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Falling Into the Chasm

By PAUL KRUGMAN

This is what happens when you need to leap over an economic chasm — but either can't or won't jump far enough, so that you only get part of the way across.

If Democrats do as badly as expected in next week's elections, pundits will rush to interpret the results as a referendum on ideology. President Obama moved too far to the left, most will say, even though his actual program — a health care plan very similar to past Republican proposals, a fiscal stimulus that consisted mainly of tax cuts, help for the unemployed and aid to hard-pressed states — was more conservative than his election platform.

A few commentators will point out, with much more justice, that Mr. Obama never made a full-throated case for progressive policies, that he consistently stepped on his own message, that he was so worried about making bankers nervous that he ended up ceding populist anger to the right.

But the truth is that if the economic situation were better — if unemployment had fallen substantially over the past year — we wouldn't be having this discussion. We would, instead, be talking about modest Democratic losses, no more than is usual in midterm elections.

The real story of this election, then, is that of an economic policy that failed to deliver. Why? Because it was greatly inadequate to the task.

When Mr. Obama took office, he inherited an economy in dire straits — more dire, it seems, than he or his top economic advisers realized. They knew that America was in the midst of a severe financial crisis. But they don't seem to have taken on board the lesson of history, which is that major financial crises are normally followed by a protracted period of very high unemployment.

If you look back now at the economic forecast originally used to justify the Obama economic plan, what's striking is that forecast's optimism about the economy's ability to heal itself. Even without their plan, Obama economists predicted, the unemployment rate would peak at 9 percent, then fall rapidly. Fiscal stimulus was needed only to mitigate the worst — as an “insurance package against catastrophic failure,” as Lawrence Summers, later the administration's top economist, reportedly said in a memo to the president-elect.

But economies that have experienced a severe financial crisis generally don't heal quickly. From the Panic of 1893, to the Swedish crisis of 1992, to Japan's lost decade, financial crises have consistently been followed by long periods of economic distress. And that has been true even when, as in the case of Sweden, the government moved quickly and decisively to fix the banking system.

To avoid this fate, America needed a much stronger program than what it actually got — a modest rise in federal spending that was barely enough to offset cutbacks at the state and local level. This isn't 20-20 hindsight: the inadequacy of the stimulus was obvious from the beginning.

Could the administration have gotten a bigger stimulus through Congress? Even if it couldn't, would it have been better off making the case for a bigger plan, rather than pretending that what it got was just right? We'll never know.

What we do know is that the inadequacy of the stimulus has been a political catastrophe. Yes, things are better than they would have been without the American Recovery and Reinvestment Act: the unemployment rate would probably be close to 12 percent right now if the administration hadn't passed its plan. But voters respond to facts, not counterfactuals, and the perception is that the

administration's policies have failed.

The tragedy here is that if voters do turn on Democrats, they will in effect be voting to make things even worse.

The resurgent Republicans have learned nothing from the economic crisis, except that doing everything they can to undermine Mr. Obama is a winning political strategy. Tax cuts and deregulation are still the alpha and omega of their economic vision.

And if they take one or both houses of Congress, complete policy paralysis — which will mean, among other things, a cutoff of desperately needed aid to the unemployed and a freeze on further help for state and local governments — is a given. The only question is whether we'll have political chaos as well, with Republicans' shutting down the government at some point over the next two years. And the odds are that we will.

Is there any hope for a better outcome? Maybe, just maybe, voters will have second thoughts about handing power back to the people who got us into this mess, and a weaker-than-expected Republican showing at the polls will give Mr. Obama a second chance to turn the economy around.

But right now it looks as if the too-cautious attempt to jump across that economic chasm has fallen short — and we're about to hit rock bottom.



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