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The Wrong Worries

By PAUL KRUGMAN

In case you had any doubts, Thursday’s more than 500-point plunge in the Dow Jones industrial average and the drop in interest rates to near-record lows confirmed it: The economy isn’t recovering, and Washington has been worrying about the wrong things.

It’s not just that the threat of a double-dip recession has become very real. It’s now impossible to deny the obvious, which is that we are not now and have never been on the road to recovery.

For two years, officials at the Federal Reserve, international organizations and, sad to say, within the Obama administration have insisted that the economy was on the mend. Every setback was attributed to temporary factors — It’s the Greeks! It’s the tsunami! — that would soon fade away. And the focus of policy turned from jobs and growth to the supposedly urgent issue of deficit reduction.

But the economy wasn’t on the mend.

Yes, officially the recession ended two years ago, and the economy did indeed pull out of a terrifying tailspin. But at no point has growth looked remotely adequate given the depth of the initial plunge. In particular, when employment falls as much as it did from 2007 to 2009, you need a lot of job growth to make up the lost ground. And that just hasn’t happened.

Consider one crucial measure, the ratio of employment to population. In June 2007, around 63 percent of adults were employed. In June 2009, the official end of the recession, that number was down to 59.4. As of June 2011, two years into the alleged recovery, the number was: 58.2.

These may sound like dry statistics, but they reflect a truly terrible reality. Not only are vast numbers of Americans unemployed or underemployed, for the first time since the Great Depression many American workers are facing the prospect of very-long-term — maybe permanent — unemployment. Among other things, the rise in long-term unemployment will reduce future government revenues, so we're not even acting sensibly in purely fiscal terms. But, more important, it's a human catastrophe.

And why should we be surprised at this catastrophe? Where was growth supposed to come from? Consumers, still burdened by the debt that they ran up during the housing bubble, aren't ready to spend. Businesses see no reason to expand given the lack of consumer demand. And thanks to that deficit obsession, government, which could and should be supporting the economy in its time of need, has been pulling back.

Now it looks as if it's all about to get even worse. So what's the response?

To turn this disaster around, a lot of people are going to have to admit, to themselves at least, that they've been wrong and need to change their priorities, right away.

Of course, some players won't change. Republicans won't stop screaming about the deficit because they weren't sincere in the first place: Their deficit hawkery was a club with which to beat their political opponents, nothing more — as became obvious whenever any rise in taxes on the rich was suggested. And they're not going to give up that club.

But the policy disaster of the past two years wasn't just the result of G.O.P. obstructionism, which wouldn't have been so effective if the policy elite — including at least some senior figures in the Obama administration — hadn't agreed that deficit reduction, not job creation, should be our main priority. Nor should we let Ben Bernanke and his colleagues off the hook: The Fed has by no means done all it could, partly because it was more concerned with hypothetical inflation than with real unemployment, partly because it let itself be intimidated by the Ron Paul types.

Well, it's time for all that to stop. Those plunging interest rates and stock prices say that the markets aren't worried about either U.S. solvency or inflation. They're worried about U.S. lack of growth. And they're right, even if on Wednesday the White House press secretary chose, inexplicably, to declare that there's no threat of a double-dip recession.

Earlier this week, the word was that the Obama administration would "pivot" to jobs now that the debt ceiling has been raised. But what that pivot would mean, as far as I can tell, was proposing some minor measures that would be more symbolic than substantive. And, at this point, that kind of proposal would just make President Obama look ridiculous.

The point is that it's now time — long past time — to get serious about the real crisis the economy faces. The Fed needs to stop making excuses, while the president needs to come up with real job-creation proposals. And if Republicans block those proposals, he needs to make a Harry Truman-style campaign against the do-nothing G.O.P.

This might or might not work. But we already know what isn't working: the economic policy of the past two years — and the millions of Americans who should have jobs, but don't.

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