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Op-Ed Columnist

Mission Not Accomplished

By PAUL KRUGMAN

Stocks are up. Ben Bernanke says that the recession is over. And I sense a growing willingness among movers and shakers to declare "Mission Accomplished" when it comes to fighting the slump. It's time, I keep hearing, to shift our focus from economic stimulus to the budget deficit.

No, it isn't. And the complacency now setting in over the state of the economy is both foolish and dangerous.

Yes, the Federal Reserve and the Obama administration have pulled us "back from the brink" — the title of a new paper by Christina Romer, who leads the Council of Economic Advisers. She argues convincingly that expansionary policy saved us from a possible replay of the Great Depression.

But while not having another depression is a good thing, all indications are that unless the government does much more than is currently planned to help the economy recover, the job market — a market in which there are currently six times as many people seeking work as there are jobs on offer — will remain terrible for years to come.

Indeed, the administration's own economic projection — a projection that takes into account the extra jobs the administration says its policies will create — is that the unemployment rate, which was below 5 percent just two years ago, will average 9.8 percent in 2010, 8.6 percent in 2011, and 7.7 percent in 2012.

This should not be considered an acceptable outlook. For one thing, it implies an enormous amount of suffering over the next few years. Moreover, unemployment that remains that high, that long, will cast long shadows over America's future.

Anyone who thinks that we're doing enough to create jobs should read a new report from John Irons of the Economic Policy Institute, which describes the "scarring" that's likely to result from sustained high unemployment. Among other things, Mr. Irons points out that sustained unemployment on the scale now being predicted would lead to a huge rise in child poverty — and that there's overwhelming evidence that children who grow up in poverty are alarmingly likely to lead blighted lives.

These human costs should be our main concern, but the dollars and cents implications are also dire. Projections by the Congressional Budget Office, for example, imply that over the period from 2010 to 2013 — that is, not counting the losses we've already suffered — the "output gap," the difference between the amount the economy could have produced and the amount it actually produces, will be more than $2 trillion. That's trillions of dollars of productive potential going to waste.

Wait. It gets worse. A new report from the International Monetary Fund shows that the kind of recession we've had, a recession caused by a financial crisis, often leads to long-term damage to a country's growth prospects. "The path of output tends to be depressed substantially and persistently following banking crises."

The same report, however, suggests that this isn't inevitable: "We find that a stronger short-term fiscal policy response" — by which they mean a temporary increase in government spending — "is significantly associated with smaller medium-term output losses."

So we should be doing much more than we are to promote economic recovery, not just because it would reduce our current pain, but also because it would improve our long-run prospects.

But can we afford to do more — to provide more aid to beleaguered state governments and the unemployed, to spend more on infrastructure, to provide tax credits to employers who create jobs? Yes, we can.

The conventional wisdom is that trying to help the economy now produces short-term gain at the expense of long-term pain. But as I've just pointed out, from the point of view of the nation as a whole that's not at all how it works. The slump is doing long-term damage to our economy and society, and mitigating that slump will lead to a better future.

What is true is that spending more on recovery and reconstruction would worsen the government's own fiscal position. But even there, conventional wisdom greatly overstates the case. The true fiscal costs of supporting the economy are surprisingly small.

You see, spending money now means a stronger economy, both in the short run and in the long run. And a stronger economy means more revenues, which offset a large fraction of the upfront cost. Back-of-the-envelope calculations suggest that the offset falls short of 100 percent, so that fiscal stimulus isn't a complete free lunch. But it costs far less than you'd think from listening to what passes for informed discussion.

Look, I know more stimulus is a hard sell politically. But it's urgently needed. The question shouldn't be whether we can afford to do more to promote recovery. It should be whether we can afford not to. And the answer is no.