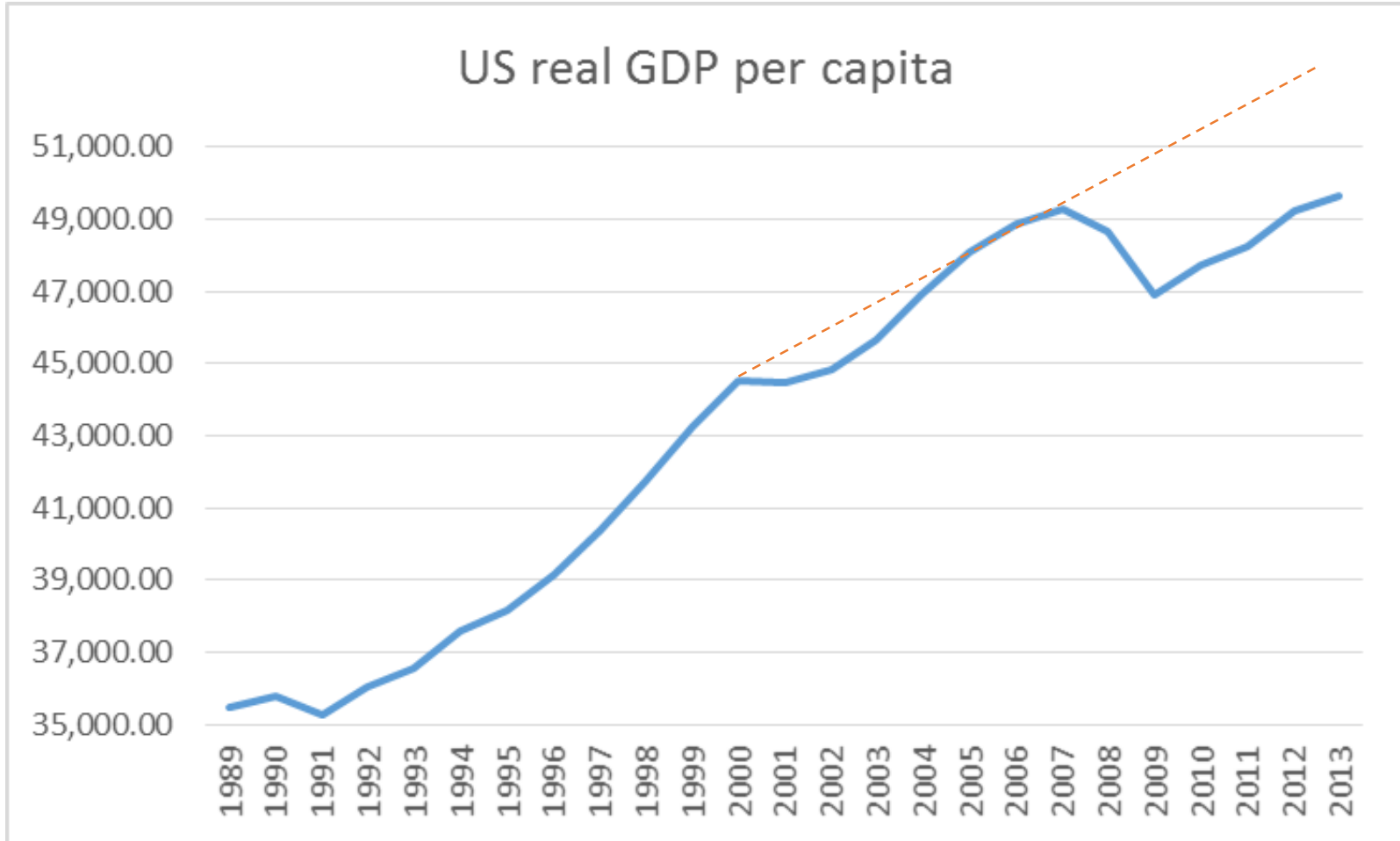


# The Great Recession: Lecture 1

Paul Krugman

The Great Recession was a huge setback. How could this happen?



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

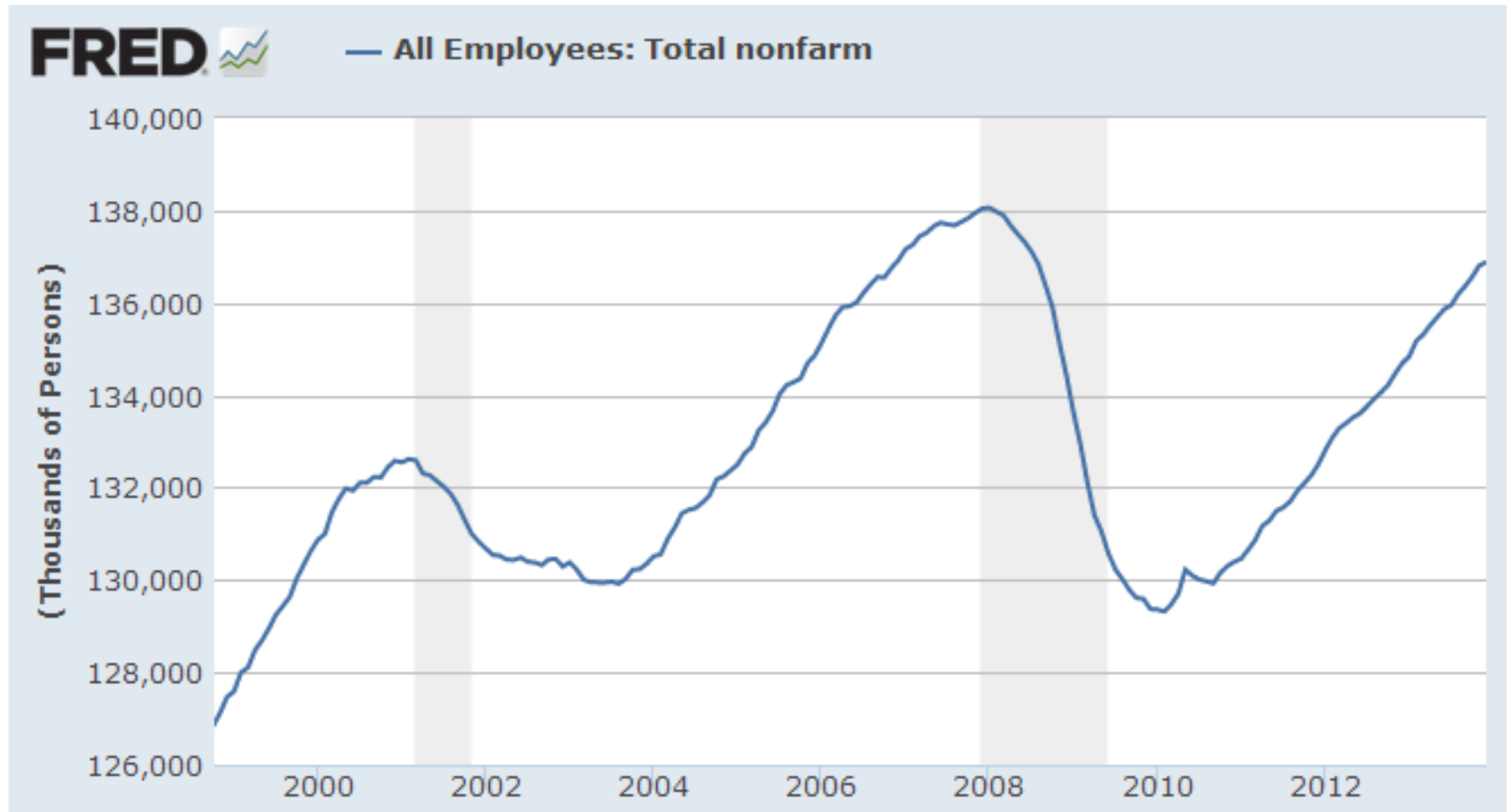
But actual production drops sharply, then sluggish recovery

## Keynes, “The Great slump of 1930”

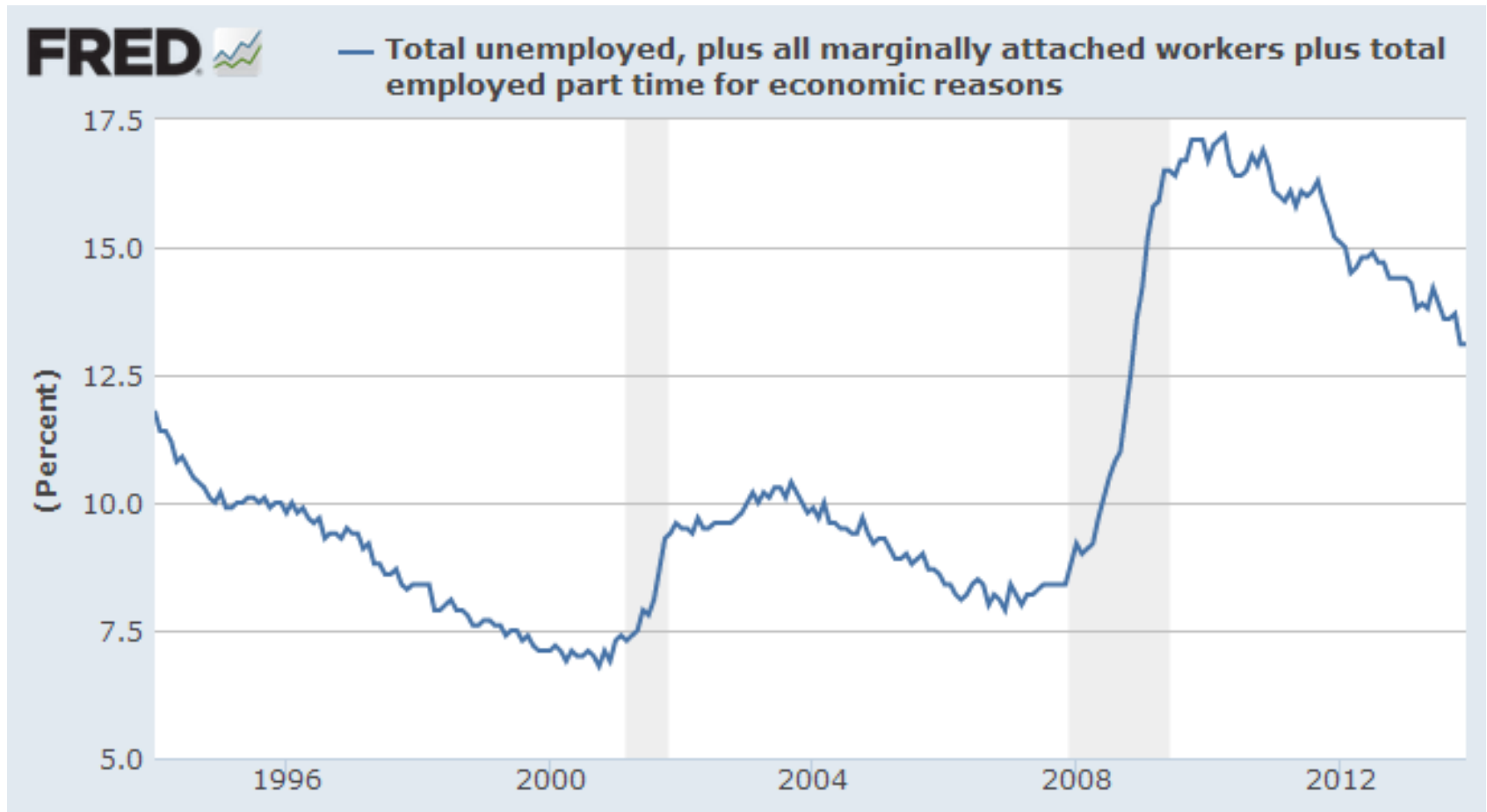
This *is* a nightmare, which will pass away with the morning. For the resources of nature and men's devices are just as fertile and productive as they were. The rate of our progress towards solving the material problems of life is not less rapid. We are as capable as before of affording for everyone 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 to-day 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???

Especially severe in impact on jobs



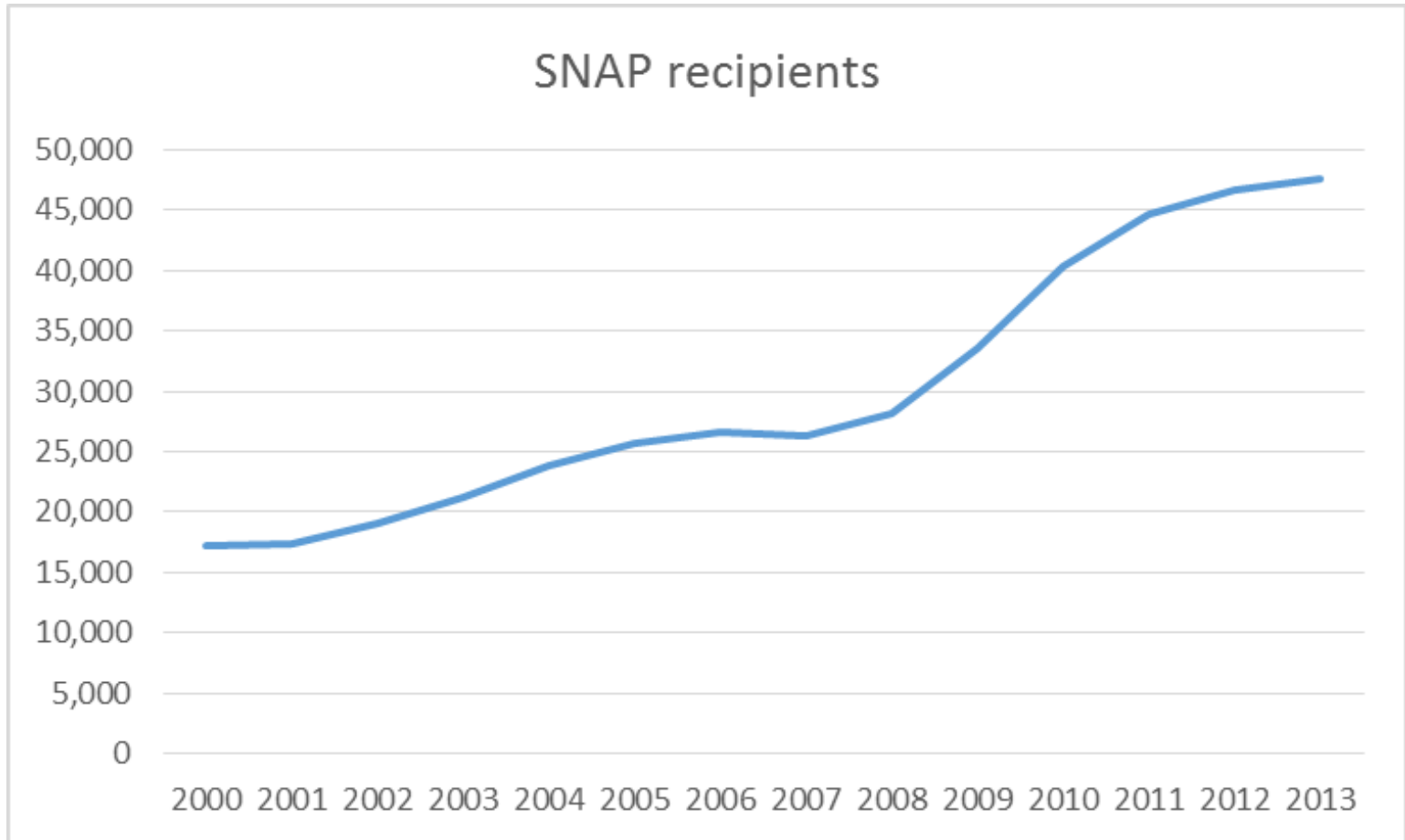
Unemployment shot up, and broadly defined is still very high



# Long-term unemployment remains disastrous

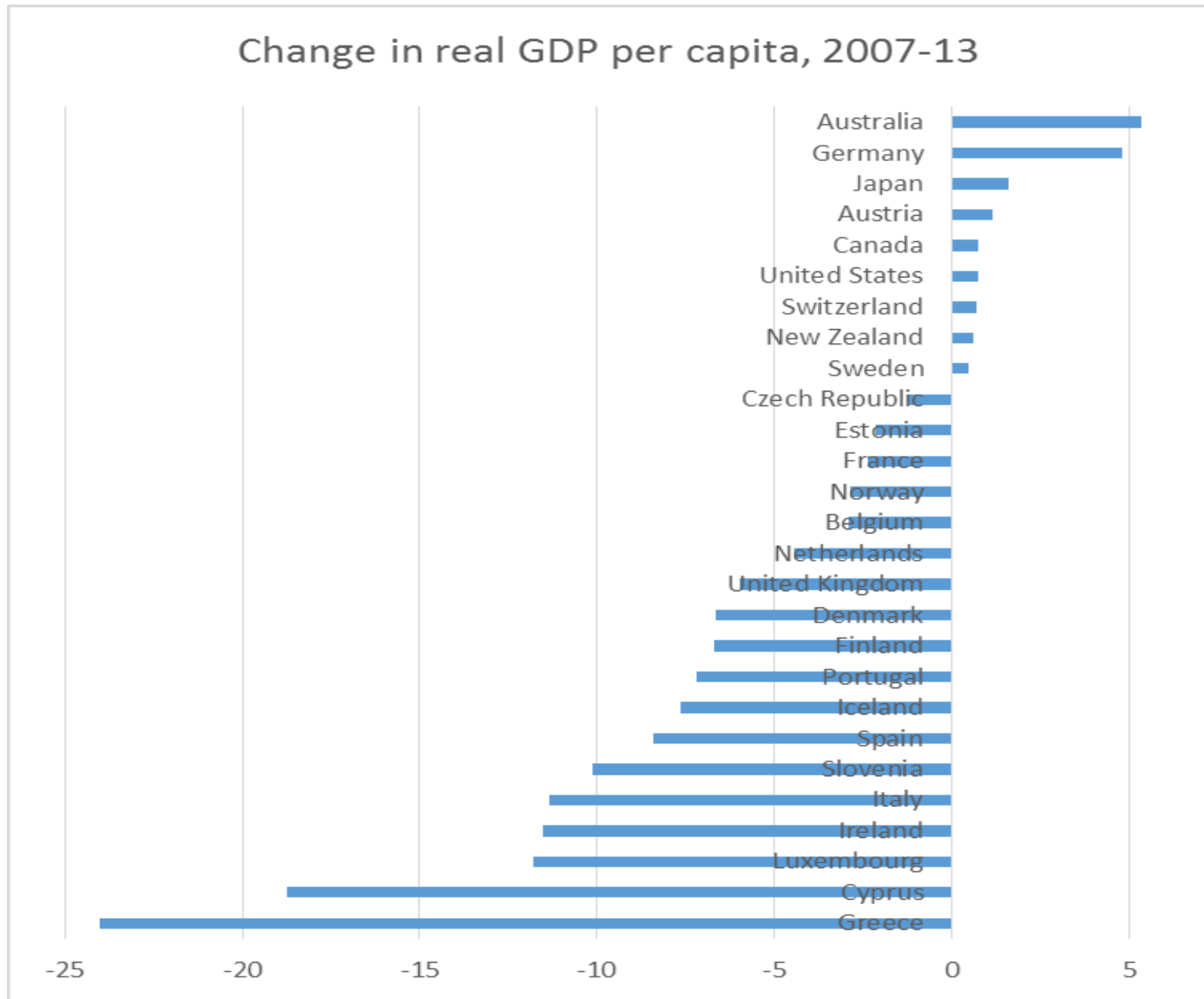


# Large increase in number of people receiving aid



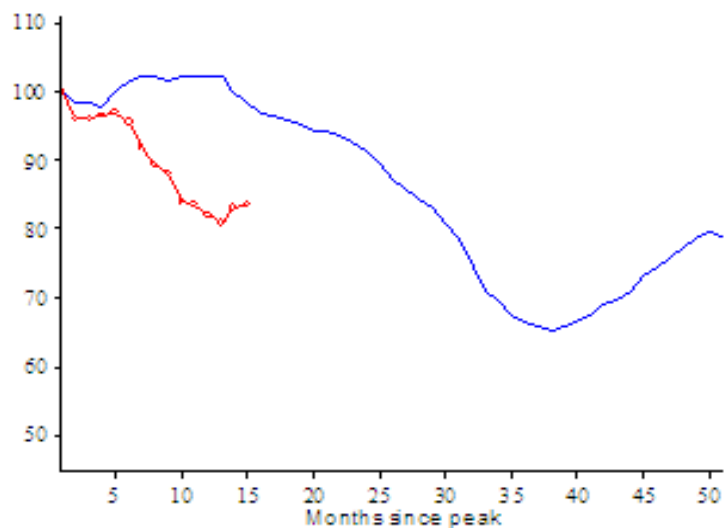


And America is one of the better stories!

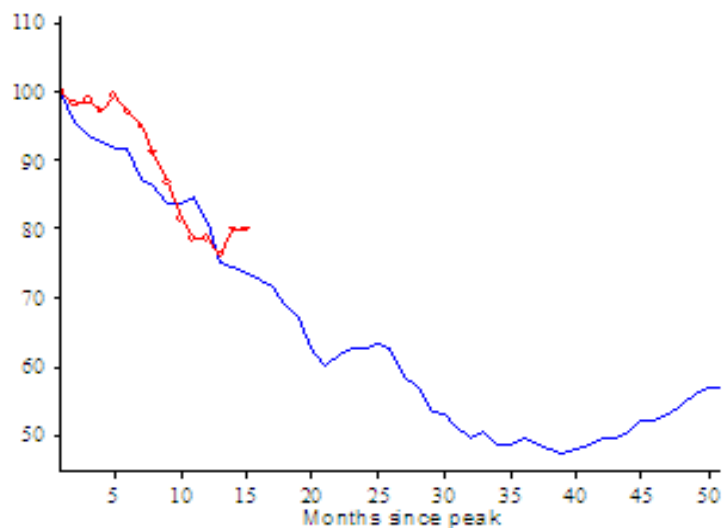


# EUROPEAN INDUSTRIAL OUTPUT

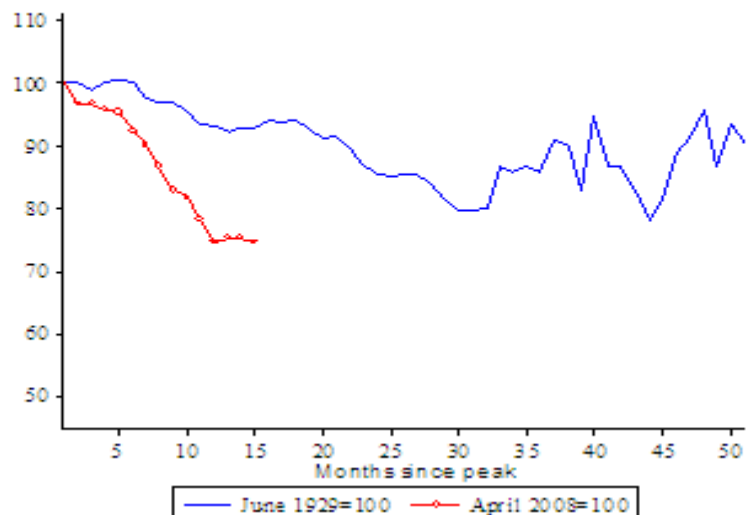
France



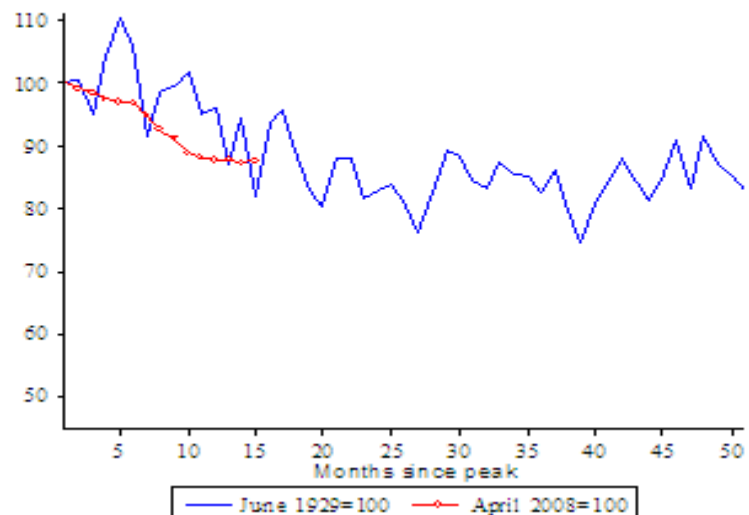
Germany



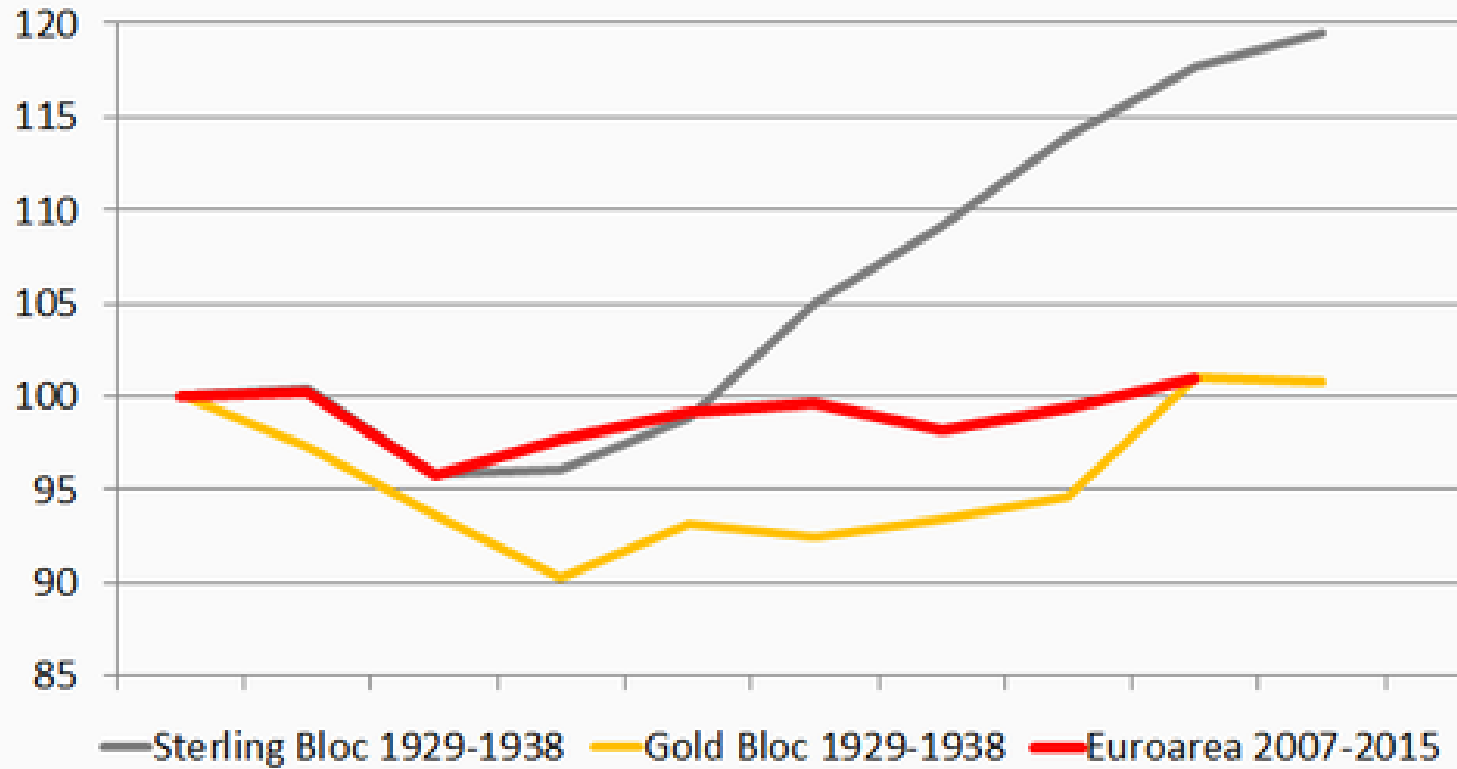
Italy



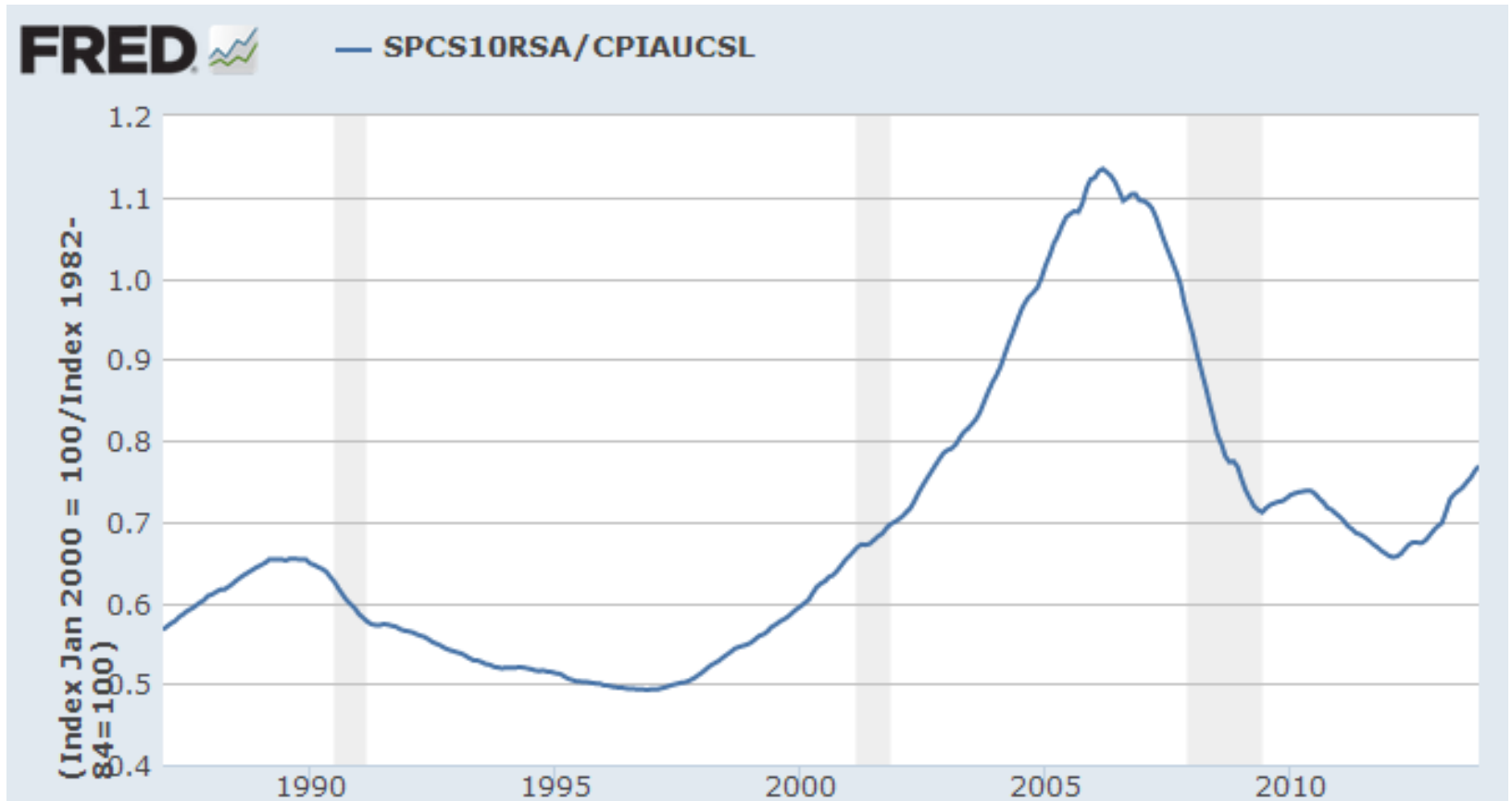
UK



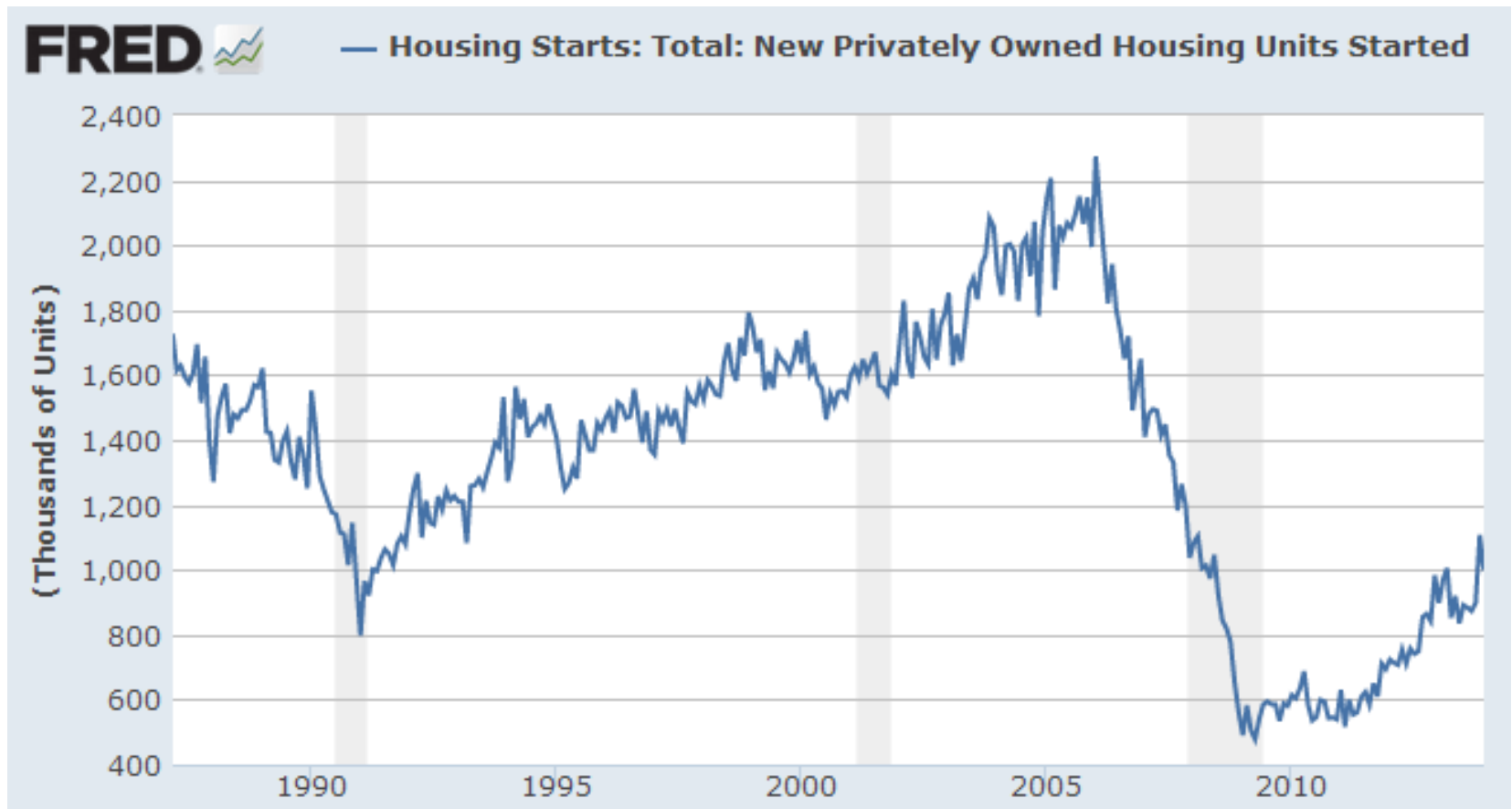
**Figure 1.** Real GDP in two crisis periods



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

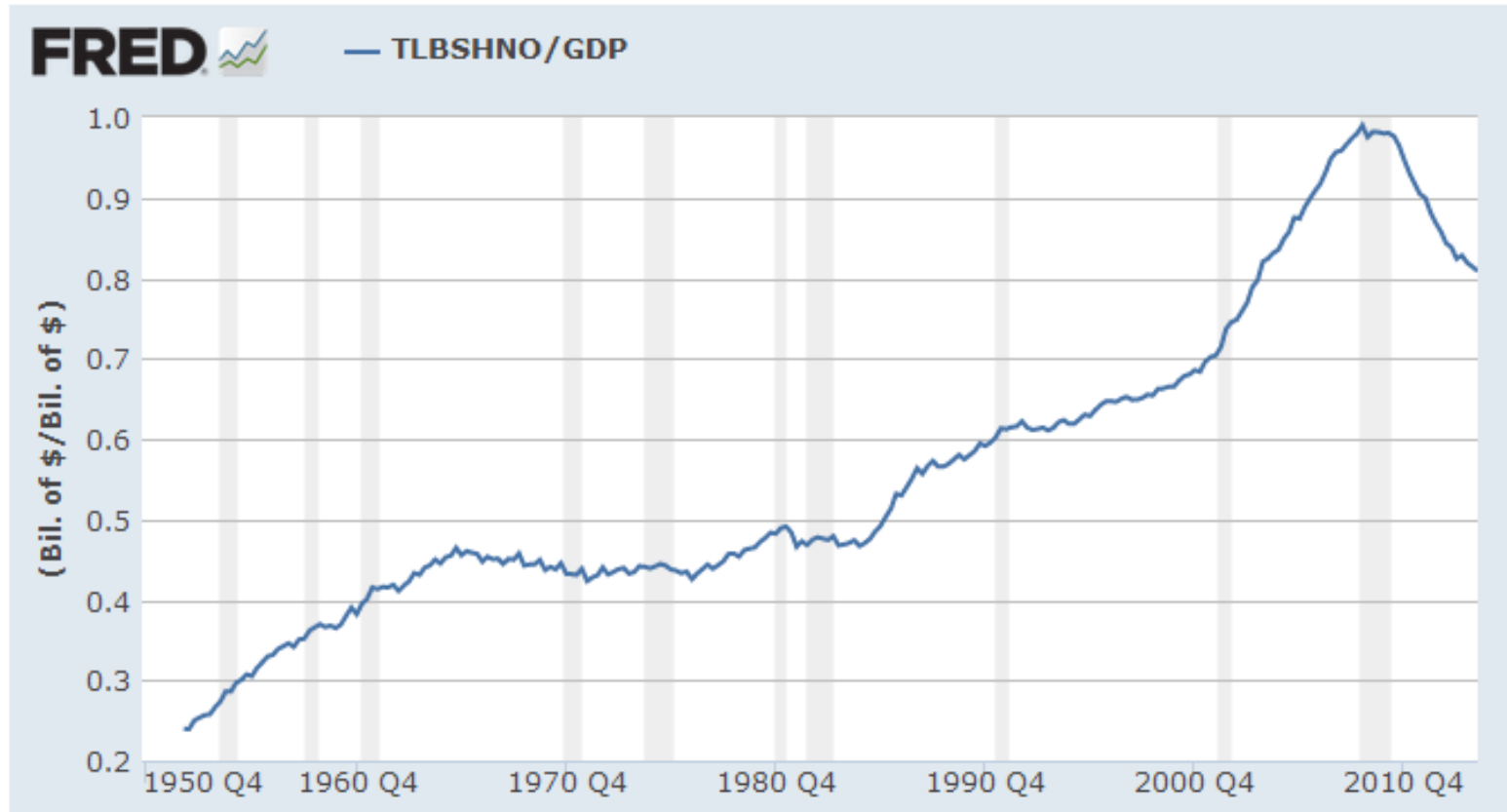
## Graph: Households and Nonprofit Organizations; Total Liabilities, Level

Click and drag in the plot area or select dates: 1yr | 5yr | 10yr | Max

1949-10-01

to

2013-07-01



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