Recession in USA, EU, Japan - China became the Largest Economy

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Overview of the decade of financial crisis in the world1. The damage of the world financial crisis needs to be studied in the broader perspective of beyond GDP framework. The fall in GDP underestimated the extent of damage of the financial crisis in the Triad (USA, EU, and Japan), as the greater part of the developed world. The deterioration of the employment rate and especially the fall in the share of the capital formation in GDP seriously hindered the medium to long-term capabilities of these economies, not to mention the worsening of inequalities.

Source: own calculations based on OECD (2017a, 2017b) and World Bank data (2017c)The detrimental effect of the world financial crisis beyond that on the GDP level and on the GDP growth rate has been felt with even greater intensity in the deterioration of employment rates, investment share in the GDP, in the increasing risk of poverty, and increasing income inequality. This has diminished the welfare and growth capabilities of these economies during the decade.2. For the overall magnitude of GDP in constant prices China surpassed EU28 in 2015 and the USA in 2013; for the overall gross capital formation China surpassed EU28 in 2012 and the USA in 2010. The two opposing directions: the decline in the Triad and the high growth rate in China, changed the ranking between them, currently being 1. China, 2. EU28, 3. USA.Â However, one should add that the level of GDP per capita (as distinct from the overall GDP level) in the Triad is still much higher than in China. Yet, as an effective developing country, China is progressing fast also in this respect.3. In addition to the usual statistical measures, such as percentages and growth rates, we shall describe the severity of the great recession with statistical measure S-time- distance, which measures distance in time (e.g. years) when the same level of the indicator has been reached. The time distance methodology is available in the large study (Sicherl, 2011a) and on www.gaptimer.eu. The paper (Sicherl, 2011b) published by the OECD Statistics Directorate can be freely downloaded from OECD at http://dx.doi.org/10.1787/5kg1zpzzl1tg-en. It can show how much time has been needed for the indicator to recover to the level before the crisis. The results are: to regain the 2007 level of GDP per capita, Japan needed 6 years, the USA 7 years and EU28 8 years; for the employment rate EU28 needed 8 years, while in 2015 the USA is still below its 2007 level; for the investment effort as the share in GDP the 2006 level has not been yet recovered in Triad: a delay of more than 10 years. This gives politicians and especially the general public unambiguous message that the financial crisis resulted in lost growth potential in this field for more than a decade.Â 4. While the 2015 and 2016 values of GDP per capita were in all three economies higher than the pre-crisis levels, the situation on the of investment effort is completely different; the investment shares in GDP were distinctly below their respective pre-crisis levels. It seems that the damage done by the financial crisis has in this respect meant a delay of a decade or more.The speed of change was swift. For gross capital formation in constant prices China surpassed the value of the USA in 2010 and the value of EU28 in 2012. In 2006 the magnitude of investment in China was still more than 50% lower than in the USA and EU28. In terms of time distance the 2006 value for China was reached in Japan 10 years earlier, 18 years earlier in the USA and more than 30 years earlier EU28. With great speed China reached the value of the USA in only 3 years and that of EU28 in 6 years.Closing remarksAfter slow recovery, growth may be picking up but we need to know where we start from. The fundamentals need to be improved. As the quality of financial regulation has not improved substantially on either side of the Atlantic, these domains are prone to further deterioration anywhere in the world. Even more so, possible further financial crisis could come around if these financial institutions are not properly regulated.FULL TEXT:Â
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