

Paul Krugman - New York Times Blog

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On The Political Economy Of Permanent Stagnation

I've been having a strange reaction to recent news about economic policy. Stuff is happening: the Fed bungled its communications, doing its bit to undermine modest economic progress; the European Commission is sorta kinda relaxing its demands for austerity; the Bank of England appears to have issued forward guidance that it's going to issue forward guidance; and so on. But with the possible exception of Abenomics, it's all pretty small-bore stuff.

And that's disappointing. We had what felt like an epic intellectual debate over austerity economics, which ended, insofar as such debates ever end, with a stunning victory for the anti-austerity side — and hardly anything changed in the real world. Meanwhile, the pain caucus has found a new target, inventing dubious reasons for monetary tightening. And mass unemployment goes on.

So how does this end? Here's a depressing thought: maybe it doesn't.

True, something could come along — a new technology that induces lots of investment, a war, or maybe just a sufficient accumulation of “use, decay, and obsolescence”, as Keynes put it. But at this point I have real doubts about whether there will be events that force policy action.

First of all, I think many of us used to believe that sustained high unemployment would lead to substantial, perhaps accelerating deflation — and that this would push policymakers into doing something forceful. It's now clear, however, that the relationship between inflation and unemployment flattens out at low inflation rates. We can probably have high unemployment and stable prices in Europe and America for a very long time — and all the wise heads will insist that it's all structural, and nothing can be done until the public accepts drastic cuts in the safety net.

But won't there be an ever-growing demand from the public for action? Actually, that's not at all clear. While there is growing “austerity fatigue” in Europe, and this might provoke a crisis, the overwhelming result from U.S. political studies is that the level of unemployment matters hardly at all for elections; all that matters is the rate of change in the months leading up to the election. In other words, high unemployment could become accepted as the new normal, politically as well as in economic analysis.

I guess what I'm saying is that I worry that a more or less permanent depression could end up simply becoming accepted as the way things are, that we could suffer endless, gratuitous suffering, yet the political and policy elite would feel no need to change its ways.

Oh, and have a nice day.

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