Road to recovery: Managing an epidemic

Simon Loertscher* Ellen V. Muir†

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Supplementary material: The Great Depression

Economists typically are seriously concerned when an ongoing crisis is compared to the Great Depression. The immediate consequences of the Great Depression were mass poverty and economic devastation. There are ample descriptions in popular literature and culture of the impact of this downturn on the lives of millions of people. At least indirectly, it arguably led to the rise of Hitler in Germany and thereby to WWII. A look at key data is insightful for comparisons. Table 1 contains unemployment rates and GDP growth for U.S. for the years 1930 to 1933. Table 2 contains unemployment rates for various countries in 1929 and 1932.

	1930	1931	1932	1933
U. rate	8.7	15.9	23.6	24.9
GDP growth	-8.5	-6.5	-12.9	-1.2

Table 1: Unemployment Rates and (real) GDP Growth during the Great Depression in the U.S. (source: thebalance.com)

The view that the current crisis is less severe because unemployment rates are smaller than during the Great Depression and so are the predicted declines in GDP is not uncommon. Somewhat implicit in this is that one compares current unemployment and GDP growth rates with the extremal numbers during the Great Depression. What is certainly a reason for considerable concern is the speed with which these changes occur today. For example, Australia's unemployment rate is expected to double in June from 5% to 10% while the unemployment rate in the U.S. has roughly quadrupled within four weeks from 4.4% in

*Department of Economics & Centre for Market Design, Level 4, FBE Building, 111 Barry Street, University of Melbourne, Victoria 3010, Australia. Email: simonl@unimelb.edu.au.
†Department of Economics, Stanford University. Email: evmuir@stanford.edu

Country	1929	1932
Australia	11.1	29.0
Austria	12.3	26.1
Belgium	4.3	39.7
Canada	5.7	22.0
Czechoslovakia	2.2	13.5
Denmark	15.5	31.7
Germany	n.a.	31.7
Japan	n.a.	6.8
Netherlands	7.1	29.5
Norway	15.4	30.8
Poland	4.9	11.8
Sweden	10.7	22.8
Switzerland	3.5	21.3
United Kingdom	10.4	22.1
United States	3.2	24.9
Average	8.2	25

Table 2: Unemployment Rates during the Great Depression (source: Reinhart and Rogoff (2009, p.269))

March to an expected 17% in April. It certainly already exceeds the unemployment rate in the U.S. in the first year of the Great Depression, that is, in 1930 (see Table 1). Figure 1 displays the dramatic increase in unemployment filings in the U.S. in the second half of March and the first half of April 2020. The precipitous decline in retail sales in the U.S. is displayed in Figure 2.

A major reason for the severity and length of the economic crisis that became the Great Depression was the slow and ultimately misguided policy reaction. Rather than increasing Government spending and money supply, the U.S. Government decreased both. While there are good reasons to believe that, today, these mistakes will be avoided, the possibility that, until there is a vaccine, the ongoing threat from the coronavirus renders these hard lessons learned useless. Swift policy responses lose their effectiveness if people cannot go back to work because of a looming public health disaster if they do.

References

Reinhart, Carmen and Kenneth Rogoff (2009) *This time is different*, Princeton, New Jersey: Princeton University Press.

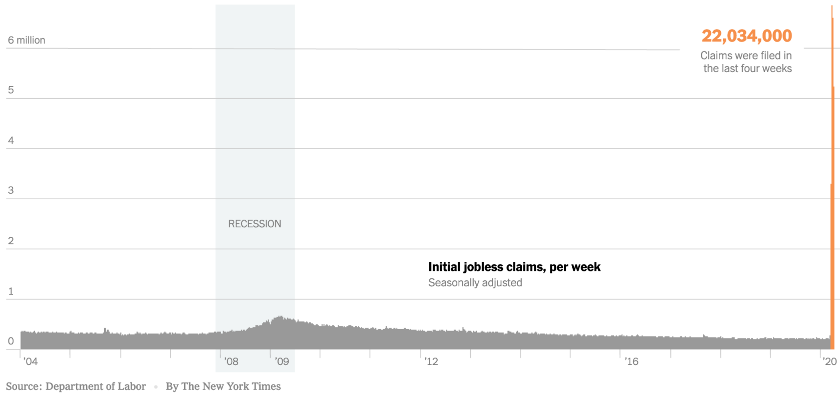

Figure 1: Weekly unemployment claims in the U.S. (Source: New York Times, 16 April 2020).

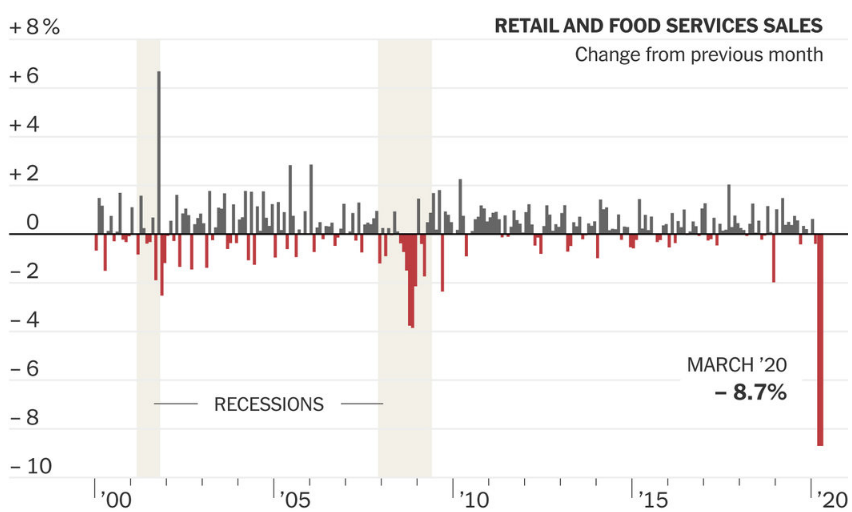

Figure 2: Retail sales. (Source: New York Times, 14 April 2020).