OP-ED COLUMNIST

Looking for Mister Goodpain

By PAUL KRUGMAN
Published: January 31, 2013 | 536 Comments

Three years ago, a terrible thing happened to economic policy, both here and in Europe. Although the worst of the financial crisis was over, economies on both sides of the Atlantic remained deeply depressed, with very high unemployment. Yet the Western world's policy elite somehow decided en masse that unemployment was no longer a crucial concern, and that reducing budget deficits should be the overriding priority.

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"We may or may not leave our grandchildren a mountain of debt, but it will not matter... if those grandkids have lost twenty years of their productive economic life span to unemployment."

Norberts, NY NY

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In recent columns, I've argued that worries about the deficit are, in fact, greatly exaggerated — and have documented the increasingly desperate efforts of the deficit scolds to keep fear alive. Today, however, I'd like to talk about a different but related kind of desperation: the frantic effort to find some example, somewhere, of austerity policies that succeeded. For the advocates of fiscal austerity — the austerians — made promises as well as threats: austerity, they claimed, would both avert crisis and lead to prosperity.

And let nobody accuse the austerians of lacking a sense of romance; in fact, they've spent years looking for Mr. Goodpain.

The search began with a passionate fling between the austerians and the Republic of Ireland, which turned to harsh spending cuts soon after its real estate bubble burst, and which for a while was held up as the ultimate exemplar of economic virtue. Ireland, said Jean-Claude Trichet of the European Central Bank, was the role model for all of Europe's debtor nations. American conservatives went even further. For example, Alan Reynolds, a senior fellow at the Cato Institute, declared that Ireland's policies showed the way forward for the United States, too.

Mr. Trichet's encomium was delivered in March 2010; at the time Ireland's unemployment rate was 13.3 percent. Since then, every uptick in the Irish economy has been hailed as proof that the nation is recovering — but as of last month the unemployment rate was 14.6 percent, only slightly down from the peak it reached early last year.

After Ireland came Britain, where the Tory-led government — to the sound of hosannas from many pundits — turned to austerity in mid-2010, influenced in part by its belief that Irish policies were a smashing success. Unlike Ireland, Britain had no particular need to adopt austerity: like every other advanced country that issues debt in its own currency, it was and still is able to borrow at historically low interest rates. Nonetheless, the government of Prime Minister David Cameron insisted both that a harsh fiscal squeeze was necessary to appease creditors and that it would actually boost the economy by inspiring confidence.

What actually happened was an economic stall. Before the turn to austerity, Britain was recovering more or less in tandem with the United States. Since then, the U.S. economy has continued to grow, although more slowly than we'd like — but Britain's economy has been dead in the water.

At this point, you might have expected austerity advocates to consider the possibility that there was something wrong with their analysis and policy prescriptions. But no. They went looking for new heroes and found them in the small Baltic nations, Latvia in particular, a nation that looms amazingly large in the austerian imagination.

At one level this is kind of funny: austerity policies have been applied all across Europe, yet the best example of success the austerians can come up with is a nation with fewer inhabitants than, say, Brooklyn. Still, the International Monetary Fund recently issued two new reports on the Latvian economy, and they really help put this story into perspective.

To be fair to the Latvians, they do have something to be proud of. After experiencing a Great-Depression-level slump, their economy has experienced two years of solid growth and falling unemployment. Despite that growth, however, they have only regained part of the lost ground in terms of either output or employment — and the unemployment rate is still 14 percent. If this is the austerians' idea of an economic miracle, they truly are the children of a lesser god.

Oh, and if we're going to invoke the experience of small nations as evidence about what economic policies work, let's not forget the true economic miracle that is Iceland — a nation that was at ground zero of the financial crisis, but which, thanks to its embrace of unorthodox policies, has almost fully recovered.

So what do we learn from the rather pathetic search for austerity success stories? We learn that the doctrine that has dominated elite economic discourse for the past three years is wrong on all fronts. Not only have we been ruled by fear of nonexistent threats, we've been promised rewards that haven't arrived and never will. It's time to put the deficit obsession aside and get back to dealing with the real problem — namely, unacceptably high unemployment.

A version of this op-ed appeared in print on February 1, 2013, on page A27 of the New York edition with the headline: Looking For Mister Goodpain.