

## Referee-Report

*„The Great Recession versus the the Great Depression:*

*Stylized facts on siblings that were given different foster parents“*

This paper compares the course of the recent recession in 10 OECD countries with that of The Great Depression (GD) in the thirties of the 20th century. The comparison is based on data for 10 OECD countries. The conclusions are presented in terms of 4 stylized facts which stress either the similarities or the differences between the GD and the recent recession.

The paper is completely descriptive using OECD data and the well known resources for historical data provided by Maddison and Mitchell.

The fundamental problem of the paper is due to the fact that GD is history and we seem to know a lot about its causes and its development while the present recession is still an ongoing process which hopefully peters out somewhere in the future. Therefore, we do not have a complete account of the whole story and consequently the comparison remains a preliminary one. The results of the paper may be outpaced by real time development.

This does not mean that the paper is in itself worthless or even outdated. We need such research on “ongoing experiments”. Since the publication of the paper the “debt-problems” of Greece, Spain and Portugal became obvious. The discussions of the politicians and central bankers on this issues show that the recent recession might even have an impact on the constitutional foundations of the EU and not only on monetary and fiscal policy issues alone.

Recent monetary and fiscal policies are different from the policies during the Great Depression. Monetary policy was coordinated during the recent recession while it was uncoordinated then and, to some extent, idiosyncratic.

Automatic stabilizers seem to be more powerful today than during the Great Depression, at least in most European countries. This may explain why the fiscal stimulus seemed to be more desired in the US than in Europe. A quite important question is which multiplier effects can be expected in the short run and which growth effects, if any, will emerge in the long run. Cogan-Cwik-Taylor-Wieland (NBER, working paper 14782, 2009) compare Old-Keynesian with New Keynesian multipliers, given that there is a permanent increase in government spending by 1% of GDP and a federal funds rate remaining at 0% throughout 2009.

While the Old-Keynesian multipliers are around 1,5% increase per annum for a period from 2009 Q1 till 2012 Q4 the New Keynesian DSGE model of Smeets and Wouters leads to multipliers which are lower; starting with roughly 1% in 2009 Q1 and decreasing to 0,4% in 2012 Q4. In this model even the medium term impact seems not very promising though not negative as Barro has claimed.

What are the long run effects? In this connection the question is, how will the reduction of government debts be managed in the future? Small increases in taxes with a slowly reduction of the debt, accompanied by a moderate inflation or sharp increases of taxes and a faster reduction of the debt? How much and for how long will the economies remain below their potential long run growth paths?

These are questions which are not addressed in the paper although I regard them as relevant from a policy point of view.

As I have already mentioned above the paper is descriptive and I hardly see any message in terms of a policy recommendation. If this is not intended and the author wants to retain the descriptive perspective for a meaningful comparison he should wait till the end of the recession and then rewrite or at least supplement the paper.