Eco 348, The Great Recession and aftermath: a look around

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The Great Recession set US families back decades ...
It has drastically reduced job opportunities …
Especially for the young
Europe is experiencing a Lesser Depression
And not that much lesser

Europe: Industrial production in two depressions

- 1929-36
- 2007-14
Figure 1. Real GDP in two crisis periods

- Sterling Bloc 1929-1938
- Gold Bloc 1929-1938
- Euroarea 2007-2015
Real GDP: Advanced countries

2007 projection

Actual
Real GDP: Emerging economies

- 2007 projection
- Actual
It’s important not to lose sight of the weirdness of recessions!

Technology continues to progress (iPhone in 2007, iPad in 2010, fracking and solar made big advances)

Working-age population continues to rise

Capital stock is growing, even if not as fast

So productive capacity of the economy has surely risen a lot

But actual production drops sharply, then sluggish recovery
This is a nightmare, which will pass away with the morning. For the resources of nature and men's devices are just as fertile and productive as they were. The rate of our progress towards solving the material problems of life is not less rapid. We are as capable as before of affording for everyone a high standard of life—high, I mean, compared with, say, twenty years ago—and will soon learn to afford a standard higher still. We were not previously deceived. But today we have involved ourselves in a colossal muddle, having blundered in the control of a delicate machine, the working of which we do not understand. The result is that our possibilities of wealth may run to waste for a time—perhaps for a long time.

But how did we manage to do it again???
Your spending = My income

My spending = Your income

The secret of the universe ...
What do we know about the causes? A huge bubble in housing prices
Huge boom and bust in housing construction
Large rise in household debt as ratio to GDP
Macroeconomics: what is it good for?

Two kinds of analysis, not the same:

First, what is going on in a depressed economy? How is it that “our possibilities of wealth may run to waste for a time”?

Second, what leads to the crises that precede a depressed economy?

Strong temptation to obsess about (2) while taking (1) as obvious. It isn’t, and how you answer (1) is arguably the key issue for the world of today

Which is why our next class will be boring