



Bouncing Back from the Great Recession: The United States Versus Europe

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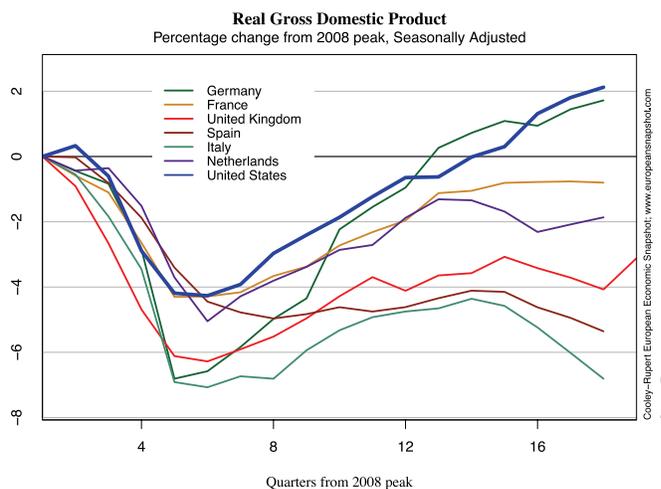
The effects of the Great Recession of 2008-09 have been wreaking havoc on the U.S. economy for nearly five years. Many authors have used the depth of the recession and the sluggish recovery to compare the recent recession to previous recessions, including the Great Depression. For instance, Glenn Hubbard, chairman of the Council of Economic Advisers from 2001 to 2003, recently compared the current recovery to the recoveries from the 1973 and 1981 recessions.¹ Why is this the right comparison?

Certainly we cannot expect the shocks that hit an economy to always have the same economic outcomes. Even if the causes of the Great Depression were the same as those of the Great Recession, the economy of the 1930s is not the economy of today, so we should not expect it to respond in the same manner.

When the economic shocks that cause recessions in different economies have large common components, there may be lessons to be learned by studying how different economies respond. This essay looks at six major economies in Europe—France, Germany, Italy, the Netherlands, Spain, and the United Kingdom—and compares them with the United States on two key economic variables: gross domestic product (GDP) and unemployment. Since aggregate demand has been used as the basis for the policy responses in the United States and Europe, this essay also compares the paths of consumption and investment.

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Figure 1



SOURCE: www.europeansnapshot.com.

Figure 1 shows GDP in the United States and the major European economies. Several findings are apparent. First, the size of the contraction was much steeper in Europe: GDP in Germany, the United Kingdom, and Italy fell more than GDP in the United States. Second, the recovery in the United States has been steady, similar to the recovery in Germany. The other European economies are still below their 2008 peaks.

Unemployment has been the persistent problem with the U.S. recovery.² The table shows that the U.S. unemployment rate was initially lower than the unemployment rate in most European countries. While the U.S. unemployment rate has been falling from its high of 9.7 percent in January 2010, the unemployment rate in European countries (except Germany) has been on an upward trend since 2008.

Unemployment Rates (percent)

Country	2008	2010	2012
Germany	8.1	7.6	5.5
France	7.6	10.0	10.6
United Kingdom	5.1	7.9	7.9
Spain	9.0	19.2	25.1
Italy	6.5	8.4	10.7
Netherlands	3.2	4.5	5.4
United States	5.0	9.7	8.1

NOTE: The unemployment rates for 2008 and 2010 are as of January in those years. The numbers for 2012 are as of August 2012; the exceptions are the United Kingdom (July 2012) and the Netherlands (September 2012).

SOURCE: Eurostat.

Many policy responses to the Great Recession and the associated U.S. employment problems have been based on the notion that the slow recovery is due to insufficient demand. For instance, Federal Reserve Chairman Ben Bernanke stated on March 26, 2012, that “while both cyclical and structural forces have doubtless contributed to the increase in long-term unemployment, the continued weakness in aggregate demand is likely the predominant

factor.”³ According to the Federal Open Market Committee minutes for the June 2012 meeting, “structural factors were contributing to unemployment, but...slack remained high and weak aggregate demand was the major reason that the unemployment rate was still elevated.”⁴

Figure 2 suggests that the case for insufficient aggregate demand needs to be interpreted with caution. Consumption expenditures and gross capital formation (i.e., investment) together account for almost 85 percent of GDP. When we compare the time series of consumption plus investment in panel A, both the United States and Germany are above their peaks. Private consumption expenditures in both countries are more than 3 percent above their January 2008 peaks (see panel B).

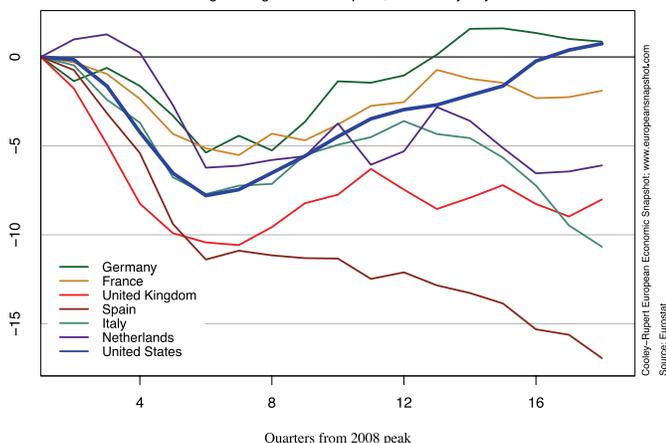
Compared with most of Europe, the German and U.S. economies seem to be recovering. Of course, policy responses have differed across countries. However, given the common shocks, it seems likely that the differences in various countries’ ability to respond to the shocks are structural. ■

Notes

- ¹ See Segal (2012) and Cooley and Rupert (2012a) for further analysis assessing recessions and recoveries.
- ² While the current unemployment rate is high relative to previous recoveries, Cooley and Rupert (2012b) suggest that “this may be as good as it gets.”
- ³ See Bernanke (2012).
- ⁴ See Federal Open Market Committee (2012).

Figure 2A

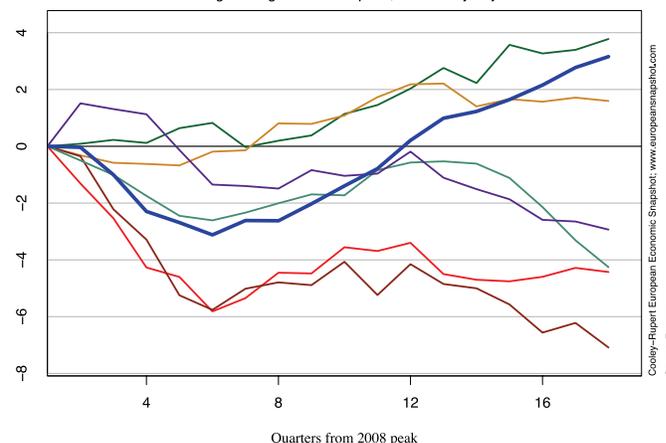
Real Consumption Expenditures and Gross Capital Formation
Percentage change from 2008 peak, Seasonally Adjusted



SOURCE: www.europeansnapshot.com.

B

Real Private Final Consumption Expenditures
Percentage change from 2008 peak, Seasonally Adjusted



Cooley-Rupert European Economic Snapshot: www.europeansnapshot.com
Source: Eurostat

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