

**End This Depression Now!**

Paul Krugman

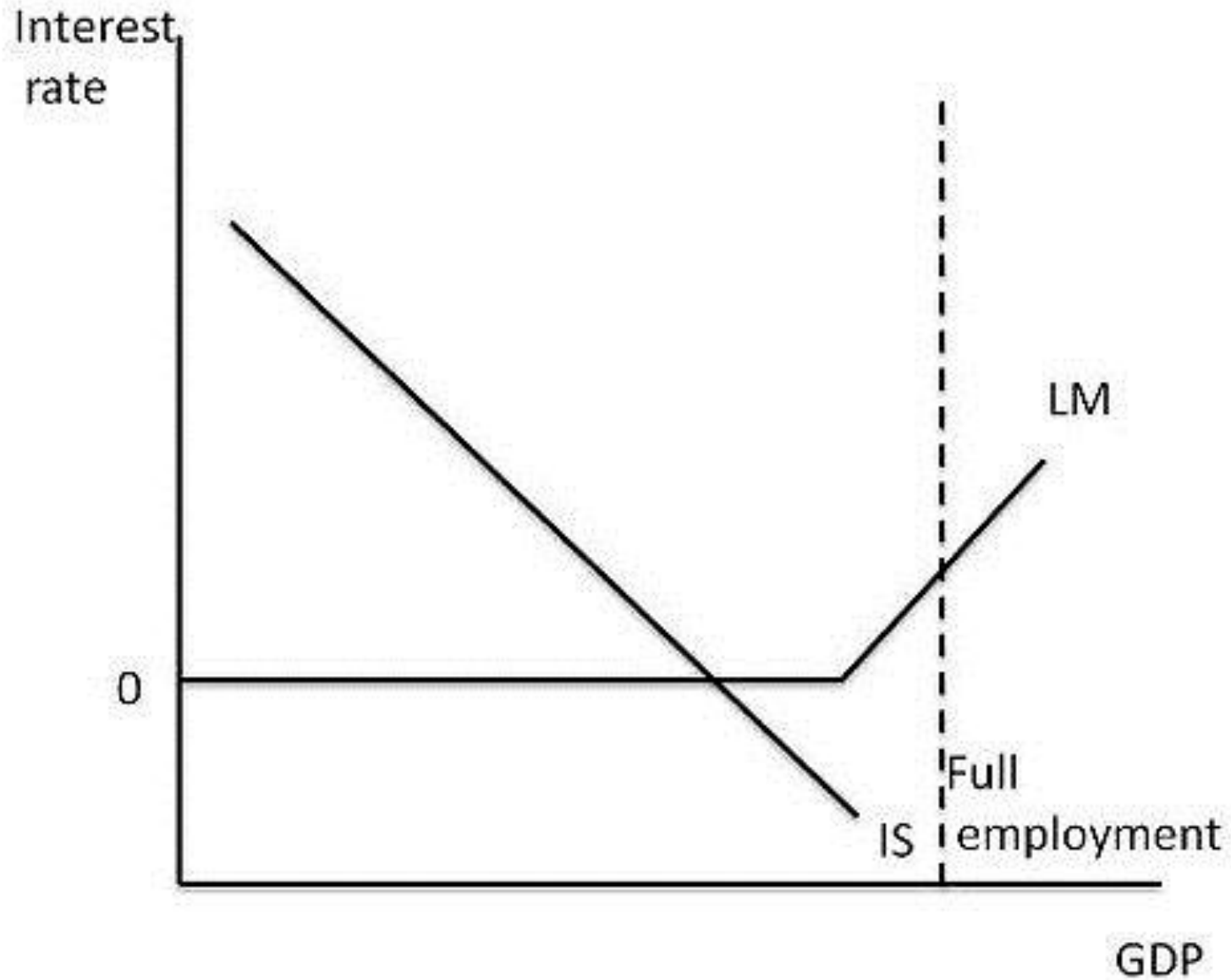
# Yes, it's a depression

## Historical Long-Term Unemployment

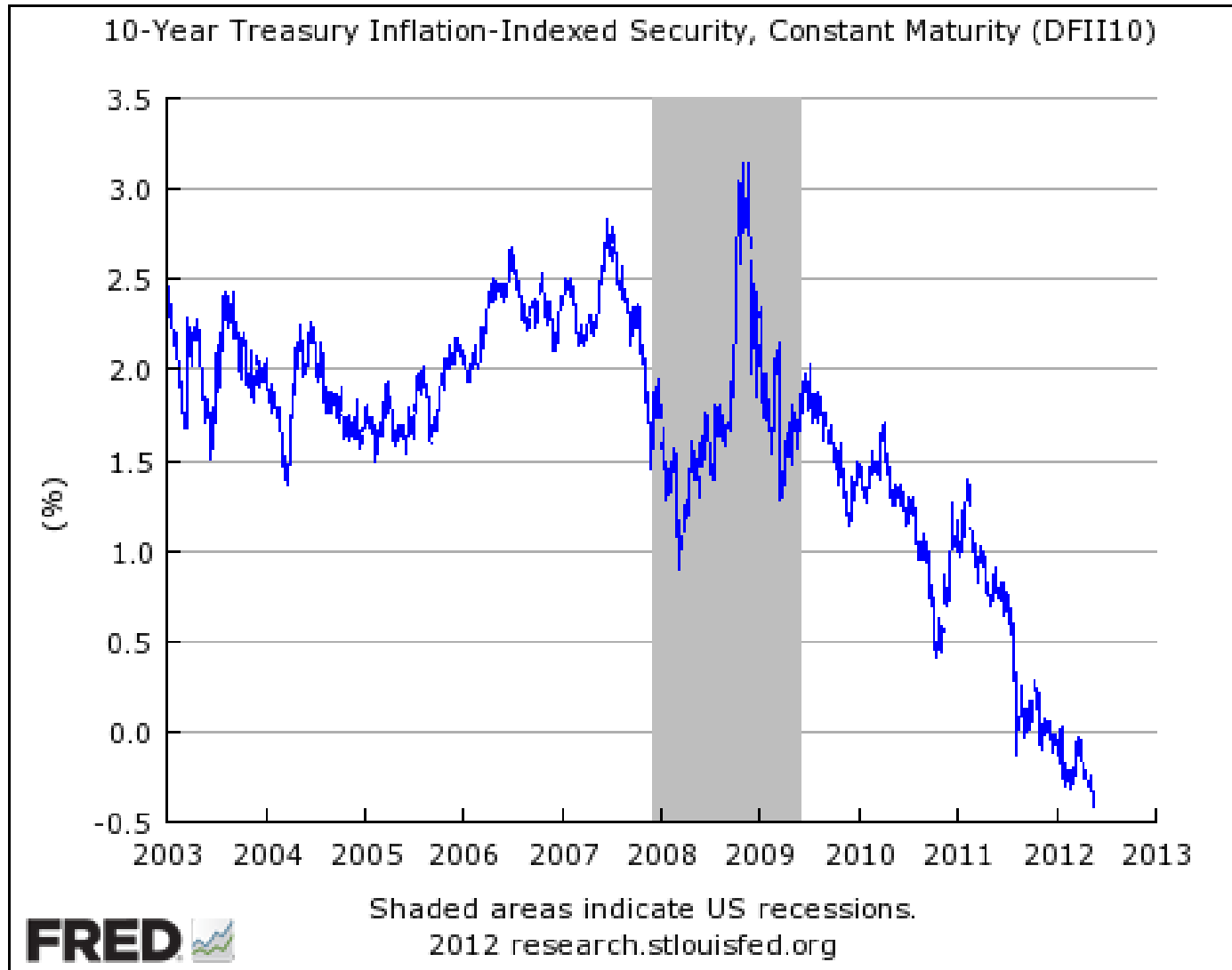
Percent of Total Unemployed Who Were Out of Work for 52 Weeks or More



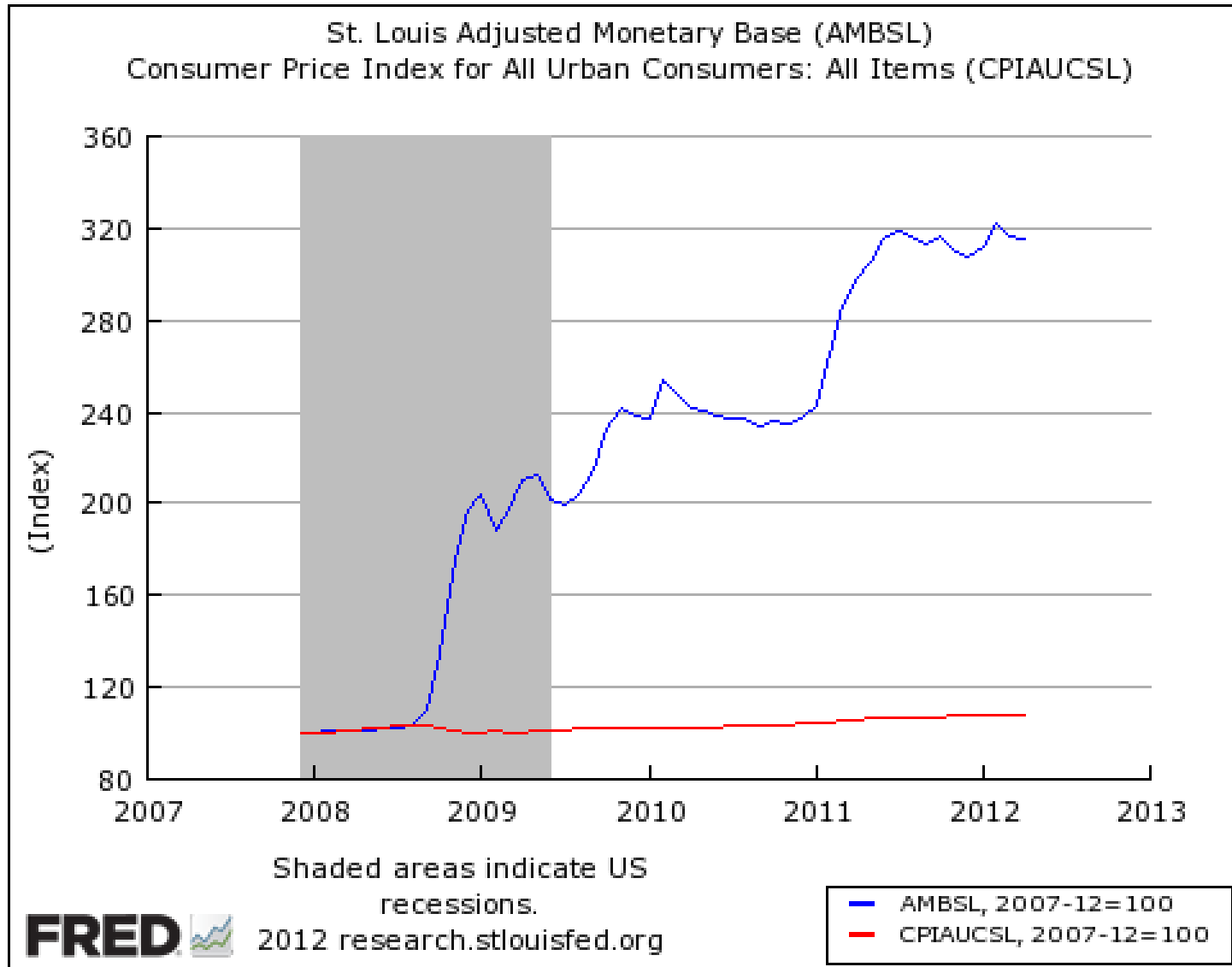
# Good old IS-LM has worked fine



# No crowding out

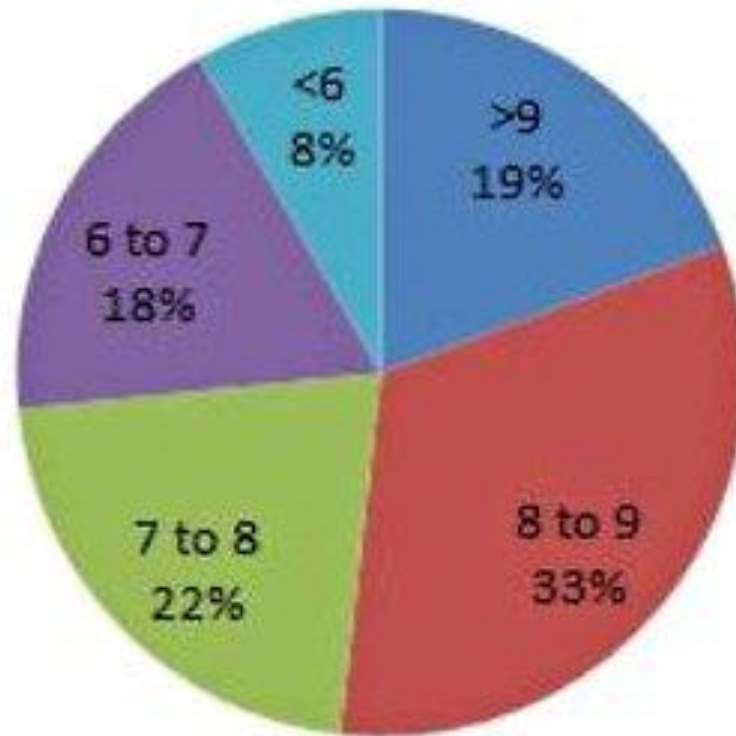


# Liquidity traps rule

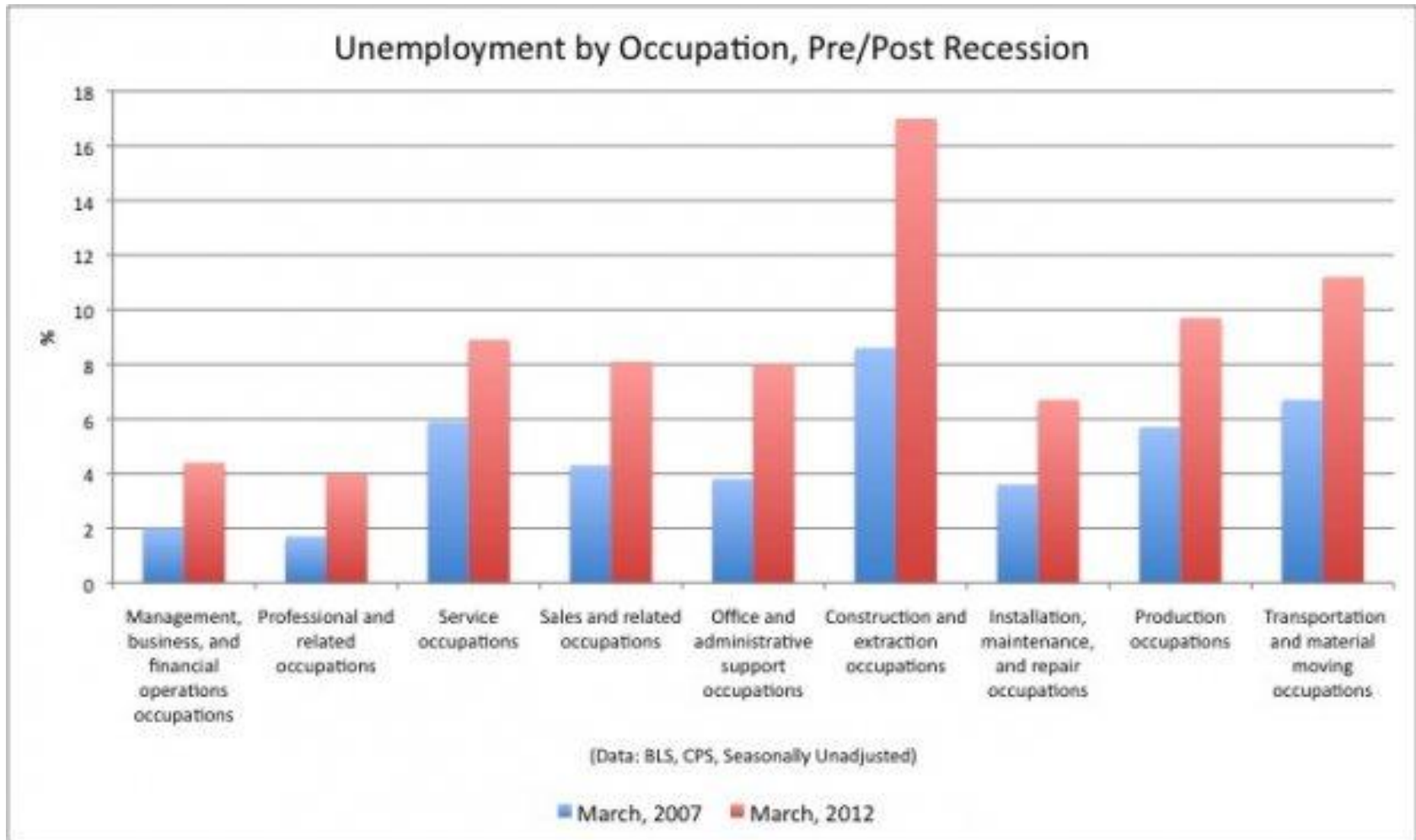


# Structural foolishness: geography

**Distribution of unemployment rates  
(% of national population)**



# Structural foolishness: occupations



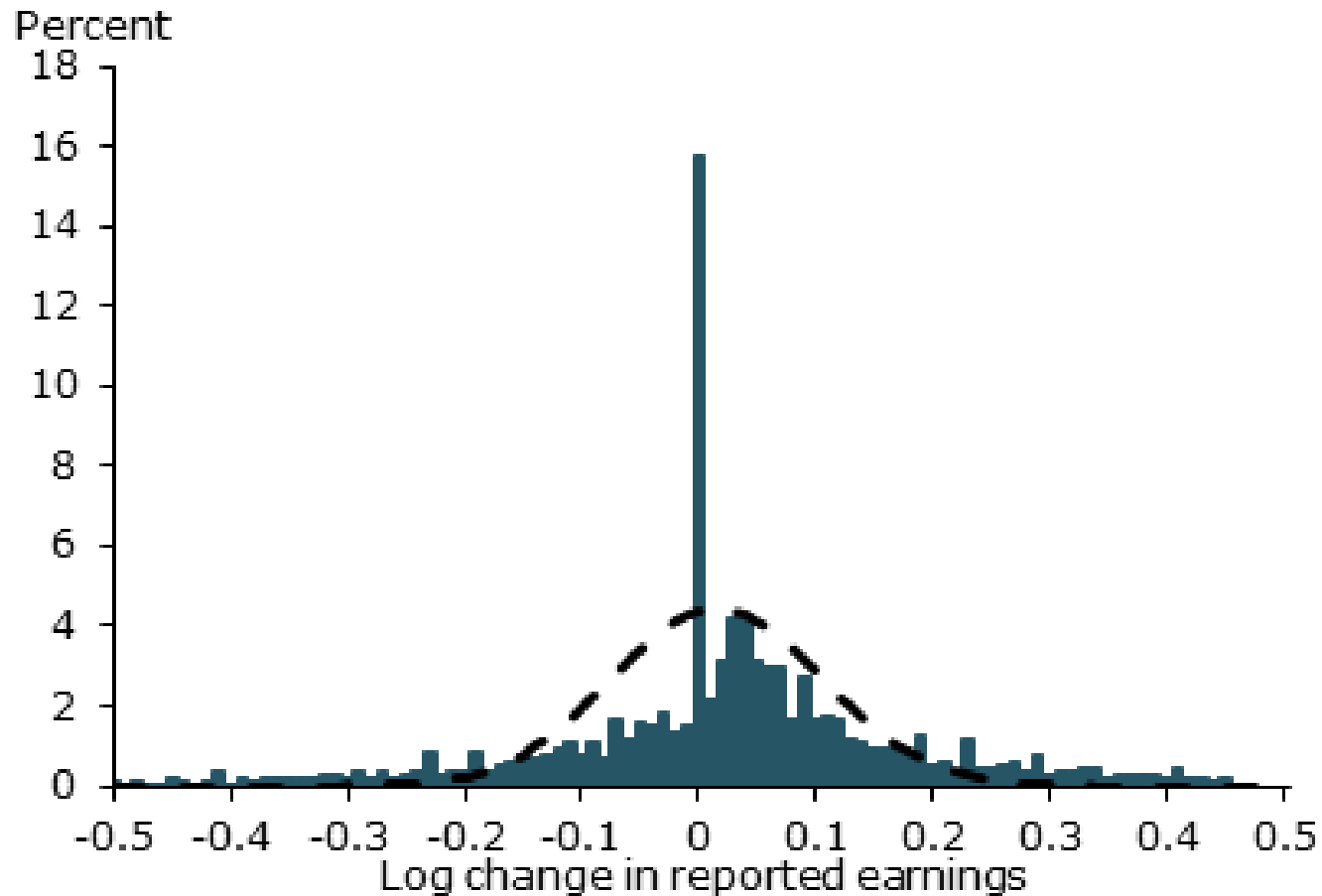
# But why no deflation?





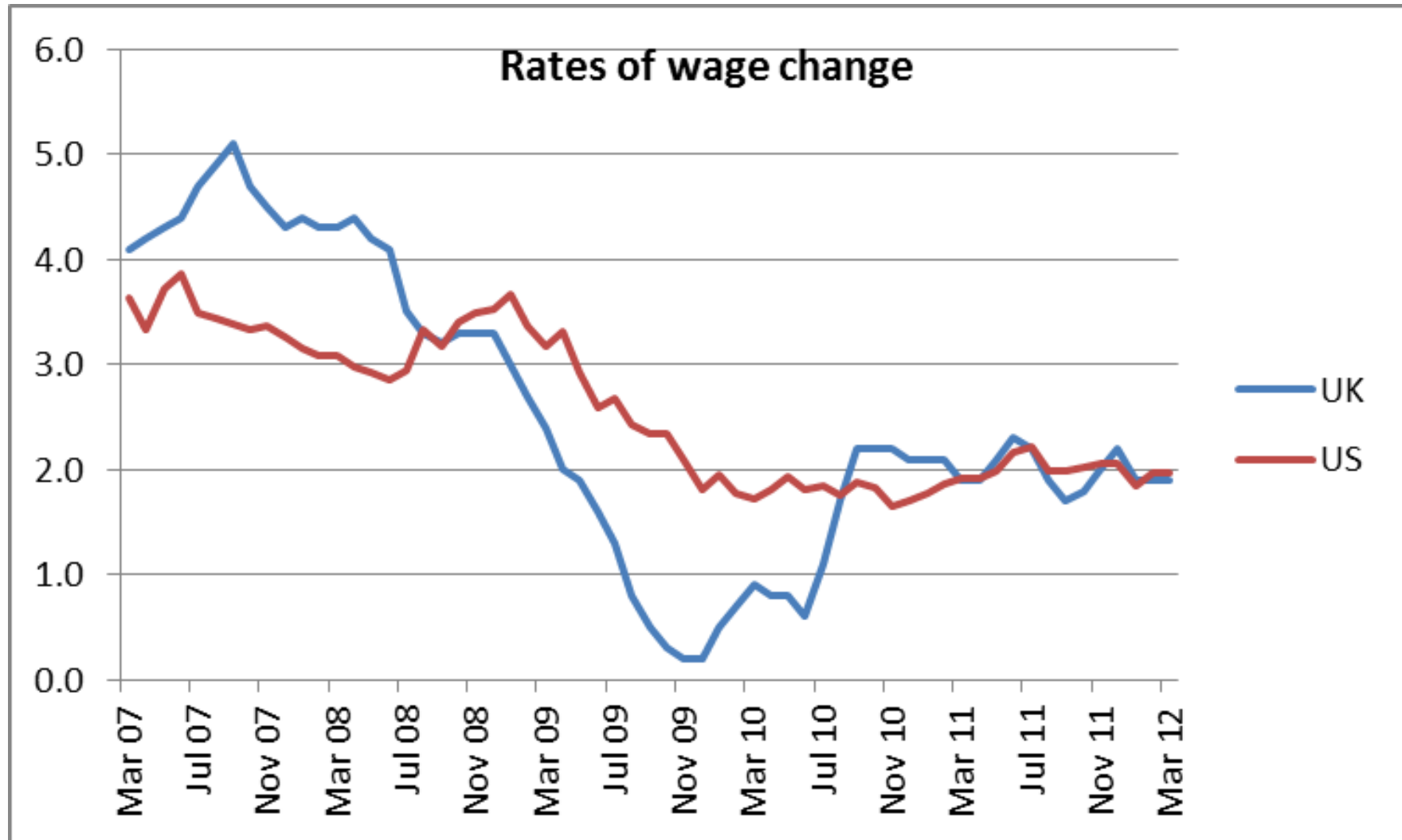
# Nominal rigidity is real

**Figure 2**  
**Distribution of observed nominal wage changes**

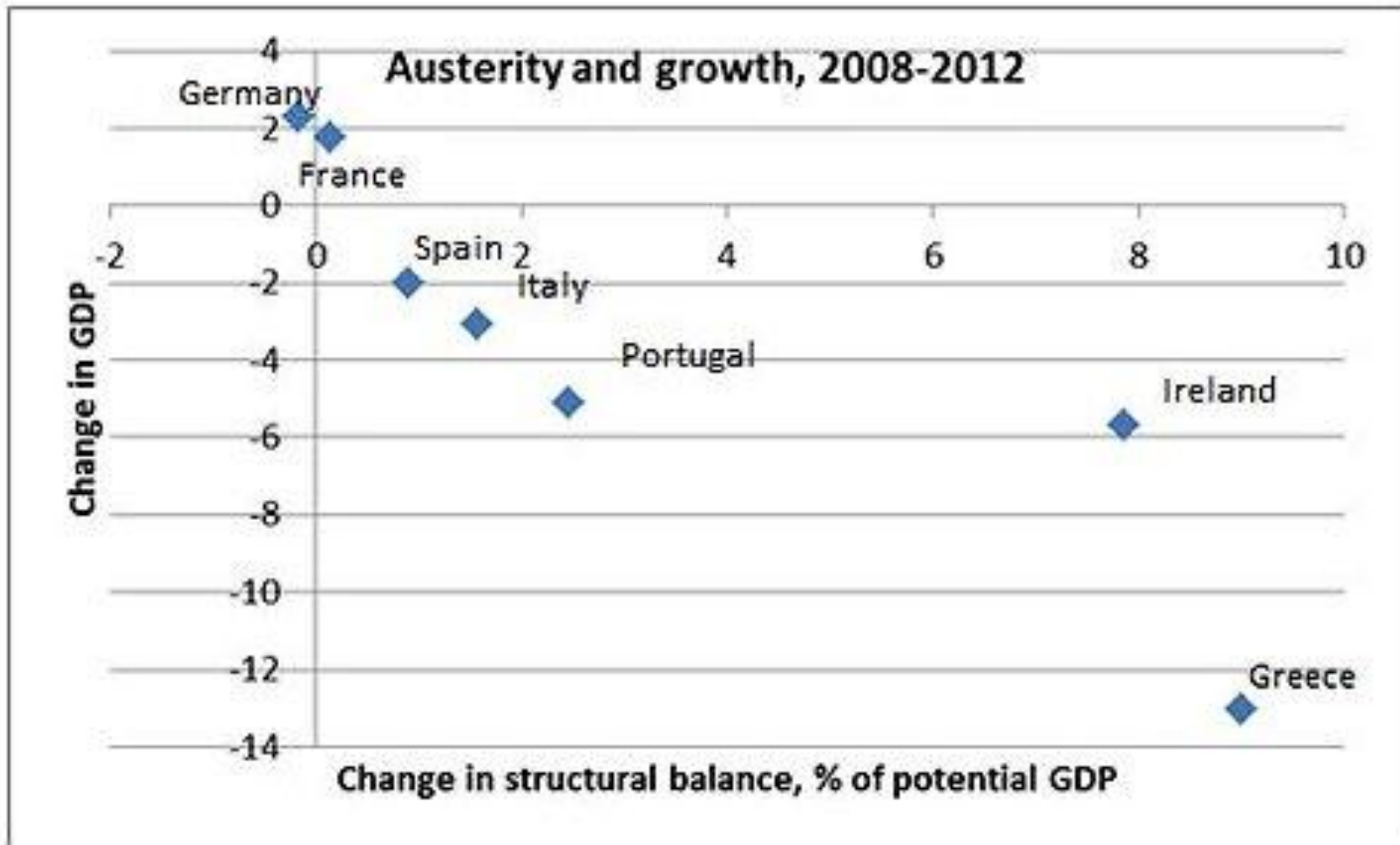


Sources: Current Population Survey (CPS) and authors calculations.

# Separated at birth



Keynes was right

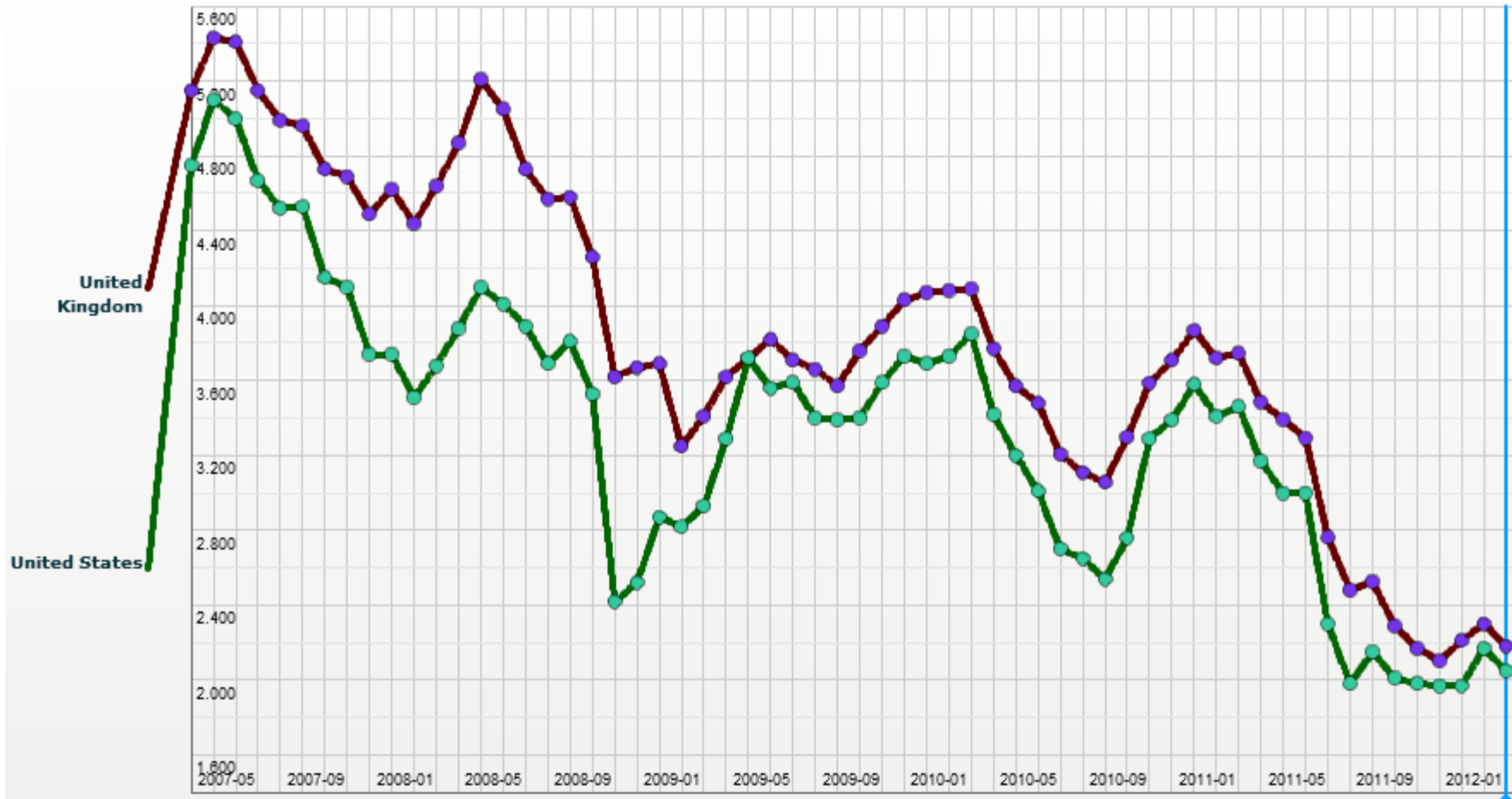


Any sign of the  
confidence fairy?

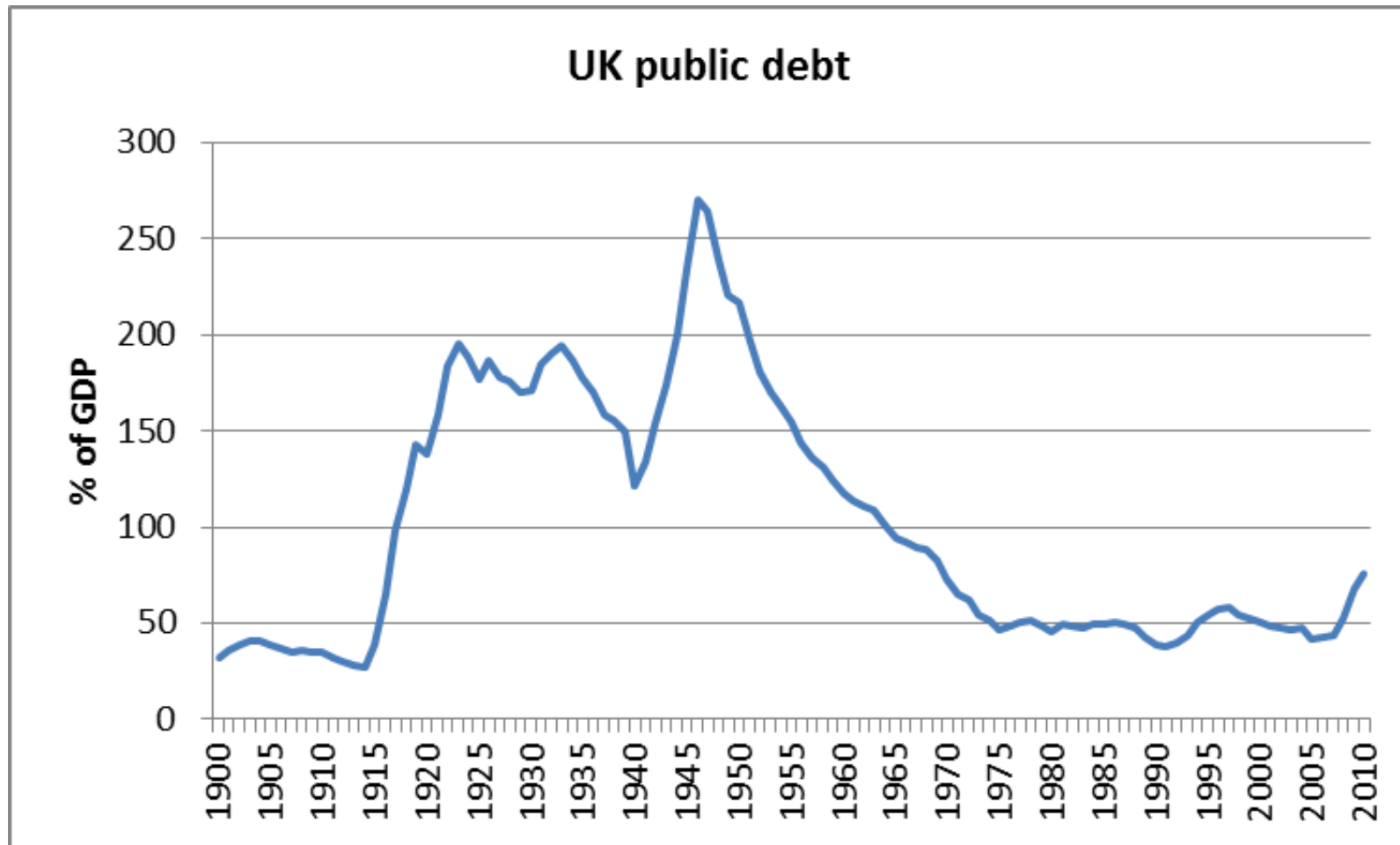


Not here

Long-term interest rates, Per cent per annum

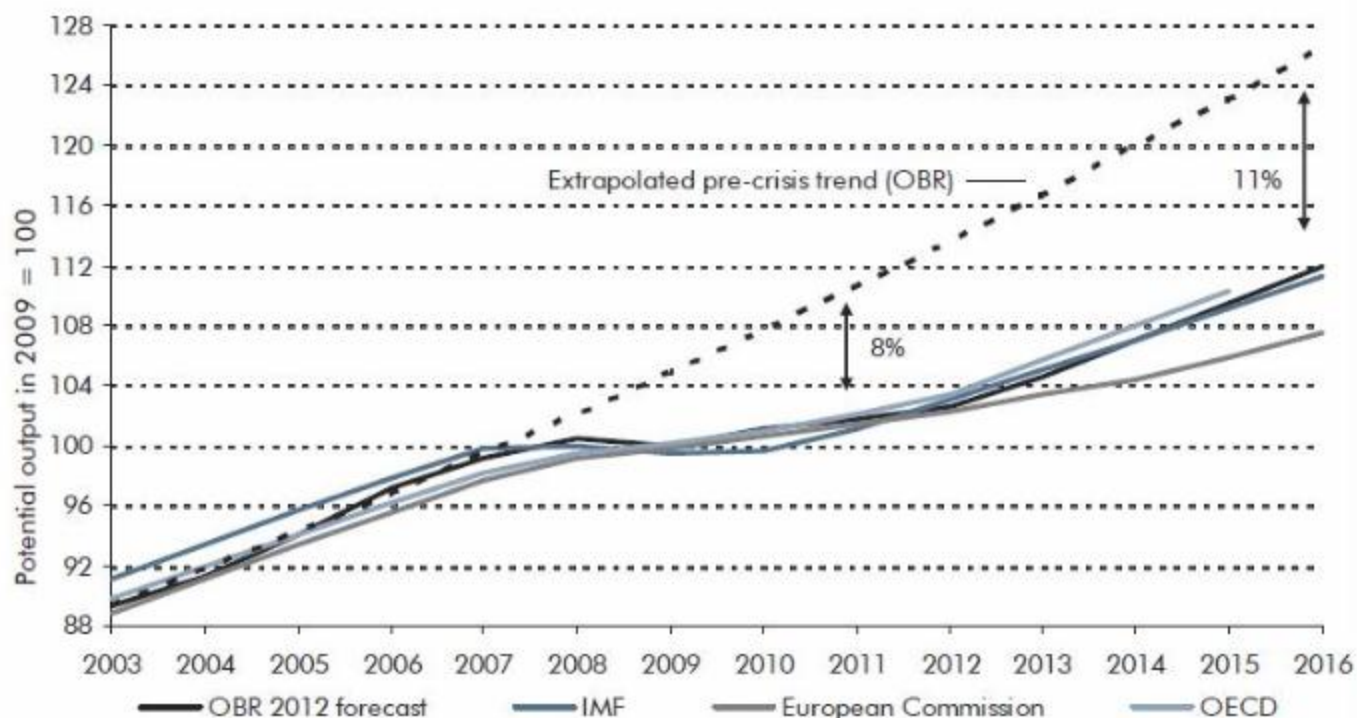


# Debt: Not good, but not unprecedented



# Hysteresis in action?

Chart 3.4: Projections of potential output<sup>5,6</sup>



Source: OBR; IMF *World Economic Outlook*, September 2011; European Commission *European Economic Forecast*, Autumn 2011; OECD *Economic Outlook No.90*, November 2011.

Conclusion: Looking for risks in all the wrong places

*Obsessing over:*

- Invisible bond vigilantes
- Not scaring off the confidence fairy

*Ignoring:*

- Huge losses in foregone output and employment
- Long-term damage to economic potential