



CENTRE for ECONOMIC
PERFORMANCE

Lionel Robbins Memorial Lectures

The Return of Depression Economics Part 1: The Sum of all Fears

Professor Paul Krugman

Centenary Professor At LSE

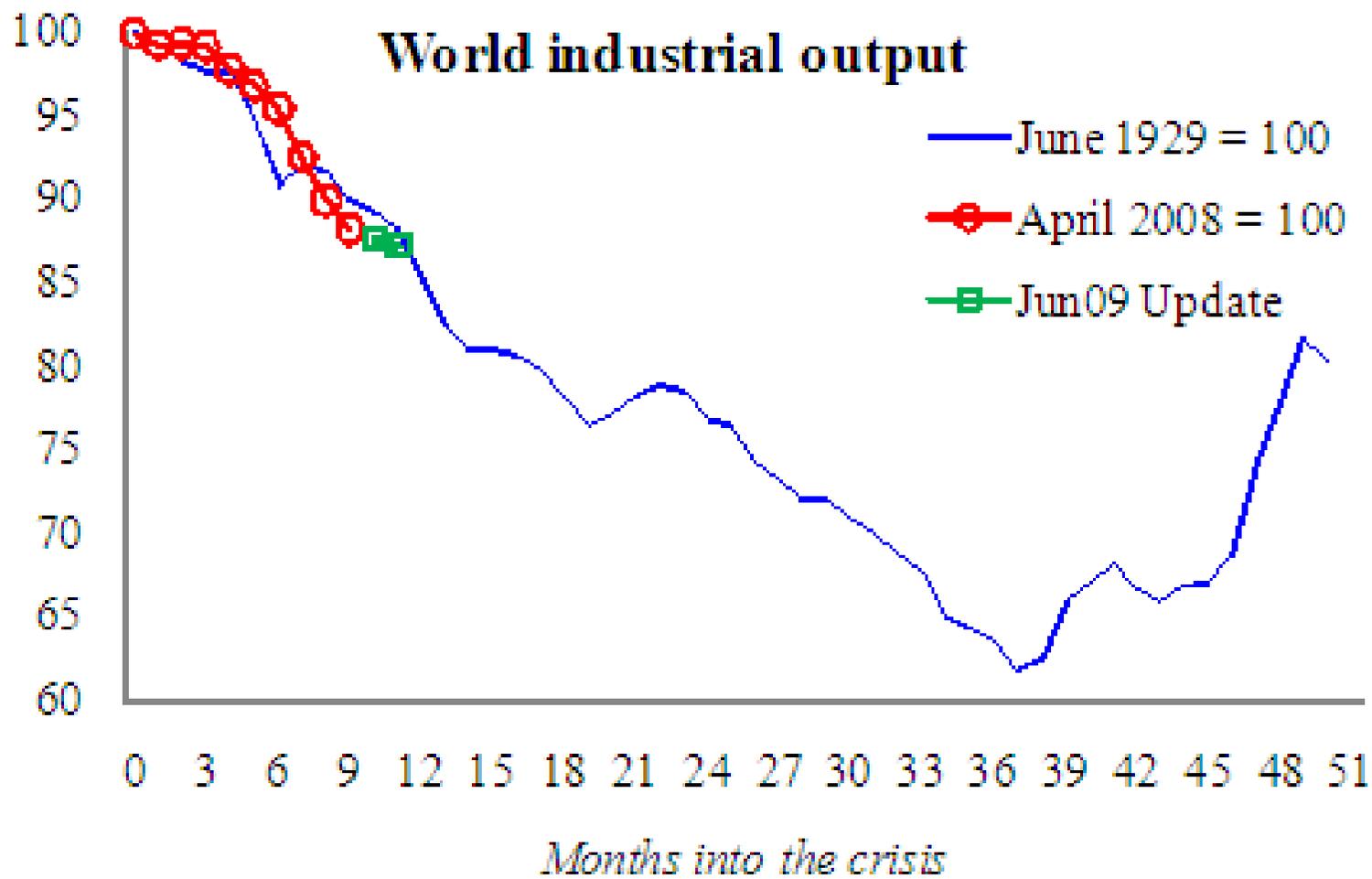
Professor of Economics and International Affairs, Woodrow Wilson School, Princeton University

Howard Davies

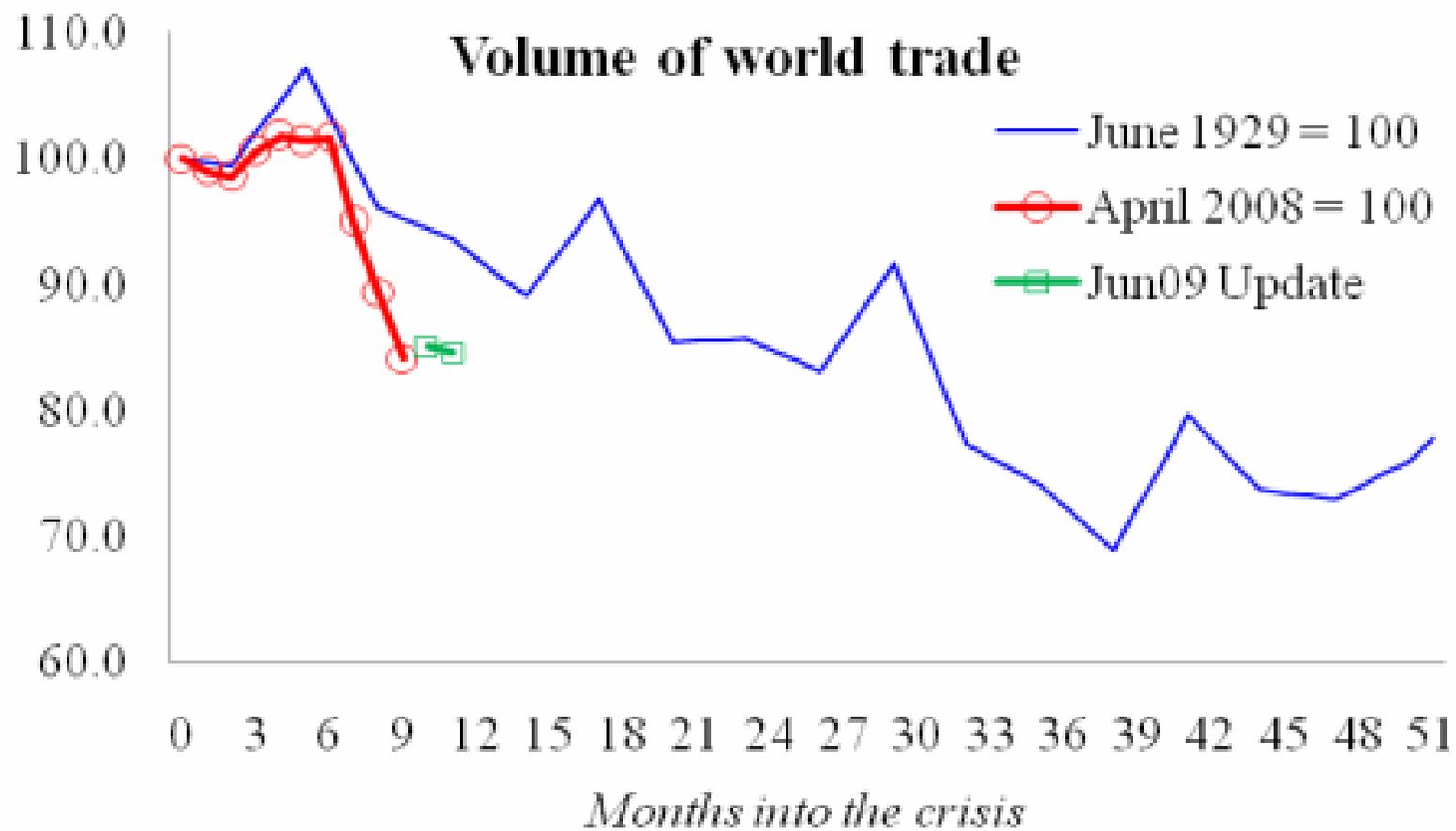
LSE, Chair

Lecture 1: The sum of all fears

Paul Krugman



From Eichengreen and O'Rourke



From Eichengreen and O'Rourke

This wasn't supposed to be possible:

“The central problem of depression-prevention has been solved, for all practical purposes.”

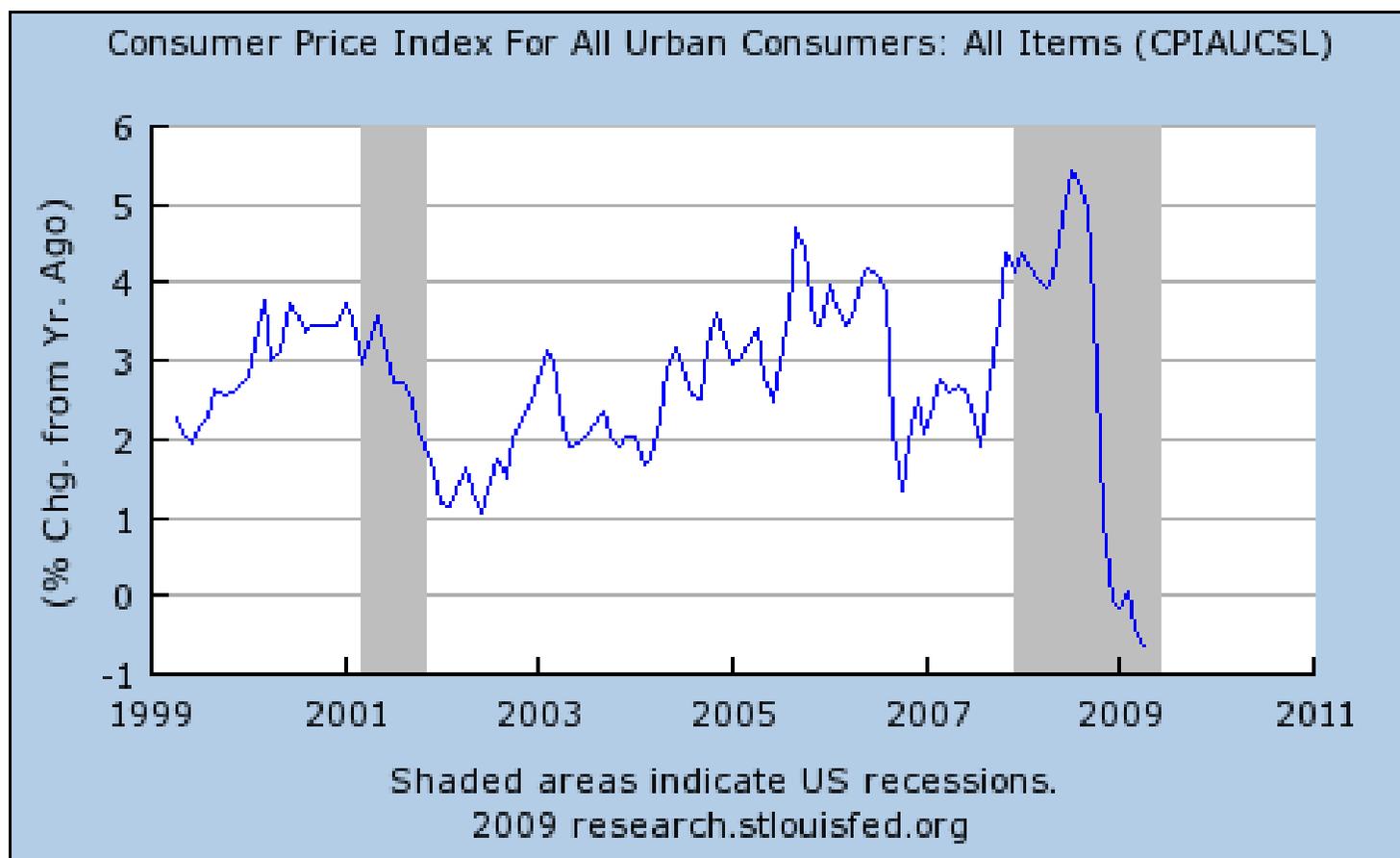
Robert Lucas, 2003

And many people said things that look stupid in retrospect ...

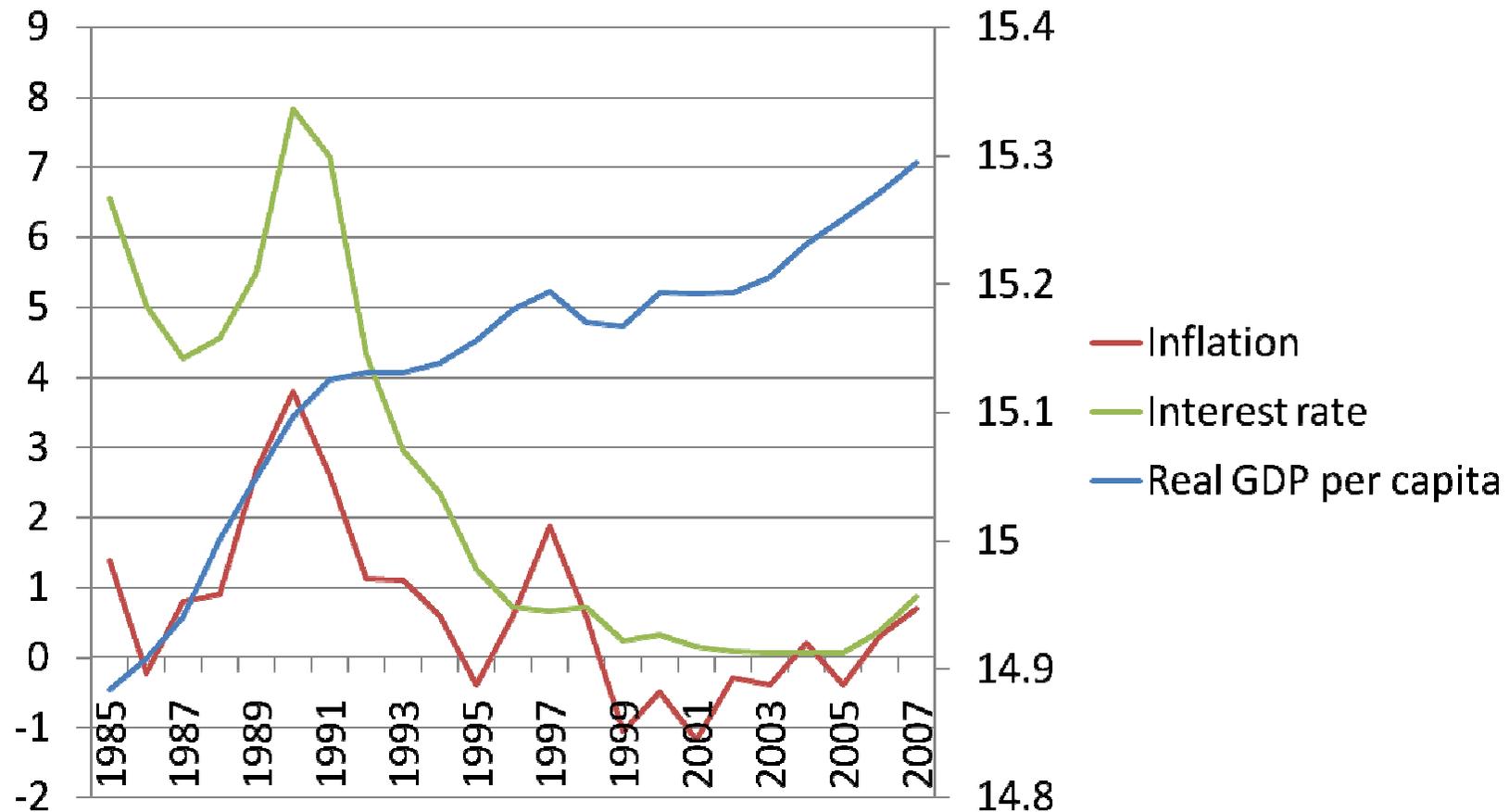
“If you want a simple model for predicting the unemployment rate in the United States over the next few years, here it is: It will be what Greenspan wants it to be, plus or minus a random error reflecting the fact that he is not quite God. ”

Paul Krugman, 1997

This is not a supply shock ...

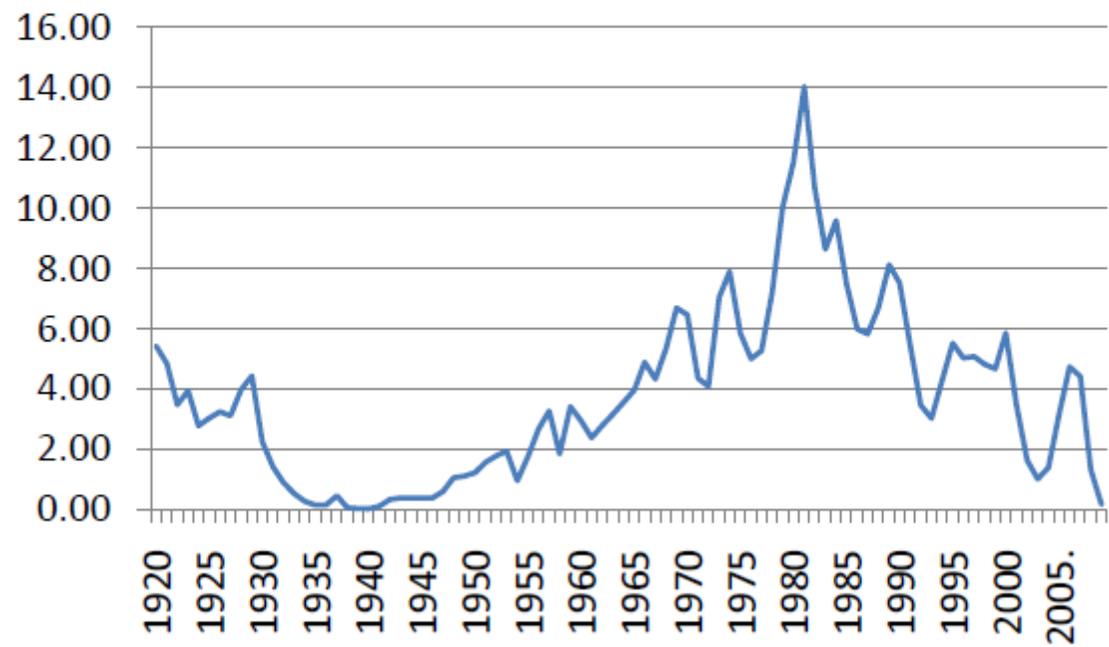


Japan's lost decade



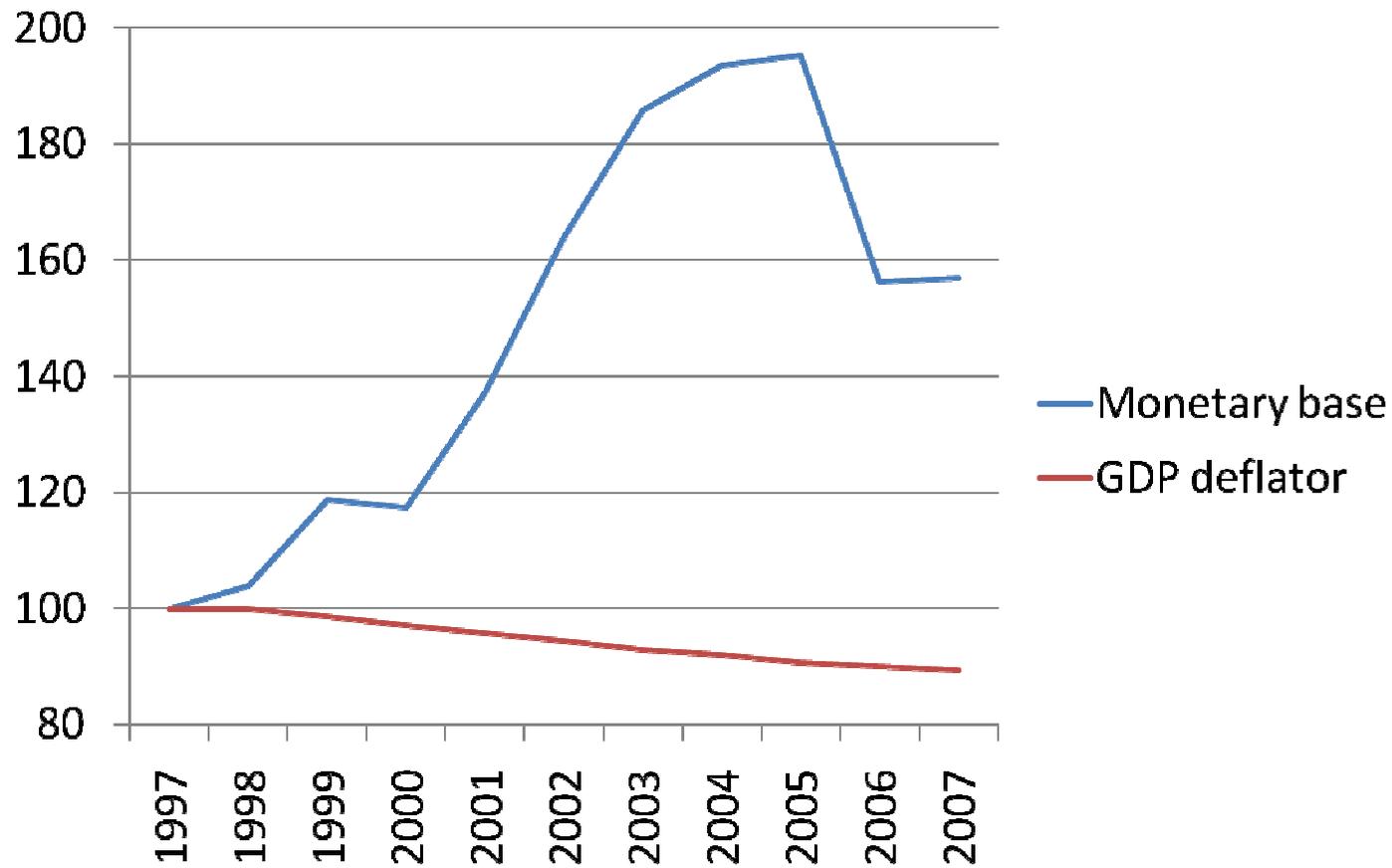
Source: IMF WEO database

Short-term interest rates



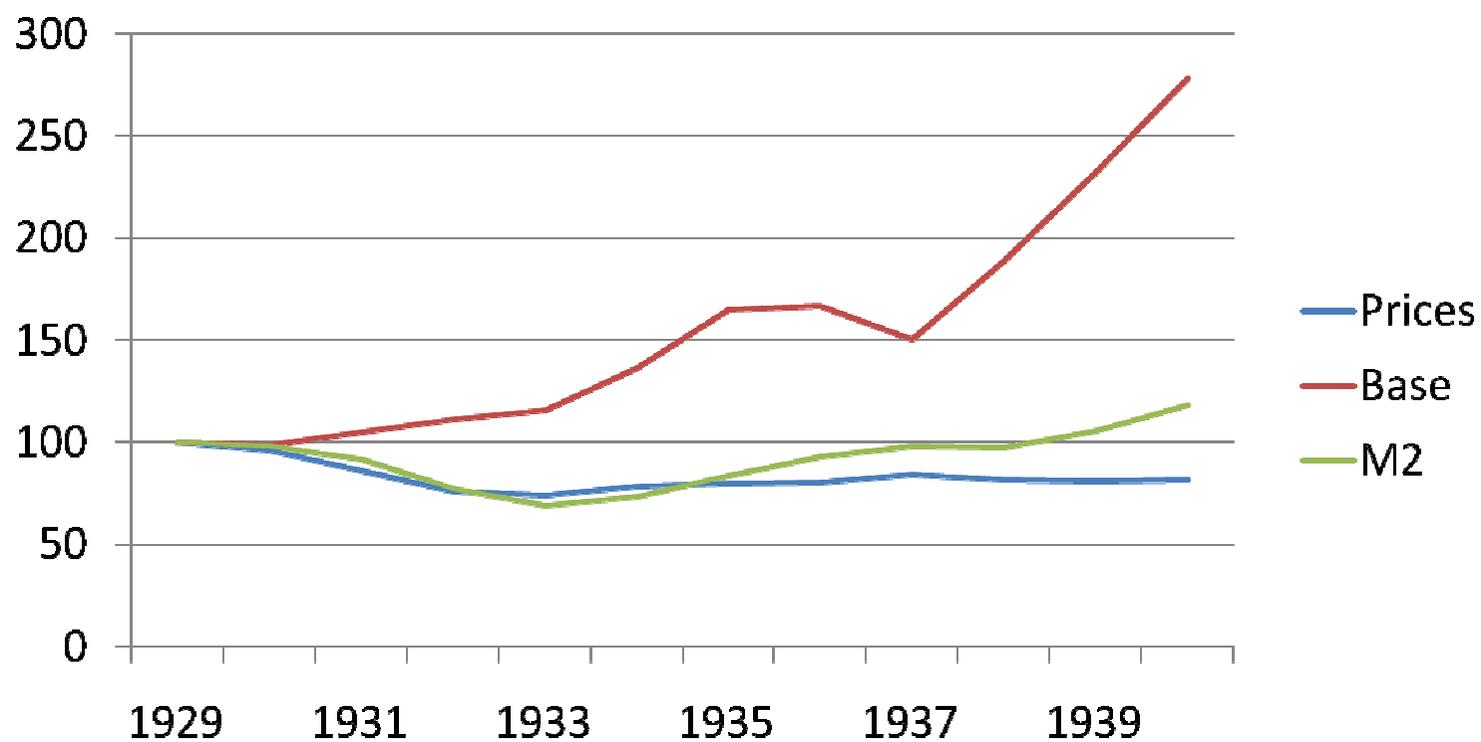
Source: Census, Federal Reserve

Japanese money and prices

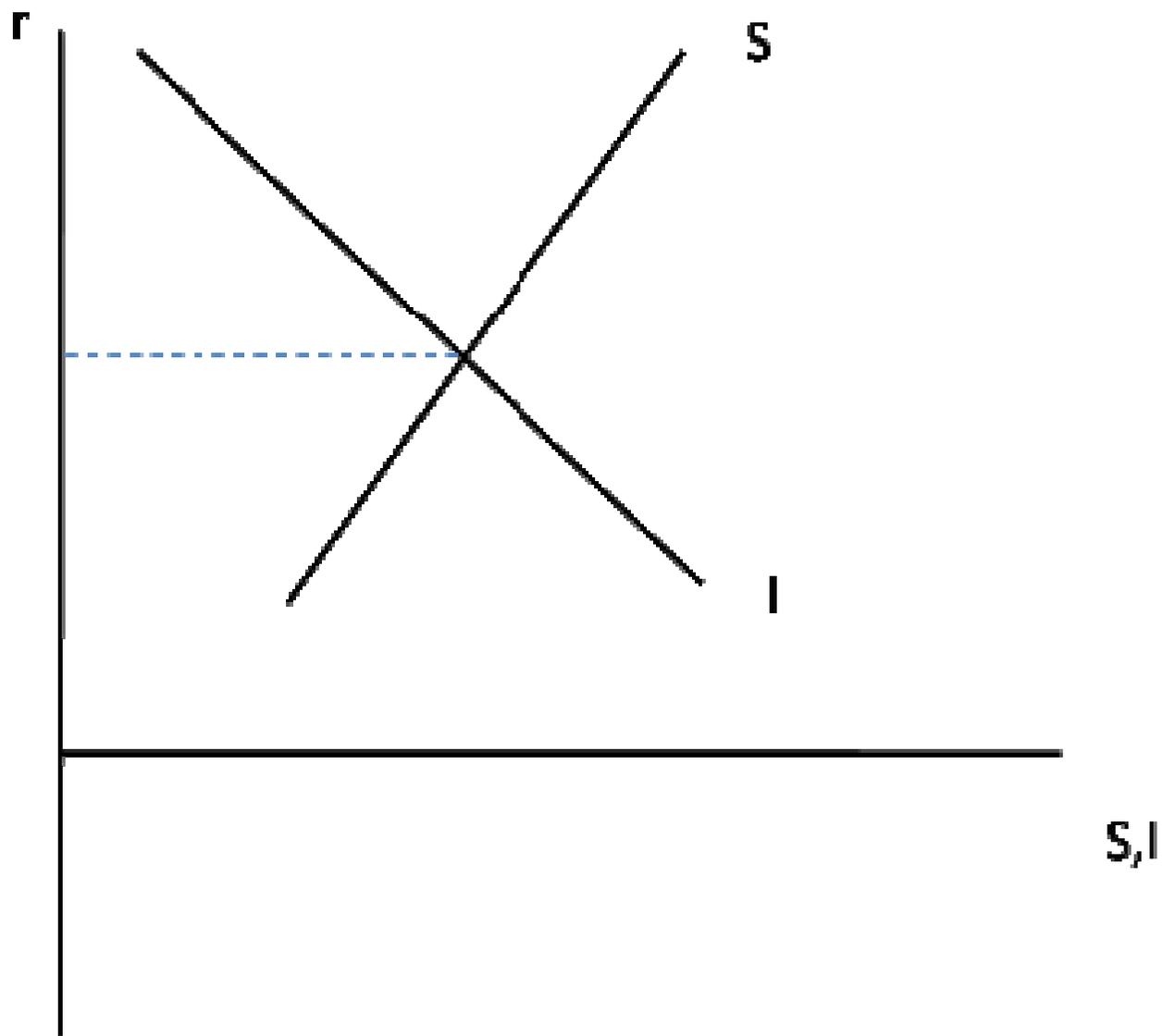


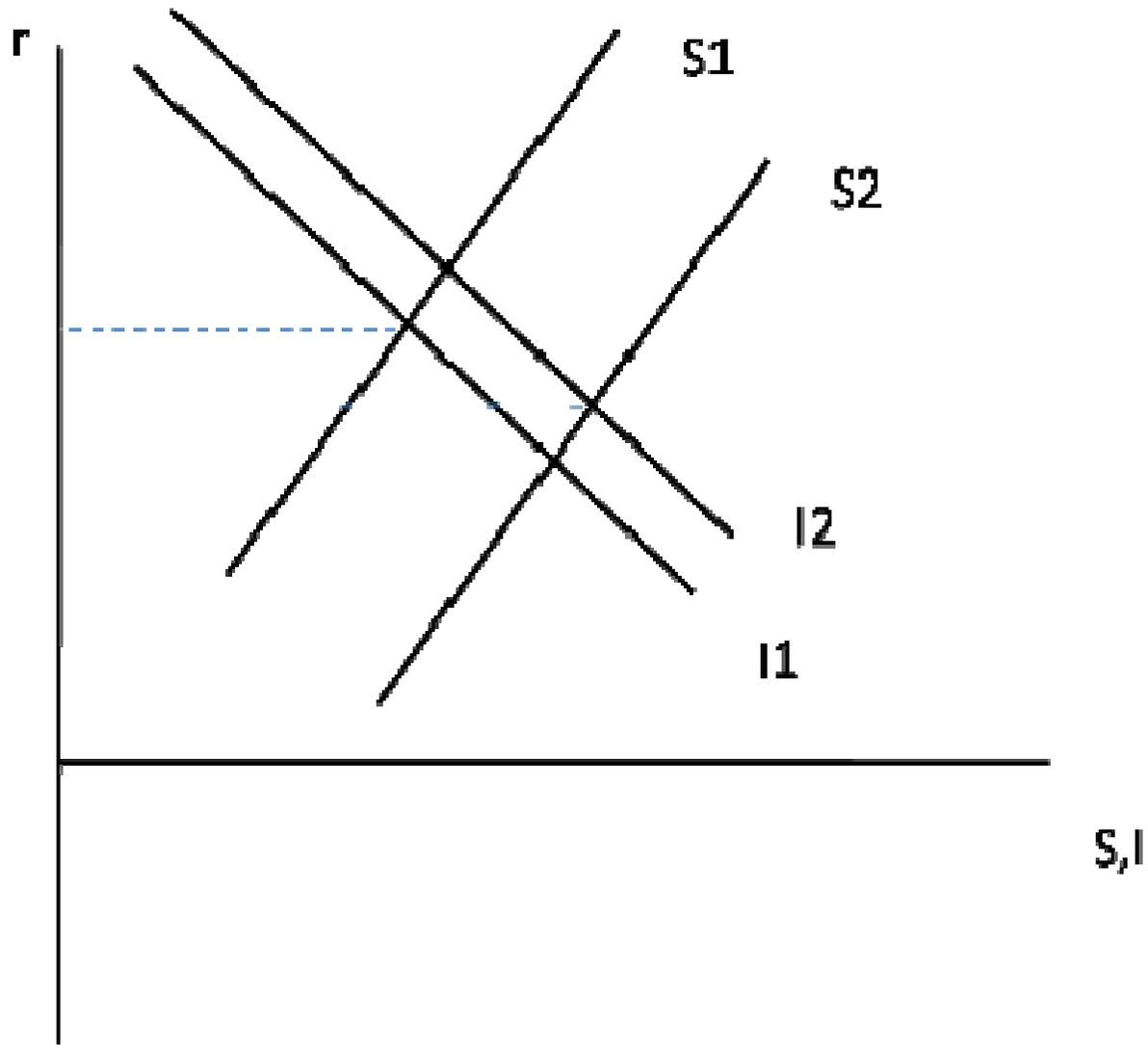
Source: Bank of Japan, IMF

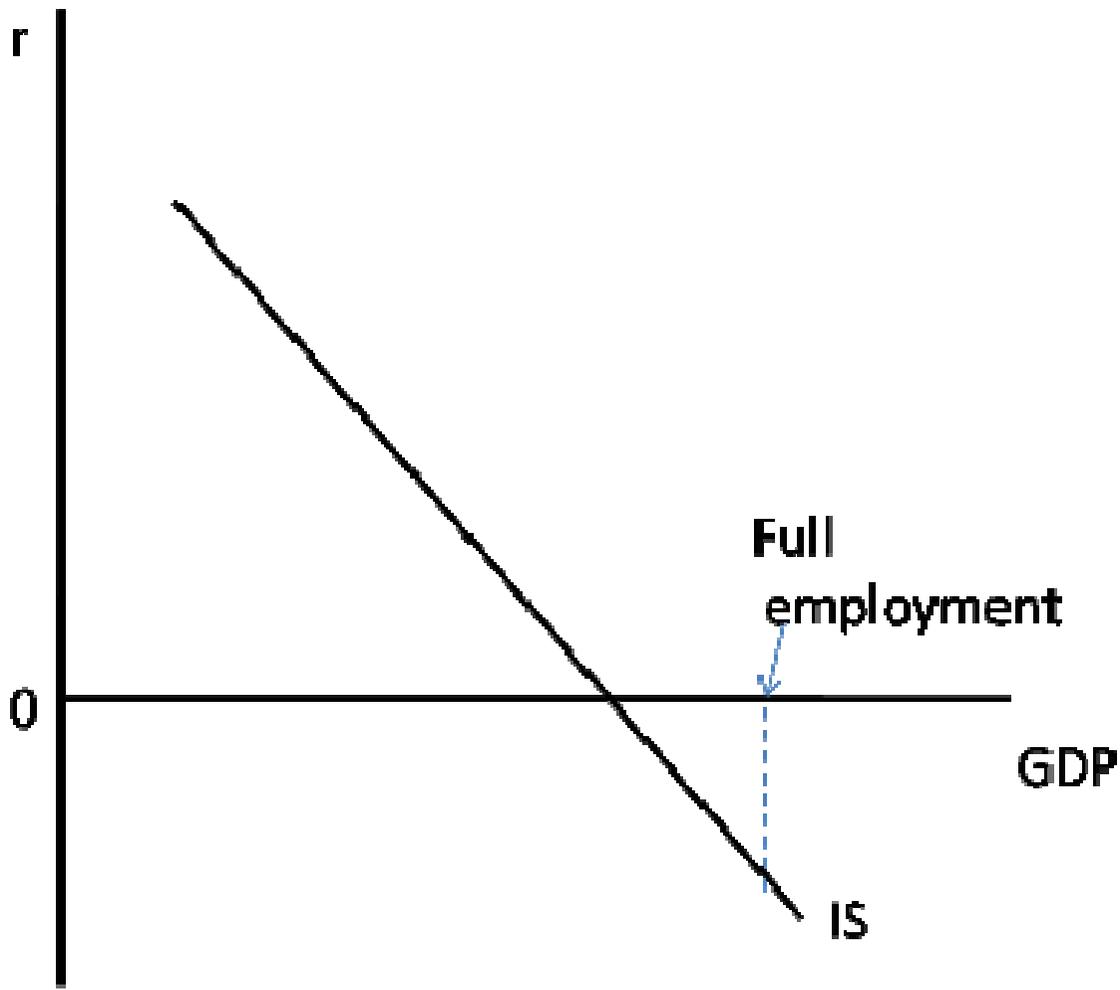
Money and prices in the Great Depression

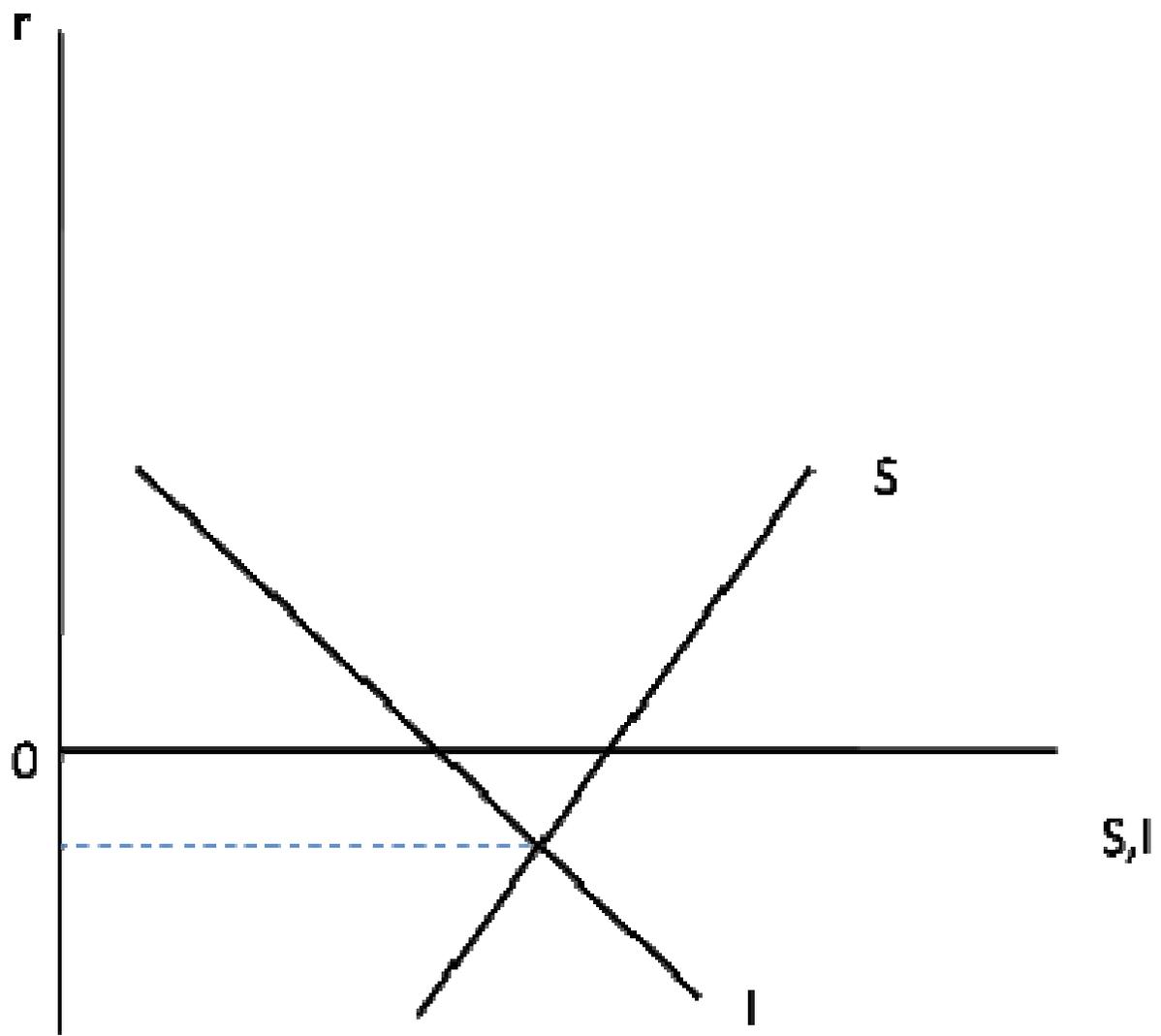


Source: BEA, Historical Statistics of the United States, St. Louis Fed

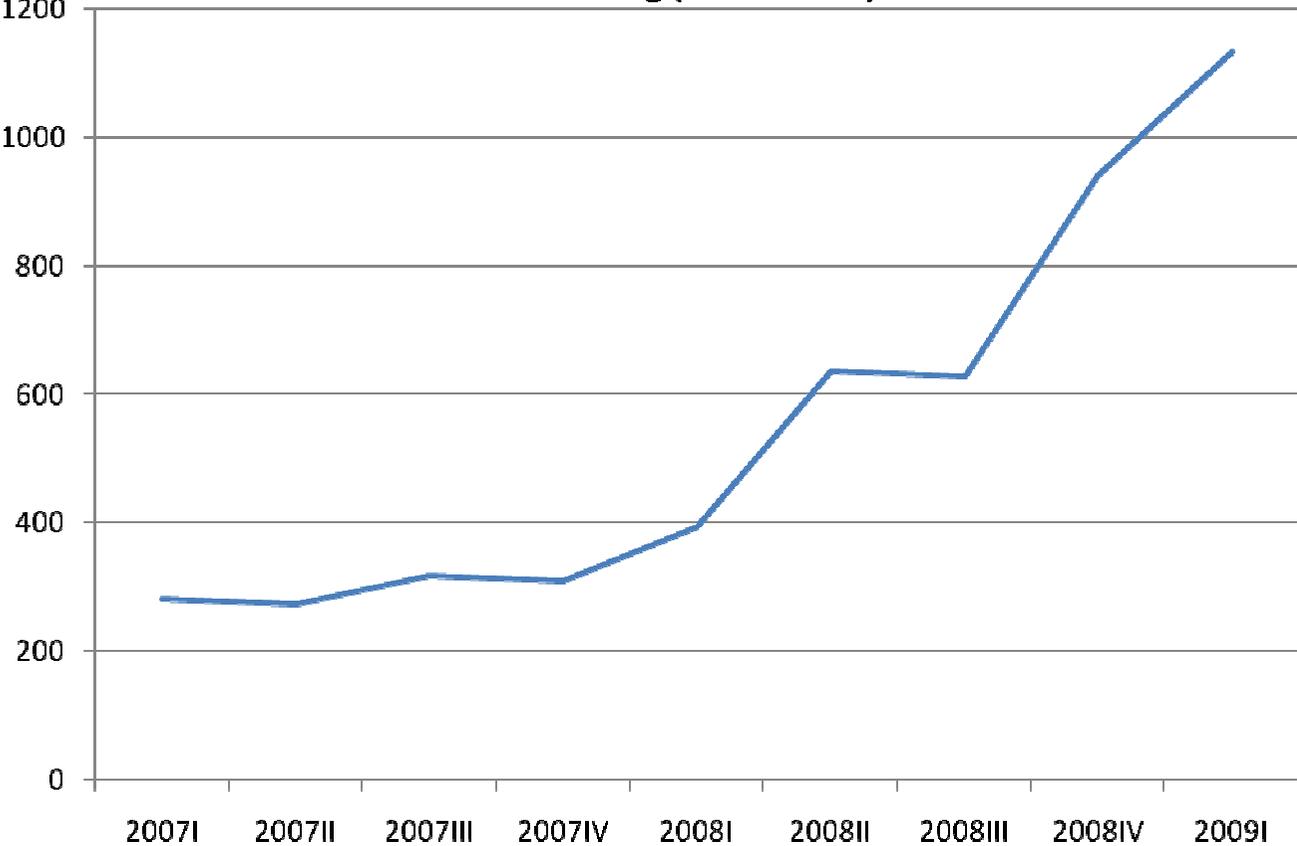


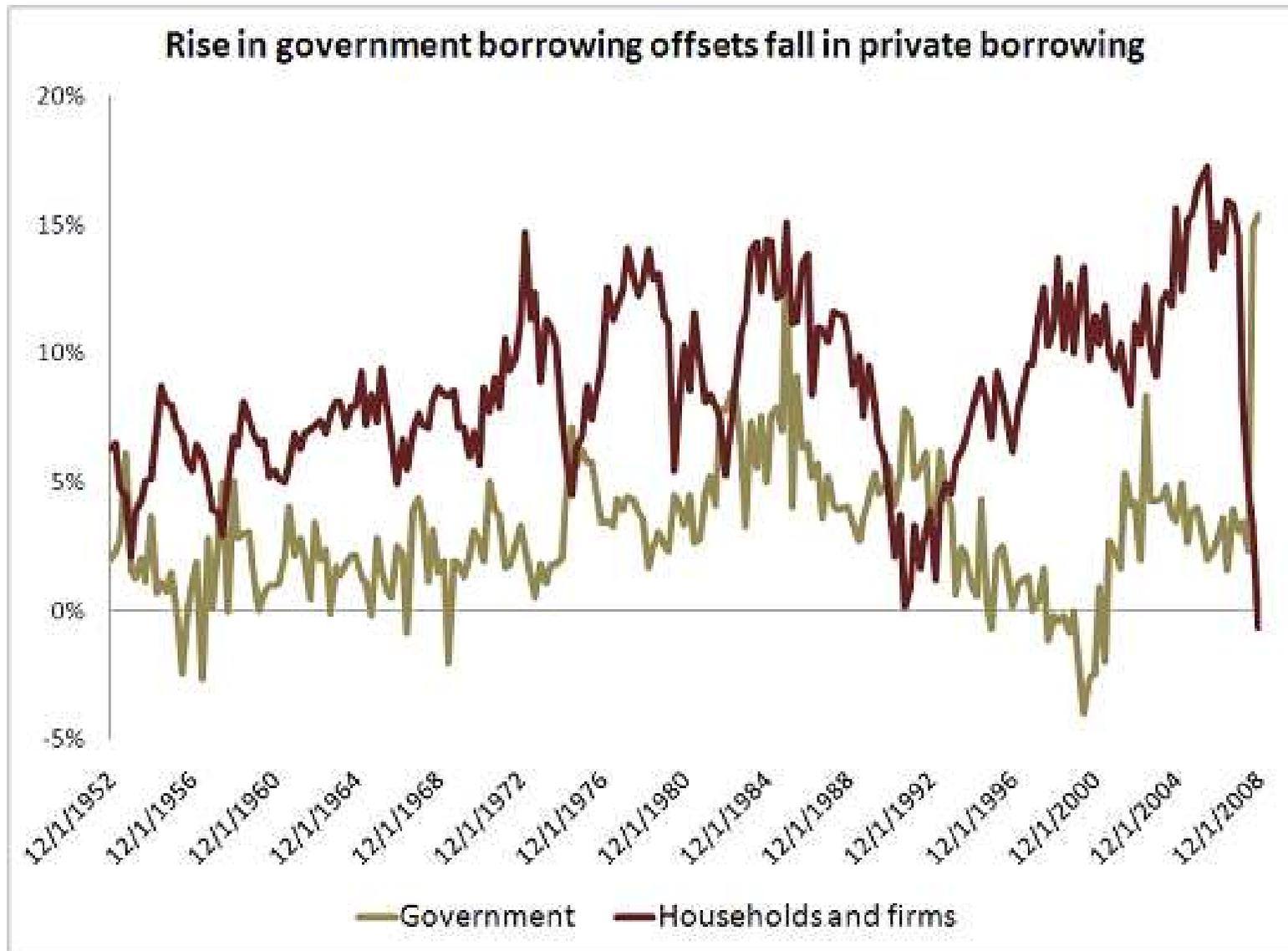






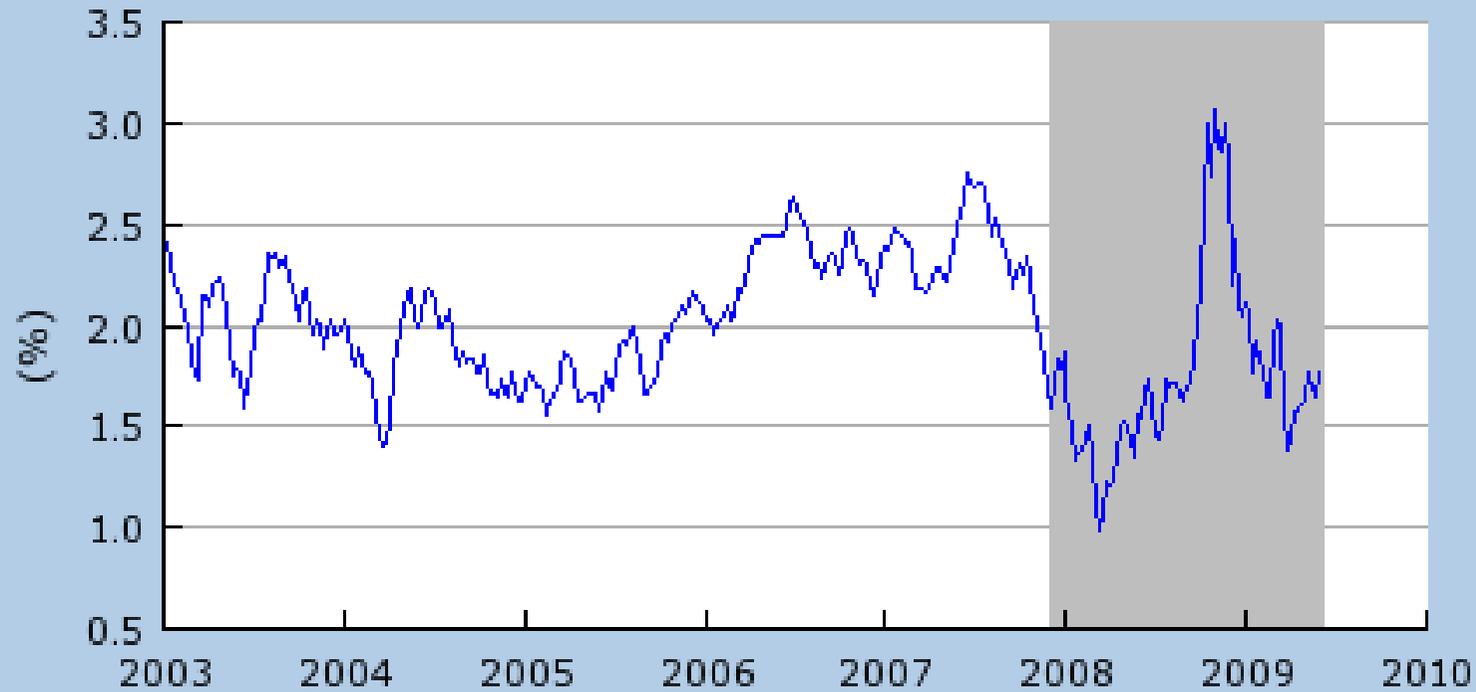
Net federal borrowing (annual rate)





Source: Brad Setser

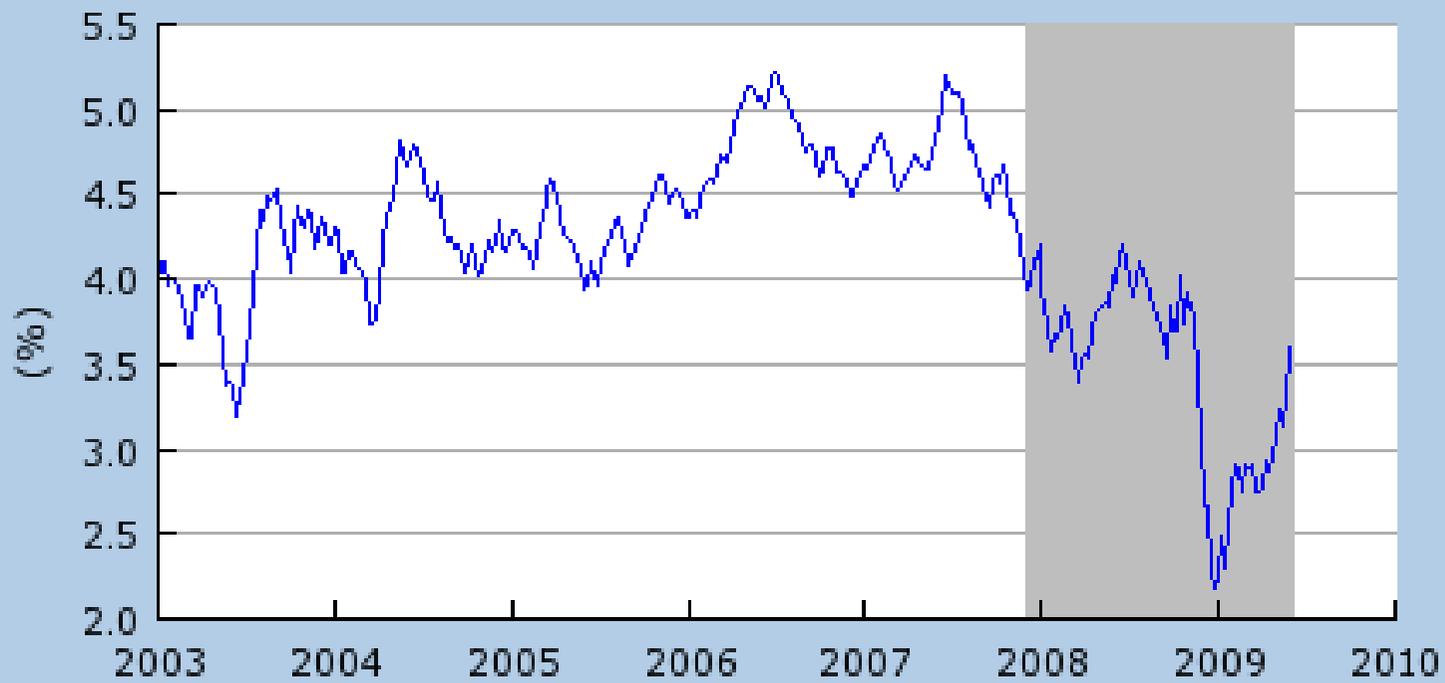
10-Year Treasury Inflation-Indexed Security, Constant Maturity (WFII10)



Shaded areas indicate US recessions.

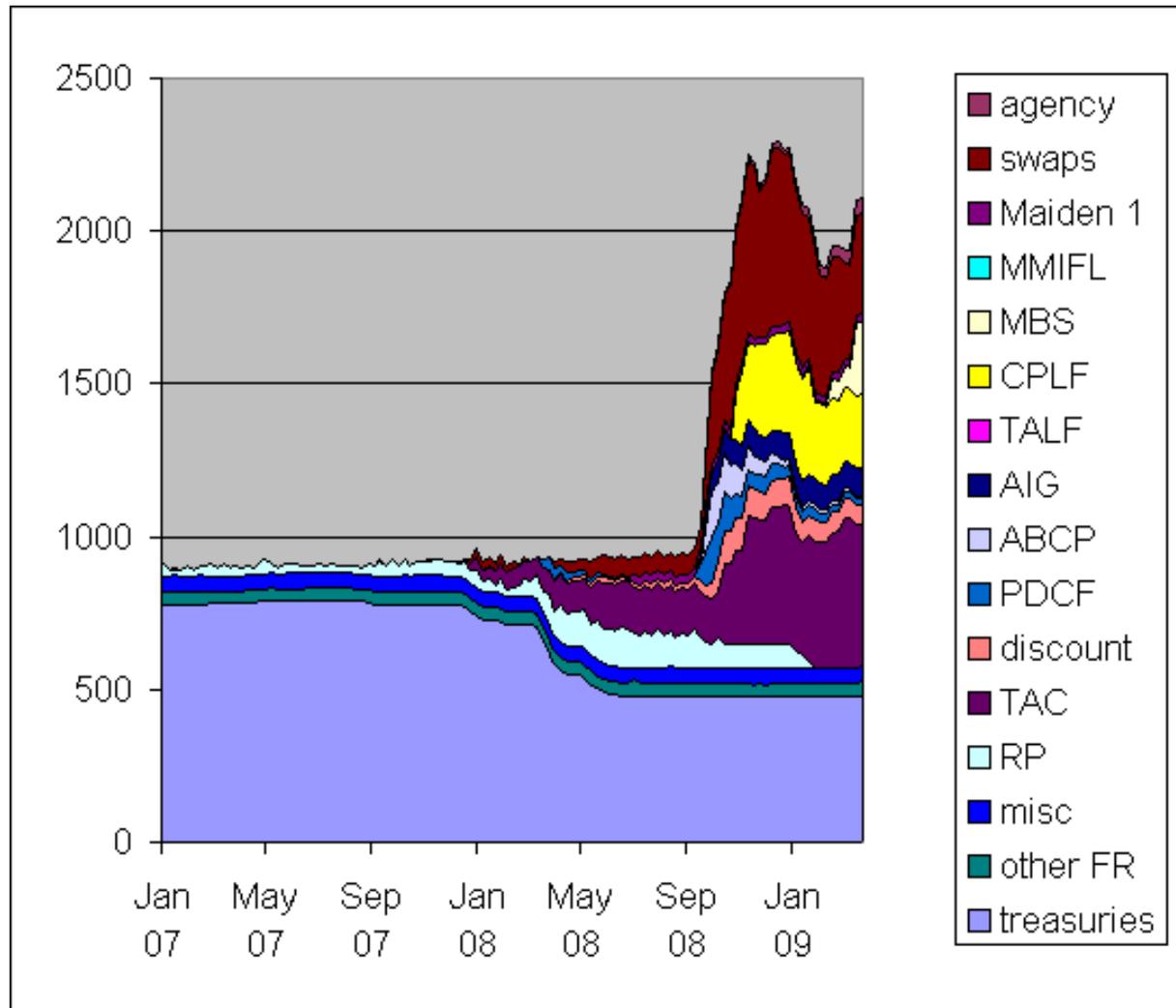
2009 research.stlouisfed.org

10-Year Treasury Constant Maturity Rate (WGS10YR)



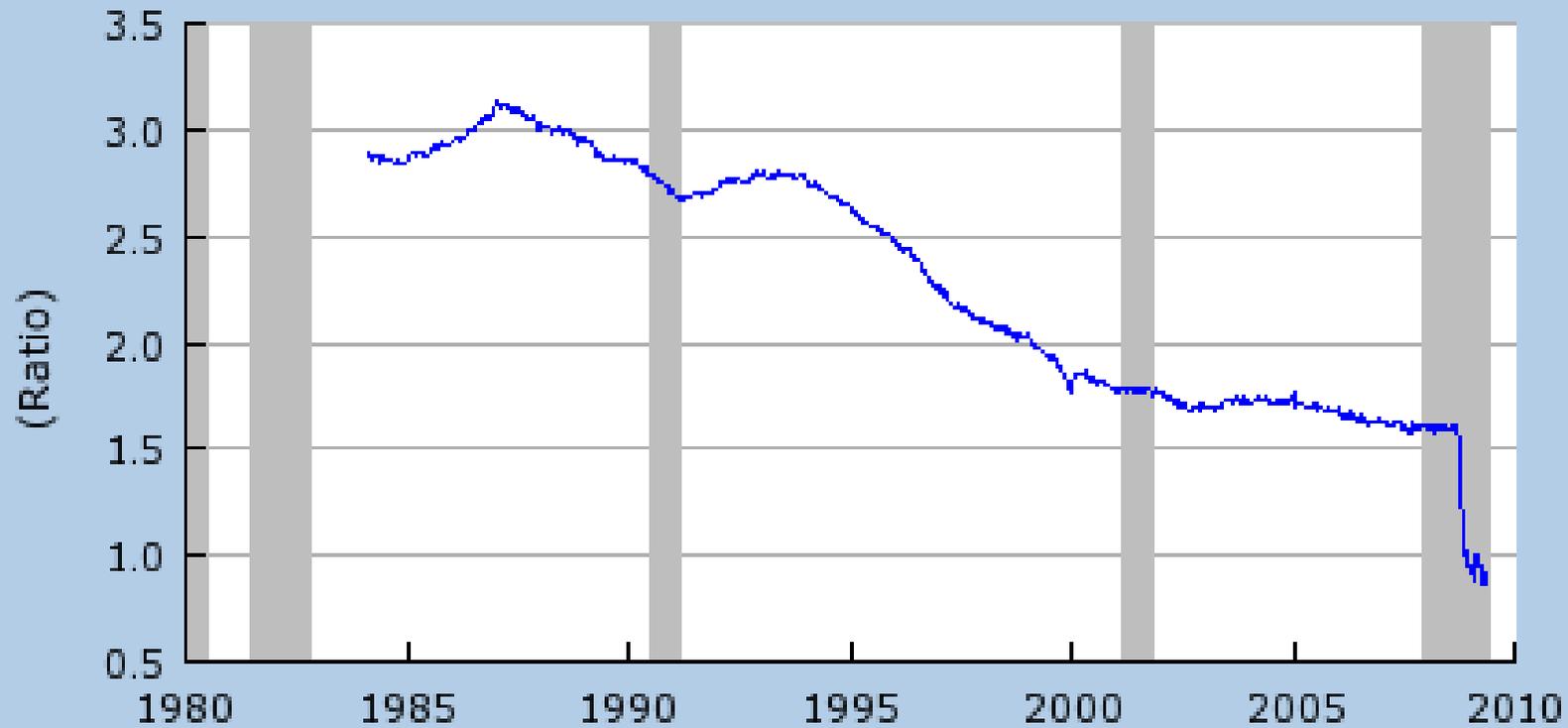
Shaded areas indicate US recessions.
2009 research.stlouisfed.org

The Fed steps out



Source: Federal Reserve/James Hamilton

M1 Money Multiplier (MULT)



Shaded areas indicate US recessions.
2009 research.stlouisfed.org

Arnoaba-Diebold-Scotti Business Conditions Index (5/30/2007-5/30/2009)

