OP-ED COLUMNIST

A Permanent Slump?

By PAUL KRUGMAN
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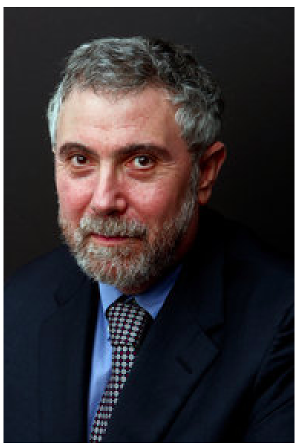
Spend any time around monetary officials and one word you'll hear a lot is "normalization." Most though not all such officials accept that now is no time to be tightfisted, that for the time being credit must be easy and interest rates low. Still, the men in dark suits look forward eagerly to the day when they can go back to their usual job, snatching away the punch bowl whenever the party gets going.


Fred R. Conrad/The New York Times
Paul Krugman

But what if the world we've been living in for the past five years is the new normal? What if depression-like conditions are on track to persist, not for another year or two, but for decades?

You might imagine that speculations along these lines are the province of a radical fringe. And they are indeed radical; but fringe, not so much. A number of economists have been flirting with such thoughts for a while. And now they've moved into the mainstream. In fact, the case for "secular stagnation" — a persistent state in which a depressed economy is the norm, with episod full employment few and far between — was made forcefully recently at the most ultrarespectable of ver the I.M.F.'s big annual research conference. And the person making that case was none other than Larry Summers. Yes, that Larry Summers.

And if Mr. Summers is right, everything respectable people have been saying about economic policy is wrong, and will keep being wrong for a long time.

Mr. Summers began with a point that should be obvious but is often missed: The financial crisis that started the Great Recession is now far behind us. Indeed, by most measures it ended more than four years ago. Yet our economy remains depressed.

He then made a related point: Before the crisis we had a huge housing and debt bubble. Yet even with this huge bubble boosting spending, the overall economy was only so-so — the job market was O.K. but not great, and the boom was never powerful enough to

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Mr. Summers went on to draw a remarkable moral: We have, he suggested, an economy whose normal condition is one of inadequate demand — of at least mild depression — and which only gets anywhere close to full employment when it is being buoyed by bubbles.

I'd weigh in with some further evidence. Look at household debt relative to income. That ratio was roughly stable from 1960 to 1985, but rose rapidly and inexorably from 1985 to 2007, when crisis struck. Yet even with households going ever deeper into debt, the economy's performance over the period as a whole was mediocre at best, and demand showed no sign of running ahead of supply. Looking forward, we obviously can't go back to the days of ever-rising debt. Yet that means weaker consumer demand — and without that demand, how are we supposed to return to full employment?

Again, the evidence suggests that we have become an economy whose normal state is one of mild depression, whose brief episodes of prosperity occur only thanks to bubbles and unsustainable borrowing.

Why might this be happening? One answer could be slowing population growth. A growing population creates a demand for new houses, new office buildings, and so on; when growth slows, that demand drops off. America's working-age population rose rapidly in the 1960s and 1970s, as baby boomers grew up, and its work force rose even faster, as women moved into the labor market. That's now all behind us. And you can see the effects: Even at the height of the housing bubble, we weren't building nearly as many houses as in the 1970s.

Another important factor may be persistent trade deficits, which emerged in the 1980s and since then have fluctuated but never gone away.

Why does all of this matter? One answer is that central bankers need to stop talking about "exit strategies." Easy money should, and probably will, be with us for a very long time. This, in turn, means we can forget all those scare stories about government debt, which run along the lines of "It may not be a problem now, but just wait until interest rates rise."

More broadly, if our economy has a persistent tendency toward depression, we're going to be living under the looking-glass rules of depression economics — in which virtue is vice and prudence is folly, in which attempts to save more (including attempts to reduce budget deficits) make everyone worse off — for a long time.

I know that many people just hate this kind of talk. It offends their sense of rightness, indeed their sense of morality. Economics is supposed to be about making hard choices (at other people's expense, naturally). It's not supposed to be about persuading people to spend more.

But as Mr. Summers said, the crisis "is not over until it is over" — and economic reality is what it is. And what that reality appears to be right now is one in which depression rules will apply for a very long time.

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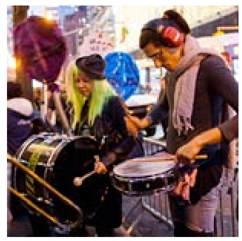

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