



---

## A Tale of Two Depressions

By Barry Eichengreen and Kevin O'Rourke

---

### New findings:

- World industrial production continues to track closely the 1930s fall, with no clear signs of 'green shoots'.
- World stock markets have rebounded a bit since March, and world trade has stabilized, but these are still following paths far below the ones they followed in the Great Depression.
- There are new charts for individual nations' industrial output. The big-4 EU nations divide north-south; today's German and British industrial output are closely tracking their rate of fall in the 1930s, while Italy and France are doing much worse.
- The North Americans (US & Canada) continue to see their industrial output fall approximately in line with what happened in the 1929 crisis, with no clear signs of a turn around.
- Japan's industrial output in February was 25 percentage points lower than at the equivalent stage in the Great Depression. There was however a sharp rebound in March.

The parallels between the Great Depression of the 1930s and our current Great Recession have been widely remarked upon. [Paul Krugman](#) has compared the fall in US industrial production from its mid-1929 and late-2007 peaks, showing that it has been milder this time. On this basis he refers to the current situation, with characteristic black humour, as only "half a Great Depression." The "[Four Bad Bears](#)" graph comparing the Dow in 1929-30 and S&P 500 in 2008-9 has similarly had wide circulation (Short 2009). It shows the US stock market since late 2007 falling just about as fast as in 1929-30.

### Comparing the Great Depression to now for the world, not just the US

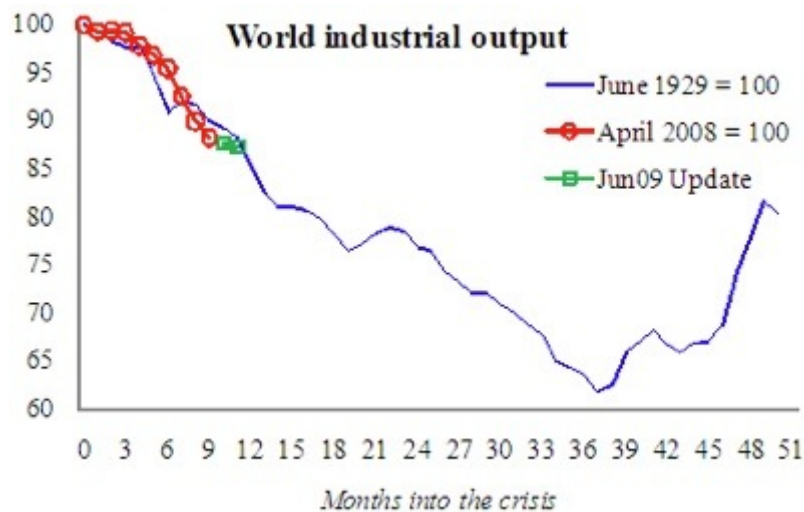
This and most other commentary contrasting the two episodes compares America then and now. This, however, is a misleading picture. The Great Depression was a global phenomenon.

Even if it originated, in some sense, in the US, it was transmitted internationally by trade flows, capital flows and commodity prices. That said, different countries were affected differently. The US is not representative of their experiences.

Our Great Recession is every bit as global, earlier hopes for decoupling in Asia and Europe notwithstanding. Increasingly there is awareness that events have taken an even uglier turn outside the US, with even larger falls in manufacturing production, exports and equity prices.

In fact, when we look globally, as in Figure 1, the decline in industrial production in the last nine months has been at least as severe as in the nine months following the 1929 peak. (All graphs in this column track behaviour after the peaks in world industrial production, which occurred in June 1929 and April 2008.) Here, then, is a first illustration of how the global picture provides a very different and, indeed, more disturbing perspective than the US case considered by Krugman, which as noted earlier shows a smaller decline in manufacturing production now than then.

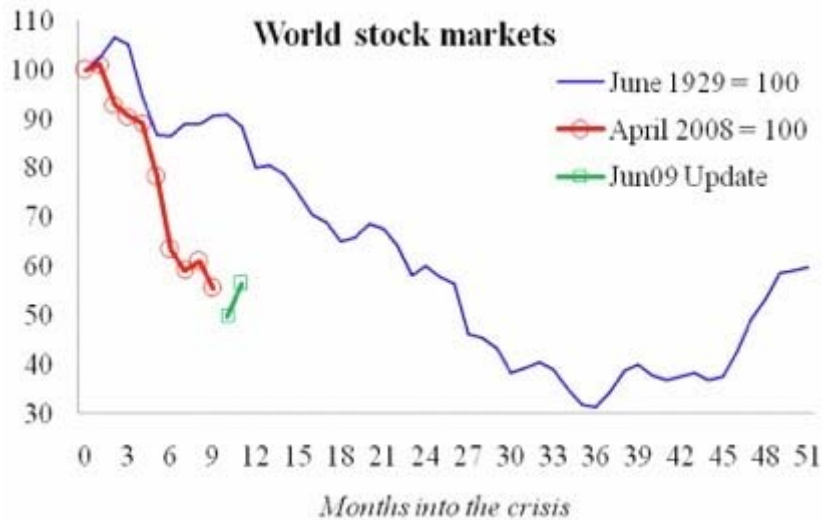
**Updated Figure 1.** World Industrial Output, Now vs Then (updated)



*Source: Eichengreen and O'Rourke (2009) and IMF.*

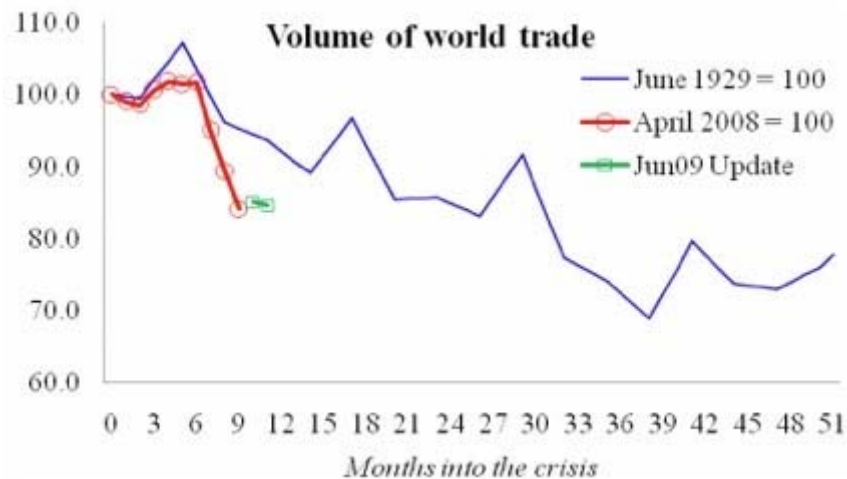
Similarly, while the fall in US stock market has tracked 1929, global stock markets are falling even faster now than in the Great Depression (Figure 2). Again this is contrary to the impression left by those who, basing their comparison on the US market alone, suggest that the current crash is no more serious than that of 1929-30.

**Updated Figure 2.** World Stock Markets, Now vs Then (updated)



Another area where we are “surpassing” our forbearers is in destroying trade. World trade is falling much faster now than in 1929-30 (Figure 3). This is highly alarming given the prominence attached in the historical literature to trade destruction as a factor compounding the Great Depression.

**Updated Figure 3.** The Volume of World Trade, Now vs Then (updated)



Sources: League of Nations Monthly Bulletin of Statistics,