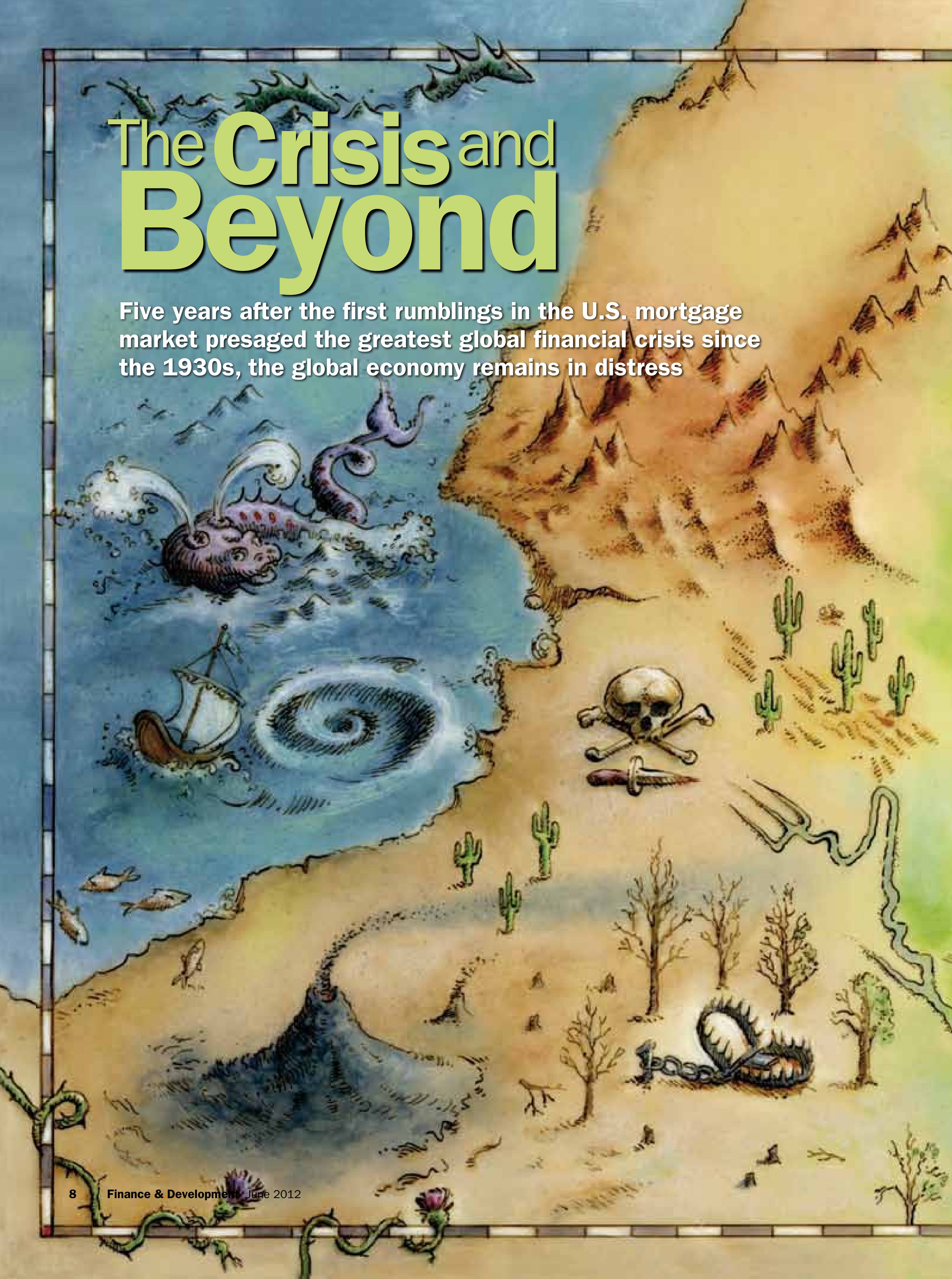
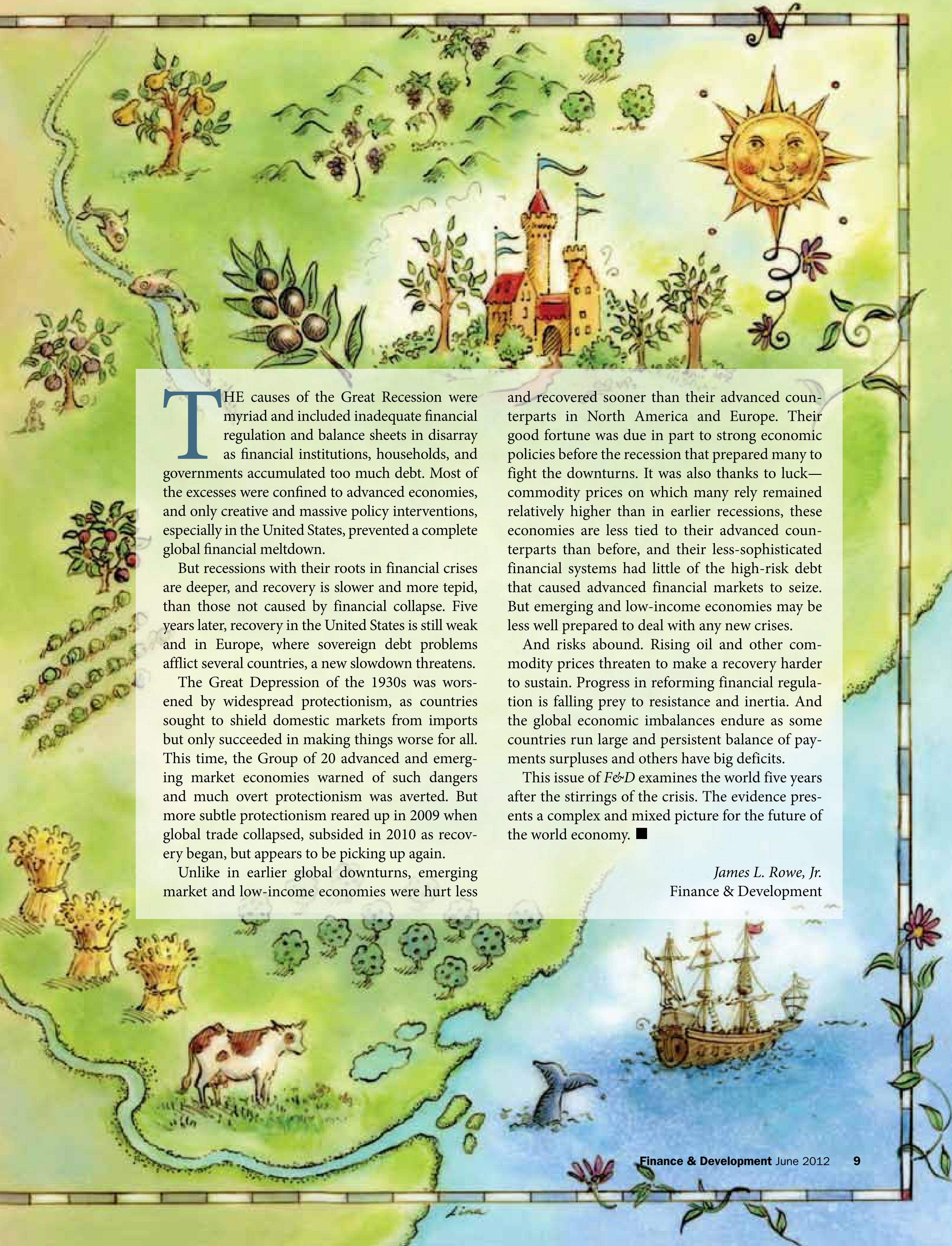
The Crisis and Beyond

Five years after the first rumblings in the U.S. mortgage market presaged the greatest global financial crisis since the 1930s, the global economy remains in distress





THE causes of the Great Recession were myriad and included inadequate financial regulation and balance sheets in disarray as financial institutions, households, and governments accumulated too much debt. Most of the excesses were confined to advanced economies, and only creative and massive policy interventions, especially in the United States, prevented a complete global financial meltdown.

But recessions with their roots in financial crises are deeper, and recovery is slower and more tepid, than those not caused by financial collapse. Five years later, recovery in the United States is still weak and in Europe, where sovereign debt problems afflict several countries, a new slowdown threatens.

The Great Depression of the 1930s was worsened by widespread protectionism, as countries sought to shield domestic markets from imports but only succeeded in making things worse for all. This time, the Group of 20 advanced and emerging market economies warned of such dangers and much overt protectionism was averted. But more subtle protectionism reared up in 2009 when global trade collapsed, subsided in 2010 as recovery began, but appears to be picking up again.

Unlike in earlier global downturns, emerging market and low-income economies were hurt less and recovered sooner than their advanced counterparts in North America and Europe. Their good fortune was due in part to strong economic policies before the recession that prepared many to fight the downturns. It was also thanks to luck—commodity prices on which many rely remained relatively higher than in earlier recessions, these economies are less tied to their advanced counterparts than before, and their less-sophisticated financial systems had little of the high-risk debt that caused advanced financial markets to seize. But emerging and low-income economies may be less well prepared to deal with any new crises.

And risks abound. Rising oil and other commodity prices threaten to make a recovery harder to sustain. Progress in reforming financial regulation is falling prey to resistance and inertia. And the global economic imbalances endure as some countries run large and persistent balance of payments surpluses and others have big deficits.

This issue of *F&D* examines the world five years after the stirrings of the crisis. The evidence presents a complex and mixed picture for the future of the world economy. ■

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