Lionel Robbins Memorial Lectures

The Return of Depression Economics Part 2: The eschatology of lost decades

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Lecture 2: The eschatology of lost decades

Paul Krugman
## Growing surpluses

<table>
<thead>
<tr>
<th>Region</th>
<th>2000</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Developing Asia</td>
<td>38.6</td>
<td>406.5</td>
</tr>
<tr>
<td>Newly Industrialized</td>
<td>38.9</td>
<td>103.6</td>
</tr>
<tr>
<td>Middle East</td>
<td>71.9</td>
<td>254.1</td>
</tr>
<tr>
<td>Japan</td>
<td>119.6</td>
<td>211</td>
</tr>
<tr>
<td>Germany</td>
<td>-32.6</td>
<td>250.3</td>
</tr>
<tr>
<td>Total</td>
<td>236.4</td>
<td>1225.5</td>
</tr>
</tbody>
</table>


European current accounts ($billion)
Household debt as % of GDP
Future repayment

Constraint

Lenders

Borrowers

Slope = 1+r

Lending, borrowing
Employment cycles
Civilian Employment-Population Ratio (EMRATIO)

Shaded areas indicate US recessions.
2009 research.stlouisfed.org
Personal Consumption Expenditures: Chain-type Price Index Less Food and Energy (JCXFE)

Shaded areas indicate US recessions.
2009 research.stlouisfed.org
The textbook adjustment process
But in the liquidity trap, it probably looks like this ...
Historically, recovery from financial-crisis-led recessions has been export-led.
Japan’s recovery: export-driven
Roger W. Babson, the well-known Statistician, Tells of the Business Epochs That Followed That Period of Depression.

Prices of Investment Stocks and Bonds from 1872 to 1911.

This is a plot of relative price movement of ten representative stocks and ten representative bonds. The line shows the pattern that stocks and bonds generally follow. When stocks are consolidated to well-invested form, especially low in price than when the same market is under bearish condition, it does not always occur. The market that above the major lower, the amount of the fluctuation of the bond that shown in the price of bond stocks covered, which indicate the varying trend to the indicators. This line is the same market does not rise and fall simultaneously with the stock market except in new instance.
So how does it end?

Keynesian business cycle theory:

“use, decay, and obsolescence”

Koosian theory: rebuilding the balance sheets
Use, decay, and obsolescence:

US stock of autos: 135 million

May 2009 auto sales: 484,000

Annual rate of 6 million?

If so, more than 20 years to replace stock ...
Leverage ratios

U.S. households: debt/disposable income peak = 2007

Japan: nonfinancial corporate debt/GDP peak = 1989
Credit Extended by the Banks to Corporate Sector as a Ratio to Nominal GDP (Right Scale)

Credit Extended by the Banks to Corporate Sector (Left Scale)

Source: Richard Koo
Noncorporate debt as % of GDP

US entry into war

Start of depression

Japanese debt and interest

Source: OECD