Perspectives on the Current Economic Crisis

Paul Ormerod
Riyadh, Saudi Arabia
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Western Economies Share of World Output Per cent, 1820 - 2008
Volterra

US Share of Western Output
Per cent, 1870 - 2008

[Bar chart showing the US share of Western output from 1870 to 2008]
Implications

- The Western economies are still the most important group

- They are a major export outlet for the rest of the world

- Within the West, America has been for 100 years, and still is, by far the most important economy
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Structure of Economic Recessions in the West

- How long do they last?
- How big are they?
- How many countries are in recession at the same time?
History of Recessions in Developed Countries

- There have been 255 examples of recessions within the 17 main economies since 1870
  - 164 lasted just 1 year
  - 58 lasted 2 years

- Most recessions are short
- But the longer they last, the less the chance of recovery
Number of countries in recession in any one year
17 capitalist economies, 1871-2006
Cumulative fall in real GDP, per cent, in recessions
17 Western countries, 1871-2006, excluding war years
**Volterra**  What is Happening in this Recession?

- The recession began before the credit crunch

- High oil and commodity prices reduced spending power in the West, just like the mid-1970s and early 1980s

- Financial viability of banks: need to re-build balances implies squeezing consumers

- Loss of confidence amongst banks: finance not easily available for companies
This recession is likely to be in the worst 25 per cent of all recessions.

It will be longer and deeper than 3 out of 4 previous recessions.

Duration: 2 years (output falls mid-2008 to mid-2010).

Recovery starting during 2010.

Size: fall of at least 5 per cent in output.
Opportunities

- America has more resilience than the other Western economies

- For example, Microsoft, Google, Yahoo

- Banks are less exposed to a country default in Latin America, Eastern Europe
13 broad categories of consumer spending e.g. motor vehicles, medical/health care, recreation, services

Only in the 1930s were all these sectors in recession together

Experience of markets/firms within a country varies widely during recessions

Careful selection of investments can bring opportunity
An Optimistic Point

- Recessions do not appear to affect the long-term rate of growth
- Growth rates averaged over 20 or 30 years
- The distribution of growth in periods which start in a recession is the same as the distribution of growth in periods which do not start in a recession