Lost economic timeThe Proust indexAdvanced economies have gone backwards by a decade as a result of the crisis

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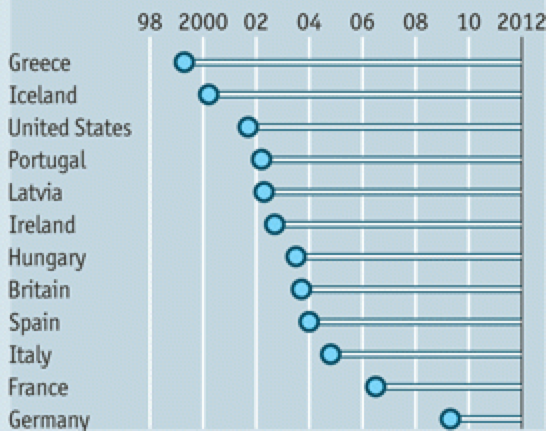
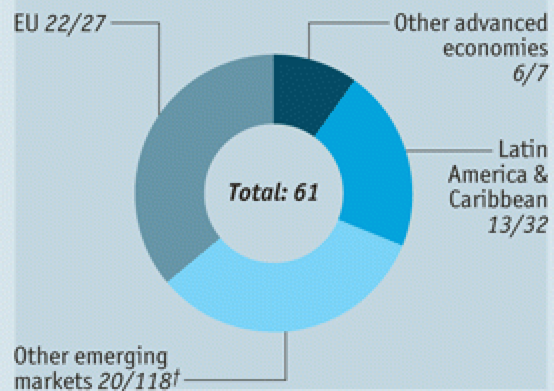
NOW almost five years old, the economic crisis rumbles on. In order to assess how much economic progress it has undone, *The Economist* has constructed a measure of lost time for hard-hit countries. It shows that Greece's economic clock has been turned back furthest: it has been rewound by over 12 years. Elsewhere in the euro area, **Ireland, Italy, Portugal and Spain have lost seven years or more**. Britain, the first country forced to rescue a credit-crunched bank, has lost eight years. America, where the trouble started, has lost ten (see left-hand chart).

Putting the clocks back

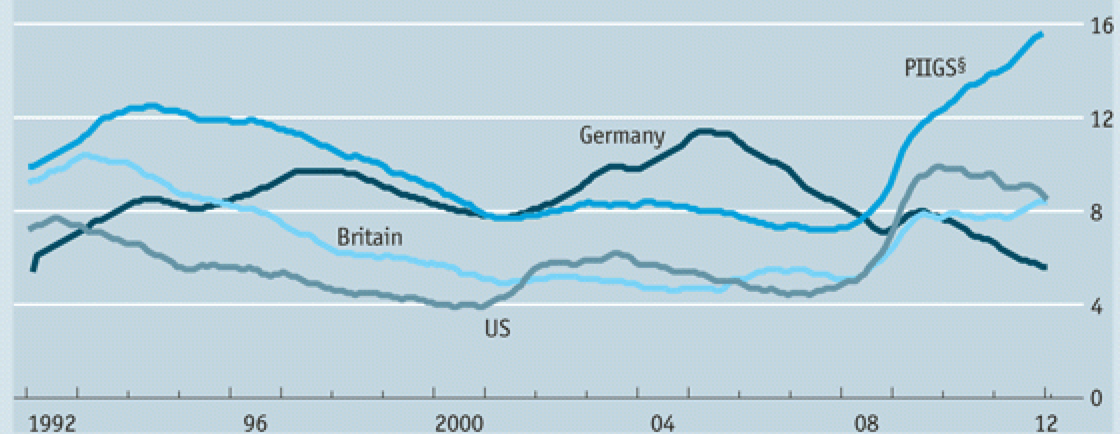
What year is it in economic terms?*



Countries where GDP per person was lower in 2011 than in 2007/out of total countries in each group



Unemployment rate‡, %



*Average using GDP, consumption, stockmarkets, wages, house prices, wealth and unemployment
†Excludes 14 poverty-trapped sub-Saharan African countries
‡Harmonised rate, three-month moving average
§Simple average of Greece, Ireland, Italy, Portugal and Spain

Sources: *The Economist*; IMF; OECD

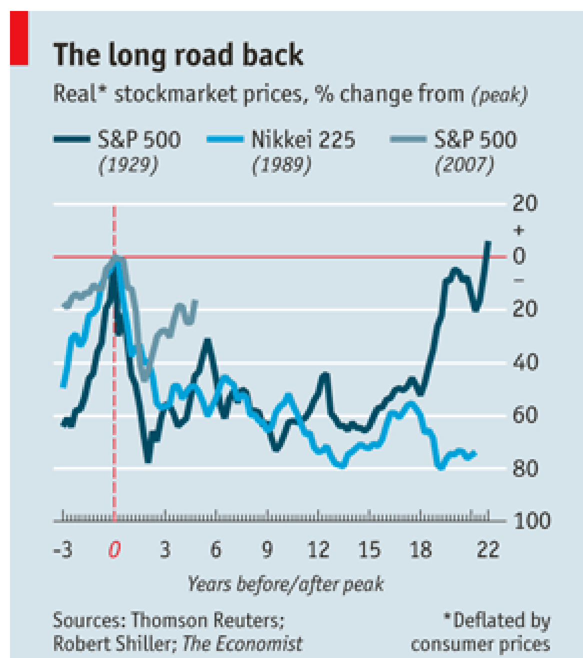
Our clock uses seven indicators of economic health, which fall into three broad categories. Household wealth and its main components, financial-asset prices and property prices, are in the first group. Measures of annual output and private consumption are in the second category. Real wages and unemployment make up the third. A simple average of how much time has been lost in each of these categories produces our overall measure.

Stockmarkets give some of the starkest results. American equities lost a quarter of their value in the month after the collapse of Lehman Brothers in September 2008. Shares are an important component of households' pension-fund wealth, and in that month alone five years of gains were

eradicated. The main indices have improved markedly since then: the S&P 500 is back to around 90% of its peak value. But they were at these levels back in the late 1990s, too, so some investors will have made no capital gains in 13 years. Greek stocks were higher in 1992 than today: 20 years have been wiped away.

Recent performance is actually quite good from a historical perspective: **five years on from both Wall Street's 1929 crash and Japan's 1989 asset bust, equities were at just 50% of their peak values in real terms**. But history also offers a warning: **it took 25 years for American stocks to regain their 1929 highs and Japanese stocks have never made it back to their peak.**

House prices have gone backwards, too. The average American homeowner is living in 2001, judging by inflation-adjusted property values. Britain has suffered less dramatic drops in house prices, but has still lost seven years. The costs of this lost time are huge: British households' property wealth, in today's prices, is around £500 billion ($785 billion) short of its peak; American households have lost a whopping $9.2 trillion.



How quickly economies make up lost time will depend on where they have ceded ground. Some indicators may

bounce back quickly: share prices are forward-looking measures of expected returns that are constantly being reassessed. Just as they can crash down they can jump back up, boosting wealth.

Other indicators are more sluggish. Measures of output tend to crawl, not jump. One such measure, nominal GDP, is a vital metric of governments' debt sustainability. Since debts are set at past values, growth and inflation tend to make the burden of borrowing more manageable; a shrinking economy makes the problem worse. There are 14 countries that have gone back in time, according to the nominal GDP indicator. This group includes eight members of the European Union, all of which have to repay their debts from an eroded tax base. Portugal and Spain have been sucked back to 2008 on this measure; Ireland was richer in 2006.

A different measure of GDP is needed to see how well consumers are doing. Inflation needs to be stripped out since it is higher output, not higher prices, that make people better off. Population growth also needs to be taken into account, since living standards are best measured on a per-person basis. Measured by real GDP per person a third of the 184 countries the IMF collects data for are poorer than they were in 2007. These 61 countries have each lost at least five years.

The type and location of the economies still underwater on this measure are striking (see right chart). The EU has done very badly: 22 of its 27 members have lost time. Of the G7 group of large economies, only Germany has not gone backwards. The Caribbean and eastern Europe also have their fair share of submerged countries. Asia has performed much more strongly.

Our labour-market indicators provide more estimates of lost time. The OECD, a think-tank, publishes wage data for 25 rich countries. In ten of them real wages were lower in 2010 than previously, with four years lost on average by those that went backwards. Workers in Greece and Hungary had lost six years, with pay below its 2004 level.

Unlike income and GDP, there is no reason why unemployment statistics should improve year on year. But many advanced countries had managed to reduce joblessness to new lows in the years before 2007. The crisis blew all those gains away. In America the unemployment rate stands at 8.3% of the labour force, its 1983 level. In Britain it is at its worst for 17 years. In the euro area job prospects diverge hugely: unemployment is falling in Germany but Greece, Ireland and Portugal have joblessness rates not seen since the early 1990s (see bottom chart).

These measures are the most worrying of all. Growth will reset the economic clock, providing new jobs and the resources to pay down debts. The IMF predicts that in three years Italy will be the only G7 country with real GDP lower than in 2007. Within this group, America, which is already growing again, is in a better position than Britain, which is not. **But periods of unemployment scar workers even after economies have crawled back to health. For some, the time lost to the crisis will never be recovered.**