Op-Ed Columnist

The Secret of Our Non-Success

By PAUL KRUGMAN

Published: October 21, 2012

The U.S. economy finally seems to be recovering in earnest, with housing on the rebound and job creation outpacing growth in the working-age population. But the news is good, not great — it will still take years to restore full employment — and it has been a very long time coming. Why has the slump been so protracted?

The answer — backed by overwhelming evidence — is that this is what normally happens after a severe financial crisis. But Mitt Romney's economic team rejects that evidence. And this denialism bodes ill for policy if Mr. Romney wins next month.

About the evidence: The most famous study is by Harvard's Carmen Reinhart and Kenneth Rogoff, who looked at past financial crises and found that such crises are typically followed by years of high unemployment and weak growth. Later work by economists at the International Monetary Fund and elsewhere confirmed this analysis: crises that followed a sharp run-up in private-sector debt, from the U.S. Panic of 1893 to the Swedish banking crisis of the early 1990s, cast long shadows over the economy's future. There was no reason to believe that this time would be different.

This isn't an after-the-fact rationalization. The Reinhart-Rogoff "aftermath" paper was released almost four years ago. And a number of other economists, including, well, me, issued similar warnings. In early 2008 I was already pointing out the distinction between recessions like 1973-5 or 1981-2, brought on by high interest rates, and "postmodern" recessions brought on by private-sector overreach. And I suggested that the recession we were then entering would be followed by a prolonged "jobless recovery" that would feel like a continuing recession.

Why is recovery from a financial crisis slow? Financial crises are preceded by credit bubbles; when those bubbles burst, many families and/or companies are left with high levels of debt, which force them to slash their spending. This slashed spending, in turn, depresses the economy as a whole.

And the usual response to recession, cutting interest rates to encourage spending, isn't adequate. Many families simply can't spend more, and interest rates can be cut only so far — namely, to zero but not below.

Does this mean that nothing can be done to avoid a protracted slump after a financial crisis? No, it just means that you have to do more than just cut interest rates. In particular, what the economy really needs after a financial crisis is a temporary increase in government spending, to sustain employment while the private sector repairs its balance sheet. And the Obama administration did some of that, blunting the severity of the financial crisis. Unfortunately, the stimulus was both too small and too short-lived, partly because of administration errors but mainly because of scorched-earth Republican obstruction.

Which brings us to the politics.

Over the past few months advisers to the Romney campaign have mounted a furious assault on the notion that financial-crisis recessions are different. For example, in July former Senator Phil Gramm and Columbia's R. Glenn Hubbard published an op-ed article claiming that we should be having a recovery comparable to the bounceback from the 1981-2 recession, while a white paper from Romney advisers argues that the only thing preventing a rip-roaring boom is the uncertainty created by President Obama.

Obviously, Republicans like claiming that it's all Mr. Obama's fault, and that electing Mr. Romney would magically make everything better. But nobody should believe them.

For one thing, these people have a track record: back in 2008, when serious students of history were already predicting a prolonged slump, Mr. Gramm was dismissing America as a "nation of whiners" experiencing a mere "mental recession." For another, if Mr. Obama is the problem, why is the United States actually doing better than most other advanced countries?

The main point, however, is that the Romney team is willfully, nakedly, distorting the record, leading Ms. Reinhart and Mr. Rogoff — who aren't affiliated with either campaign — to protest against "gross misinterpretations of the facts." And this should worry you.

Look, economics isn't as much of a science as we'd like. But when there's overwhelming evidence for an economic proposition — as there is for the proposition that financial-crisis recessions are different — we have the right to expect politicians and their advisers to respect that evidence. Otherwise, they'll end up making policy based on fantasies rather than grappling with reality.

And once politicians start refusing to acknowledge inconvenient facts, where does it stop? Why, the next thing you know Republicans will start rejecting the overwhelming evidence for man-made climate change.

Oh, wait.

A version of this op-ed appeared in print on October 22, 2012, on page A23 of the New York edition with the headline: The Secret Of Our Non-Success.