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The Austerity Debacle

By PAUL KRUGMAN

Last week the National Institute of Economic and Social Research, a British think tank, released a startling chart comparing the current slump with past recessions and recoveries. It turns out that by one important measure — changes in real G.D.P. since the recession began — Britain is doing worse this time than it did during the Great Depression. Four years into the Depression, British G.D.P. had regained its previous peak; four years after the Great Recession began, Britain is nowhere close to regaining its lost ground.

Nor is Britain unique. Italy is also doing worse than it did in the 1930s — and with Spain clearly headed for a double-dip recession, that makes three of Europe's big five economies members of the worse-than club. Yes, there are some caveats and complications. But this nonetheless represents a stunning failure of policy.

And it's a failure, in particular, of the austerity doctrine that has dominated elite policy discussion both in Europe and, to a large extent, in the United States for the past two years.

O.K., about those caveats: On one side, British unemployment was much higher in the 1930s than it is now, because the British economy was depressed — mainly thanks to an ill-advised return to the gold standard — even before the Depression struck. On the other side, Britain had a notably mild Depression compared with the United States.

Even so, surpassing the track record of the 1930s shouldn't be a tough challenge. Haven't we learned a lot about economic management over the last 80 years? Yes, we have — but in Britain and elsewhere, the policy elite decided to throw that hard-won knowledge out the window, and rely on ideologically convenient wishful thinking instead.

Britain, in particular, was supposed to be a showcase for "expansionary austerity," the notion that instead of increasing government spending to fight recessions, you should slash spending instead — and that this would lead to faster economic growth. "Those who argue that dealing with our deficit and promoting growth are somehow alternatives are wrong," declared David Cameron, Britain's prime minister. "You cannot put off the first in order to promote the second."

How could the economy thrive when unemployment was already high, and government policies were directly reducing employment even further? Confidence! "I firmly believe," declared Jean-Claude Trichet — at the time the president of the European Central Bank, and a strong advocate of the doctrine of expansionary austerity — "that in the current circumstances confidence-inspiring policies will foster and not hamper economic recovery, because confidence is the key factor today."

Such invocations of the confidence fairy were never plausible; researchers at the International Monetary Fund and elsewhere quickly debunked the supposed evidence that spending cuts create jobs. Yet influential people on both sides of the Atlantic heaped praise on the prophets of austerity, Mr. Cameron in particular, because the doctrine of expansionary austerity dovetailed with their ideological agendas.

Thus in October 2010 David Broder, who virtually embodied conventional wisdom, praised Mr. Cameron for his boldness, and in particular for “brushing aside the warnings of economists that the sudden, severe medicine could cut short Britain’s economic recovery and throw the nation back into recession.” He then called on President Obama to “do a Cameron” and pursue “a radical rollback of the welfare state now.”

Strange to say, however, those warnings from economists proved all too accurate. And we’re quite fortunate that Mr. Obama did not, in fact, do a Cameron.

Which is not to say that all is well with U.S. policy. True, the federal government has avoided all-out austerity. But state and local governments, which must run more or less balanced budgets, have slashed spending and employment as federal aid runs out — and this has been a major drag on the overall economy. Without those spending cuts, we might already have been on the road to self-sustaining growth; as it is, recovery still hangs in the balance.

And we may get tipped in the wrong direction by Continental Europe, where austerity policies are having the same effect as in Britain, with many signs pointing to recession this year.

The infuriating thing about this tragedy is that it was completely unnecessary. Half a century ago, any economist — or for that matter any undergraduate who had read Paul Samuelson’s textbook “Economics” — could have told you that austerity in the face of depression was a very bad idea. But policy makers, pundits and, I’m sorry to say, many economists decided, largely for political reasons, to forget what they used to know. And millions of workers are paying the price for their willful amnesia.