

September 20, 2002

The Vision Thing

By PAUL KRUGMAN

This is the way the recovery ends — not with a bang but with a whimper.

O.K., I could be wrong. Industrial production is falling and layoffs are rising. But it's still not a sure thing that the months ahead will be bad enough for the business-cycle referees to declare a renewed recession. And on the other hand, the administration seems determined to have a bang sometime before Nov. 5.

But right now it looks as if the economy is stalling, and also as if the people in charge have no idea what to do. In short, it's feeling a lot like the early 1990's.

It doesn't really matter whether you call what's going on right now a slow recovery or a recession. Most people don't care whether G.D.P. growth is slightly above or below zero; what matters to them is whether they can find jobs and keep them. And the job situation is increasingly dismal. A 5.7 percent unemployment rate doesn't sound that bad, but an unusually large number of workers have given up searching for jobs. The overall unemployment rate also doesn't reflect the rapidly growing number of people who are truly desperate, because they have been out of work for six months or more. And the employment situation has lately taken a significant turn for the worse: the number of people filing new claims for unemployment insurance, a leading indicator of future unemployment, has increased sharply over the past month.

At best, then, this is a recovery that, as far as workers are concerned, might as well be a continuing recession. The Center on Budget and Policy Priorities points out that in terms of job losses and long-term unemployment, the current slowdown is already a match for the nasty recession of the early 1990's.

So this really is like the early 1990's all over again. The economic similarity between our current difficulties and the slump under the first George Bush is stronger than most people realize. In 1990, as in 2001, the economy went into a recession in part because of past excesses — though those quaint old scandals involving junk bonds and real estate speculation seem very tame in the age of Enron and Tyco. In the early 1990's, as today, recession was followed by a "jobless recovery," in which G.D.P. grew but employment didn't. And then as now there was concern that interest rate cuts by the Fed might not be enough to turn the economy around — though back then we didn't yet have the example of Japan to show that the "liquidity trap," in which even a zero interest rate isn't enough to produce an economic recovery, was a real possibility in the modern world.

But the most striking similarity between now and a decade ago, it seems to me, is political. For all the differences between the moderate father and the deeply conservative son, now as then we have an administration whose key figures are fundamentally uninterested in and uncomfortable with economic policy.

That statement may strike you as strange: wasn't the tax cut George W. Bush's central achievement before Osama bin Laden came along? But the tax cut was never intended as an economic policy: it was a political gesture designed to ward off a challenge from Steve Forbes and satisfy the conservative base. Only later did the administration make the providential discovery that it was also just the thing to fight recession, promote family values and cure the common cold.

And it can't seem to come up with anything else, now that the tax cut that wasn't designed to fight a recession has, sure enough, failed to fight a recession. When Treasury Secretary Paul O'Neill was asked for new ideas that came out of the comical Waco summit, his answer was — are you ready? — making the tax cut permanent.

Should we be worried about the administration's lack of the vision thing when it comes to economics? Yes, we should. The excesses of the 1990's dwarfed those of the 1980's, and the economic risks are correspondingly larger. Suppose that, as seems increasingly plausible, the deteriorating job situation finally undermines the dogged optimism of America's consumers. In that case we'll need some decisive action — action determined by what the economy needs, not by what Karl Rove thinks will play in the polls. How much chance is there that we'll get it?

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