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How Bad Could Things Get?

Since World War II, there have been 18 banking crises in industrial countries. The worst five were caused by changing lending standards or real estate bubbles (often both) and cost at least 6 to 20 percent of G.D.P., the U.S. equivalent of $850 billion to $2.8 trillion. These are the worst five:

Spain, 1977

COST: >16% OF G.D.P.

A poor response to the oil shock of 1973 and weak bank supervision meant half of banks had solvency problems; the government took over 20 small banks.

Norway, 1987

COST: 8% OF G.D.P

Deregulation led to problem real estate loans and banks had too little capital to absorb losses. A drop in oil prices started the crisis.

Finland, 1991

COST: 11% OF G.D.P.

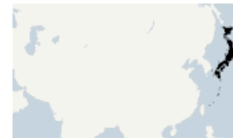
Big increases in household debt and overly optimistic assessments of asset quality added to problems caused by the loss of exports to Soviet Union.

Sweden, 1991

COST: 6% OF G.D.P.

Deregulation meant banks were able to make poorly documented loans without supervision. A real estate bubble collapsed.

Japan, 1992



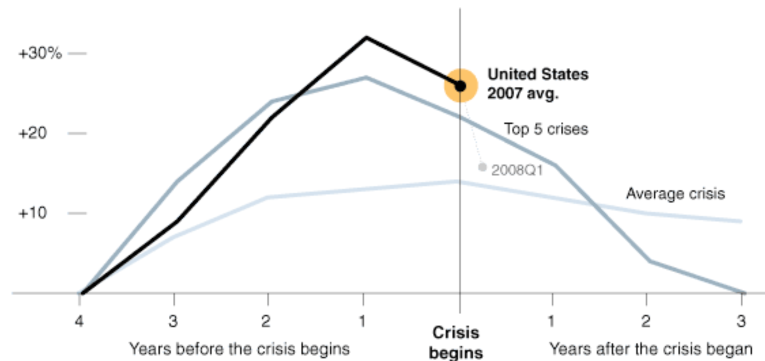
EST. COST: >20% OF G.D.P.

A sharp plunge in the real estate market caused bad loans to pile up, starting a stretch of stagnation known as Japan's lost decade.

Can Past Banking Crises Tell Us Anything About What's Next?

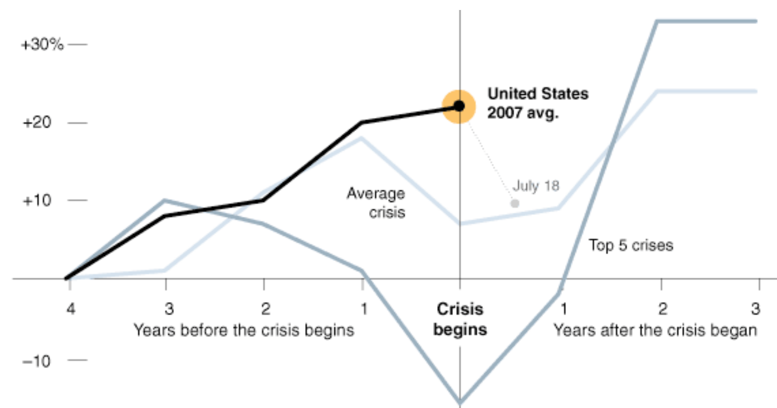
Cumulative Change in Real Home Prices

In the four years before the current crisis, home prices behaved much as they did in the worst crises of the past, according to a study (pdf) by economists at the University of Maryland and Harvard. If the trend holds, prices will fall an additional 15 percent in the next three years.



Cumulative Change in Real Stock Prices

Through the end of 2007, the stock market followed a pattern more like the average crisis than a typical top 5 crisis. One theory: the Fed provided enough stimulus to keep prices from falling. The S.&P. 500 has fallen 14 percent so far this year, but history shows big increases two years after crises begin. In this crisis, that would be 2009.

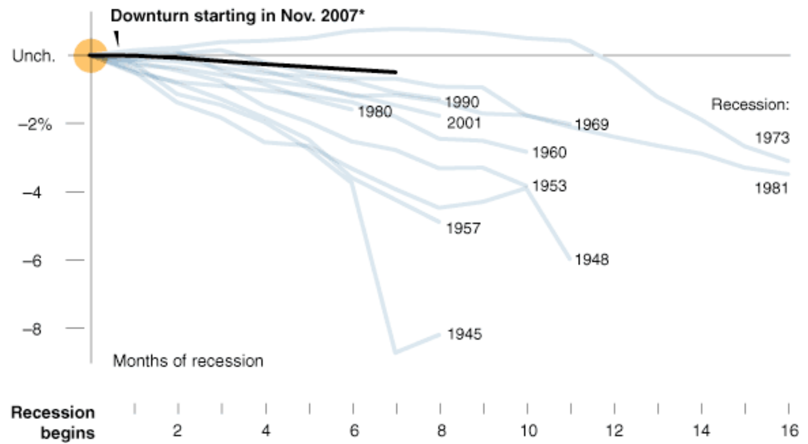


How Does the Current Downturn Compare with Past U.S. Recessions?

Cumulative Change in the Number of Jobs

The 580,000 private sector jobs lost from November 2007 to June 2008 pale in comparison with most of the past 11 recessions, but they come on the heels of a relatively weak labor market. The current downturn is expected to be at least as bad as the one in 2001, when two million jobs were lost. (About 20 percent of jobs were lost in the Great Depression, making the unemployment rate 25 percent.)

* The status of a possible current recession has not been determined; job losses began in Nov. 2007.



Sources: Carmen M. Reinhart, University of Maryland, and Kenneth S. Rogoff, Harvard (historical patterns); Bureau of Labor Statistics (employment); National Bureau of Economic Research (recessions)

Amanda Cox/The New York Times

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