Reaction to referee report 2

Thank you for the report. The suggestions underline, why an empirically based assessment on the extent of the Recent Crisis is important. It raises the question whether more policy conclusions can be drawn, even if we know that the paper gives an interim assessment only and the results could be "outpaced by real time development".

Descriptive character and "well known data"

I agree that the main focus of the paper is descriptive, but it is descriptive with a strong focus on policy indicators. It shows that economic policies applied differed, and results were differently, too between the Great Depression and the Recent Crisis. The exact impact should be analyzed on the basis of differences in the multipliers. I am grateful to this hint and would like to integrate the findings proposed by the referee.

I disagree with the assessment that the study uses existing data from OECD, Mitchell, Maddison. It was really difficult to collect the data and to make them comparable. The OECD, the IMF, and the European Commission had no comparable data sets. The historical data by Maddison and Mitchell were very unsatisfactory, rarely did any dataset include quarterly data, some did not even present annual data (but referred to benchmark years before and after the Great Depression). The policy indicators did not fit with the activity indicators as far as countries were concerned etc, etc. It is true that all the data were readily available somewhere, but all the existing sources had to be made comparable, additional country sources had to be found, interpolations to be made. It is no surprise that it was possible to claim long into the year of 2009 that the crisis was deeper than or as deep as the Great Depression, referring to some evidence on some indicator or some country. Whoever had looked into GDP, employment, deflation for a set of large countries could not sustain that claim. Furthermore in several discussions with historians and economists I heard that fiscal policy or monetary policy was not restrictive during the Great Depression, with anecdotal references to some specific year or some country. I think both claims are impossible, if we look at the data set available now.

Are there policy conclusions?

I am grateful for the evidence on differences in the multipliers between the GD and this crisis, as well as their dependence on the model used (Old vs. New Keynesian multipliers). I agree that monetary policy was coordinated this time.

My evidence tentatively shows that economic policy worked this time, proofs using standard econometric techniques will be more difficult. The evidence furthermore indicates that it was essential, that all strings of policy were used jointly (monetary, fiscal, guarantees) and that international coordination was feasible and advantageous. The main policy conclusions to be drawn for the question whether exit strategies should be "quick and large" or "moderate and slow" is that if policies worked in the crisis, it is important to consider the mirror effect in the exit phase, i.e. doing the withdrawal of stimuli in a consistent and partially coordinated way, but not too quick. We mention also the early reduction of the public stimulus in 1937 in the US, which lead to an additional dip in the US GDP.

Long-run consequences and timing

I could go a little further into the long run consequences, but would prefer to stick to the main question of comparing the two crises and the policies pursued, without going too deep into the causes and the consequences. As to the timing of presenting the evidence, I definitely do not want to wait until the end of the crisis, more exactly the point of time where all economists agree that the crisis has ended. As we know there is still no consensus when and why the Great Depression had ended. At the point of time when we already have the certainty that the crisis has ended and that all burdens of unemployment and debts are eliminated, the evidence will be of limited value for economic policy makers.

Karl Aiginger, April 8 2010