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 statis-
tically, what may be called a debt-deflation theory of great depres-
sions. 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-

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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 ex-
ansionary 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

- United States: 0.47
- United Kingdom: 0.48
- Spain: 0.41
- Greece: 0.41
- Estonia: 0.40
- Italy: 0.36
- Poland: 0.42
- Canada: 0.42
- Australia: 0.43
- Ireland: 0.53
- France: 0.41
- Germany: 0.41
- Luxembourg: 0.39
- Slovak Republic: 0.34
- Czech Republic: 0.36
- Netherlands: 0.37
- Finland: 0.38
- Norway: 0.39
- Denmark: 0.39

Legend:
- Gini of income before taxes and transfers
- Gini of income after taxes and transfers
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