Recovery at last?

By Paul Krugman
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Last week we got an actually good employment report — arguably the first truly good report in a long time. The U.S. economy added well over 300,000 jobs; wages, which have been stagnant for far too long, picked up a bit. Other indicators, like the rate at which workers are quitting (a sign that they expect to find new jobs), continue to improve. We're still nowhere near full employment, but getting there no longer seems like an impossible dream.

And there are some important lessons from this belated good news. It doesn't vindicate policies that permitted seven years and counting of depressed incomes and employment. But it does put the lie to some of the nonsense you hear about why the economy has lagged.

Let's talk first about reasons not to celebrate.

Things are finally looking better for American workers, but this improvement comes after years of suffering, with long-term unemployment in particular lingering at levels not seen since the 1930s. Millions of families lost their homes, their savings, or both. Many young Americans graduated into a labor market that didn't want their skills, and will never get back onto the career tracks they should have had.

And the long slump hasn't just scarred families; it has done immense damage to our long-run prospects. Estimates of the economy's potential — the amount it can produce if and when it finally reaches full employment — have been steadily marked down in recent years, and many researchers now believe that the slump itself damaged future potential.

So it has been a terrible seven years, and even a string of good job reports won't undo the damage. Why was it so bad?

You often hear claims, sometimes from pundits who should know better, that nobody predicted a sluggish recovery, and that this proves that mainstream macroeconomics is all wrong. The truth is that many economists, myself included, predicted a slow recovery from the very beginning. Why?

The answer, in brief, is that there are recessions and then there are recessions. Some recessions are deliberately engineered to cool off an overheated, inflating economy. For example, the Fed caused the 1981-82 recession with tight-money policies that temporarily sent interest rates to almost 20 percent. And ending that recession was easy: Once the Fed decided that we had suffered enough, it relented, interest rates tumbled, and it was morning in America.

But "postmodern" recessions, like the downturns of 2001 and 2007-9, reflect bursting bubbles rather than tight money, and they're hard to end; even if the Fed cuts interest rates all the way to zero, it may find itself pushing on a string, unable to have much of a positive effect. As a result, you don't expect to see V-shaped recoveries like 1982-84 — and sure enough, we didn't.

This doesn't mean that we were fated to experience a seven-year slump. We could have had a much faster recovery if the U.S. government had ramped up public investment and put more money in the hands of families likely to spend it. But the Obama stimulus was much too small and short-lived — as many of us warned, in advance, it would be — and since 2010 what we have actually seen, thanks to scorched-earth Republican opposition on all fronts, are unprecedented cutbacks in government spending, especially investment, and in government employment.

O.K., at this point I'm sure many readers are thinking that they've been hearing a very different story about what went wrong — the conservative story that attributes the sluggish recovery to the terrible, horrible, no-good attitude of the Obama administration. The president, we're told, scared businesspeople by talking about "fat cats" on Wall Street and generally looking at them funny. Also, Obamacare has killed jobs, right?

Which is where the new job numbers come in. At this point we have enough data points to compare the job recovery under President Obama with the job recovery under former President George W. Bush, who also presided over a postmodern recession but certainly never insulted fat cats. And by any measure you might choose — but especially if you compare rates of job creation in the private sector — the Obama recovery has been stronger and faster. Oh, and its pace has picked up over the past year, as health reform has gone fully into effect.

Just to be clear, I'm not calling the Obama-era economy a success story. We needed faster job growth this time around than under Mr. Bush, because the recession was deeper, and unemployment stayed far too high for far too long. But we can now say with confidence that the recovery's weakness had nothing to do with Mr. Obama's (falsely) alleged anti-business slant. What it reflected, instead, was the damage done by government paralysis — paralysis that has, alas, richly rewarded the very politicians who caused it.