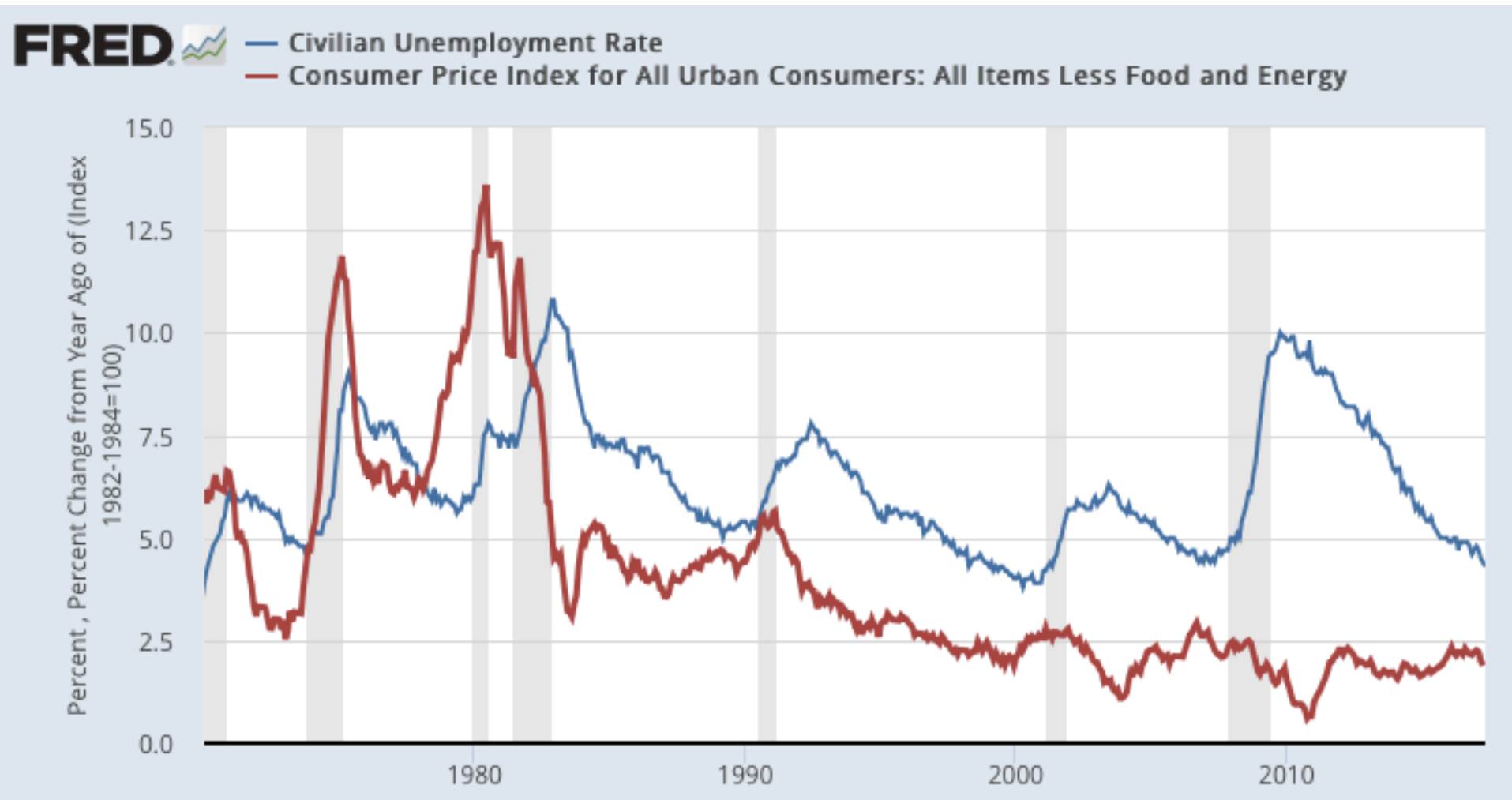


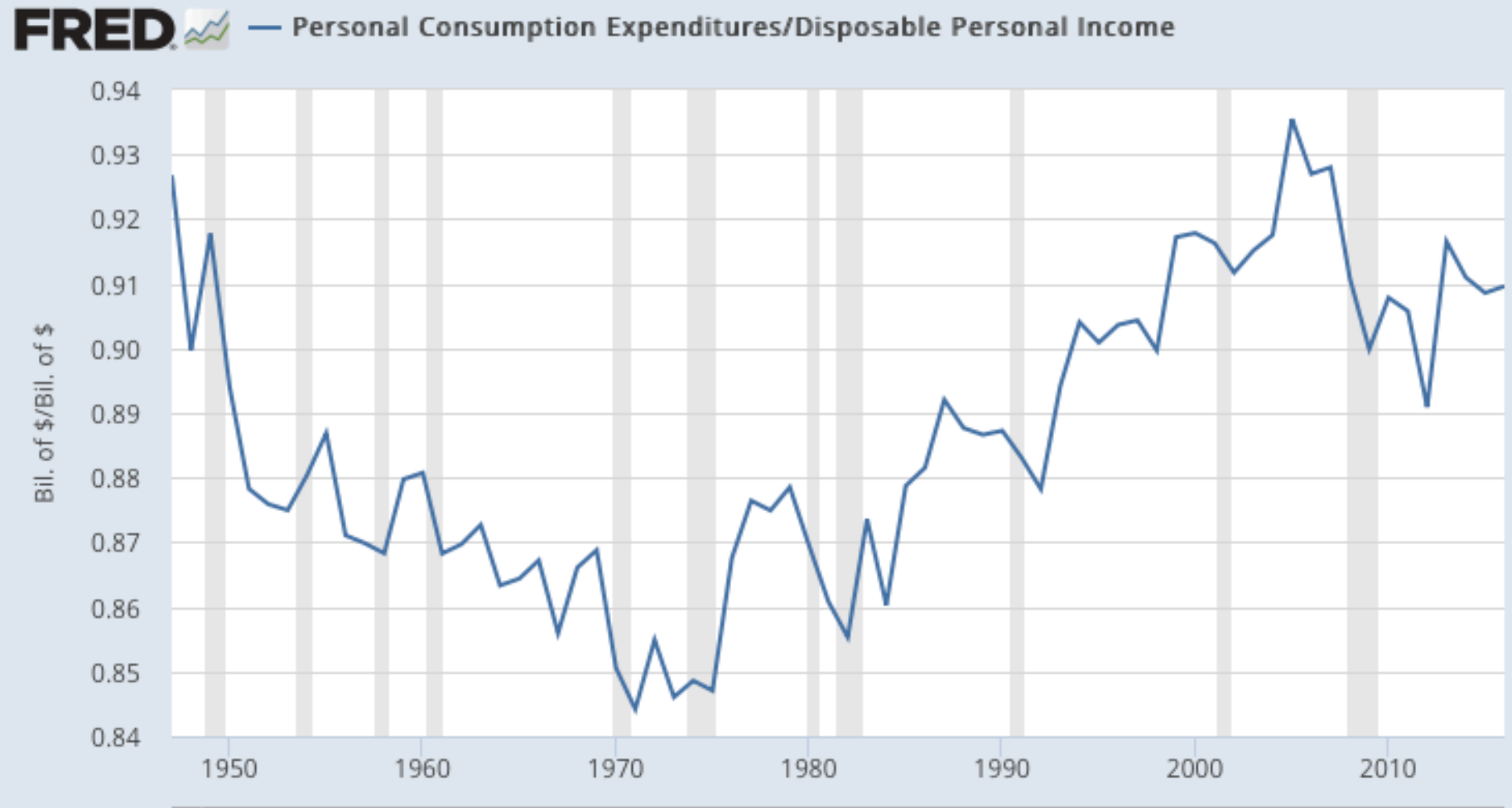
Inequality and crisis: Is there a clear link?

Paul Krugman

A seemingly gratuitous recession. Was inequality involved?

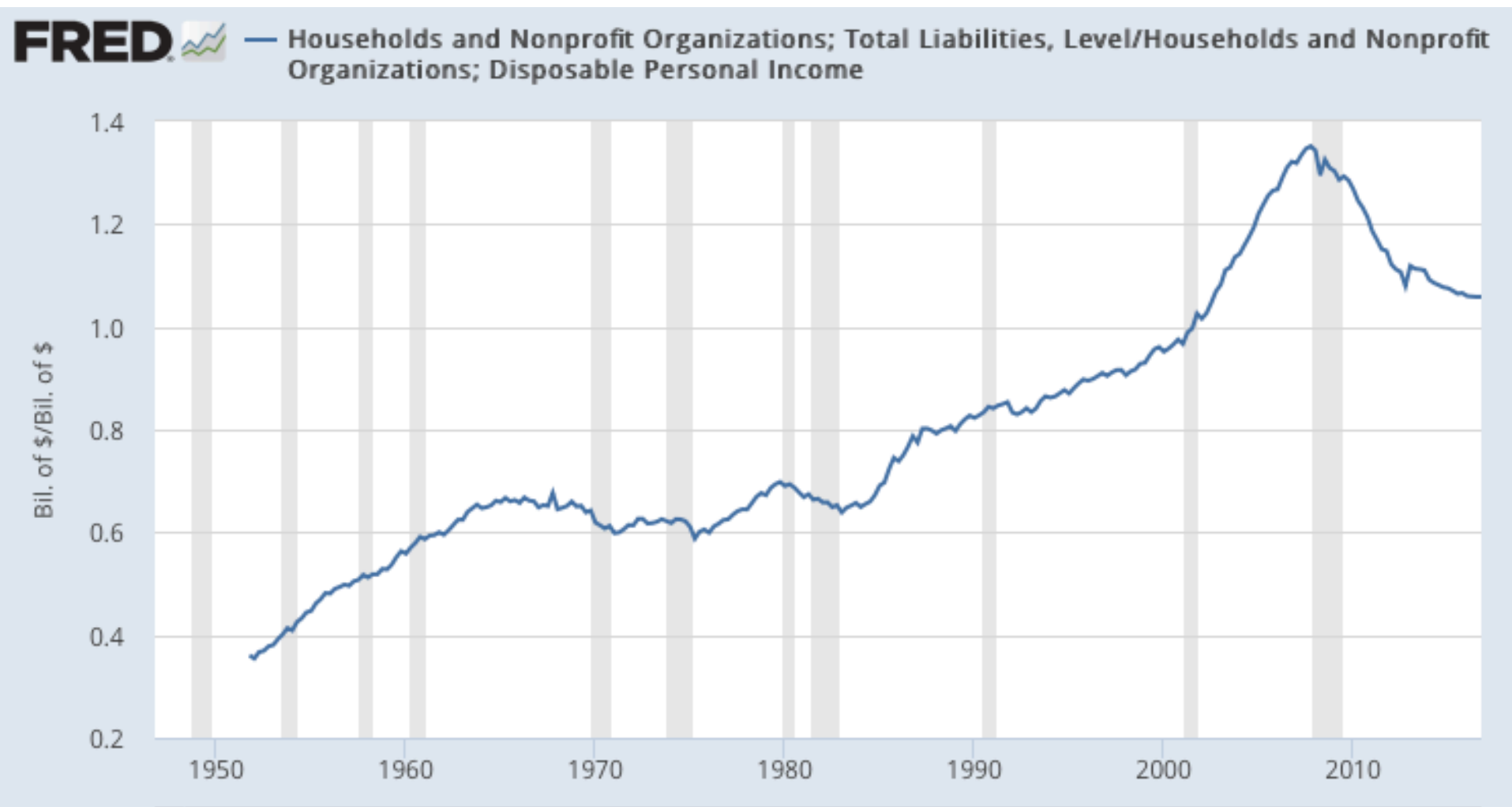


The simple underconsumption story still falls short



What about debt/leverage issues?

(The Warren-Rajan hypothesis?)

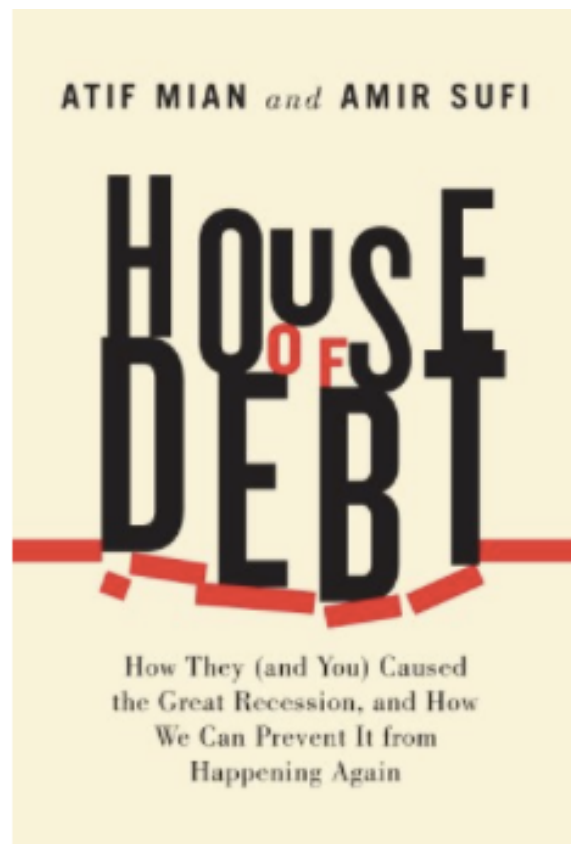


THE DEBT-DEFLATION THEORY OF GREAT DEPRESSIONS

BY IRVING FISHER

INTRODUCTORY

IN *Booms and Depressions*, I have developed, theoretically and statistically, what may be called a debt-deflation theory of great depressions. In the preface, I stated that the results “seem largely new,” I spoke thus cautiously because of my unfamiliarity with the vast literature on the subject. Since the book was published its special con-

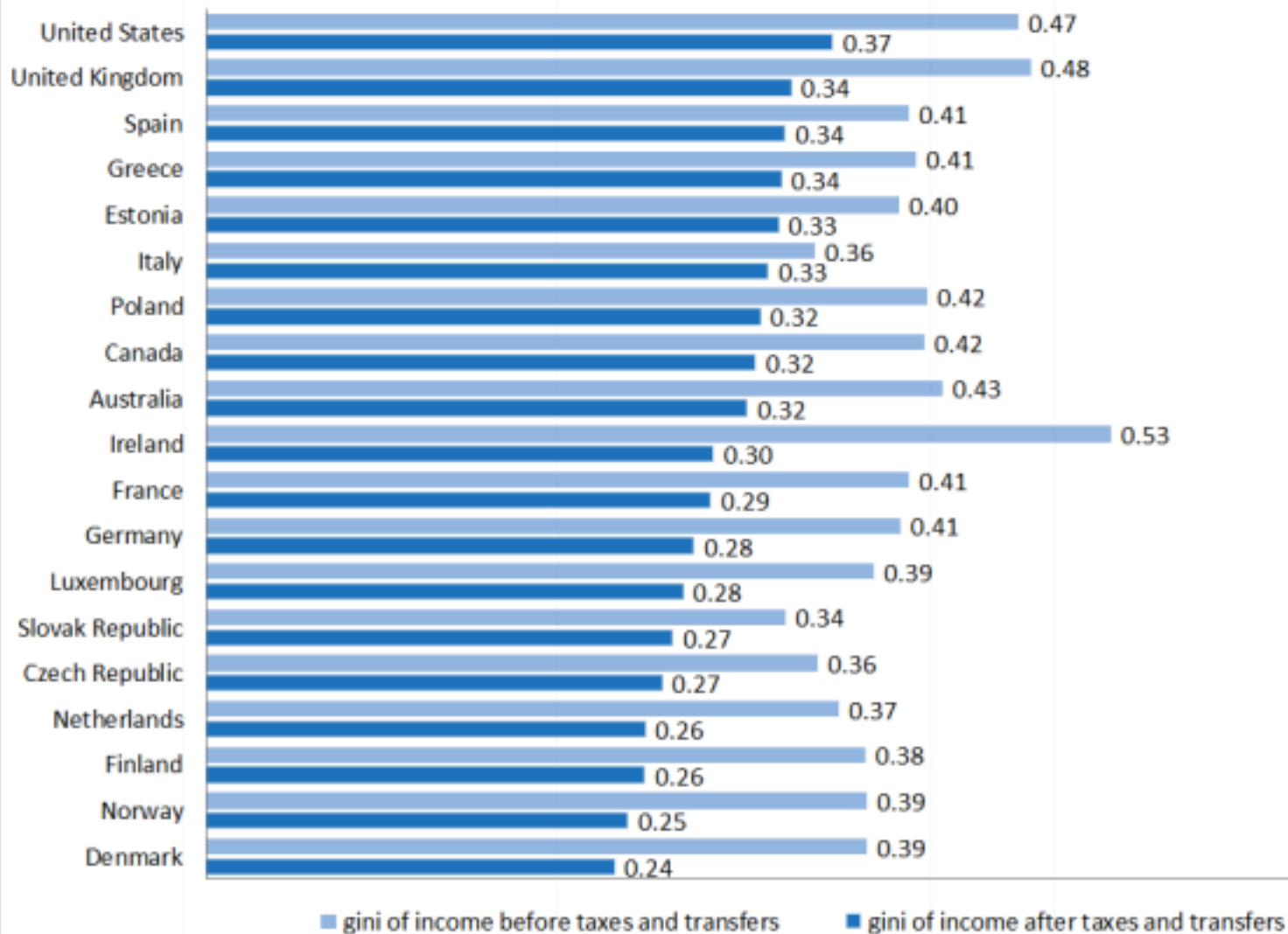


DEBT, DELEVERAGING, AND THE LIQUIDITY TRAP: A FISHER-MINSKY-KOO APPROACH*

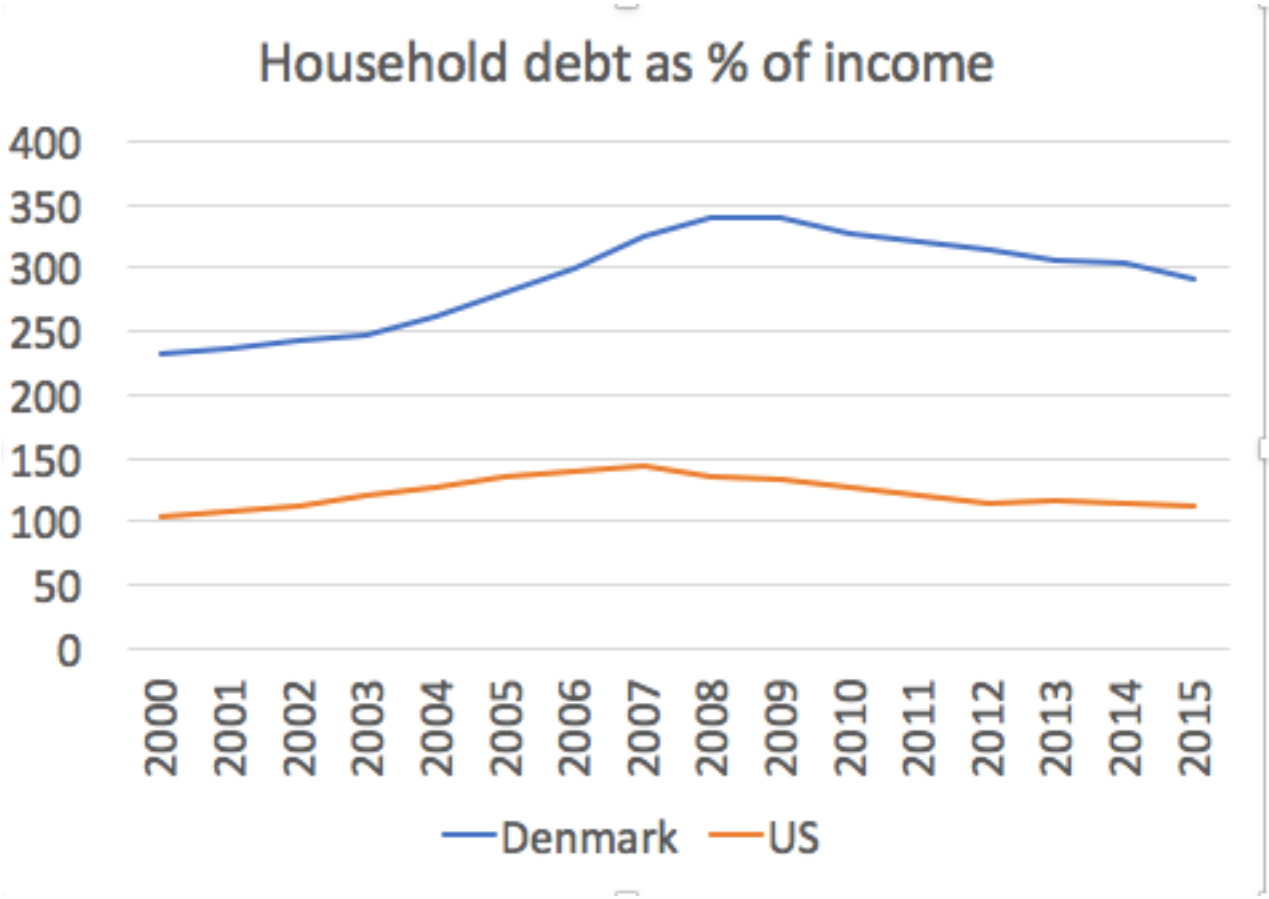
GAUTI B. EGGERTSSON
PAUL KRUGMAN

In this article we present a simple new Keynesian-style model of debt-driven slumps—that is, situations in which an overhang of debt on the part of some agents, who are forced into rapid deleveraging, is depressing aggregate demand. Making some agents debt-constrained is a surprisingly powerful assumption. Fisherian debt deflation, the possibility of a liquidity trap, the paradox of thrift and toil, a Keynesian-type multiplier, and a rationale for expansionary fiscal policy all emerge naturally from the model. We argue that this approach sheds considerable light both on current economic difficulties and on historical episodes, including Japan’s lost decade (now in its 18th year) and the Great Depression itself. (*JEL* Codes: E32, E52, E62)

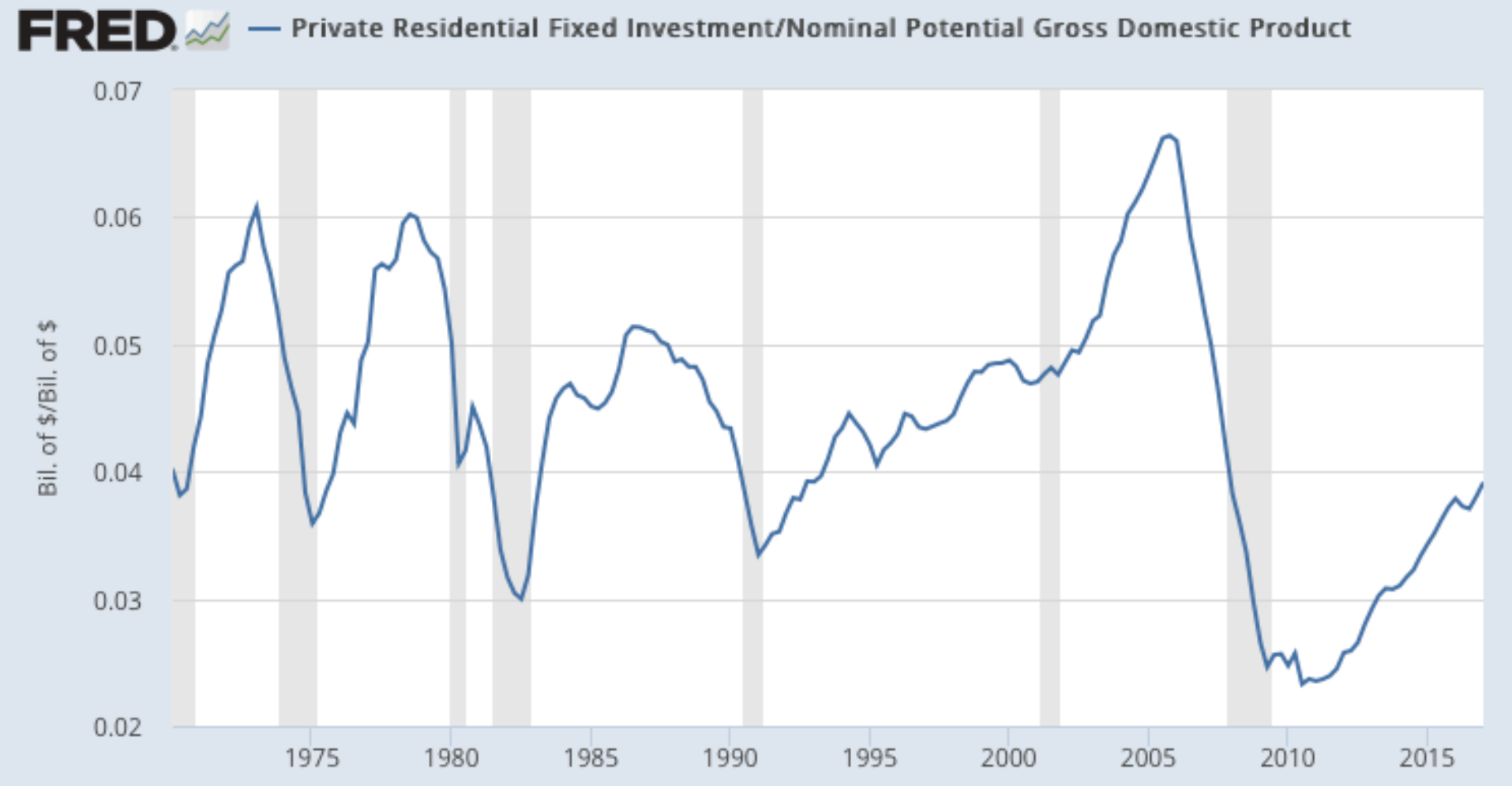
FIGURE 2
Contemporary cross-national portrait (LIS)
Redistribution through taxes and transfers – under age 60



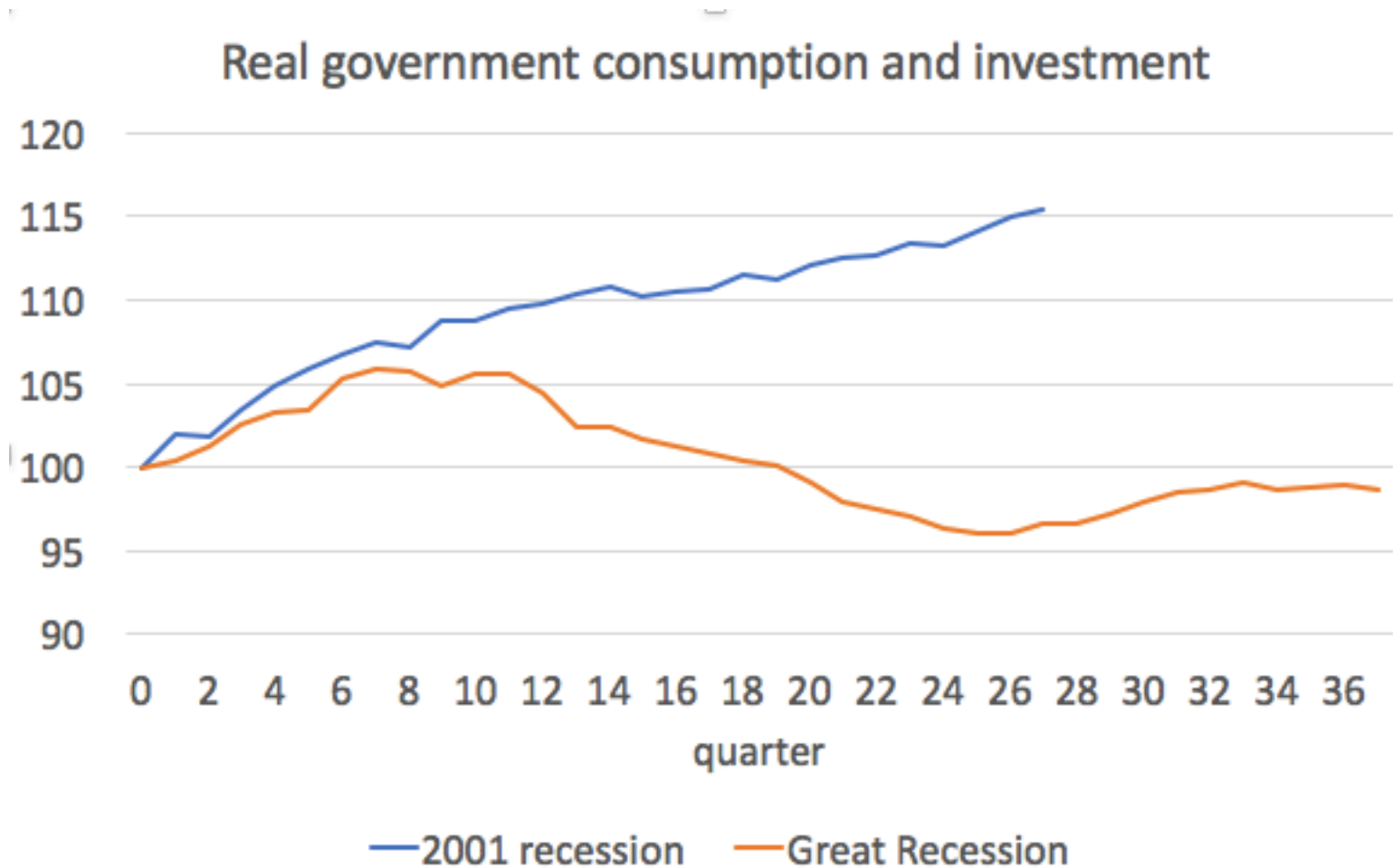
Is inequality even associated with high debt?



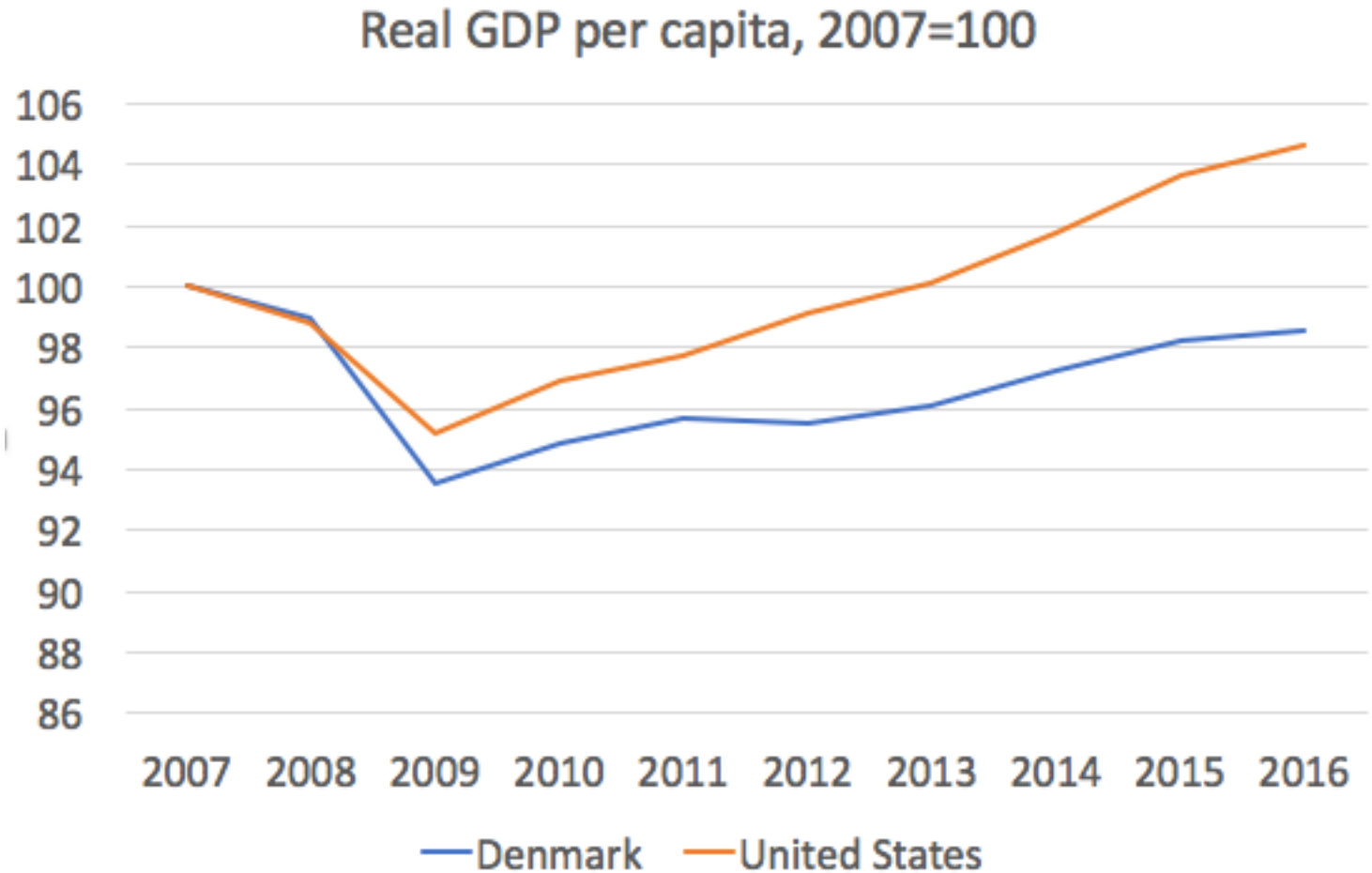
So why was the Great Recession so severe?



And why was recovery so slow?



And one final note of nihilism



Real GDP per working-age resident, 1993=1

