# Snail's pace

## Recovery from this recession is likely to take several years, says the IMF

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WHEN the chairman of the Federal Reserve, Ben Bernanke, told a Washington think-tank this month that “the recession is very likely over at this point”, he was careful to add that the American economy would remain weak for some time yet. Analysis released on Tuesday September 22nd by IMF economists who have been studying the aftermath of 88 banking crises over the past four decades, supports Mr Bernanke's cautious talk. While most discussion of the worst recession since the Depression looks at the immediate pain from lost jobs and shuttered shops, the IMF analysis suggests that the effects of the downturn will be felt long after it is technically over.

It is not surprising that trouble in the banks results in big drops in GDP: the IMF finds that output per head falls steadily for three years after a typical banking crisis. Recovering from that takes a long time, even after a return to pre-crisis growth rates. Seven years after a typical banking crisis has ended output per head is 10% lower, on average, than it would have been in the absence of a crash. The IMF also finds that recessions (such as this one) that are associated with banking crises lead to output declines that are about three times as large in the medium term as those that follow currency crises (222 of which the fund's economists also scrutinised).

None of that bodes well for the recovery of the global economy today. Part of the problem is that it is a long and messy task to clean up a banking system. While this is being done, many people lose their jobs and drop out of the labour force altogether. In America, for example, the Bureau of Labour Statistics said that in August 758,000 people were “discouraged workers”—people who have given up looking for work because they believe there are no jobs for them. That is nearly double the figure of a year earlier. Even those who keep looking may find that their skills have grown rusty by the time a recession ends, making it hard to find a new job.

Profits also collapse during a financial crisis because credit becomes much more expensive; this in turn means that firms have less to invest when the crisis ends. If firms cut spending on research and development during the downturn that is likely to result in slower productivity growth later—nor does it help that many productive firms go bust because of credit shortages. The IMF concludes that falling productivity, the employment rate, and the amount of machinery and equipment available to workers each accounts for about a third of the medium-term output losses.

All this is what happens in a typical crisis. The conditions, and the effectiveness of policy, differ in each particular instance. For this case, the findings of the fund's economists are hardly cause for cheer. They estimate that countries where an unusually high proportion of income was invested before a crisis (for example, by borrowing abroad to speculate in assets, such as housing) are worse off in the medium term. As most rich countries had a property boom before the banking crisis, they should expect more pain in the coming years.

On the other hand, governments might be encouraged by the IMF. The economists also looked at the effects of macroeconomic policy, concluding that bigger increases in government spending help to limit the medium-term damage from recessions. Thus decisions taken to prime the fiscal pump during this crisis, despite the enormous increases in government debt in rich countries, may turn out to have been the right ones.

Still, deciding when to end fiscal and monetary stimulus is tricky. Doing so too early risks making the green shoots of recovery wither; waiting too long means even more debt to deal with. Governments and central banks have the difficult task of ensuring that their actions do not nip in the bud what in any case is likely to be feeble growth.