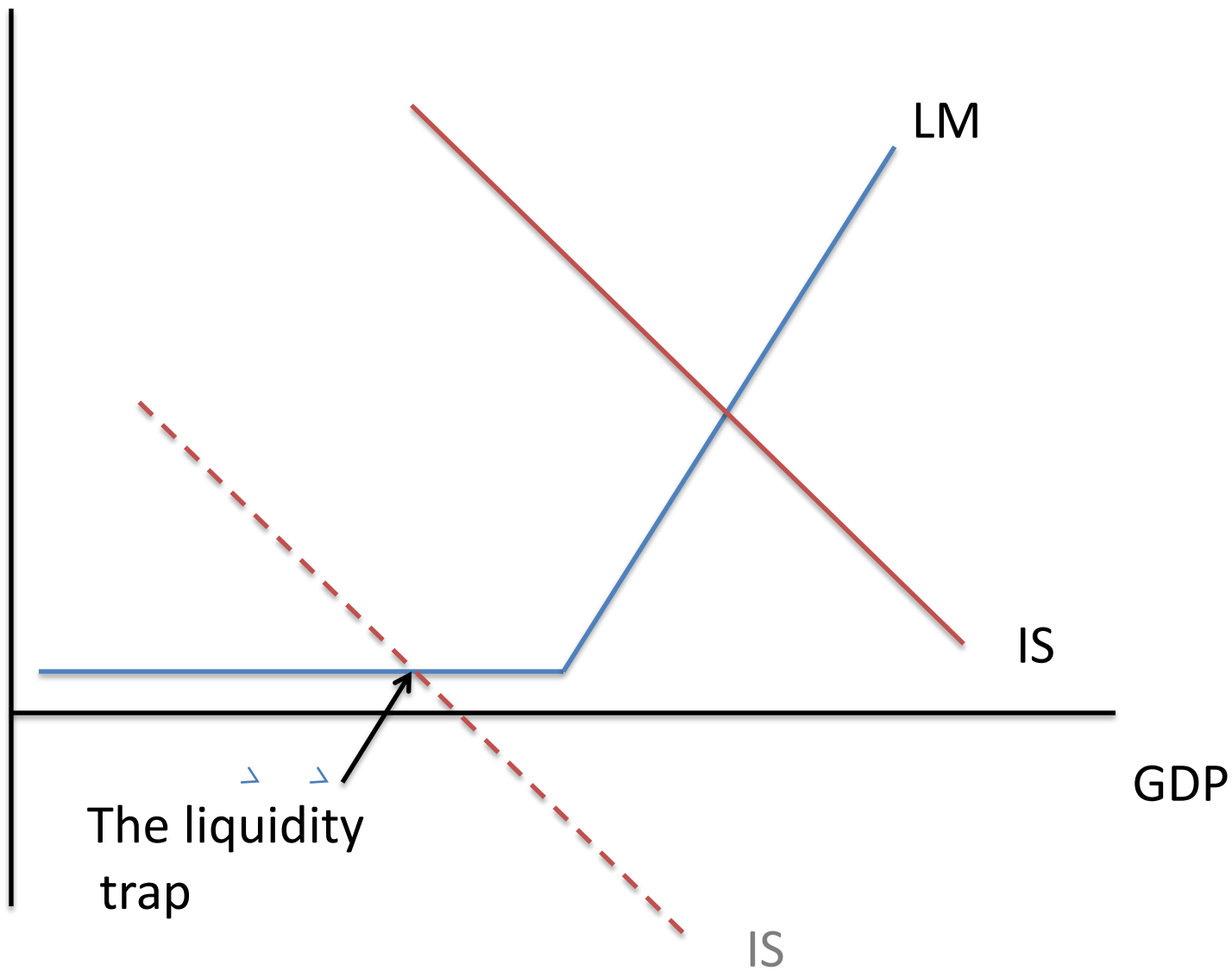


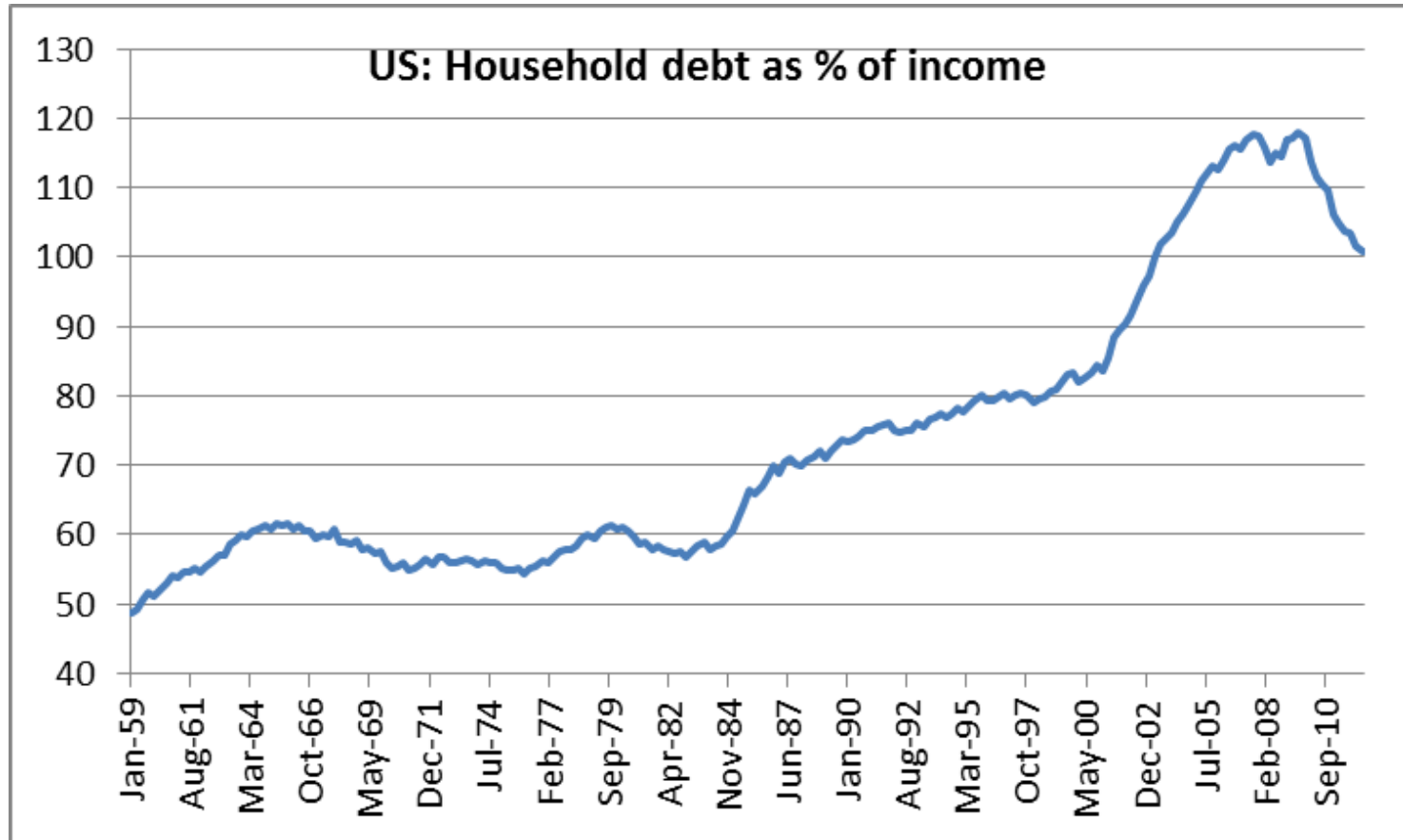
# My Father's Father: The Surprising Success of 1930s Economics

Paul Krugman

Interest rate



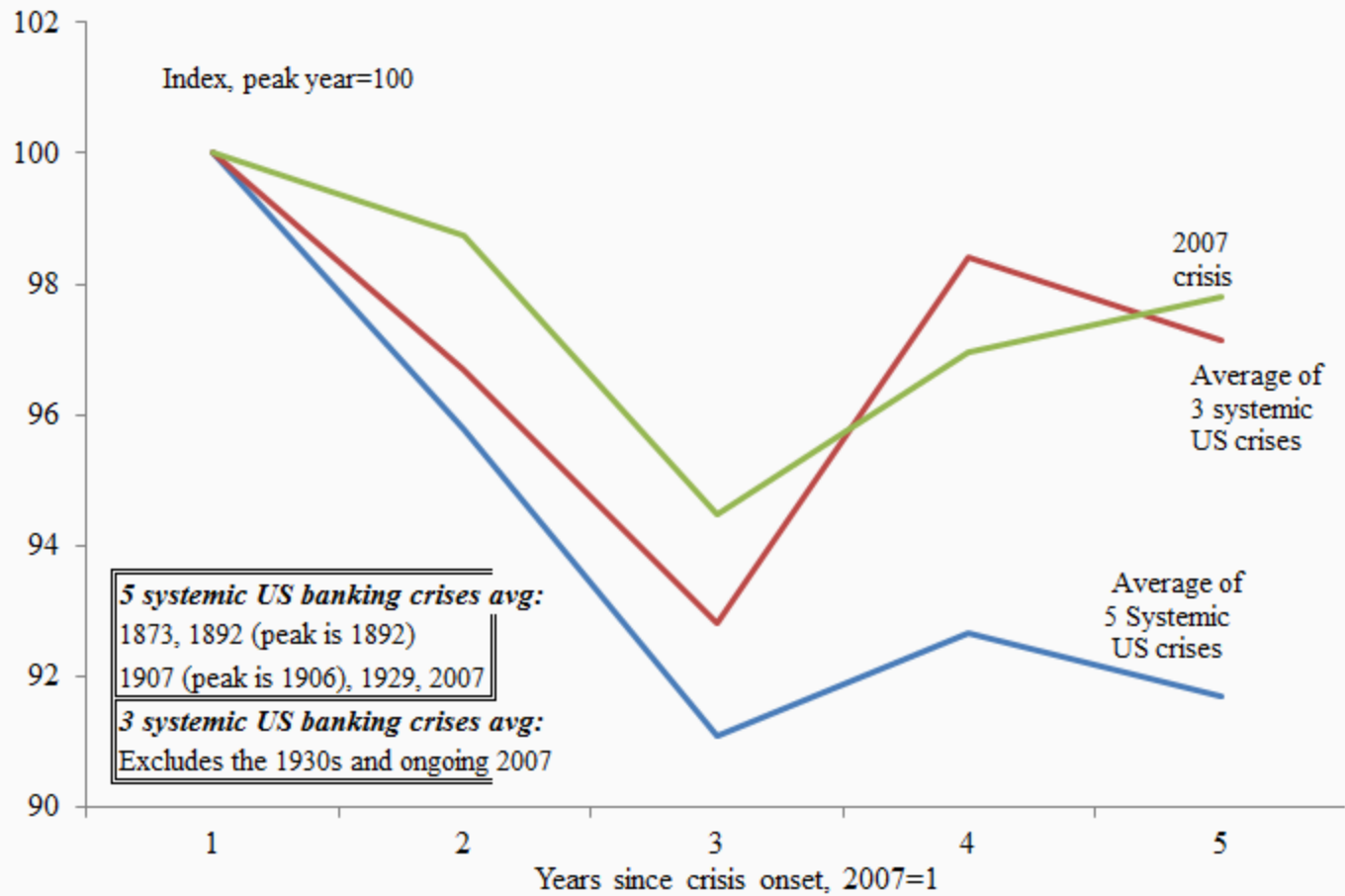
# Leveraging and deleveraging



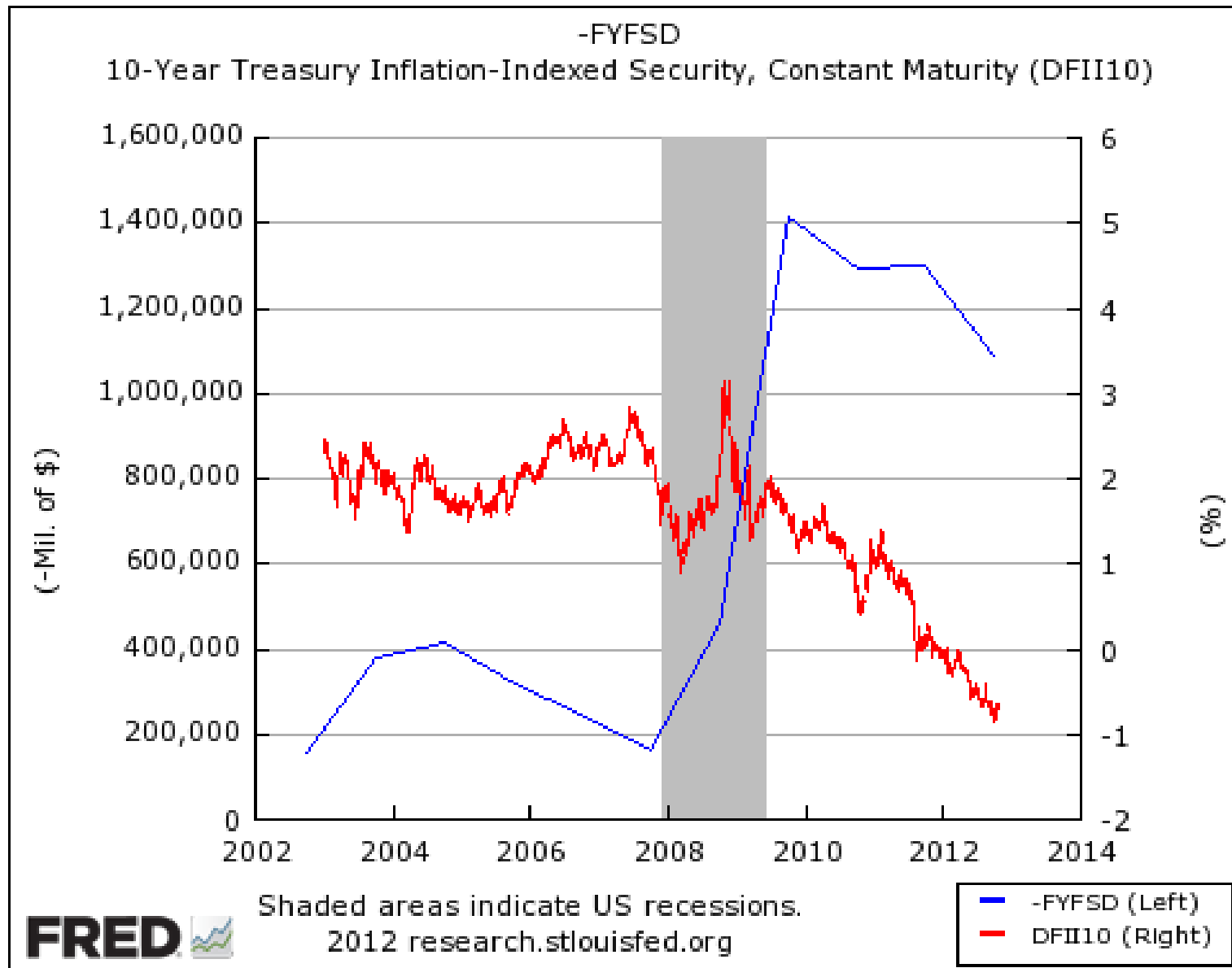
## Four predictions:

1. Slow recovery
2. Large deficits  $\neq$  high interest rates
3. Rapid money growth  $\neq$  high inflation
4. Big multipliers

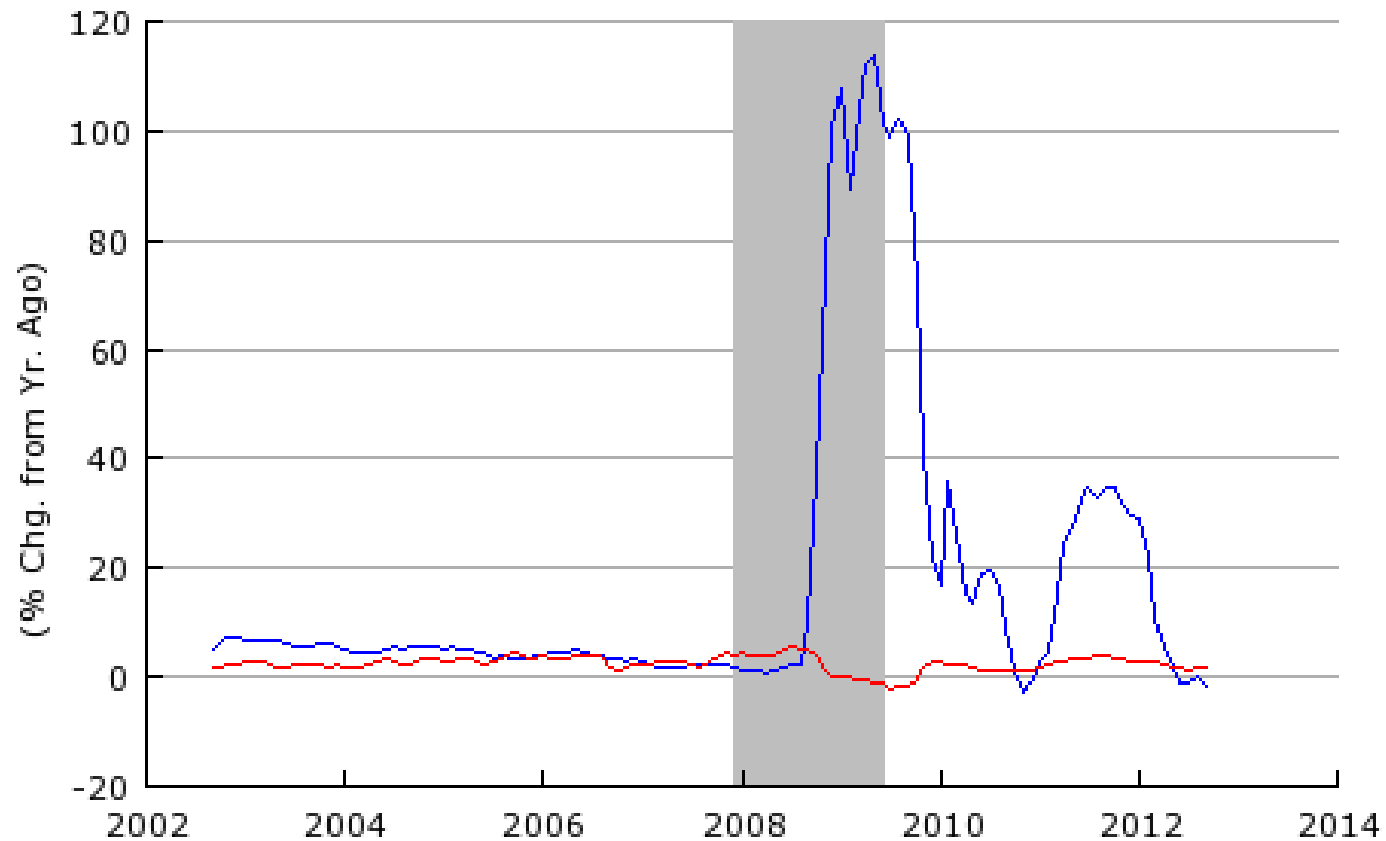
**Figure 1.** Real per capita GDP (levels) in the aftermath of systemic banking crises in the US, 1873-2011



# Federal deficit versus real interest rates



Board of Governors Monetary Base, Adjusted for Changes in Reserve Requirements (BOGAMBSL)  
Consumer Price Index for All Urban Consumers: All Items (CPIAUCSL)



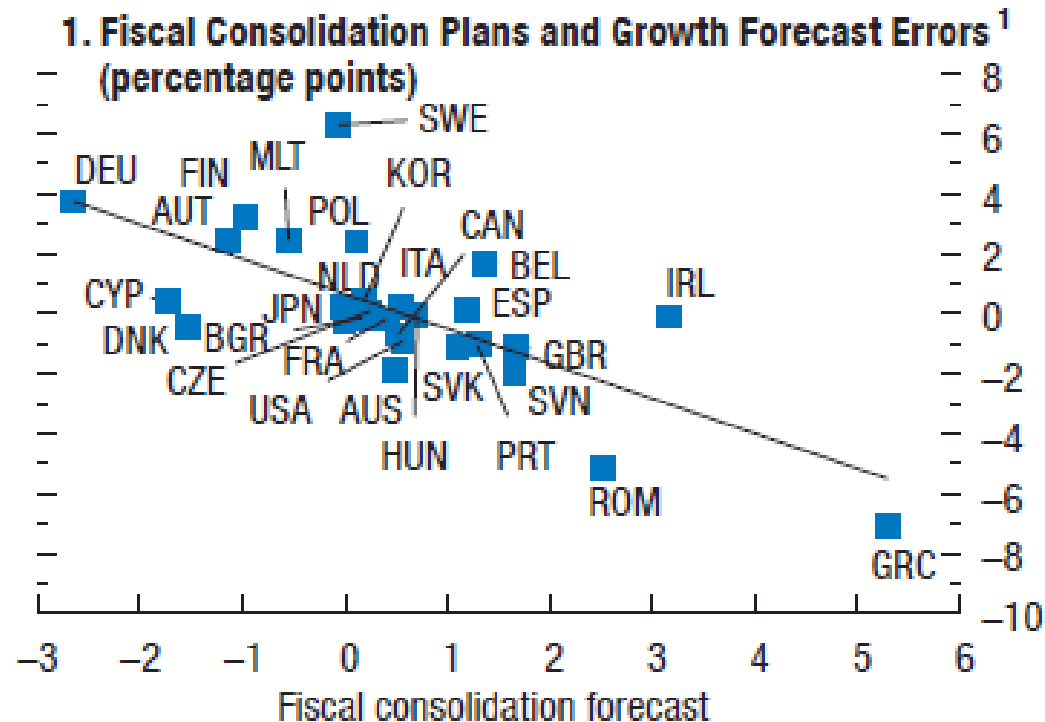
Shaded areas indicate US recessions.  
2012 research.stlouisfed.org



— BOGAMBSL  
— CPIAUCSL

## Figure 1.1.1. Growth Forecast Errors and Fiscal Consolidation Plans

Activity over the past few years has disappointed more in economies with more aggressive fiscal consolidation plans, suggesting that fiscal multipliers used in making growth forecasts have been systematically too low. This relationship holds for different components of GDP, the unemployment rate, and forecasts made by different institutions.





Bottom line: A dramatic vindication for Keynesian ideas – which policy makers ignored

