine the landscape through which we have traveled and to draw the right lessons from the many casualties that are strewn on each side of the road. Unfortunately, learning the right lessons is easier said than done. There is no shared diagnosis of the origins of this crisis. This fact hampers our ability to learn the proper lessons. This fact also means that I should declare in advance my own perspectives on the origins of the crisis.

Conventionally, the causes of this financial crisis include some or all of four elements: failures of macroeconomic policies, failures of financial-sector supervision and regulation, excesses of poorly understood financial engineering, and the global activities of large private financial institutions.

In my view, macroeconomic policies in the United States and the rest of the fully developed world to a substantial degree were jointly responsible for the crisis. In the United States fiscal policy contributed to a decline in the US saving rate, and monetary policy was too easy for too long. In Japan the mix of monetary and fiscal policies distorted the global economy and financial system; monetary policy was too easy for too long. Once the Japanese economy began to recover earlier this decade, the authorities paid excessive attention to fiscal repair and insufficient attention to restoring normal monetary conditions. Many other countries also had very easy monetary policies in recent years, including other Asian countries, energy and commodity exporters, and—in effective terms—a number of countries within the euro area, as well as the United Kingdom and Switzerland.

The impressive accumulation of foreign exchange reserves by many countries distorted the international adjustment process, and took some pressure off of the macroeconomic policies of the United

States and other countries. However, I am in the minority of economists who believe that the phenomenon of global imbalances played little or no role in *causing* the economic and financial crisis. Instead the imbalances and the crisis were *jointly caused* by flaws in the design and implementation of macroeconomic policies and the resulting global credit boom.

The credit boom did not just fuel a housing boom in the United States, but also housing booms in many other countries, some to a greater extent than in the United States.¹ However, in addition to housing booms, the credit boom fueled increases in the prices of equities and many other manifestations of financial excess.²

Financial-sector supervision and regulation, or the lack thereof, also played a role in causing the crisis. But the sins of omission and commission were committed over several decades, not primarily during the past 10 years. Moreover, without the benign economic and financial conditions that prevailed in the wake of the dot-com boom, and the associated belief that “this time it is different,” this crisis would have taken a different form.

Benign conditions lead to lax lending and credit standards, just as the night follows the day. In principle, financial-sector supervision could have helped to curb the excesses, but it did not do so in the United States or in many other countries around the world.

In some cases, including importantly the United States in this regard but again elsewhere, regulation and supervision were incomplete. The rise of what is now known as the shadow financial system had been going on for decades in many countries: money market mutual funds, special purpose investment vehicles, hedge funds, private equity firms, etc. In many cases, these entities were highly leveraged and/or used short-term funding to finance longer-term investments. We saw a gradual shift in financial intermediation from traditional banks to other types of financial institutions that were less well capitalized and subject to less close supervision. Traditional banks gradually, but radically, transformed their business models in order to compete with the less-regulated institutions. The global financial system became overleveraged, particularly but not exclusively the US financial system. When confidence finally and fully drained from the system a year ago, funding dried up, and structures collapsed.

New forms of financial engineering were part of the story, but innovations have been a feature of domestic and international finance for decades. In many cases, the associated innovations were poorly understood, resulting in a failure of risk recognition, which is a necessary precondition for good risk management. Financial engineering helped to distort incentives facing financial institutions and contributed to the market dynamics once the crisis got underway, but it was not “the cause” of the crisis.

Finally, the lack of comprehensive supervision of about 50 large private financial institutions with operations around the world contributed to the crisis and the failures of those institutions. However, the institutions did not fail because they had multiple national supervisors and thereby escaped appropriate supervision. Size has been a problem, and complexity has led to some decisions to rescue particular institutions in whole or in part, but the global scope of the operations of these institutions was not a major contributing factor to the crisis *per se*.

Thus, in my view the two major causes of the global financial crisis of 2007–09 were failures in macroeconomic policies and in financial supervision and regulation. I would assign principal blame to failures in macroeconomic policies by a small margin. I do not see this as inconsistent with the view that there are structural flaws in national and global financial regulatory and supervisory systems, which had been building for years and should be addressed in the wake of the crisis. It may well be that a crisis of this magnitude was

¹ See, for example, IMF (2008) for a broader treatment of recent housing booms.

² The Bank of England (2008) and Issing et al. (2008) offer similar interpretations of the macroeconomic contributions to the global crisis.

necessary to uncover those flaws. Whether they would have been revealed without the macroeconomic failures is at least a debatable question.

Whatever the fundamental or proximate causes of this crisis, three features distinguish it from many other international financial crises in recent decades.

First, the proximate origins of the crisis were in the United States to a greater degree than with most other crises of the postwar period. Regardless of the amount of blame for the crisis one places on US macroeconomic policies on the one hand, or on US financial regulatory policies on the other, the fact is that the United States led the way into the crisis. Activity in the US residential construction sector peaked in the fourth quarter of 2005. The actions of US financial institutions were central to the unwinding of financial positions that began in the summer of 2007. Activity in the US economy peaked in the fourth quarter of 2007. For the rest of the world, all this meant that the US economic and financial engine eventually went into reverse.

Second, if the largest economy in the world, whose currency and institutions are at the core of the global financial system, stops functioning, the fact that the resulting crisis becomes global should not be surprising. However, many observers and policymakers were surprised. Globalization has linked all financial systems and economies, but the extent of that linkage was poorly understood prior to the crisis. As a result, comprehensive global solutions were slow to emerge.

Third, it is not unusual for a crisis to begin in the financial sector, spread to the real economy, cycle back to further weaken the financial sector, and thereby further weaken the real economy. However, this sequence is debatable if one wants to say the United States was the epicenter of the crisis and identify the trigger in the US financial sector. If the proximate cause of the financial crisis was the US housing boom, housing is a feature of the real economy and also is a nontraded activity or service though not in its financing. Subprime mortgages were a manifestation of financial excess or worse, but they were not the principal cause of the housing boom, which was easy credit and low interest rates.

The US financial sector motored on for some time after the housing sector turned down. We also know that once the US financial system began to implode in the summer of 2007, it took more than a year for the financial crisis to reach its climax a year ago and for the real economy to nosedive.

Diagnosis of the economic and financial situation was even more complicated in the rest of the world. During much of 2008, economic growth appeared to be holding up in general, and inflation, particularly in commodity prices, was still rising.

It is possible to have a mild economic downturn without an associated financial crisis. It is also possible to have a financial disruption without an associated economic downturn. What is rare is a significant economic downturn without a severe financial crisis that affects a broad set of asset prices, credit markets, and financial institutions. Policymakers were slow to learn that they were dealing with dual severe crises on a global scale.

As a participant, along with Taka Ito, in the 1990s debates about how best to revive the Japanese economy and to repair the Japanese financial system, I was struck at the time by the lack of consensus about the chicken-or-egg question: What should be addressed first, economic recovery or financial repair? I finally decided that the best answer was both! That lesson was not widely agreed upon then, and it is not agreed upon now.

Where are we going?

It is useful to think about this crisis in historical perspective. The only other global economic and financial crisis of the post-World War II period was the crisis in the early 1980s. That crisis also, in many respects, was

made in the United States. US macroeconomic policy mistakes produced a rip-roaring inflation and an extended period of negative real short-term and long-term interest rates that fueled a global credit boom, in particular credit to emerging market economies. The Federal Reserve finally began to address the US inflation problem in late 1979. We had a brief six-month recession associated with a flirtation with credit controls. The recession was followed by a brief 12-month recovery and expansion, before in mid-1981 we plunged back into recession, which lasted 16 months. It is likely that the National Bureau of Economic Research (NBER) will date this recession as only slightly longer, perhaps 18 months from December 2007 to June 2009. The US recession of 1981–82 coincided with a global recession centered on 1982 with global growth that year of less than one percent.

Nineteen eighty-two was the year that the global debt crisis broke out. The debt crisis was the consequence of the reversal of US financial conditions from negative real interest rates to positive rates—macroeconomic causes—and the excesses of international bank lending in originating loans and syndicating them to smaller banks around the world. By the end of 1982, most international banks in the United States and other major industrial countries were insolvent on a mark-to-market basis. However, at the time the secondary market in sovereign loans was underdeveloped. In the wake of the debt crisis, blame was heaped upon the international banks for causing the crisis through their reckless lending. A number of reforms were instituted, including the requirement that syndication fees be spread over the life of loans and the Basel I capital standards that were agreed on later in the decade. As in this crisis, here in the United States we had our own particular problems. The saving and loan and other thrift institutions were bankrupted by shift from negative to positive real interest rates. For a while, we covered up their problems; they were not addressed until much later in the decade. Thus, in many respects the crisis of the early 1980s was a lot like this crisis, including the fact that the global financial system was blamed for the crisis and came under tremendous strain.

Turning to a comparison of the macroeconomic features of the two crises, the first table in your handout summarizes the current recession (based on IMF forecasts through July of this year) with the recession in the early 1980s. The right-hand side of the two panels in the table shows deviations from trend growth in the central recession years (1982 and 2009) and the two years surrounding them (1981–1983 and 2008–10).

For the world as a whole, the top line, this recession is likely to be twice as deep as the 1980s recession. This is true for the recession year as well as for the cumulative surrounding three-year periods.

This pattern holds for the advanced countries as well. However, for the emerging market and developing countries as a group, the 1980s recession was much milder, an average shortfall of 1.8 percentage points in 1982 compared with a projected shortfall of 6.3 percentage points this year, which is approximately the same shortfall as is projected for the advanced countries as a group. Even for developing and advanced countries in the Western Hemisphere, this recession is projected on this metric to be more severe than the early 1980s, despite the fact that many of these countries this time were able to implement countercyclical macroeconomic policies, which was definitely not the case in 1982–83. The 1980s recession affected other regions of the world less severely than this crisis, including developing Asia. However, it is noteworthy that Korea in the early 1980s, which by that time was well integrated into the global economy, experienced a recession as deep as that in the Western Hemisphere on average. Globalization matters!

The second page of tables looks in more detail at the G-7 countries. In general, the impacts of this recession have been more severe than those in the early 1980s whether measured on the basis of the recession years or over the three-year periods. Japan is projected to have a growth shortfall of 8.1 percentage points this year compared with only 1.7 percentage points in 1982, and the cumulative shortfall is projected at 11.3 percentage points—almost double the shortfall in the early 1980s. Interestingly, the exceptions are the United States and Canada, which experienced larger growth shortfalls in 1982 than are projected for 2009. The

United States had embarked on an extremely expansionary fiscal policy, but Federal Reserve monetary policy remained exceptionally tight—in retrospect too tight for too long.

As I noted, the data on the current recession presented in the first two pages of your handout are based on IMF estimates and projections through July of this year. It is reasonable to expect, based upon developments since July as well as press leaks, that when the IMF releases its new World Economic Outlook (WEO) forecasts on October 1, the staff's outlook for 2010 will not be as dismal as was projected in July. They also may reduce somewhat their estimate of the depth of the recession this year.

The third page of tables provides an insight into the likely direction of the adjustment in the WEO forecasts. It is based upon the forecasts of Michael Mussa (2009), my colleague at the Peterson Institute for International Economics. His forecasts are almost certainly more optimistic than the revised WEO forecasts will be. Indeed, Mike has said that if he were still in charge of forecasting at the IMF he would not use his forecast as the central tendency around which to organize the thinking of IMF member governments. Official forecasts should be more conservative in order to guard against downside risks, which are present in any forecast and in the current context could distort policymaking.

The Mussa forecasts for the G-7 countries, shown in the top panel of the table, depict a growth shortfall this year that is only slightly more optimistic than the earlier IMF forecasts, 5.8 percent for the group as a whole compared with 6.1 percent. The difference comes in 2010, where Mussa has a forecast for G-7 growth of 3.2 percent compared with the earlier IMF forecast of no growth. Similarly, as shown in the top line of the upper panel, his outlook for the world is for growth of 4.2 percent, close to trend, compared with the IMF's earlier forecast of 2.5 percent.

Mussa makes two arguments to support his outlook. First, business cycles obey the Zarnowitz rule named for the business cycle scholar Victor Zarnowitz who died in February in his 90th year. The Zarnowitz rule for *national* business cycles is that deep recessions are typically followed by steep recoveries. Second, in a *global* context, a recession that is associated with a mutually reinforcing, synchronized process of contraction will be followed by a mutually reinforcing, synchronized process of recovery. In other words, economic recovery in one group of countries will not be negatively impacted by the onset of recession in another group of countries. One does not have to agree with the details of Mussa's forecasts to agree with its direction. Note, however, that the Zarnowitz rule applies to recoveries not to expansions. Recoveries require a resumption of trend growth and some closing of the output gaps associated with the recession itself. Expansions describe the subsequent course of economic activity.

Exit Strategies and the Global Expansion

The buzz word among economists, policymakers who met earlier this month in London, and leaders meeting later this week in Pittsburgh is “exit strategies.” In my view, the confused thinking on this topic rivals the lack of agreement about the causes of the crisis.

The discussion of exit strategies should cover three broad categories of government policies: monetary policies (conventional and unconventional), fiscal policies (automatic stabilizers and discretionary), and structural policies mostly applied to the financial system and its institutions but also involving nonfinancial institutions such as major manufacturing firms. Some commentators address only one of these categories ignoring the others and their potential interactions. My colleague Adam Posen, writing in the *Financial Times* on September 17, covered all three categories. However, there is plenty of room for honest disagreement with his analysis.

Aside from categories of policies that may or may not be covered, the discussion of exit strategies tends to conflate three issues: timing, amount, and scope. With respect to *timing*, much of the discussion is

not about ending or reversing policies but about the *amount* of stimulus currently in the pipeline as in “Is it premature to withdraw stimulus?” If that is a reasonable question, which it is, then a companion question is whether more stimulus should be applied, since it is unlikely that policymakers individually or collectively got it exactly right to begin with. Indeed, the Bank of England recently applied marginally more stimulus in the form of increased purchases of government securities. Similarly, when it comes to *scope*, one should not be surprised if in the United States, in the face of unemployment nearing 10 percent of the labor force, the safety net isn’t extended with respect to unemployment compensation, food stamps, and similar programs. In other countries, these policies are classified as automatic stabilizers, but in the United States they involve discretionary fiscal actions. It is also likely that we have not seen the last of support by governments of their financial institutions and manufacturing firms.

Beyond the question of whether talking about exit strategies is really about whether more stimulus should be applied is the question of what we mean by exit or reducing stimulus and support. Some programs will wind down automatically, such as automatic stabilizers and some special central bank programs like swap arrangements. Of course they could be extended, but then we are talking about *not exiting* not about the timing of any exit. An exit policy strictly defined, in my view, involves the reversal of a policy: raising interest rates, cutting expenditures and raising taxes, or disposing of ownership stakes in financial institutions. However, in the discussion below, I am less strict.

Two broad considerations also seem to be missing from the discussion. First, the circumstances of individual countries differ in terms of their own economies, financial systems, and longer-term structural problems. To ignore those differences in the name of simultaneous and parallel action or inaction by each country oversimplifies the analysis. Policy responses to the crisis were largely pointed in the same direction. They were not always perfectly coordinated, and they were differentiated. That differentiation contributed to some of the disputes, for example about fiscal stimulus programs, in the run-up to the London G-20 summit.

Second and related, what really matters to the global economy and financial system is the positive and negative spillovers (externalities) associated with reversing stimulus and support programs. Here too, circumstances matter. What Chile does may be important to Chile and its immediate neighbors but not to the system as a whole. What the United States and Japan do matters to the entire global economic and financial system. Policies in larger economies and financial systems have broader consequences.

Let’s use this framework of actions or inactions, circumstances, and spillovers to think about the exit strategies in the three categories of government policies: structural, fiscal, and monetary.

With respect to *structural policies*, the overriding question for many countries will be the extent to which governments maintain their increased involvement in the financial system and other aspects of the economy. For example, how fast, if at all, do they sell their stakes in financial institutions? On this question, the circumstances of countries will differ in their *ex ante*, as well as *ex post*, philosophies about direct government involvement in the economy. In the United States, we pledge allegiance to the principle of limited government involvement even though we have many exceptions including in the financial sector—see Fannie Mae and Freddie Mac!

When it comes to spillovers, Adam Posen in the *Financial Times* argues that sales of stakes in financial institutions should be internationally coordinated because the first mover has a competitive price advantage and will bring pressure on other governments to follow suit even if their institutions are not yet sufficiently strong to be fully privatized. I am inclined to see the problem the other way around, governments that maintain their stakes, in particular stakes that involve substantial influence if not full control, will tend to distort the level playing field, putting private sector institutions at a competitive disadvantage. Thus, I would say the principle should be that governments should sell their stakes the sooner the better. If getting a higher price is an incentive to do so, that is positive for the system as a whole. There is no international merit in a convoy strategy for privatizing financial institutions.

Fiscal policy is more complicated. One reason is that fiscal policy responses to the crisis were differentiated across countries based upon institutional differences and policy preferences. In particular, in continental Europe there was greater reliance on automatic stabilizers and discretionary actions were relatively more frontloaded.³ The United States placed less reliance on automatic stabilizers and its discretionary policies will have almost as large an effect in 2010 as they did in 2009. In Japan, the mix of discretionary and other fiscal measures was about the same as in the United States in 2009, but there is expected to be more of a reduction in their role in 2010. Thus, by construction, the timetable for exiting from fiscal stimulus is already largely set by the circumstances of individual countries.

With the prospects for global recovery improved, as they are, these differences in the size, timing, and composition of fiscal policies may not matter much in the aggregate, but there are the cross-border spillovers. Continued fiscal stimulus in the United States and diminished fiscal stimulus in, say, Europe means that Europe receives a positive spillover effect from the United States, in effect free riding on US policies, and the United States receives a negative spillover effect from Europe. The most important spillovers involve not so much the nature of the recovery but the nature of the expansion. This is all the more relevant when it comes to questions of reversing fiscal policies via discretionary actions to reduce fiscal deficits. For countries like Germany, China, and Japan that before the crisis relied on growth models emphasizing external demand rather than domestic demand, the a priori case for withdrawal or reversal of fiscal stimulus is weaker, everything else being equal, because of the global imperative that they boost their domestic demand. Of course, everything else is not quite equal. In particular, some countries such as Japan have acquired over the years larger stocks of government debt and face longer-term fiscal challenges. However, this observation serves to illustrate the point that simple rules will be difficult to design and apply.

Monetary policy is similarly complex. My biggest worry is not about mopping up central bank liquidity in the form of excess reserves. The technical problems are minor because the process will be largely self-executing. For example, the Federal Reserve's balance sheet already has shrunk by about 10 percent from its peak at the end of last year. Although marginal negative cross-border spillovers may be felt as various facilities run off or are not extended, for example guarantee facilities, this also is certainly not my biggest worry.

My biggest worry is the timing of central bank actions with respect to conventional monetary policy, in other words raising nominal interest rates. On the one hand, such actions could have spillover effects tending to strengthen the currency of the country or area, but one cannot be certain of the size or even the sign of this effect. When the Federal Reserve ultimately began to raise interest rates in 1994 (too late in my view) the dollar went into a prolonged decline hitting its low in early 1995 in terms of the Federal Reserve's broad index for the dollar in real terms. That low was not again approached until March of 2008.

Few countries today face the threat of inflation. For those countries whose inflation rates may exceed 5 percent over the next year, for example Indonesia, Mexico, India, and Brazil, the international consequences of their monetary tightening—if it occurs—are not likely to be large. The authorities themselves worry about the adverse effects on their external positions if they tighten their policies and their currencies appreciate. In principle, they can take account of those effects, including on inflation, when they calibrate their monetary policy actions, but practice is more complicated. Of course, they may feel they would be better off if their actions were combined with increases in interest rates in the United States, Japan, and euro area.

However, the larger concerns are two. First, because inflation generally is low, the anti-inflation incentive not to adopt a policy of competitive nonappreciation has been weakened. The incentive to do so, to self-insure, and to follow an export led growth strategy has been enhanced. This would be to the detriment of

³ See IMF (2009) for details for the individual G-20 countries.

the global expansion. All countries cannot devalue their way to prosperity at the same time. If they try the result will be a collective failure, a weaker global expansion, and rising trade frictions.

Second, the lesson I draw from the crisis is that monetary policies around the world were too easy for too long earlier this decade, feeding the global credit boom and promoting lax lending and credit standards. In the context of the coordination of monetary and fiscal policies within countries and across countries, the largest concern is that the political authorities, who are also the fiscal authorities, will pressure central banks to be too easy for too long in the name of sustaining the recovery and holding down the interest costs of government debt. This is my interpretation of what happened in Japan earlier this decade. Monetary policy remained abnormally easy while fiscal policy was gradually tightened. The consequences for the Japanese economy in terms of neutralizing monetary policy when the global crisis hit and for the world economy in terms of feeding global imbalances and fueling financial excess were definitely adverse. None of this is easy, but the costs of mistakes are large.

The US economy and the Japanese economy are the two largest national economies. The consequences of our policy mistakes not only for our own economies but for the global economy are commensurately large. One contribution of symposia such as this one is that they help to promote understanding and reduce the potential for future policy errors. We may not agree, and I am confident that I do not have all the correct answers, but we can learn from our disagreements and hope to advance the cause of better policies in the future so that we not only recover from the global financial crisis quickly but enter into a sustained period of global expansion.

Thank you for your attention.

Table 1 Global and country groups**Current recession**

Country grouping	Average 2005–07	2008	2009	2010	2011	Deviation from average	
						2009	Cumulative 2008–10
World	4.9	3.1	-1.4	2.5	4.3	-6.3	-10.5
Advanced economies	2.8	0.8	-3.8	0.6	2.6	-6.6	-10.7
United States	2.6	1.1	-2.6	0.8	3.5	-5.2	-8.5
Euro Area	2.4	0.8	-4.8	-0.3	1.4	-7.2	-11.5
Emerging and developing economies	7.8	6.0	1.5	4.7	6.1	-6.3	-11.2
Western Hemisphere	5.4	4.2	-2.6	2.3	3.6	-8.0	-12.2
Developing Asia	9.8	7.6	5.5	7.0	8.3	-4.3	-9.4
Korea	4.8	2.2	-1.8	2.5	5.3	-6.2	-11.1
Central and Eastern Europe	6.0	3.0	-5.0	1.0	3.8	-11.0	-19.0
Commonwealth of Independent States	7.9	5.5	-5.8	2.0	3.8	-13.7	-22.0
Africa	6.0	5.2	1.8	4.1	5.2	-4.2	-7.0
Middle East	5.9	5.2	2.0	3.7	4.2	-3.9	-6.9

Early 1980s recession

Country grouping	Average 1986–88	1980	1981	1982	1983	1984	Deviation from average	
							1982	Cumulative 1981–83
World	3.9	2.0	2.2	0.9	2.8	4.6	-3.0	-5.8
Advanced economies	3.8	1.0	1.8	0.1	2.9	4.7	-3.7	-6.7
United States	3.7	-0.2	2.5	-1.5	4.5	7.2	-5.2	-5.6
Emerging and developing economies	4.0	3.9	3.0	2.2	2.6	4.5	-1.8	-4.1
Western Hemisphere	2.8	6.7	1.1	-0.6	-2.5	3.7	-3.4	-10.5
Developing Asia	7.5	5.9	5.9	5.6	7.0	7.9	-1.9	-4.1
Korea	10.8	-1.5	6.2	7.3	10.8	8.1	-3.5	-8.1
Central and Eastern Europe	3.5	-0.6	-0.6	1.2	4.2	3.7	-2.2	-5.5
Commonwealth of Independent States	4.0	3.9	3.3	4.0	4.3	3.0	0.0	-0.4
Africa	2.1	3.3	5.6	1.8	0.2	3.0	-0.3	1.4
Middle East	-0.7	-2.3	3.1	-0.1	3.2	3.9	0.6	8.3

Source: IMF WEO database, July 2009 update, Korea Public Information Notice (PIN).

Table 2 G-7 countries
Current recession

Country	Average 2005–07	2008	2009	2010	2011	Deviation from average	
						2009	Cumulative 2008–10
World	4.9	3.1	-1.4	2.5	4.3	-6.3	-10.5
Major advanced economies (G7)	2.4	0.6	-3.8	0.0	2.7	-6.1	-10.3
United States	2.6	1.1	-2.6	0.8	3.5	-5.2	-8.4
Japan	2.1	-0.7	-6.0	1.7	2.2	-8.1	-11.3
Germany	2.1	1.3	-6.2	-0.6	1.5	-8.3	-11.7
United Kingdom	2.5	0.7	-4.2	0.2	2.1	-6.7	-10.8
France	2.2	0.3	-3.0	0.4	1.7	-5.2	-8.9
Italy	1.4	-1.0	-5.1	-0.1	0.7	-6.5	-10.5
Canada	2.8	0.4	-2.3	1.6	2.5	-5.1	-8.8

Early 1980s recession

Country	Average 1986–88	1980	1981	1982	1983	1984	Deviation from average	
							1982	Cumulative 1981–83
World	3.9	2.0	2.2	0.9	2.8	4.6	-3.0	-5.8
Major advanced economies (G7)	3.7	0.5	1.8	-0.2	3.0	4.9	-3.9	-6.5
United States	3.7	-0.2	2.5	-1.9	4.5	7.2	-5.6	-5.9
Japan	4.5	3.2	2.9	2.8	1.6	3.1	-1.7	-6.2
Germany	2.5	1.3	0.1	-0.8	1.6	2.8	-3.3	-6.7
United Kingdom	4.5	-2.1	-1.3	2.1	3.6	2.7	-2.4	-9.2
France	3.1	1.8	1.0	2.4	1.2	1.5	-0.7	-4.7
Italy	3.4	-1.4	0.8	0.7	0.9	3.2	-2.7	-7.9
Canada	3.9	2.2	3.5	-2.9	2.7	5.8	-6.7	-8.3

Source: International Monetary Fund, World Economic Outlook Database, April 2009 and July updates.

Table 3 current recession
Michael Mussa's global economic prospects September 2009

G-7 countries

Country	Average 2005–07	2008	2009	2010	2011	Deviation from Average	
						2009	Cumulative 2008–10
World	4.9	3.1	-1.1	4.2	4.3	-6.0	-8.5
Major advanced economies (G7)	2.5	0.8	-3.3	3.2	2.7	-5.8	-6.9
United States	2.6	1.1	-2.4	4.0	3.5	-5.0	-5.0
Japan	2.1	-0.7	-5.2	2.5	2.2	-7.3	-9.7
Germany	2.1	1.3	-4.8	2.2	1.5	-6.9	-7.5
United Kingdom	2.5	0.7	-4.0	2.5	2.1	-6.5	-8.3
France	2.2	0.3	-3.0	2.2	1.7	-5.2	-7.1
Italy	1.4	-1.0	-4.5	1.8	0.7	-5.9	-8.0
Canada	2.8	0.4	-2.0	3.4	2.5	-4.8	-6.7

Global and country groups

Country grouping	Average 2005–07	2008	2009	2010	2011	Deviation from average	
						2009	Cumulative 2008–10
World	4.9	3.1	-1.1	4.2	4.3	-6.0	-8.5
Advanced economies	2.8	0.8	-3.3	3.3	2.6	-6.1	-7.6
United States	2.6	1.1	-2.4	4.0	3.5	-5.0	-5.1
Euro Area	2.4	0.8	-3.7	2.3	1.4	-6.1	-7.8
Emerging and developing economies	7.8	6	1.9	5.4	6.1	-5.9	-10.1
Western Hemisphere	5.4	4.2	-2.3	3.4	3.6	-7.7	-10.9
Developing Asia	9.8	7.6	6.0	7.8	8.3	-3.8	-8.0
Central and Eastern Europe	6	3	-3.5	2.6	3.8	-9.5	-15.9
Commonwealth of Independent States	7.9	5.5	-4.8	2.6	3.8	-12.7	-20.4
Africa	6	5.2	2.0	4.0	5.2	-4.0	-6.8
Middle East	5.9	5.2	2.0	4.0	4.2	-3.9	-6.5

Note: 2009 and 2010 forecasts are based on Mussa (Sept 2009).

Source: Mussa (Sept 2009); International Monetary Fund, World Economic Outlook Database, April 2009 and July updates.

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