End This Depression Now!

Paul Krugman
Yes, it’s a depression
Good old IS-LM has worked fine
No crowding out
Liquidity traps rule
Structural foolishness: geography

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

- Less than 6: 8%
- 6 to 7: 18%
- 7 to 8: 22%
- 8 to 9: 33%
- Greater than 9: 19%
Structural foolishness: occupations

Unemployment by Occupation, Pre/Post Recession

(Data: BLS, CPS, Seasonally Unadjusted)
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

Rates of wage change

UK

US
Keynes was right
Any sign of the confidence fairy?
Not here
Debt: Not good, but not unprecedented
Hysteresis in action?

Chart 3.4: Projections of potential output

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