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PAUL KRUGMAN

END THIS DEPRESSION NOW!

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To the unemployed, who deserve better.

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PREFACE TO THE PAPERBACK EDITION

I PUT THE HARDCOVER edition of *End This Depression Now!* to bed in February 2012, amid hug uncertainty about what the near future would hold. Who would win the U.S. election in Novembe Would financial crisis tear Europe apart? And how would the book's essential message hold up in th face of events?

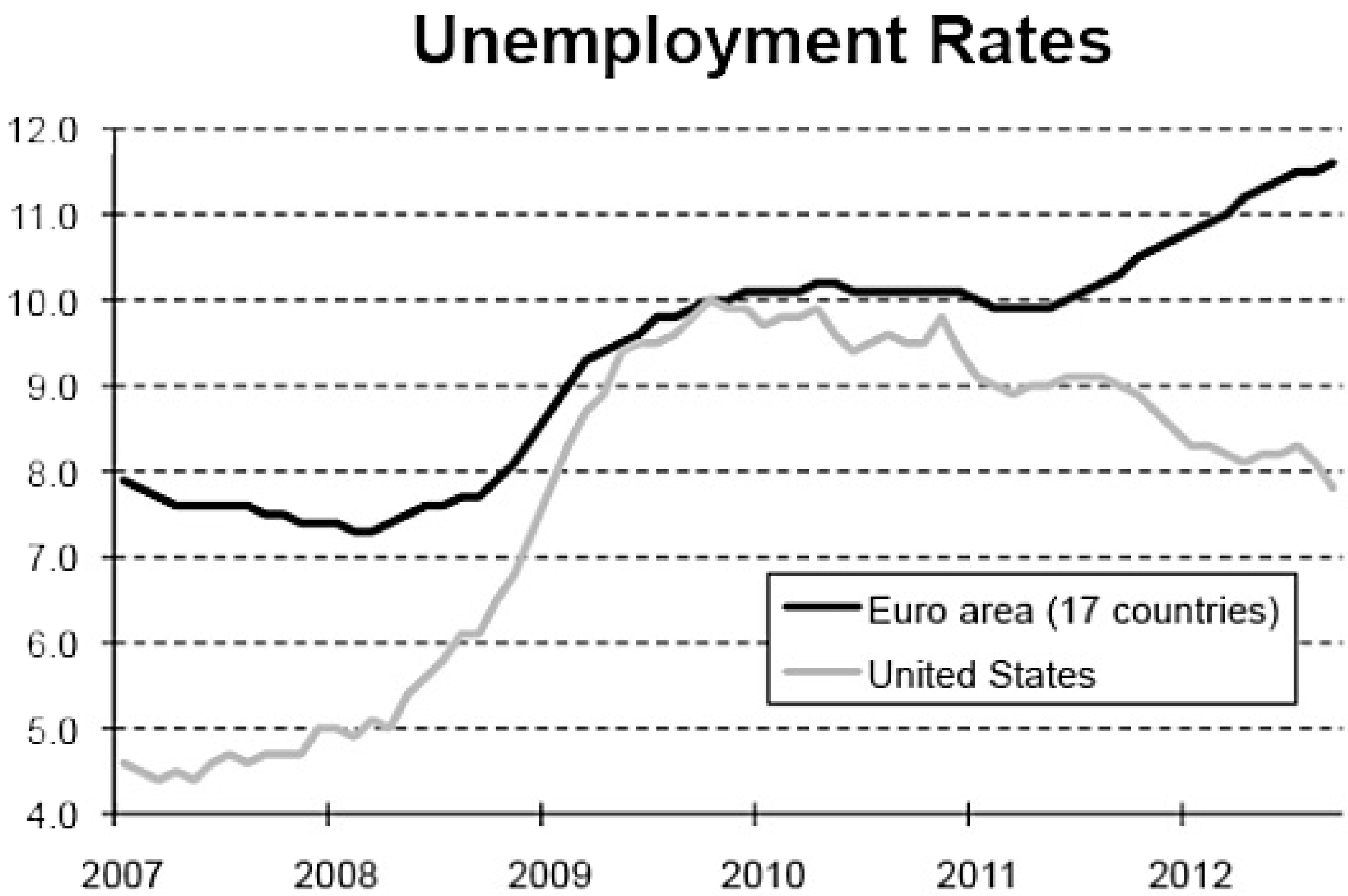
Some of that uncertainty has now been resolved. In America, Democrats won a big but not comple election victory: they returned Barack Obama to the White House and expanded their Senate majorit but failed to overturn the Republican majority in the House of Representatives. In Europe, financi markets had calmed down to some extent, largely thanks to support from the European Central Ban but the real economy continued to deteriorate for most of the continent. In particular, the alread terrible situation in southern Europe grew even worse: both Greece and Spain now have high unemployment than the United States had in the depths of the Great Depression. And during 2012 th euro zone as a whole slid back into recession.

Have any of these events changed the essential message of this book? The answer, unfortunately, no; on the contrary, the message—that we are facing a vast, unnecessary catastrophe—is mo relevant than ever. The advanced world remains in depression, with tens of millions of men an women seeking work but unable to find jobs, and with trillions of dollars' worth of economic potenti going to waste. Yet the evidence is clearer than ever that this depression is gratuitous—that it is th result of nothing more fundamental than inadequate demand. And if governments would reverse the disastrous turn toward austerity and pursue renewed stimulus instead, we could have a rapid recovery

Let's look at the current situation, and in particular at the prospects for action in America now th the U.S. election is behind us.

Europe's Austerity Disaster

If you want to understand where we are right now, the figure below is a good starting point. It show unemployment rates in the United States and in the euro area, the group of mostly wealthy Europea nations that have adopted the euro as their common currency. It illustrates two key points: the tw sides of the Atlantic shared a crisis from 2007 to 2010, but their situations have diverged since then.



In the early phase, from late 2007 until early 2010, both Europe and America plunged into dee recession and experienced rapidly rising unemployment. The rise was sharper in the United State where it's much easier to fire people than it is in most of Europe, but in any case the whole Nor Atlantic economy suffered the worst blow since the onset of the Great Depression.

Starting in 2010, however, the two sides of the Atlantic began to diverge. On one side, Americ started adding jobs. Although the initial fall in unemployment was partly a statistical illusion (a explained below), by 2011–12 a clear trend of economic improvement had emerged. The Europea economy, by contrast, went from bad to worse; by 2012 the continent was officially back in recession

What accounts for this divergence? The explanation can be found in chapter 11, which describe how 2010 marked the sudden rise of the "Austerians," who insisted that governments impose spendin cuts and tax hikes even in the face of high unemployment. In the United States, where Austeria doctrine made only limited inroads, there was nonetheless some de facto austerity because of cutbac by state and local governments. In Europe, however, the Austerians dominated the policy discussio Savage austerity was made a condition for aid to troubled debtor nations. To get a sense o perspective, consider that if America were to undertake spending cuts and tax hikes on the sca imposed on Greece, they would amount to around $2.5 trillion *per year*. Meanwhile, countries th were having no trouble borrowing, like Germany and the Netherlands, also imposed at least mode austerity on themselves. So the overall result for Europe was a sharp fiscal contraction.

According to Austerian doctrine, any negative effects from this contraction should have been offs by an improvement in consumer and business confidence—as I've put it, the "confidence fairy" w supposed to come to the rescue. In reality, however, the confidence fairy failed to make a appearance. The result is that while America has at least modestly recovered from the effects of th financial crisis, since 2010 Europe has sunk even deeper into depression, with the pace of declin increasing over the course of 2012.

Special mention should be given here to the United Kingdom, which isn't on the euro and as a resu has a great deal of policy independence. Britain could have used that independence—reflected, amon other things, in very low borrowing costs—to avoid getting caught up in the European debacl Unfortunately, the Cameron government, which came to power in 2010, bought fully into Austeria doctrine, perhaps more so than any other advanced-country regime. And while there is some dispu about the relative importance of austerity versus other factors in depressing the British economy, on thing is for sure: Britain's economy has performed remarkably badly, with GDP since the onset of th crisis trailing not just America but also the euro area and even Japan.

The good news, such as it is, is that at least some members of the policy elite have acknowledge that they got it wrong. In particular, the October 2012 edition of the International Monetary Fund *World Economic Outlook* contained a striking mea culpa on the effects of austerity. The IM acknowledged that after 2010 a number of European economies performed much worse tha predicted; and it also acknowledged that these prediction errors were systematically related austerity programs, with the countries that imposed the biggest spending cuts and/or tax increas falling the most below the forecast. The IMF's conclusion? Under depression-type conditions, "fisc multipliers"—the effect of government expansion or contraction on the economy—are much bigg than the IMF and other agencies like the European Commission had thought. In fact, the IM concluded that multipliers are more or less in line with what Keynesians had always claimed.

Unfortunately, at the time of this writing there is little sign that other key players in the Europea drama are willing to take this information on board. In Greece and in Portugal the "troika"—the IM the European Central Bank, and the European Commission—is still insisting on ever-harsher austeri as a condition for emergency loans, despite overwhelming evidence that the treatment is killing th patients. And while the central bank has declared itself willing in principle to buy the bonds o troubled nations like Spain and Italy, it has also made it clear that Spain, which is already engaged i severe austerity, would have to do even more as a condition for such purchases.

What would it take to save Europe? The recipe I offered in chapter 10 is still the best hope: le savage austerity in debtor countries, at least some fiscal expansion in creditor countries, an expansionary policies from the European Central Bank that aim at somewhat higher inflation f Europe as a whole. It's unclear, however, whether or when such ideas will become politicall acceptable—and it's also not clear how much time Europe has.

For the continuing and worsening depression in Europe isn't just a terrible human tragedy; it's als terrifying in its political implications. In Greece radical political movements, including the outrig fascist Golden Dawn, are rising in influence. In Spain separatist movements, notably in Catalonia, a on the rise. Nobody knows where the breaking point lies, but the echoes of the 1930s are too strong be ignored.

America’s Partial Recovery

Since 2010, the United States has had two great advantages compared with Europe. One is that o single currency is backed by a single government, so that depressed regions haven’t faced Europea style fiscal crises: Florida’s housing boom and bust weren’t very different from Spain’s, but Floric can count on Washington to send its residents Social Security checks, pay its Medicare bills, and ba out its banks. As a result, nothing like the financing crisis of southern Europe has happened America.

The other advantage is that the Austerians never gained as much influence on this side of th Atlantic as they did in Europe. It’s true that they managed to shift economic debate away from jol and toward the alleged threat from the deficit—a threat that, as explained in chapter 8, was always figment of their imagination. (As Keynesians predicted, U.S. borrowing costs have remained historic lows despite high debt and large deficits.) But the actual move toward austerity in Americ has been relatively modest, coming mainly from cutbacks at the state and local level.

The United States, in other words, has managed to avoid the severe policy mistakes afflictin Europe—and the U.S. economy has been making real if inadequate progress since late 201 Unfortunately, that progress is endangered by a political deadlock that the 2012 election failed resolve.

As the figure above shows, official U.S. unemployment is down substantially from its peak in la 2009. Some of the decline is a statistical illusion: workers are no longer considered unemployed they’re not actively looking for work, so sheer discouragement can reduce measured unemploymen From the fall of 2011 onward, however, there has been real, unmistakable improvement in the labo market, with employment among Americans of prime working age growing significantly faster than population.

These gains reflect the “natural healing process” described in chapter 12. Businesses are once aga buying equipment and software, if only to keep up with advancing technology. Years of housing slum have worked off any excess construction during the bubble years, and housing is gradually recoverin And household debt has gradually declined relative to incomes, freeing consumers to begin a mode return to higher spending.

It’s crucial, however, not to overstate the gains: the U.S. economy is still deeply depressed.

Consider, in particular, the problem of long-term unemployment, which is surely the worst scourg afflicting American workers. Before the financial crisis, we had very little long-term unemploymen although there were 6.8 million unemployed Americans in October 2007, only 750,000 had been out work for more than a year. Four years later, that number had risen almost sixfold, to 4.1 million; ar despite the signs of recovery, in October 2012 there were still 3.6 million Americans in the year-plu unemployed category.

The point is that while the U.S. economy is making progress, the progress is far slower than

should be, and there is still enormous, unnecessary suffering among American workers and the
families. And there's a real risk that political deadlock may undermine even this inadequate recover
thanks to the "fiscal cliff."

Actually, that phrase, coined by Ben Bernanke, is turning out to be problematic, because it mak some people believe, wrongly, that the looming problem is connected to the budget deficit. I prefer term proposed by Brian Beutler of the website Talking Points Memo: the "austerity bomb," a bom whose fuse was lit by two acts of right-wing partisanship.

First, back in 2001 the then president George W. Bush rammed a large tax cut through Congres exploiting the parliamentary maneuver known as reconciliation to bypass a Senate filibuster. B Senate rules, tax legislation passed by means of that maneuver had to expire at the end of 2010; Bus didn't mind, partly because he expected Republicans to still be in control when the deadline roll around, partly because the cutoff date concealed the true budget cost of his giveaway.

As it turned out, however, when December 31, 2010 arrived, a Democrat was in the White Hous Still, rather than see taxes go up in the face of a depressed economy, President Obama cut a de extending the Bush tax cuts a further two years. Now that the election is behind him, however, wants to let some of the cuts—those benefiting the wealthiest Americans—expire. Yet Republica still control the House and are currently threatening to block any tax legislation unless it keeps rat on the rich low. If the impasse isn't resolved, taxes on the middle class as well as the rich will go u imposing a significant blow at a time when the economy is still depressed.

On top of this, in 2011 Republicans threatened to block a needed rise in the U.S. debt ceilin thereby preventing the government from borrowing the money it needed to pay its bills. To avoid th outcome, which might have been disastrous, they demanded policy concessions—and the preside chose not to call their bluff, instead negotiating a deal that would slash spending at the end of 20 unless further agreement was reached. No such agreement had been reached at the time of this writin

Oh, and on top of all this, several important pieces of economic stimulus—mainly a temporary c in the payroll tax and extended unemployment benefits—are also set to expire at the end of 2012.

What all this means is that if political gridlock continues, the U.S. government will more or le automatically engage in a sudden bout of European-style austerity, raising taxes and slashing spendin in a weak economy. That is definitely not what the doctor ordered.

Yet it may happen anyway. From President Obama's point of view, he's facing attempted blackmai Republicans are threatening to blow up the economy unless he gives them what they want. H effectively gave in to such blackmail at the end of 2010 and again in 2011 over the debt ceiling; if he ever going to take a stand, it would be hard to pick a better time than immediately following h triumphant reelection. And taking off my macroeconomics hat, I would personally encourage him call the GOP's bluff. The short-term macroeconomic impact might not be pretty, but there are larg issues at stake.

Meanwhile, Republicans may have suffered a major defeat, but they still hold the House. And whi business interests badly want a deal to avoid the austerity bomb, the hard right—which is angry a bitter over failing to topple the president, and looking for revenge—retains a strong grip on the party

All this suggests that it's quite possible that no deal will be reached before the end of 2012. Th needn't be a disaster: another problem with the "fiscal cliff" language is that it suggests, wrongly, th even a brief failure to reach a deal would be catastrophic. The truth is that we could probably g several months into 2013 with only minor economic damage. My guess—and it's only a guess, whic may well have been proved wrong by the time you read this—is that we will in fact go some way in 2013 before reaching a deal, but that pressure from the business community will basically force th GOP to give in to the president before serious harm is done.

Even if that happens, however, the underlying economic story will remain deeply unsatisfactor America will continue its gradual recovery, but that will still mean years of gratuitous suffering an economic waste. So what can and should be done?

Ways Forward

America is still an economy in depression, and the rules of depression economics still apply: what w need, above all, is more spending, to put unemployed workers and idle productive capacity to wor And the best, most surefire way to do that is to have the government spend more—which, as I say this book, could be easily accomplished simply by providing enough aid to state and loc governments to let them rehire those hundreds of thousands of schoolteachers, repair those pothol roads, and so on.

Unfortunately, the political scene isn't as favorable as one might have hoped. Republicans sti control the House, and while they may have been shaken by their failure to take the White House an the Senate, they're not going to be easily persuaded to do the right thing. What else can be done?

One answer is that the Fed needs to do more. Back in 2000, when Japan was suffering from a extended slump, a professor named Ben Bernanke called on the Bank of Japan to show "Roosevelti resolve," to do whatever it took to get the economy moving again. As I explain in the book, it has bee a major disappointment that this kind of resolve seemed sadly lacking once Professor Bernanke, no Federal Reserve Chairman Bernanke, had to confront a similar situation in America. But there a signs that the Fed is finally getting on the case—perhaps freed by the election from fears that it wou be accused of revving up the economy to help the Obama campaign.

So far, at least, the Fed has taken only partial steps toward a more aggressive policy. The ke according to most analyses, is for the Fed to convince investors that it will allow somewhat high inflation in the medium term. And while it seems to be moving in that direction, at this point thos moves take the form of vague indications rather than firm commitments. The good news is that th inflation worriers seem to be in retreat, and the Fed looks increasingly willing to take risks for fu employment.

That said, the Fed probably can't engineer a full recovery on its own. It needs help. And some of th help can come from debt relief. In particular, the Federal Housing Finance Agency, which oversee Fannie Mae and Freddie Mac, still retains the ability to provide widespread debt relief with a stroke the pen. All it has to do is waive the down payment requirements for refinancing of Fannie/Freddi

owned mortgages, and millions of homeowners can quickly reduce their interest burden by refinancin
at much lower rates.

Finally, while the road to fiscal stimulus may be politically difficult, that's no reason to give u
Indeed, a number of Democrats in Congress are demanding that some kind of short-term econom
boost be included as part of any deal on the austerity bomb; this is a really good idea. And as 201
proceeds, President Obama should make the case, repeatedly, that Republican obstruction is standin
in the way of job creation, and demand that the GOP get out of the way.

For this depression is far from over, even though there is no good reason for it to persist. Tru
there's still a political and ideological logjam blocking the policies that could bring a rapid recover
But that logjam seems to be gradually breaking up—and it's the responsibility of everyone who has
public voice to accelerate that process, and bring relief to the long-suffering unemployed. We have th
tools; all we need is the intellectual clarity and the will. It's still in our power to end this depression-
now.

WHAT DO WE DO NOW?

THIS IS A BOOK about the economic slump now afflicting the United States and many other countries— slump that has now entered its fifth year and that shows no signs of ending anytime soon. Needless say, many books about the financial crisis of 2008, which marked the beginning of the slump, hav already been published, and many more are no doubt in the pipeline. But this book is, I believ different from most of those other books, because it tries to answer a different question. For the mo part, the mushrooming literature on our economic disaster asks, "How did this happen?" My questio instead, is "What do we do now?"

Obviously these are somewhat related questions, but they are by no means identical. Knowing wh causes heart attacks is not at all the same thing as knowing how to treat them; the same is true economic crises. And right now the question of treatment should be what concerns us most. Ever time I read some academic or opinion article discussing what we should be doing to prevent futu financial crises—and I read many such articles—I get a bit impatient. Yes, it's a worthy question, bu since we have yet to recover from the last crisis, shouldn't achieving recovery be our first priority?

For we are still very much living in the shadow of the economic catastrophe that struck both Europ and the United States four years ago. Gross domestic product, which normally grows a couple percent a year, is barely above its precrisis peak even in countries that have seen a relatively stron recovery, and it is down by double digits in several European nations. Meanwhile, unemployment o both sides of the Atlantic remains at levels that would have seemed inconceivable before the crisis.

The best way to think about this continued slump, I'd argue, is to accept the fact that we're in depression. No, it's not the Great Depression, at least not for most of us (but talk to the Greeks, th Irish, or even the Spaniards, who have 23 percent unemployment—and almost 50 perce unemployment among the young). But it's nonetheless essentially the same kind of situation that Joh Maynard Keynes described in the 1930s: "a chronic condition of subnormal activity for a considerab period without any marked tendency either towards recovery or towards complete collapse."

And that's not an acceptable condition. There are some economists and policy officials who see satisfied with avoiding "complete collapse"; but the reality is that this "chronic condition subnormal activity," reflected above all in a lack of jobs, is inflicting enormous, cumulative huma damage.

So it's extremely important that we take action to promote a real, full recovery. And here's th thing: we know how to do that, or at least we *should* know how to do that. We are suffering woes tha for all the differences in detail that come with seventy-five years of economic, technological, an social change, are recognizably similar to those of the 1930s. And we know what policy makers shou have been doing then, both from the contemporary analysis of Keynes and others and from muc subsequent research and analysis. That same analysis tells us what we should be doing in our curre predicament.

Unfortunately, we're not using the knowledge we have, because too many people who matter– politicians, public officials, and the broader class of writers and talkers who define convention wisdom—have, for a variety of reasons, chosen to forget the lessons of history and the conclusions several generations' worth of economic analysis, replacing that hard-won knowledge wi ideologically and politically convenient prejudices. Above all, conventional wisdom among wh some of us have taken to referring to, sarcastically, as Very Serious People has completely throw away Keynes's central dictum: "The boom, not the slump, is the time for austerity." Now is the tim for the government to spend more, not less, until the private sector is ready to carry the econom forward again—yet job-destroying austerity policies have instead become the rule.

This book, then, attempts to break the hold of that destructive conventional wisdom and to make th case for the expansionary, job-creating policies we should have been following all along. To make th case I need to present evidence; yes, this book has charts in it. But I hope that this doesn't make seem technical, or keep it from being accessible to intelligent lay readers, even if economics is n their usual thing. For what I'm trying to do here is, in effect, to go over the heads of the Seriou People who have, for whatever reason, taken all of us down the wrong path, at immense cost to o economies and our societies, and to appeal to informed public opinion in an effort to get us doing th right thing instead.

Maybe, just maybe, our economies will be on a rapid path to true recovery by the time this boo reaches the shelves, and this appeal won't be necessary. I surely hope so—but I very much doubt i Instead, all indications are that the economy will remain weak for a very long time unless our polic makers change course. And my aim here is to bring pressure, by means of an informed public, to g that course change, and bring an end to this depression.

CHAPTER ONE

HOW BAD THINGS ARE

I think as those green shoots begin to appear in different markets and as some confidence begins to come back that will begin the positive dynamic that brings our economy back.

Do you see green shoots?

I do. I do see green shoots.

—Ben Bernanke, chairman of the Federal Reserve,
interviewed by *60 Minutes*, March 15, 2009

IN MARCH 2009 Ben Bernanke, normally neither the most cheerful nor the most poetic of men, waxe optimistic about the economic prospect. After the fall of Lehman Brothers six months earlie America had entered a terrifying economic nosedive. But appearing on the TV show *60 Minutes*, th Fed chairman declared that spring was at hand.

His remarks immediately became famous, not least because they bore an eerie resemblance to th words of Chance, aka Chauncey Gardiner, the simpleminded gardener mistaken for a wise man in th movie *Being There*. In one scene Chance, asked to comment on economic policy, assures th president, "As long as the roots are not severed, all is well and all will be well in the garden. . . . The will be growth in the spring." Despite the jokes, however, Bernanke's optimism was widely share And at the end of 2009 *Time* declared Bernanke its Person of the Year.

Unfortunately, all was not well in the garden, and the promised growth never came.

To be fair, Bernanke was right that the crisis was easing. The panic that had gripped financi markets was ebbing, and the economy's plunge was slowing. According to the official scorekeepers the National Bureau of Economic Research, the so-called Great Recession that started in Decemb 2007 ended in June 2009, and recovery began. But if it was a recovery, it was one that did little to hel most Americans. Jobs remained scarce; more and more families depleted their savings, lost the homes, and, worst of all, lost hope. True, the unemployment rate is down from the peak it reached October 2009. But progress has come at a snail's pace; we're still waiting, after all these years, f that "positive dynamic" Bernanke talked about to make an appearance.

And that was in America, which at least had a technical recovery. Other countries didn't eve manage that. In Ireland, in Greece, in Spain, in Italy, debt problems and the "austerity" programs th were supposed to restore confidence not only aborted any kind of recovery but produced renewe slumps and soaring unemployment.

And the pain went on and on. I'm writing these words almost three years after Bernanke thought I saw those green shoots, three and a half years after Lehman fell, more than four years after the start the Great Recession. The citizens of the world's most advanced nations, nations rich in resource talent, and knowledge—all the ingredients for prosperity and a decent standard of living for all- remain in a state of intense pain.

In the rest of this chapter I'll try to document some of the main dimensions of that pain. I'll foc mainly on the United States, which is both my home and the country I know best, reserving extended discussion of the pain abroad for later in the book. And I'll start with the thing that matte most—and the thing on which we've performed the worst: unemployment.

The Jobs Drought

Economists, the old line goes, know the price of everything and the value of nothing. And you kno what? There's a lot of truth to that accusation: since economists mainly study the circulation of mon and the production and consumption of stuff, they have an inherent bias toward assuming that mon and stuff are what matter. Still, there is a field of economic research that focuses on how self-report measures of well-being, such as happiness or "life satisfaction," are related to other aspects of lif Yes, it's known as "happiness research"—Ben Bernanke even gave a speech about it in 2010, title "The Economics of Happiness." And this research tells us something very important about the me we're in.

Sure enough, happiness research tells us that money isn't all that important once you get to the poi of being able to afford the necessities of life. The payoff to being richer isn't literally zero—citize of rich countries are, on average, somewhat more satisfied with their lives than citizens of less wel off nations. Also, being richer or poorer than the people you compare yourself with is a fairly big dea which is why extreme inequality can have such a corrosive effect on society. But when all is said an done, money is less important than crude materialists—and many economists—would like to believe

That's not to say, however, that economic affairs are unimportant in the true scale of things. Fo there's one economics-driven thing that matters enormously to human well-being: having a jo People who want to work but can't find work suffer greatly, not just from the loss of income but fro a diminished sense of self-worth. And that's a major reason why mass unemployment—which ha now been going on in America for four years—is such a tragedy.

How severe is the problem of unemployment? That question calls for a bit of discussion.

Clearly, what we're interested in is *involuntary* unemployment. People who aren't working becau they have chosen not to work, or at least not to work in the market economy—retirees who are glad be retired, or those who have decided to be full-time housewives or househusbands—don't coun Neither do the disabled, whose inability to work is unfortunate, but not driven by economic issues.

Now, there have always been people claiming that there's no such thing as involunta unemployment, that anyone can find a job if he or she is really willing to work and isn't too finic about wages or working conditions. There's Sharron Angle, the Republican candidate for the Senat who declared in 2010 that the unemployed were "spoiled," choosing to live off unemployme benefits instead of taking jobs. There are the people at the Chicago Board of Trade who, in Octob 2011, mocked anti-inequality demonstrators by showering them with copies of McDonald's jo application forms. And there are economists like the University of Chicago's Casey Mulligan, wh has written multiple articles for the *New York Times* website insisting that the sharp drop employment after the 2008 financial crisis reflected not a lack of employment opportunities b diminished willingness to work.

The classic answer to such people comes from a passage near the beginning of the novel *Th Treasure of the Sierra Madre* (best known for the 1948 film adaptation starring Humphrey Bogart an Walter Huston): "Anyone who is willing to work and is serious about it will certainly find a job. On you must not go to the man who tells you this, for he has no job to offer and doesn't know anyone wh knows of a vacancy. This is exactly the reason why he gives you such generous advice, out o brotherly love, and to demonstrate how little he knows the world."

Quite. Also, about those McDonald's applications: in April 2011, as it happens, McDonald's di announce 50,000 new job openings. Roughly a million people applied.

If you have any familiarity with the world, in short, you know that involuntary unemployment very real. And it's currently a very big deal.

How bad is the problem of involuntary unemployment, and how much worse has it become?

The U.S. unemployment measure you usually hear quoted in the news is based on a survey in whic adults are asked whether they are either working or actively seeking work. Those who are seekin work but don't have jobs are considered unemployed. In December 2011 that amounted to more tha 13 million Americans, up from 6.8 million in 2007.

If you think about it, however, this standard definition of unemployment misses a lot of distres What about people who want to work, but aren't actively searching either because there are no jobs be had, or because they've grown discouraged by fruitless searching? What about those who want ful time work, but have only been able to find part-time jobs? Well, the U.S. Bureau of Labor Statistic tries to capture these unfortunates in a broader measure of unemployment, known as U6; it says th by this broader measure there are about 24 million unemployed Americans—about 15 percent of th workforce—roughly double the number before the crisis.

Yet even this measure fails to capture the extent of the pain. In modern America most familie contain two working spouses; such families suffer, both financially and psychologically, if eithe spouse is unemployed. There are workers who used to make ends meet with a second job, now down an inadequate one, or who counted on overtime pay that no longer arrives. There are independe businesspeople who have seen their income shrivel. There are skilled workers, accustomed to holdin down good jobs, who have been forced to accept work that uses none of their skills. And on and on.

There is no official estimate of the number of Americans caught up in this sort of penumbra formal unemployment. But in a June 2011 poll of likely voters—a group probably in better shape tha the population as a whole—the polling group Democracy Corps found that a third of Americans ha either themselves suffered from job loss or had a family member lose a job, and that another thi knew someone who had lost a job. Moreover, almost 40 percent of families had suffered from reduce hours, wages, or benefits.

The pain, then, is very widespread. But that's not the whole story: for millions, the damage from th bad economy runs very deep.

Ruined Lives

There is always some unemployment in a complex, dynamic economy like that of modern Americ Every day some businesses fail, taking jobs with them, while others grow and need more staf workers quit or are fired for idiosyncratic reasons, and their former employers take on replacement In 2007, when the job market was pretty good, more than 20 million workers quit or were fired, whi an even larger number were hired.

All this churning means that some unemployment remains even when times are good, because often takes time before would-be workers find or accept new jobs. As we saw, there were almost seve million unemployed workers in the fall of 2007 despite a fairly prosperous economy. There we millions of unemployed Americans even at the height of the 1990s boom, when the joke was th anyone who could pass the "mirror test"—that is, anyone whose breath would fog a mirror, indicatin that they were actually alive—could find work.

In times of prosperity, however, unemployment is mostly a brief experience. In good times there is rough match between the number of people seeking work and the number of job openings, and as result most of the unemployed find work fairly quickly. Of those seven million unemploye Americans before the crisis, fewer than one in five had been out of work as much as six months, few than one in ten had been out of work for a year or more.

That situation has changed completely since the crisis. There are now four job seekers for every jo opening, which means that workers who lose one job find it very hard to get another. Six millio Americans, almost five times as many as in 2007, have been out of work for six months or more; fo million have been out of work for more than a year, up from just 700,000 before the crisis.

This is something almost completely new in American experience—I say *almost* completel because long-term unemployment was obviously rife during the Great Depression. But there's bee nothing like this since. Not since the 1930s have so many Americans found themselves seemingl trapped in a permanent state of joblessness.

Long-term unemployment is deeply demoralizing for workers anywhere. In America, where th social safety net is weaker than in any other advanced country, it can easily become a nightmar Losing your job often means losing your health insurance. Unemployment benefits, which typical make up only about a third of lost income anyway, run out—over the course of 2010–11 there was slight fall in the official unemployment rate, but the number of Americans who were unemployed y receiving no benefits doubled. And as unemployment drags on, household finances fall apart—fami savings are depleted, bills can't be paid, homes are lost.

Nor is that all. The causes of long-term unemployment clearly lie with macroeconomic events an policy failures that are beyond any individual's control, yet that does not save the victims fro bearing a stigma. Does being unemployed for a long time really erode work skills, and make you poor hire? Does the fact that you were one of the long-term unemployed indicate that you were a los in the first place? Maybe not, but many employers *think* it does, and for the worker that may be a that matters. Lose a job in this economy, and it's very hard to find another; stay unemployed lon enough, and you will be considered unemployable.

To all this add the damage to Americans' inner lives. You know what I mean if you know anyon trapped in long-term unemployment; even if he or she isn't in financial distress, the blow to digni and self-respect can be devastating. And matters are, of course, worse if there is financial distress to When Ben Bernanke spoke about "happiness research," he emphasized the finding that happine depends strongly on a sense of being in control of your own life. Think about what happens to th sense of being in control when you want to work, yet many months have gone by and you can't find job, when the life you built is falling apart because funds are running out. It's no wonder that th evidence suggests that long-term unemployment breeds anxiety and psychological depression.

Meanwhile, there's the plight of those who don't have a job yet, because they're entering th working world for the first time. Truly, this is a terrible time to be young.

Unemployment among young workers, like unemployment for just about every demographic grou roughly doubled in the immediate aftermath of the crisis, then drifted down a bit. But because youn workers have a much higher unemployment rate than their elders even in good times, this meant much larger rise in unemployment relative to the workforce.

And the young workers one might have expected to be best placed to weather the crisis—rece college graduates, who presumably are much more likely than others to have the knowledge and skil a modern economy demands—were by no means insulated. Roughly one in four recent graduates either unemployed or working only part-time. There has also been a notable drop in wages for tho who do have full-time jobs, probably because many of them have had to take low-paying jobs th don't make use of their education.

One more thing: there has been a sharp increase in the number of Americans aged between twenty four and thirty-four living with their parents. This doesn't represent a sudden rush of filial devotion; represents a radical reduction in opportunities to leave the nest.

This situation is deeply frustrating for young people. They're supposed to be getting on with the lives, but instead they find themselves in a holding pattern. Many understandably worry about the future. How long a shadow will their current problems cast? When can they expect to fully recov from the bad luck of graduating into a deeply troubled economy?

Basically, never. Lisa Kahn, an economist at Yale's School of Management, has compared th careers of college graduates who received their degrees in years of high unemployment with tho who graduated in boom times; the graduates with unlucky timing did significantly worse, not just the few years after graduation but for their whole working lives. And those past eras of hig unemployment were relatively short compared with what we're experiencing now, suggesting that th long-term damage to the lives of young Americans will be much greater this time around.

Dollars and Cents

Money? Did someone mention money? So far, I haven't, at least not directly. And that's deliberat Although the disaster we're living through is in large part a story of markets and money, a tale getting and spending gone wrong, what makes it a disaster is the human dimension, not the mon lost.

That having been said, we're talking about a lot of money lost.

The measure most commonly used to track overall economic performance is real gross domest product, or real GDP for short. It's the total value of goods and services produced in an econom adjusted for inflation; roughly speaking, it's the amount of stuff (including services, of course) th the economy makes in a given period of time. Since income comes from selling stuff, it's also th total amount of income earned, determining the size of the pie that gets sliced between wages, profit and taxes.

In an average year before the crisis, America's real GDP grew between 2 and 2.5 percent per yea That's because the economy's productive capacity was growing over time: each year there were mor willing workers, more machines and structures for those workers to use, and more sophisticate technology to be employed. There were occasional setbacks—recessions—in which the econom briefly shrank instead of growing. I'll talk in the next chapter about why and how that can happen. B these setbacks were normally brief and small, and were followed by bursts of growth as the econom made up the lost ground.

Until the recent crisis, the worst setback experienced by the U.S. economy since the Gre Depression was the "double dip" of 1979 to 1982—two recessions in close succession that are be viewed as basically a single slump with a stutter in the middle. At the bottom of that slump, in la 1982, real GDP was 2 percent below its previous peak. But the economy proceeded to bounce bac strongly, growing at a 7 percent rate for the next two years—"morning in America"—and the returned to its normal growth track.

The Great Recession—the plunge between late 2007 and the middle of 2009, when the econom stabilized—was steeper and sharper, with real GDP falling 5 percent over the course of eightee months. More important, however, there has been no strong bounce-back. Growth since the offici end of the recession has actually been lower than normal. The result is an economy producing far le than it should.

The Congressional Budget Office (CBO) produces a widely used estimate of "potential" real GD defined as a measure of "sustainable output, in which the intensity of resource use is neither adding nor subtracting from inflationary pressure." Think of it as what would happen if the economic engi were firing on all cylinders but not overheating—an estimate of what we could and should achieving. It's pretty close to what you get if you take where the U.S. economy was in 2007, an project what it would be producing now if growth had continued at its long-run average pace.

Some economists argue that estimates like this are misleading, that we've taken a major hit to o productive capacity; I'll explain in chapter 2 why I disagree. For now, however, let's take the CB estimate at face value. What it says is that as I write these words the U.S. economy is operating abo

7 percent below its potential. Or to put it a bit differently, we're currently producing around a trillio dollars less of value each year than we could and should be producing.

That's an amount *per year*. If you add up the lost value since the slump began, it comes to some $ trillion. Given the economy's continuing weakness, that number is set to get a lot bigger. At this poi we'll be very lucky if we get away with a cumulative output loss of "only" $5 trillion.

These aren't paper losses like the wealth lost when the dot-com or housing bubble collapsed, weal that was never real in the first place. We're talking here about valuable products that could and shoul have been manufactured but weren't, wages and profits that could and should have been earned b never materialized. And that's $5 trillion, or $7 trillion, or maybe even more that we'll never get bac The economy will eventually recover, one hopes—but that will, at best, mean getting back to its o trend line, not making up for all the years it spent below that trend line

I say "at best" advisedly, because there are good reasons to believe that the prolonged weakness the economy will take a toll on its long-run potential.

Losing the Future

Amid all the excuses you hear for not taking action to end this depression, one refrain is repeate constantly by apologists for inaction: we need, they say, to focus on the long run, not the short run.

This is wrong on multiple levels, as we'll see later in this book. Among other things, it involves a intellectual abdication, a refusal to accept responsibility for understanding the current depression; it tempting and easy to wave all this unpleasantness away and talk airily about the long run, but that taking the lazy, cowardly way out. John Maynard Keynes was making exactly this point when he wro one of his most famous passages: "This *long run* is a misleading guide to current affairs. *In the lo run* we are all dead. Economists set themselves too easy, too useless a task if in tempestuous seaso they can only tell us that when the storm is long past the sea is flat again."

Focusing only on the long run means ignoring the vast suffering the current depression is inflictin the lives it is ruining irreparably as you read this. But that's not all. Our short-run problems—if yo can call a slump now in its fifth year "short-run"—are hurting our long-run prospects too, throu multiple channels.

I've already mentioned a couple of those channels. One is the corrosive effect of long-ter unemployment: if workers who have been jobless for extended periods come to be seen unemployable, that's a long-term reduction in the economy's effective workforce, and hence in i productive capacity. The plight of college graduates forced to take jobs that don't use their skills somewhat similar: as time goes by, they may find themselves demoted, at least in the eyes of potenti employers, to the status of low-skilled workers, which will mean that their education goes to waste.

A second way in which the slump undermines our future is through low business investme Businesses aren't spending much on expanding their capacity; in fact, manufacturing capacity h fallen about 5 percent since the start of the Great Recession, as companies have scrapped old capacity and not installed new capacity to replace it. A lot of mythology surrounds low busine investment—It's uncertainty! It's fear of that socialist in the White House!—but there's no actu

mystery: investment is low because businesses aren’t selling enough to use the capacity they alread
have.

The problem is that if and when the economy finally does recover, it will bump up against capaci limits and production bottlenecks much sooner than it would have if the persistent slump hadn’t give businesses every reason to stop investing in the future.

Last but not least, the way the economic crisis has been (mis)handled means that public program that serve the future are being savaged.

Educating the young is crucial for the twenty-first century—so say all the politicians and pundit Yet the ongoing slump, by creating a fiscal crisis for state and local governments, has led to the layin off of some 300,000 schoolteachers. The same fiscal crisis has led state and local governments postpone or cancel investments in transportation and water infrastructure, like the desperately neede second rail tunnel under the Hudson River, the high-speed rail projects canceled in Wisconsin, Ohi and Florida, the light-rail projects canceled in a number of cities, and so on. Adjusted for inflatio public investment has fallen sharply since the slump began. Again, this means that if and when th economy finally does recover, we’ll run into bottlenecks and shortages far too soon.

How much should these sacrifices of the future worry us? The International Monetary Fund h studied the aftermath of past financial crises in a number of countries, and its findings are deep disturbing: not only do such crises inflict severe short-run damage; they seem to take a huge lon term toll as well, with growth and employment shifted more or less permanently onto a lower trac And here’s the thing: the evidence suggests that effective action to limit the depth and duration of th slump after a financial crisis reduces this long-run damage too—which means, conversely, that failin to take such action, which is what we’re doing now, also means accepting a diminished, embittere future.

Pain Abroad

Up to this point I’ve been talking about America, for two obvious reasons: it’s my country, so its pai hurts me most, and it’s also the country I know best. But America’s pain is by no means unique.

Europe, in particular, presents an equally dismaying picture. In aggregate, Europe has suffered a employment slump that’s not quite as bad as America’s, but terrible all the same; in terms of gros domestic product, Europe has actually done worse. Moreover, the European experience is highl uneven across nations. Although Germany is relatively unscathed (so far—but watch what happen next), the European periphery is facing utter disaster. In particular, if this is a terrible time to b young in America, with its 17 percent unemployment rate among those under twenty-five, it’s nightmare in Italy, where the youth unemployment rate is 28 percent, in Ireland, where it’s 30 percen and in Spain, where it’s 43 percent.

The good news about Europe, such as it is, is that because European nations have much strong social safety nets than the United States, the immediate consequences of unemployment are much le severe. Universal health care means that losing your job in Europe doesn’t mean losing heal insurance too; relatively generous unemployment benefits mean that hunger and homelessness are n as prevalent.

But Europe's awkward combination of unity and disunity—the adoption by most nations of common currency without having created the kind of political and economic union that such common currency demands—has become a gigantic source of weakness and renewed crisis.

In Europe, as in America, the slump has hit regions unevenly; the places that had the biggest bubbl before the crisis are having the biggest slumps now—think of Spain as being Europe's Florida, Irelar as being Europe's Nevada. But the Florida legislature doesn't have to worry about coming up with tl funds to pay for Medicare and Social Security, which are paid for by the federal government; Spain on its own, as are Greece, Portugal, and Ireland. So in Europe the depressed economy has caused fisc crises, in which private investors are no longer willing to lend to a number of countries. And tl response to these fiscal crises—frantic, savage attempts to slash spending—has pushed unemployme all around Europe's periphery to Great Depression levels, and seems at the time of writing to b pushing Europe back into outright recession.

The Politics of Despair

The ultimate costs of the Great Depression went far beyond economic losses, or even the sufferir associated with mass unemployment. The Depression had catastrophic political effects as well. particular, while modern conventional wisdom links the rise of Hitler to the German hyperinflation 1923, what actually brought him to power was the German depression of the early 1930s, a depressic that was even more severe than that in the rest of Europe, thanks to the deflationary policies Chancellor Heinrich Brüning.

Can anything like that happen today? There's a well-established and justified stigma attached invoking Nazi parallels (look up "Godwin's law"), and it's hard to see anything quite that ba happening in the twenty-first century. Yet it would be foolish to minimize the dangers a prolonge slump poses to democratic values and institutions. There has in fact been a clear rise in extremi politics across the Western world: radical anti-immigrant movements, radical nationalist movement and, yes, authoritarian sentiments are all on the march. Indeed, one Western nation, Hungary, alreac seems well on its way toward reverting to an authoritarian regime reminiscent of those that sprea across much of Europe in the 1930s.

Nor is America immune. Can anyone deny that the Republican Party has become far more extren over the past few years? And it has a reasonable chance of taking both Congress and the White Hou later this year, despite its radicalism, because extremism flourishes in an environment in whic respectable voices offer no solutions as the population suffers.

Don't Give Up

I've just painted a portrait of immense human disaster. But disasters do happen; history is replete wi floods and famines, earthquakes and tsunamis. What makes this disaster so terrible—what shou make you *angry*—is that none of this need be happening. There has been no plague of locusts; we hav not lost our technological know-how; America and Europe should be richer, not poorer, than they wer five years ago.

Nor is the nature of the disaster mysterious. In the Great Depression leaders had an excuse: noboc really understood what was happening or how to fix it. Today's leaders don't have that excuse. *W have both the knowledge and the tools to end this suffering*.

Yet we aren't doing it. In the chapters that follow I'll try to explain why—how a combination o self-interest and distorted ideology has prevented us from solving a solvable problem. And I have t admit that watching us fail so completely to do what should be done occasionally gives me a sense despair.

But that's the wrong reaction.

As the slump has gone on and on, I have found myself listening often to a beautiful song original performed in the 1980s by Peter Gabriel and Kate Bush. The song is set in an unidentified time ar place of mass unemployment; the despairing male voice sings of his hopelessness: "For every job, s many men." But the female voice encourages him: "Don't give up."

These are terrible times, and all the more terrible because it's all so unnecessary. But don't give u we can end this depression, if we can only find the clarity and the will.