

Op-Ed Columnist

When Prophecy Fails

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Back in the 1950s three social psychologists joined a cult that was predicting the imminent end of the world. Their purpose was to observe the cultists' response when the world did not, in fact, end on schedule. What they discovered, and described in their classic book, "When Prophecy Fails," is that the irrefutable failure of a prophecy does not cause true believers — people who have committed themselves to a belief both emotionally and by their life choices — to reconsider. On the contrary, they become even more fervent, and proselytize even harder.

This insight seems highly relevant as 2012 draws to a close. After all, a lot of people came to believe that we were on the brink of catastrophe — and these views were given extraordinary reach by the mass media. As it turned out, of course, the predicted catastrophe failed to materialize. But we can be sure that the cultists won't admit to having been wrong. No, the people who told us that a fiscal crisis was imminent will just keep at it, more convinced than ever.

Oh, wait a second — did you think I was talking about the Mayan calendar thing?

Seriously, at every stage of our ongoing economic crisis — and in particular, every time anyone has suggested actually trying to do something about mass unemployment — a chorus of voices has warned that unless we bring down budget deficits now now now, financial markets will turn on America, driving interest rates sky-high. And these prophecies of doom have had a powerful effect on our economic discourse.

Thus, back in May 2009 the Wall Street Journal editorial page seized on an uptick in long-term interest rates to declare that the "bond vigilantes," the "disciplinarians of U.S. policy makers," had arrived, and would push rates inexorably higher if big budget deficits continued. As it happened, rates soon went back down. But that didn't stop The Journal's news section from rolling out the same story the next time rates rose: "Debt fears send rates up," blared a headline in March 2010; the debt continued to grow, but the rates went down again.

At this point the yield on the benchmark 10-year bond is less than half what it was when that 2009 editorial was published. But don't expect any rethinking on The Journal's part.

Now, you could say that The Journal's editors didn't give a specific date for the fiscal apocalypse, although I doubt that any of their readers imagined that they were talking about an event at least three years and seven months in the future.

In any case, some of the most prominent deficit scolds have indeed been willing to talk about dates, or at least time horizons. In early 2011 Erskine Bowles confidently declared that we would face a fiscal crisis within around two years unless something like the Bowles-Simpson deficit plan was enacted, and Alan Simpson chimed in to say that it would be less than two years. I guess he has

about 10 weeks left. But again, don't expect either Mr. Simpson or Mr. Bowles to admit that there might have been something fundamentally wrong with their analysis.

No, very few of the prophets of fiscal doom have acknowledged the failure of their prophecies to come true so far. And those who have admitted surprise seem more annoyed than chastened. For example, back in 2010 Alan Greenspan — who is, for some reason, still treated as an authority figure — conceded that despite large budget deficits, “inflation and long-term interest rates, the typical symptoms of fiscal excess, have remained remarkably subdued.” But he went on to declare, “This is regrettable, because it is fostering a sense of complacency.” How dare reality not validate my fears!

Regular readers know that I and other economists argued from the beginning that these dire warnings of fiscal catastrophe were all wrong, that budget deficits won't cause soaring interest rates as long as the economy is depressed — and that the biggest risk to the economy is that we might try to slash the deficit too soon. And surely that point of view has been strongly validated by events.

The key thing we need to understand, however, is that the prophets of fiscal disaster, no matter how respectable they may seem, are at this point effectively members of a doomsday cult. They are emotionally and professionally committed to the belief that fiscal crisis lurks just around the corner, and they will hold to their belief no matter how many corners we turn without encountering that crisis.

So we cannot and will not persuade these people to reconsider their views in the light of the evidence. All we can do is stop paying attention. It's going to be difficult, because many members of the deficit cult seem highly respectable. But they've been hugely, absurdly wrong for years on end, and it's time to stop taking them seriously.

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