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Op-Ed Columnist

Averting the Worst

By PAUL KRUGMAN

So it seems that we aren't going to have a second Great Depression after all. What saved us? The answer, basically, is Big Government.

Just to be clear: the economic situation remains terrible, indeed worse than almost anyone thought possible not long ago. The nation has lost 6.7 million jobs since the recession began. Once you take into account the need to find employment for a growing working-age population, we're probably around nine million jobs short of where we should be.

And the job market still hasn't turned around — that slight dip in the measured unemployment rate last month was probably a statistical fluke. We haven't yet reached the point at which things are actually improving; for now, all we have to celebrate are indications that things are getting worse more slowly.

For all that, however, the latest flurry of economic reports suggests that the economy has backed up several paces from the edge of the abyss.

A few months ago the possibility of falling into the abyss seemed all too real. The financial panic of late 2008 was as severe, in some ways, as the banking panic of the early 1930s, and for a while key economic indicators — world trade, world industrial production, even stock prices

— were falling as fast as or faster than they did in 1929-30.

But in the 1930s the trend lines just kept heading down. This time, the plunge appears to be ending after just one terrible year.

So what saved us from a full replay of the Great Depression? The answer, almost surely, lies in the very different role played by government.

Probably the most important aspect of the government's role in this crisis isn't what it has done, but what it hasn't done: unlike the private sector, the federal government hasn't slashed spending as its income has fallen. (State and local governments are a different story.) Tax receipts are way down, but Social Security checks are still going out; Medicare is still covering hospital bills; federal employees, from judges to park rangers to soldiers, are still being paid.

All of this has helped support the economy in its time of need, in a way that didn't happen back in 1930, when federal spending was a much smaller percentage of G.D.P. And yes, this means that budget deficits — which are a bad thing in normal times — are actually a good thing right now.

In addition to having this “automatic” stabilizing effect, the government has stepped in to rescue the financial sector. You can argue (and I would) that the bailouts of financial firms could and should have been handled better, that taxpayers have paid too much and received too little. Yet it's possible to be dissatisfied, even angry, about the way the financial bailouts have worked while acknowledging that without these bailouts things would have been much worse.

The point is that this time, unlike in the 1930s, the government didn't take a hands-off attitude

while much of the banking system collapsed. And that's another reason we're not living through Great Depression II.

Last and probably least, but by no means trivial, have been the deliberate efforts of the government to pump up the economy. From the beginning, I argued that the American Recovery and Reinvestment Act, aka the Obama stimulus plan, was too small. Nonetheless, reasonable estimates suggest that around a million more Americans are working now than would have been employed without that plan — a number that will grow over time — and that the stimulus has played a significant role in pulling the economy out of its free fall.

All in all, then, the government has played a crucial stabilizing role in this economic crisis. Ronald Reagan was wrong: sometimes the private sector is the problem, and government is the solution.

And aren't you glad that right now the government is being run by people who don't hate government?

We don't know what the economic policies of a McCain-Palin administration would have been. We do know, however, what Republicans in opposition have been saying — and it boils down to demanding that the government stop standing in the way of a possible depression.

I'm not just talking about opposition to the stimulus. Leading Republicans want to do away with automatic stabilizers, too. Back in March, John Boehner, the House minority leader, declared that since families were suffering, "it's time for government to tighten their belts and show the American people that we 'get' it." Fortunately, his advice was ignored.

I'm still very worried about the economy. There's still, I fear, a substantial chance that

unemployment will remain high for a very long time. But we appear to have averted the worst: utter catastrophe no longer seems likely.

And Big Government, run by people who understand its virtues, is the reason why.

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