



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*

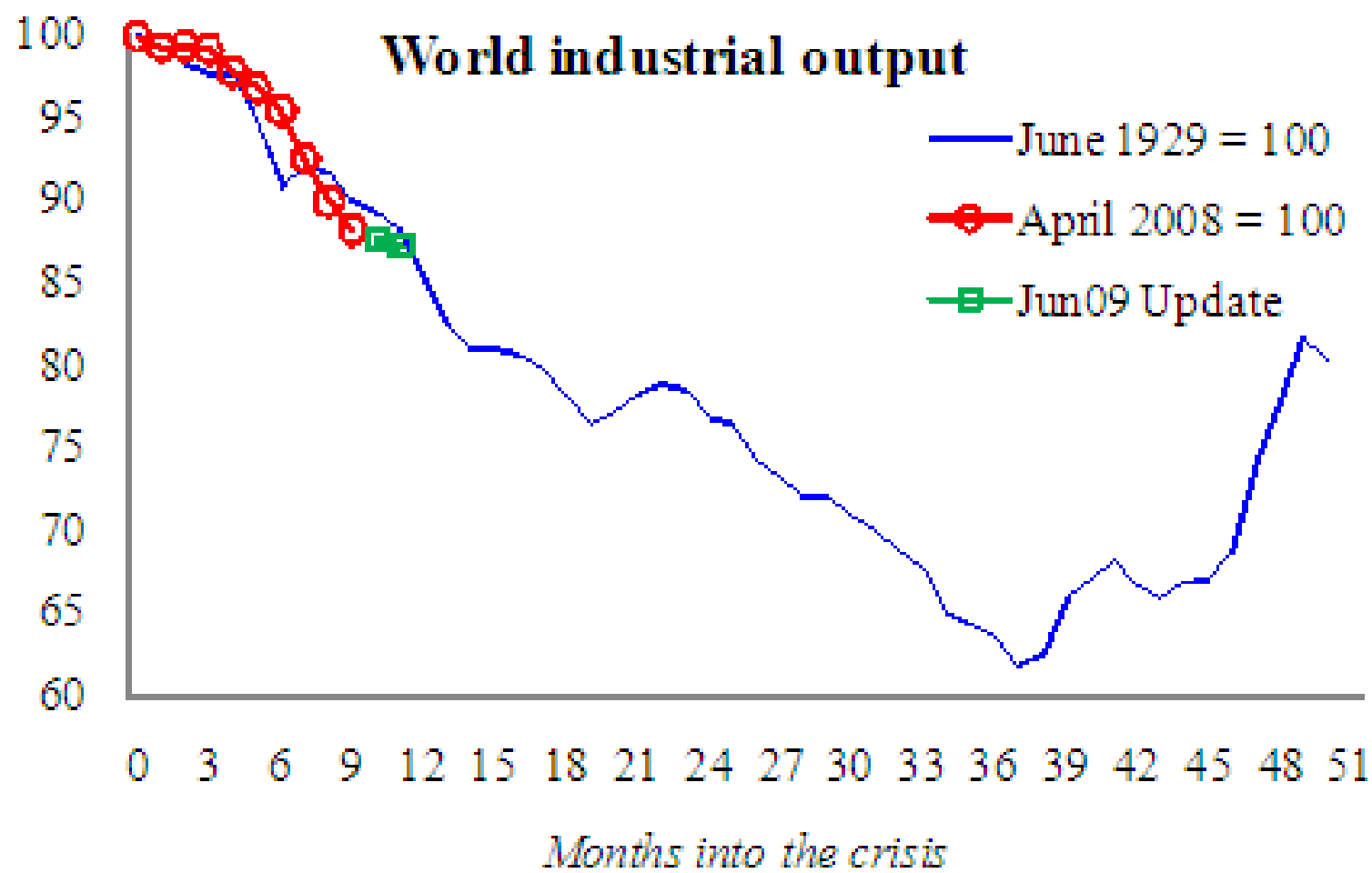
*Professor of Economics and International Affairs, Woodrow Wilson School, Princeton University*

**Howard Davies**

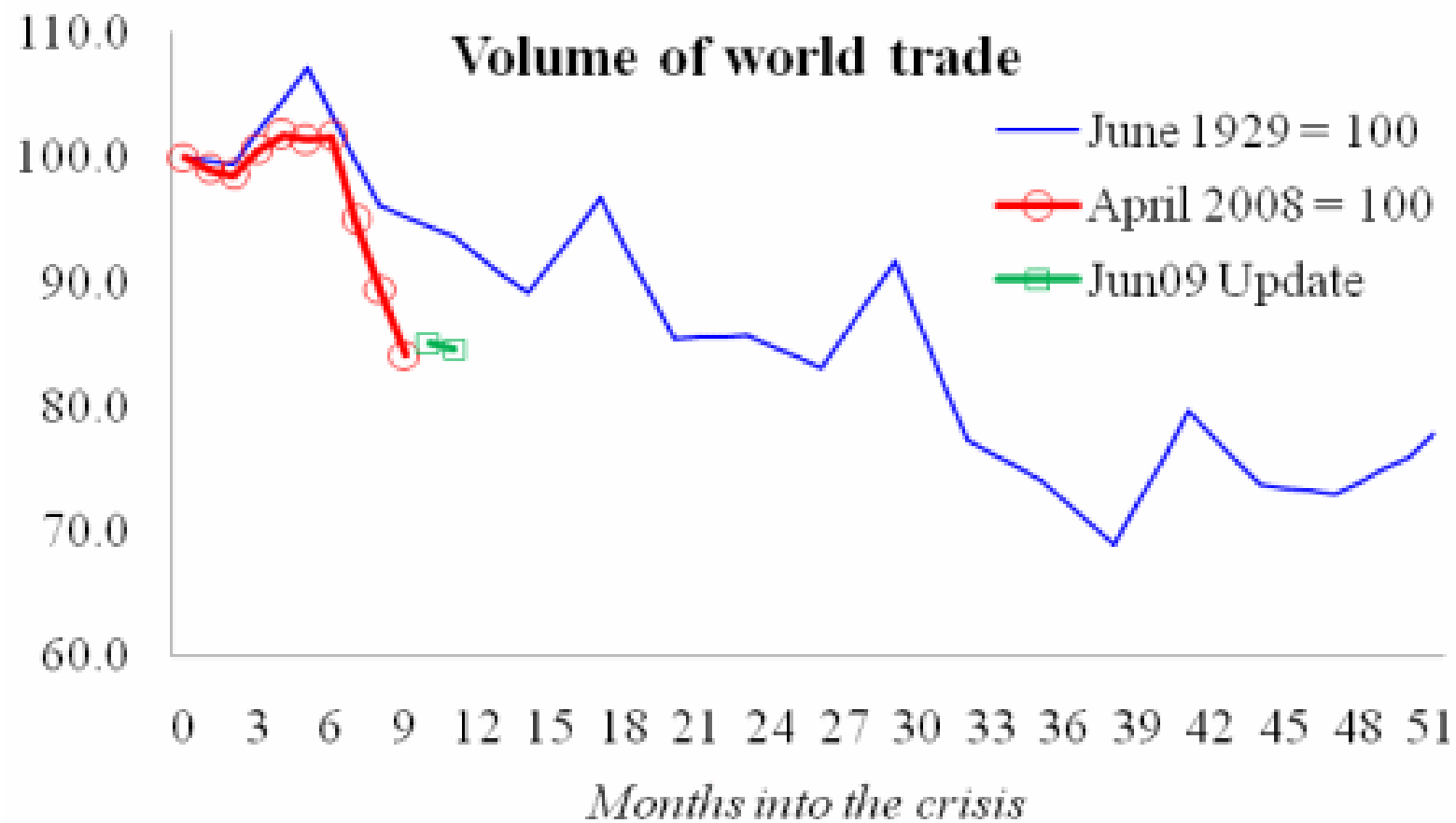
*LSE, Chair*

# 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.”

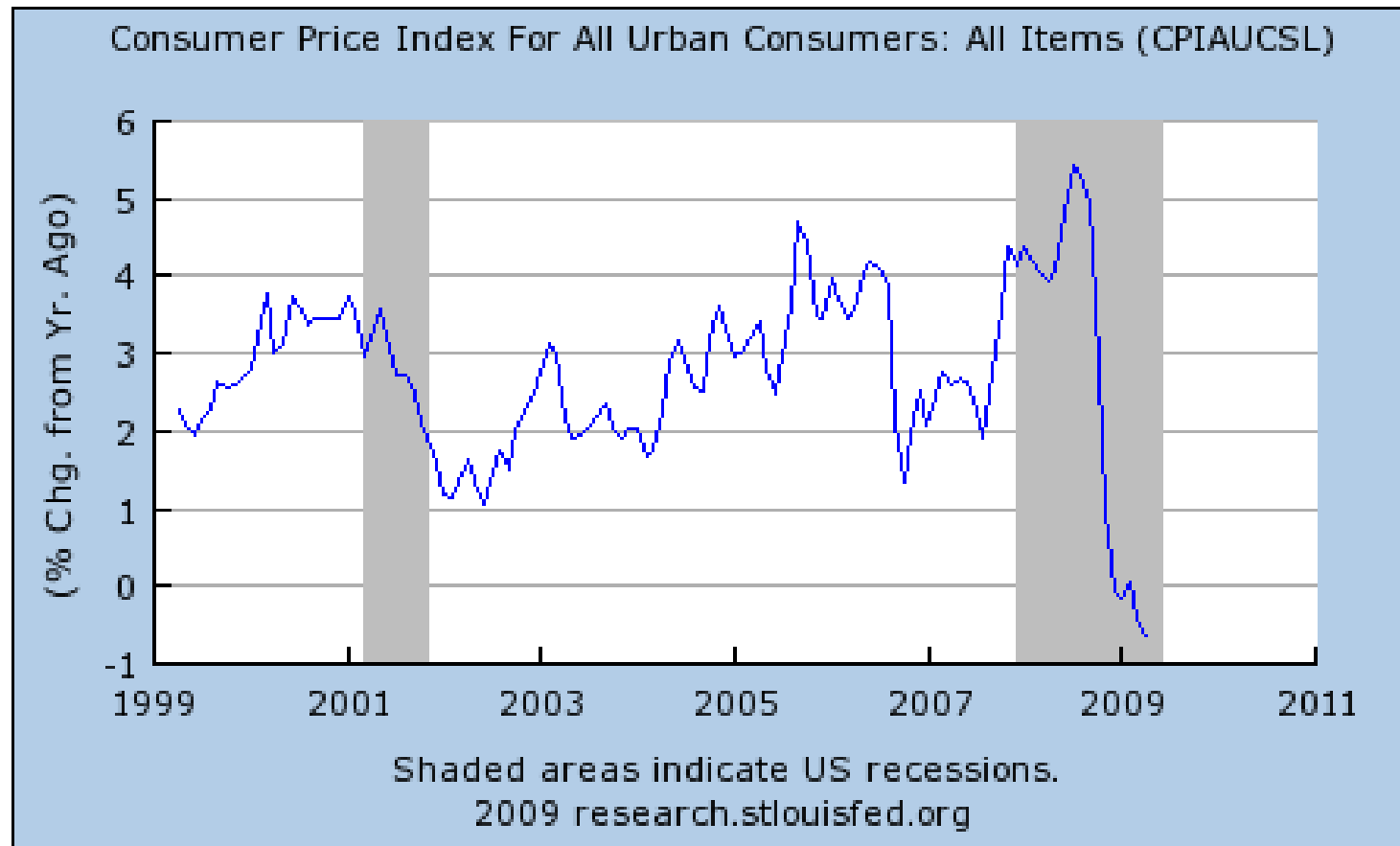
Robert Lucas, 2003

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

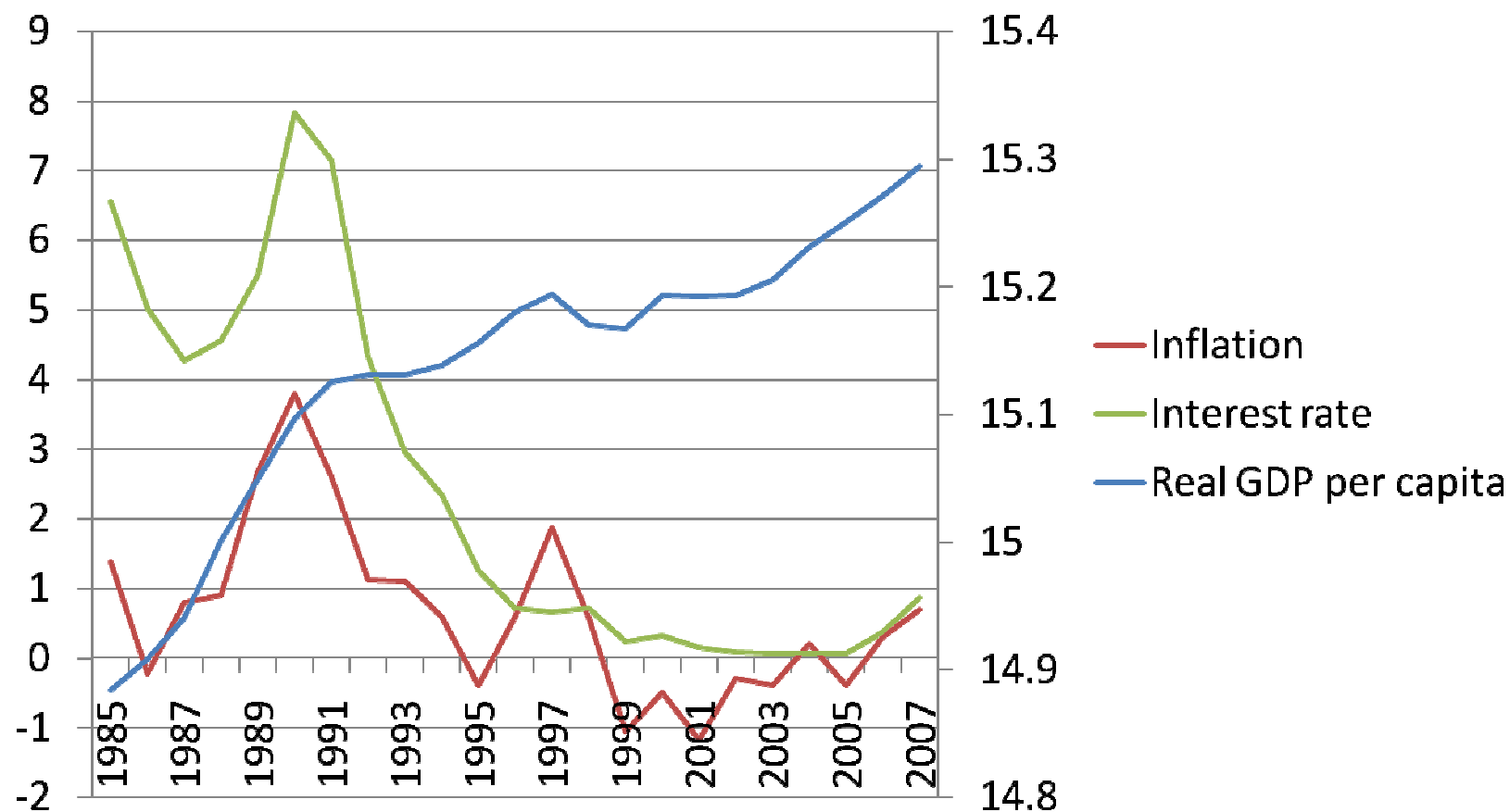
“If you want a simple model for predicting the unemployment rate in the United States over the next few years, here it is: It will be what Greenspan wants it to be, plus or minus a random error reflecting the fact that he is not quite God. ”

Paul Krugman, 1997

This is not a supply shock ...



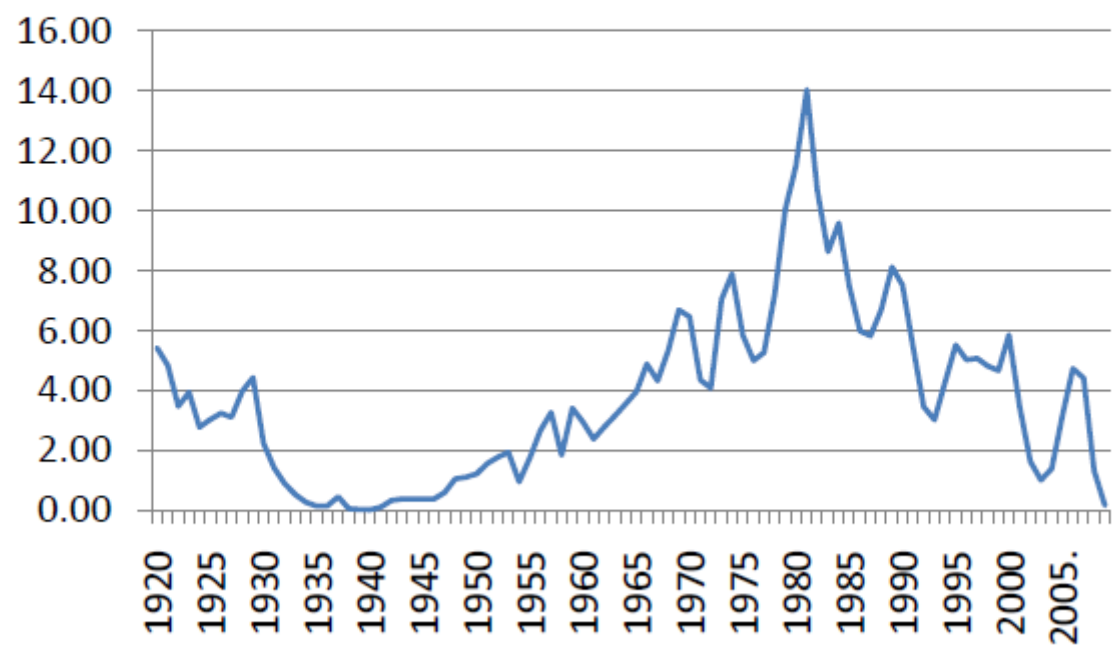
## Japan's lost decade



Source: IMF WEO database

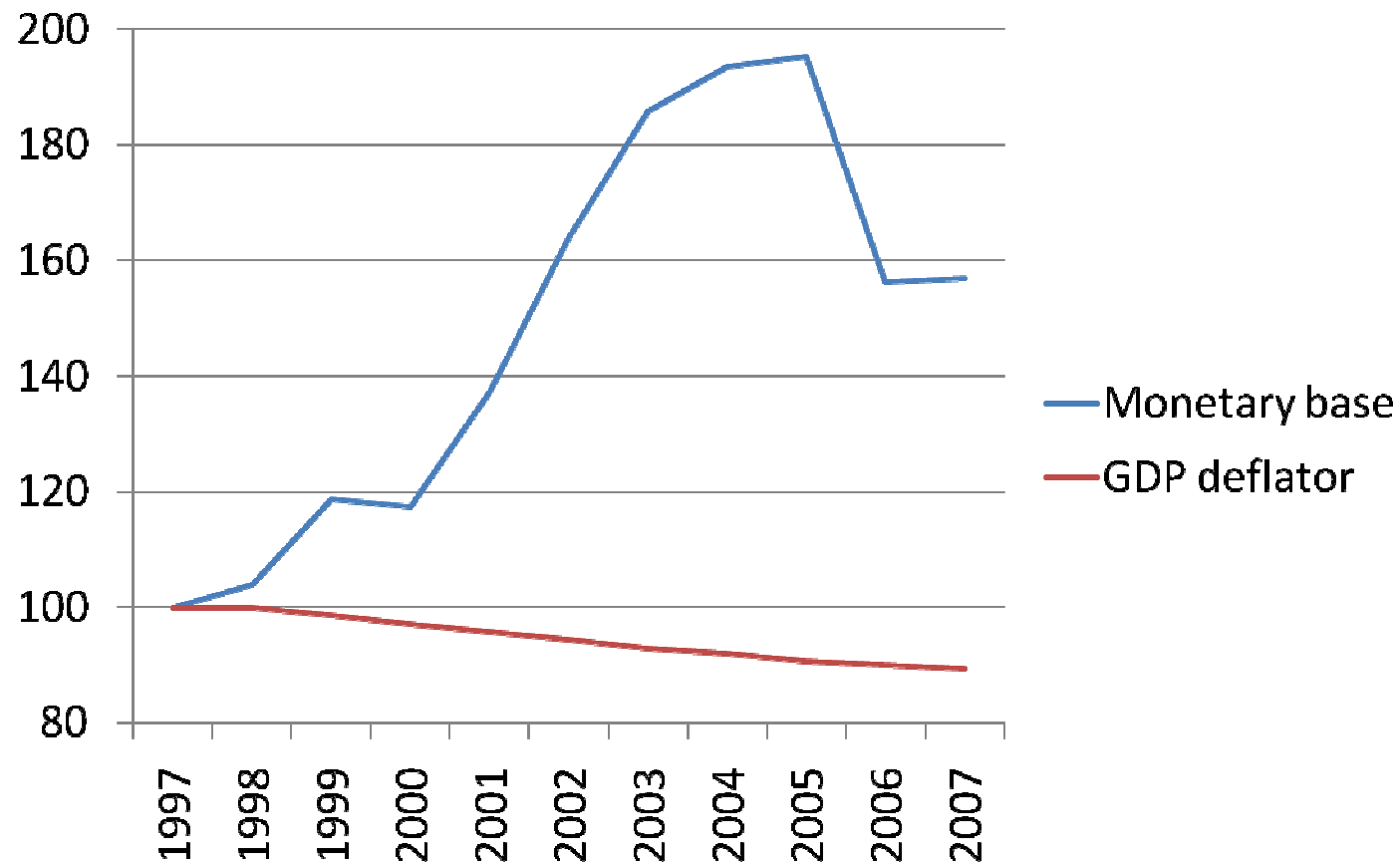


## Short-term interest rates



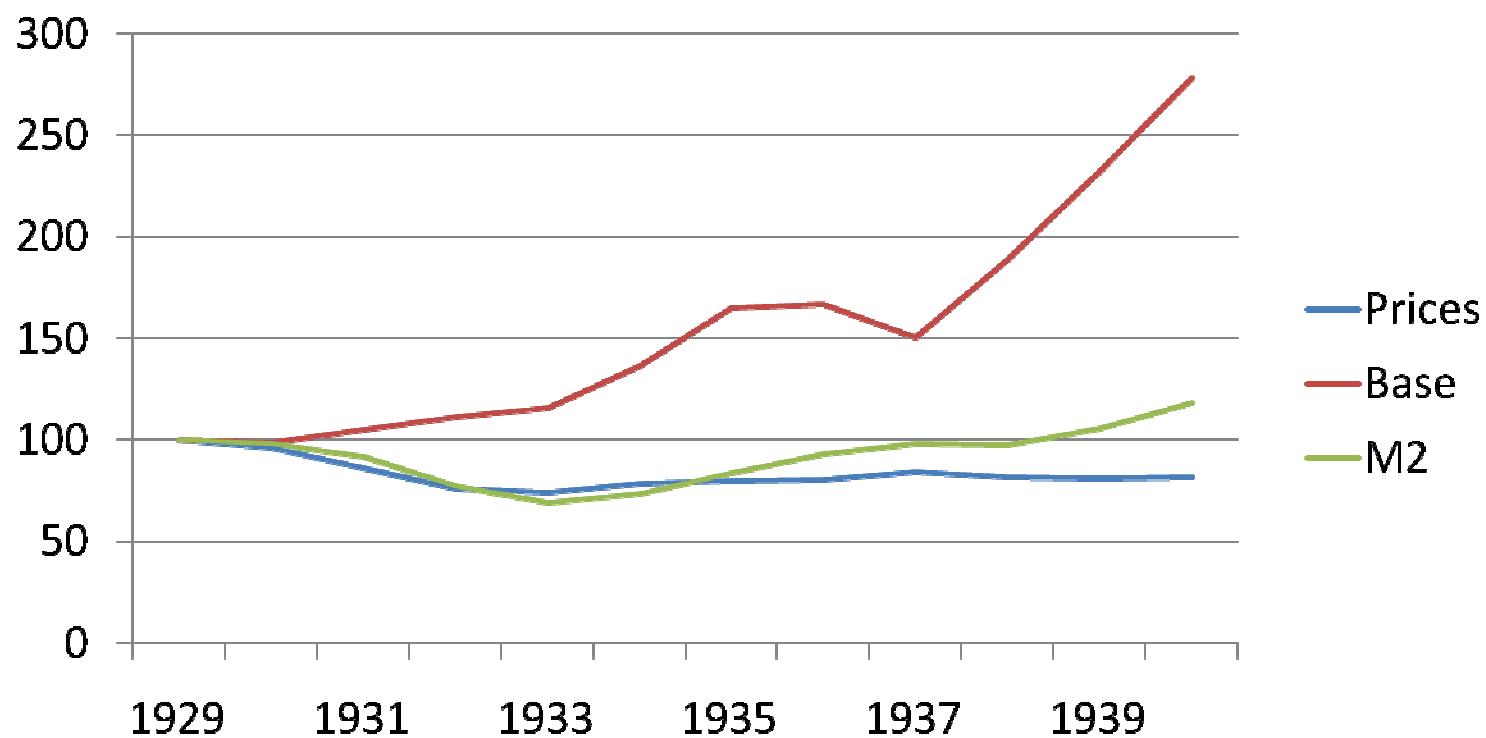
Source: Census, Federal Reserve

### Japanese money and prices

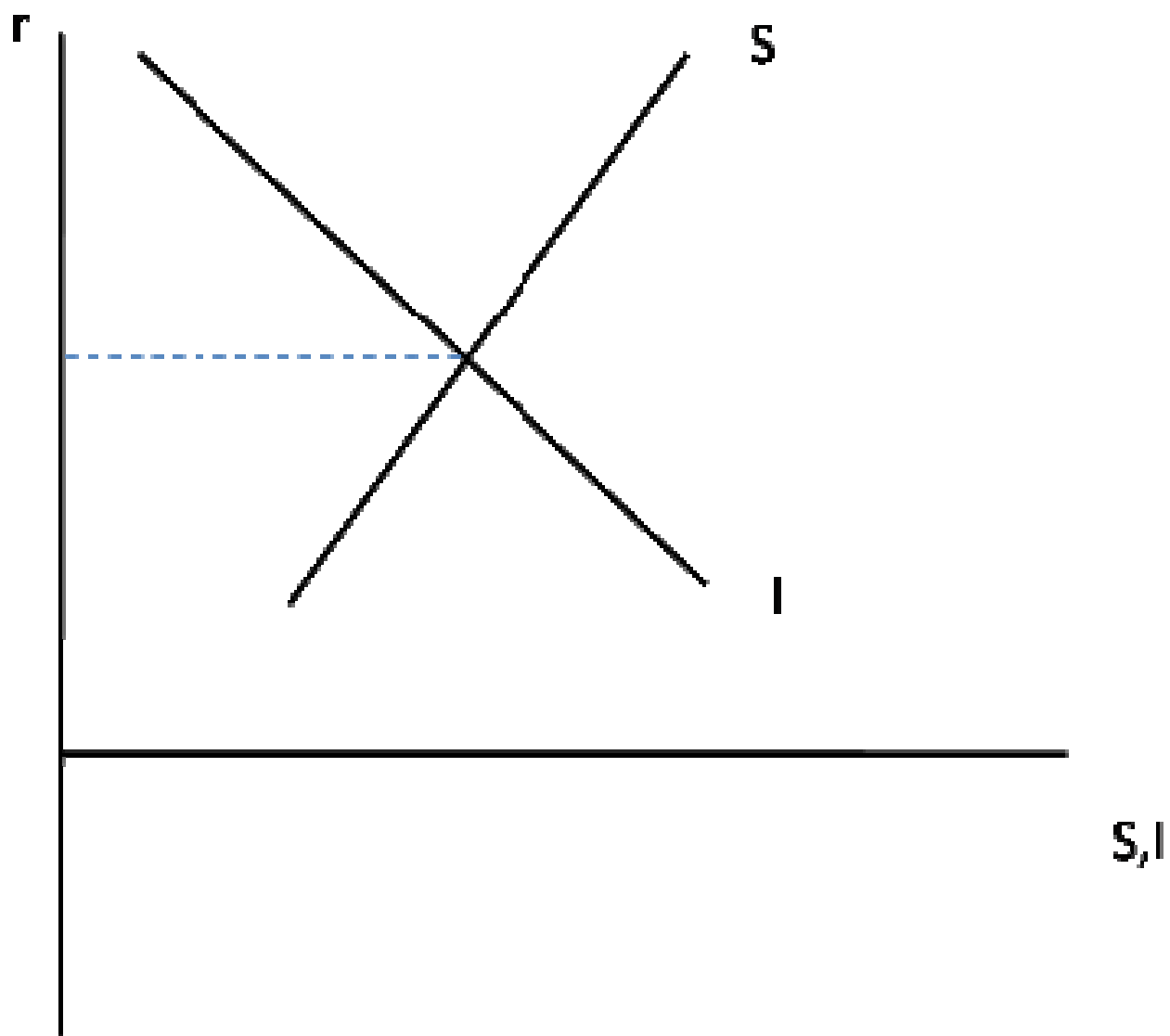


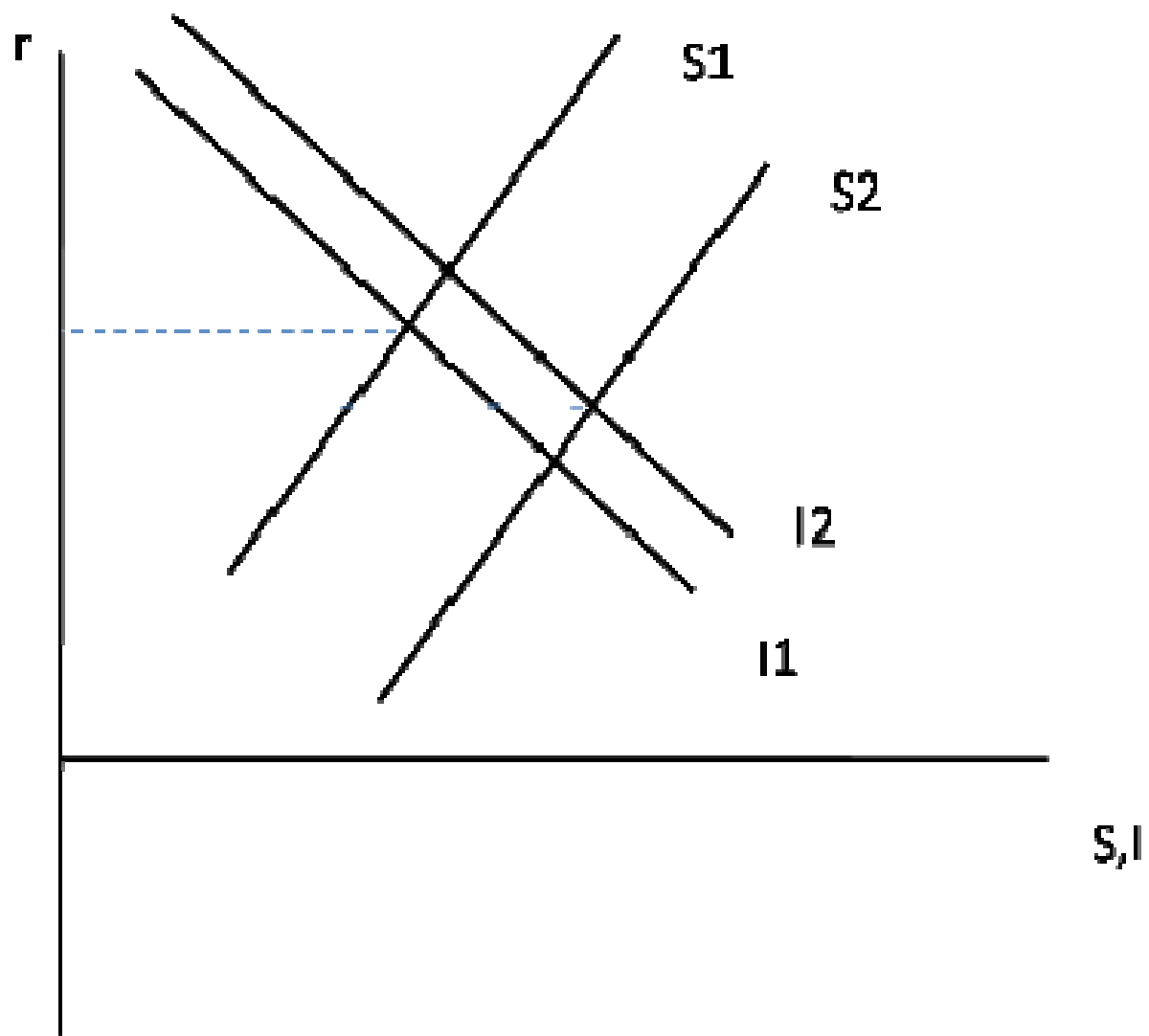
Source: Bank of Japan, IMF

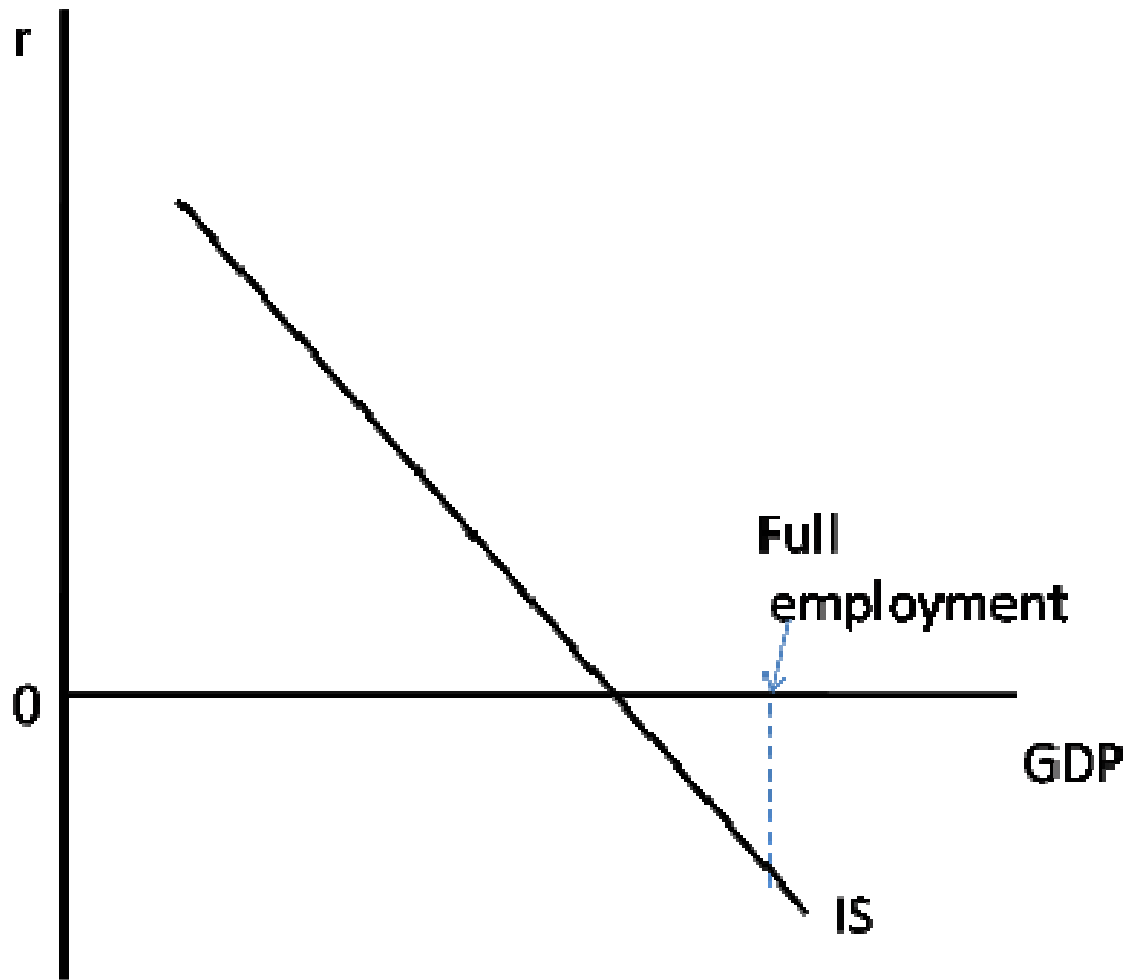
## Money and prices in the Great Depression

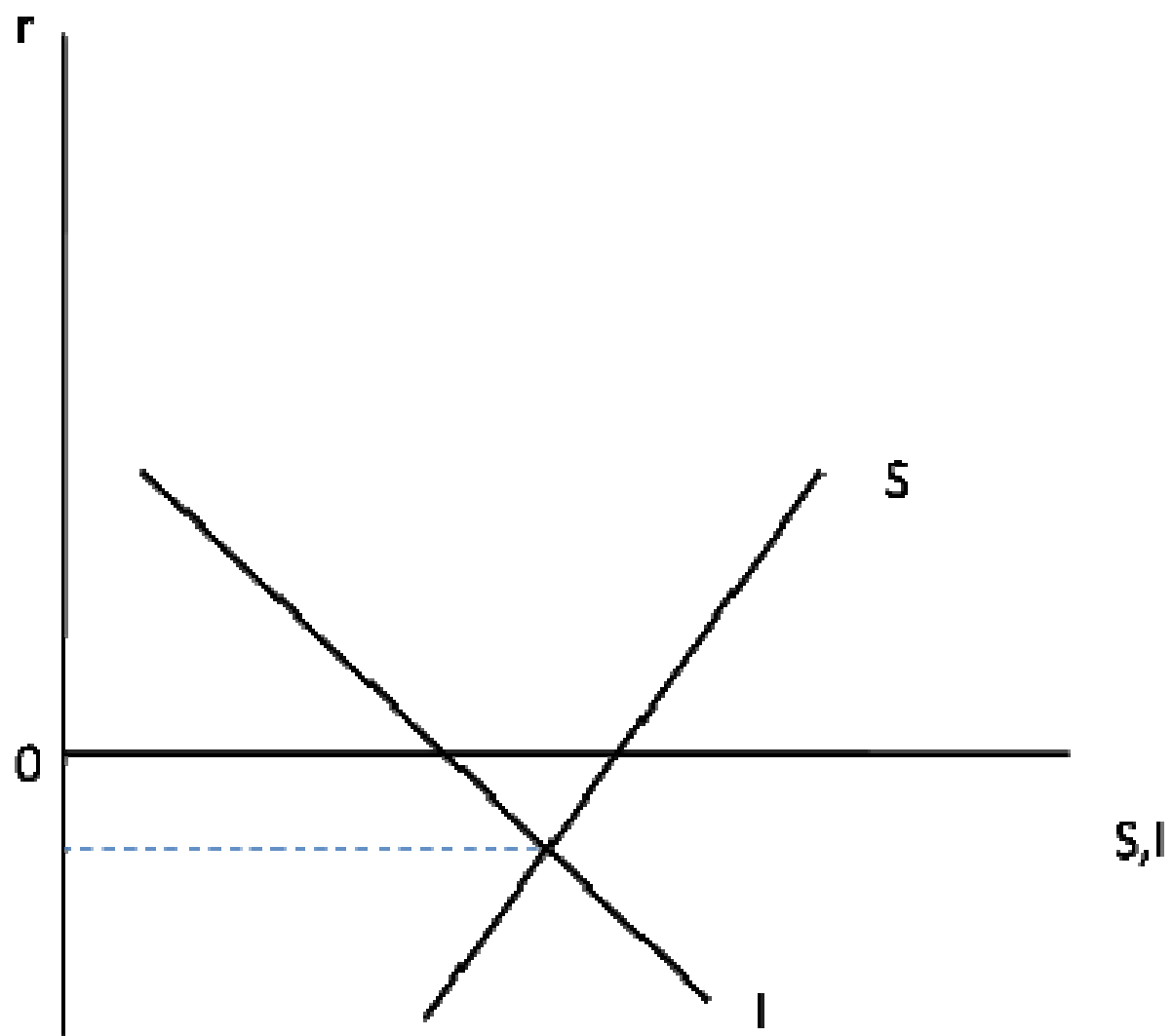


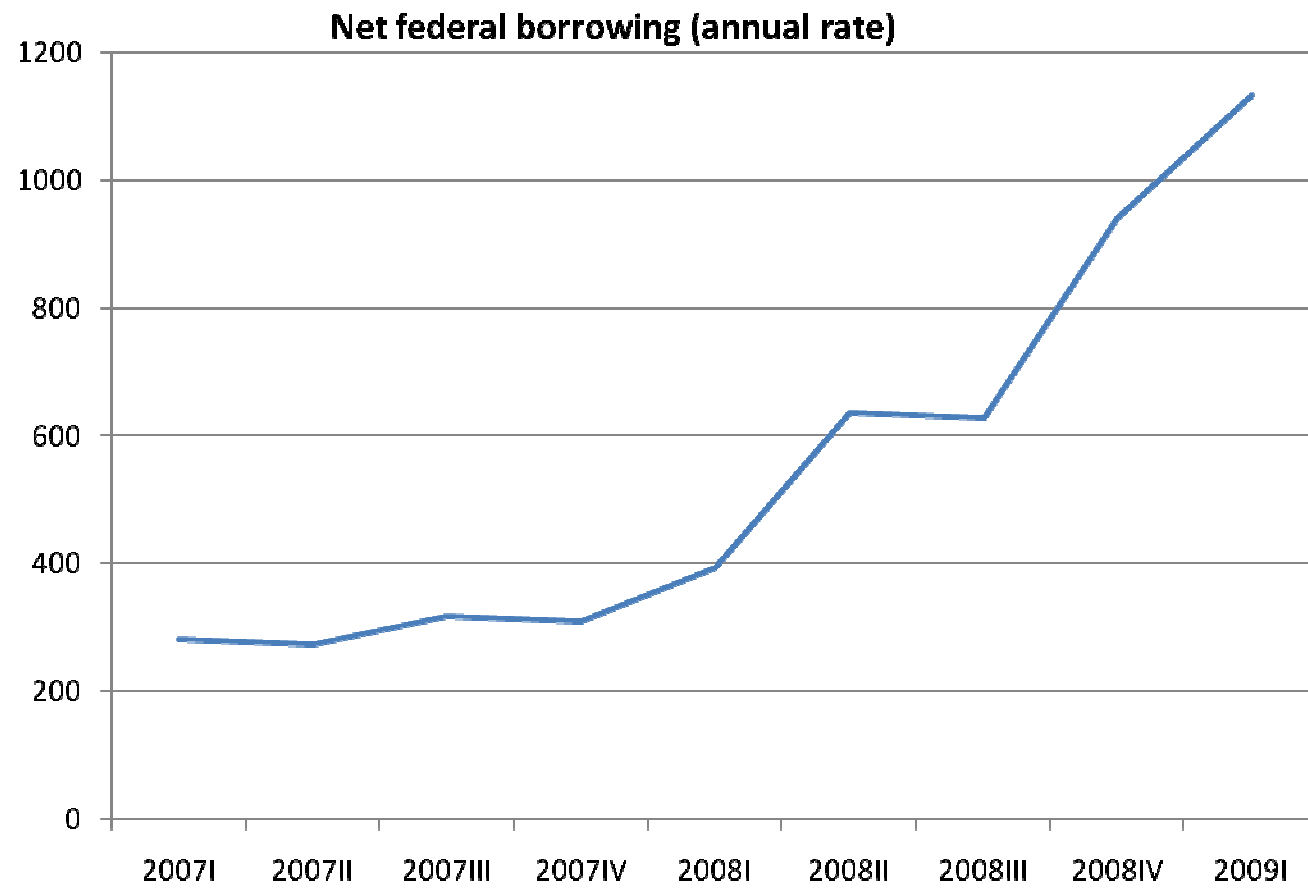
Source: BEA, Historical Statistics of the United States, St. Louis Fed



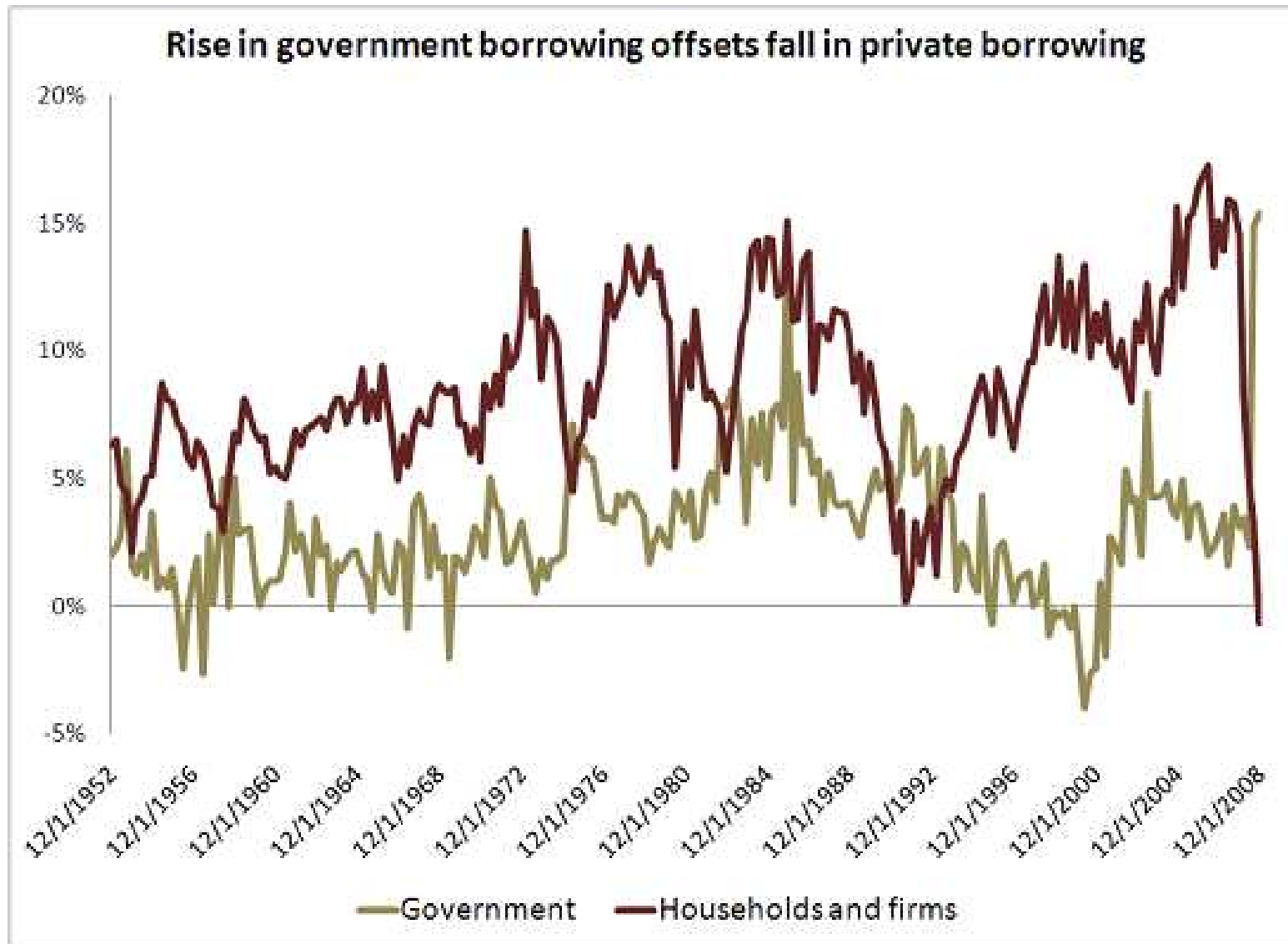






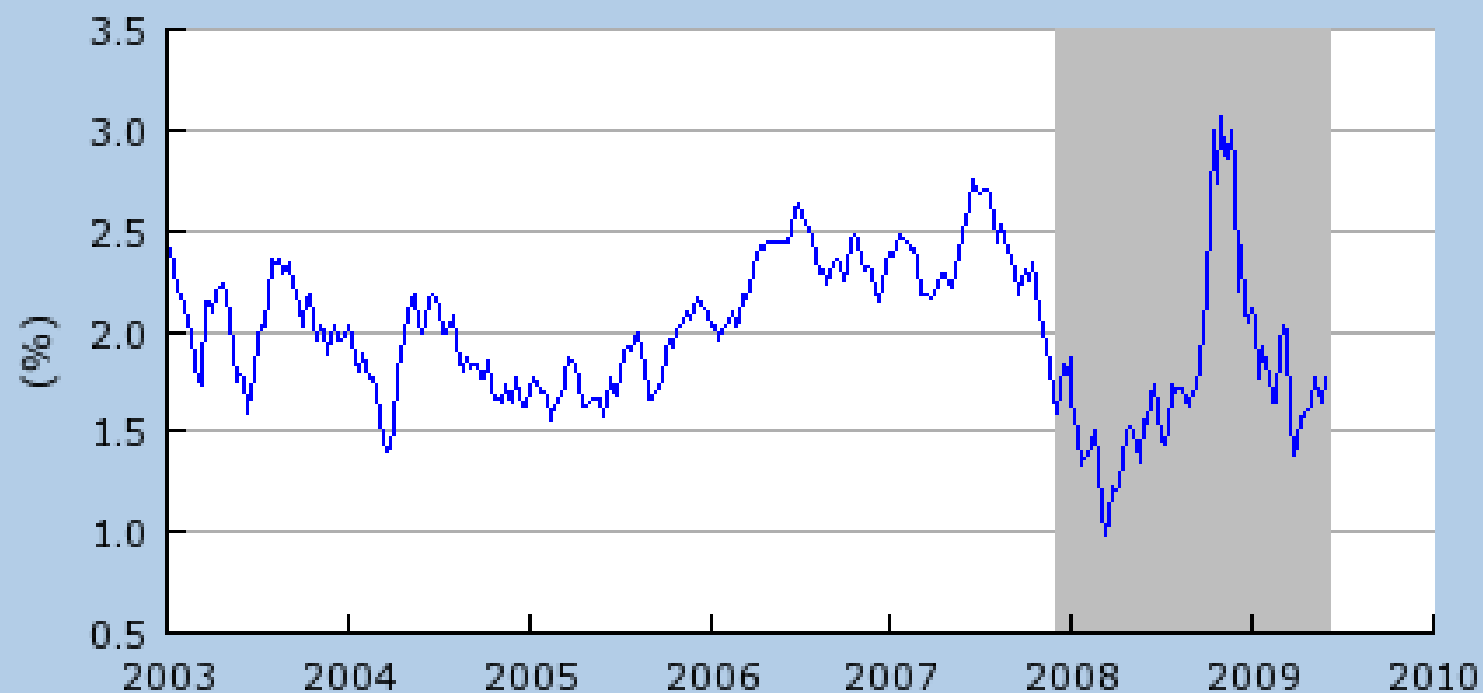




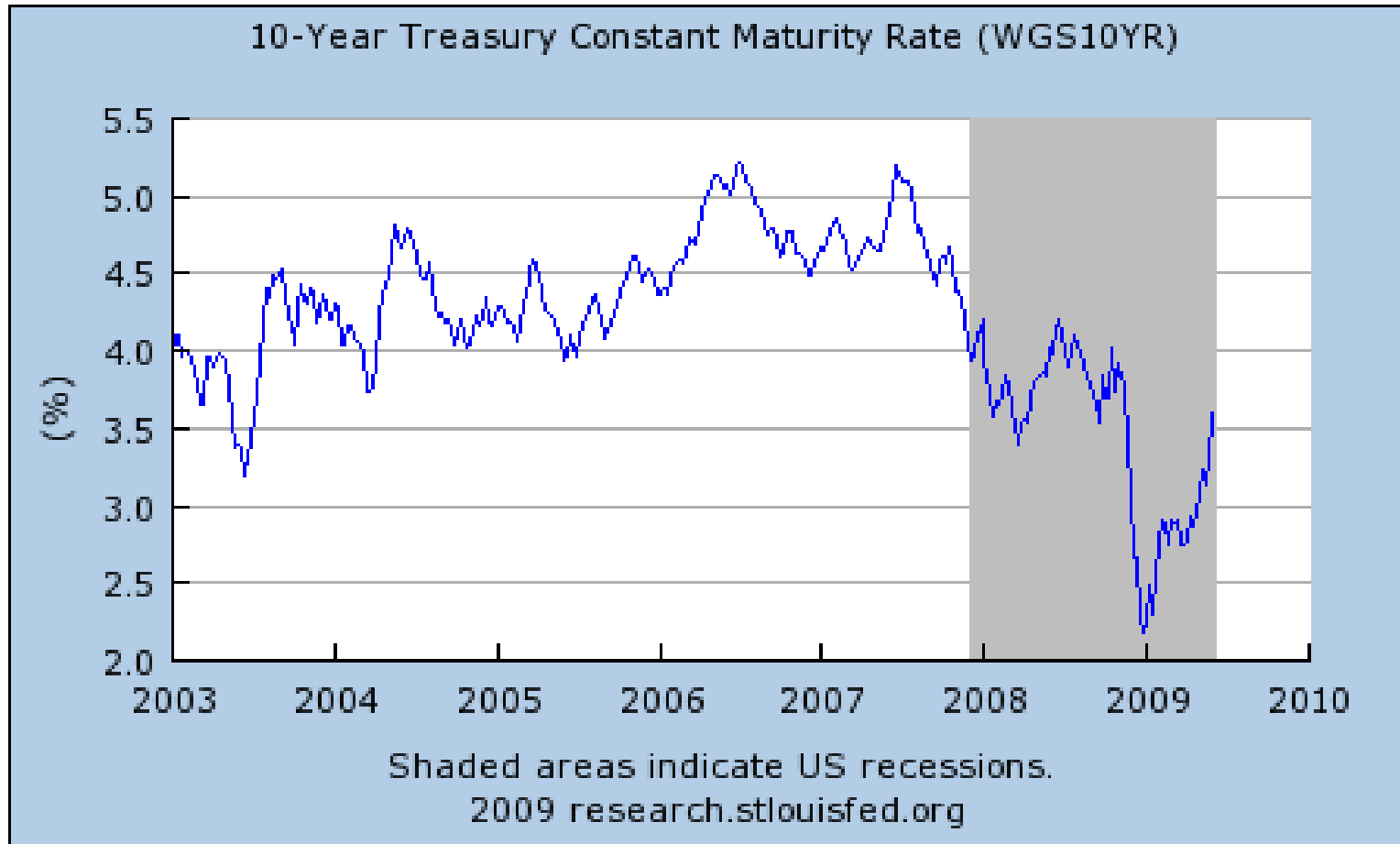


Source: Brad Setser

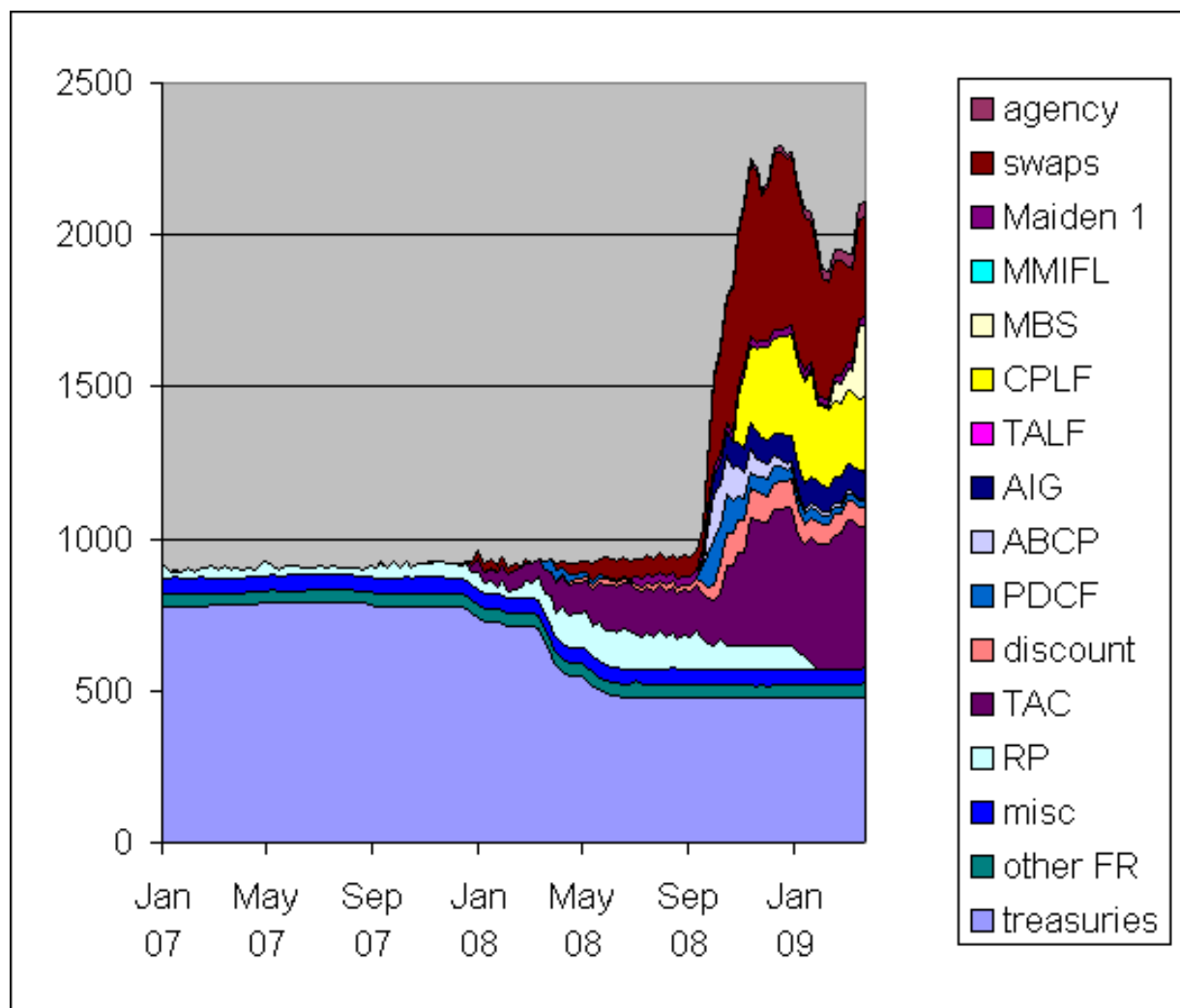
10-Year Treasury Inflation-Indexed Security, Constant Maturity (WFII10)



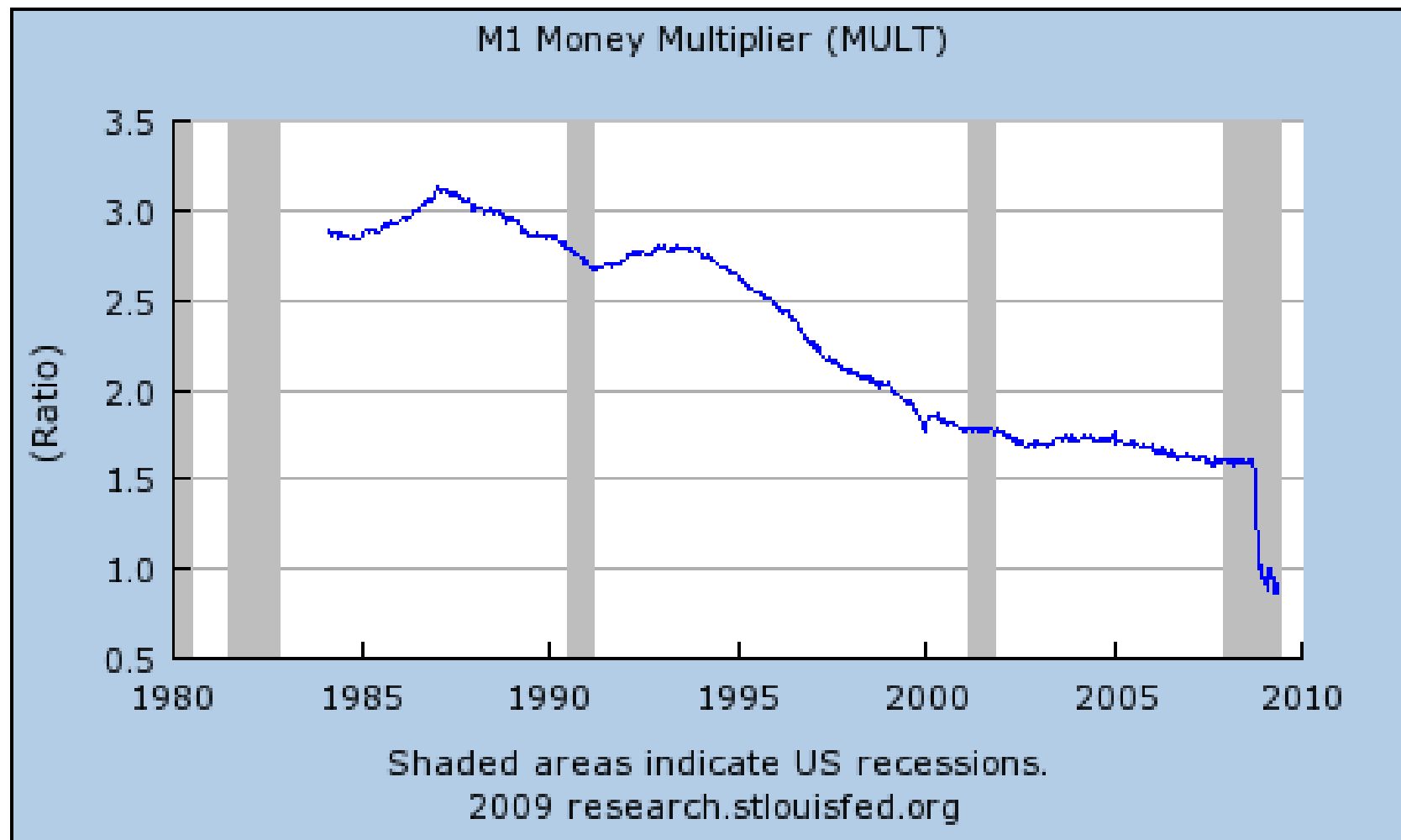
Shaded areas indicate US recessions.  
2009 research.stlouisfed.org



## The Fed steps out



Source: Federal Reserve/James Hamilton



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

