Where the Great Recession Took the Greatest Toll

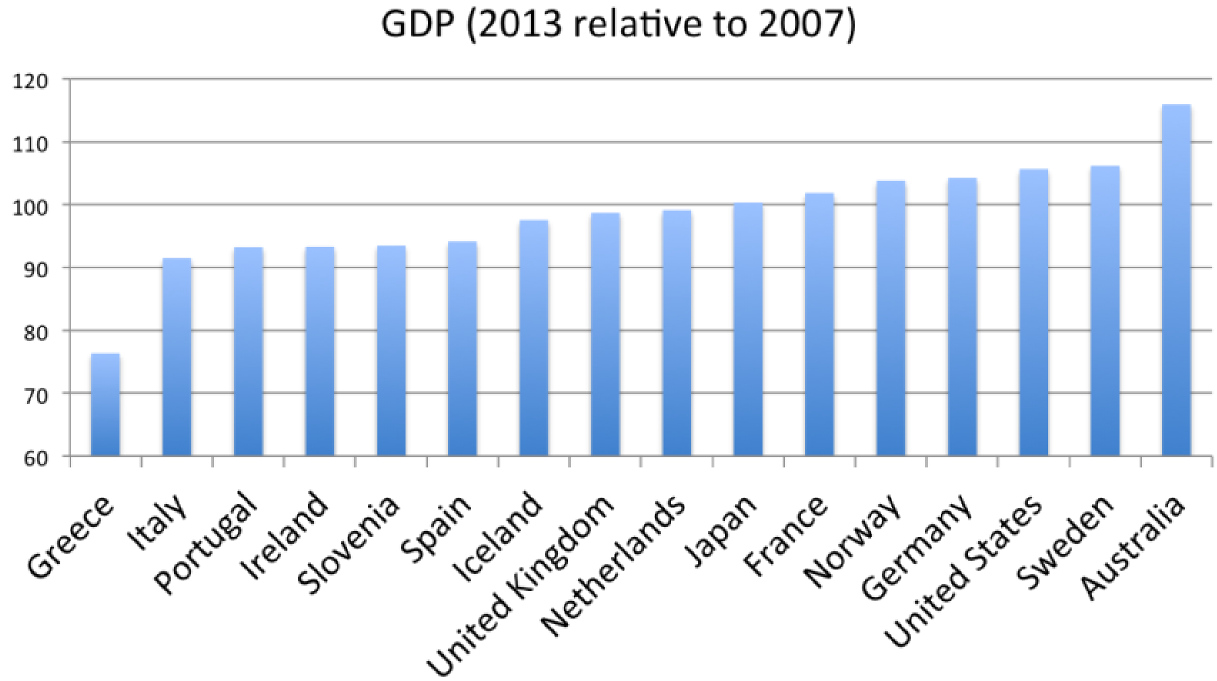
By Antonio Fatas , INSEAD Professor of Economics

Sometimes just looking at the headline figure is not the best way to judge a country's performance in times of crisis.

As we measure countries' performance since the beginning of the global financial crisis we try to look for patterns that explain differences in behaviour and lessons on how to handle the next major downturn. When doing that comparison, however, we sometimes forget that looking at GDP growth does not always give us all the information we need to understand cross-country variation in performance due to demographic, labour market and productivity factors. While these factors might be correlated over time, this is not always the case.

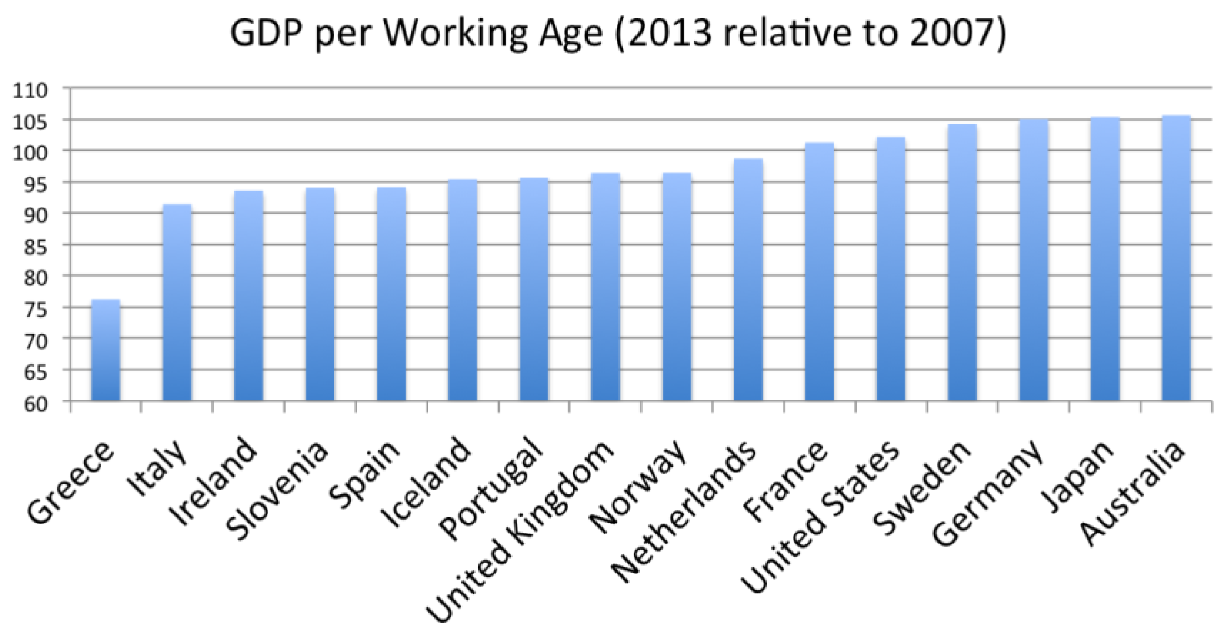
Here is a quick look at the years 2007-2013 for a group of advanced economies. The charts below plot the level of activity in 2013 measured as a ratio to the level in 2007.

We start with GDP.



We see the usual suspects at the bottom of the list and we also see on the right hand side the ones that have managed to do better during the crisis years. Japan and the U.K. sit in the middle of the table.

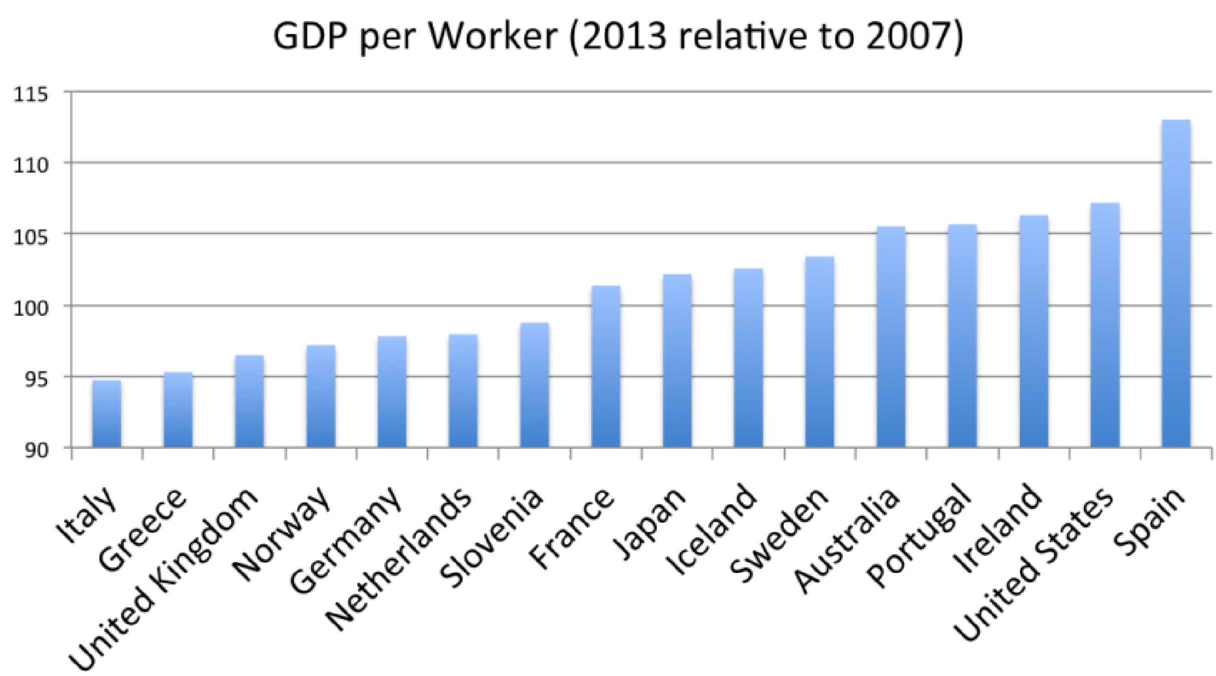
We now correct for the potential effect of changes in demographics in particular working-age population (defined as 16-64 years old).



Not many changes except for Japan where the performance looks a lot better as it ranks #2 in this list.   It is worth noting that any definition of working-age population is likely to be problematic. In many countries (in particular the U.S.) activity rates above 64 years old are significant and increasing so this statistic might be giving us a distorted pictures of the true level of potentially-active population.

Finally, what if we look at GDP per worker? This will give us a sense of the productivity of those working, abstracting from the labour market performance as a whole.

While this is a rough measure of productivity, it is affected by many factors including the possibility of sectoral shifts as the least productive sectors see a bigger downturn.



Some things do not change, Italy and Greece remain at the bottom of the list. However the U.K. is now the third-worst country and Japan goes back to the middle of the table. In the euro area the biggest change happens in Ireland and Spain; both made it to the top 3. This means that for these two countries the labour market performance is the main drag on their GDP performance. Germany falls to the bottom half of the table suggesting that the strong German labour market performance has compensated a not too stellar growth rate of GDP per worker.

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