

# Cleaning Up the Economy

By PAUL KRUGMAN



Bill Clinton's speech at the Democratic National Convention was a remarkable combination of pretty serious wonkishness — has there ever been a convention speech with that much policy detail? — and memorable zingers. Perhaps the best of those zingers was his sarcastic summary of the Republican case for denying President Obama re-election: "We left him a total mess. He hasn't cleaned it up fast enough. So fire him and put us back in."

Great line. But is the mess really getting cleaned up?

The answer, I would argue, is yes. The next four years are likely to be much better than the last four years — unless misguided policies create another mess.

In saying this, I'm not making excuses for the past. Job growth has been much slower and unemployment much higher than it should have been, even given the mess Mr. Obama inherited. More on that later. But, first, let's look at what has been accomplished.

On Inauguration Day 2009, the U.S. economy faced three main problems. First, and most pressing, there was a crisis in the financial system, with many of the crucial channels of credit frozen; we were, in effect, suffering the 21st-century version of the bank runs that brought on the Great Depression. Second, the economy was taking a major hit from the collapse of a gigantic housing bubble. Third, consumer spending was being held down by high levels of household debt, much of which had been run up during the Bush-era bubble.

The first of these problems was resolved quite quickly, thanks both to lots of emergency lending by the Federal Reserve and, yes, the much maligned bank bailouts. By late 2009, measures of financial stress were more or less back to normal.

This return to financial normalcy did not, however, produce a robust recovery. Fast recoveries are almost always led by a housing boom — and given the excess home construction that took place during the bubble, that just wasn't going to happen. Meanwhile, households were trying (or being forced by creditors) to pay down debt, which meant depressed demand. So the economy's free fall ended, but recovery remained sluggish.

Now, you may have noticed that in telling this story about a disappointing recovery I didn't mention any of the things that Republicans talked about last week in Tampa, Fla. — the effects of high taxes and regulation, the lack of confidence supposedly created by Mr. Obama's failure to lavish enough praise on

“job creators” (what I call the “Ma, he’s looking at me funny!” theory of our economic problems). Why the omission? Because there’s not a shred of evidence for the G.O.P. theory of what ails our economy, while there’s a lot of hard evidence for the view that a lack of demand, largely because of excessive household debt, is the real problem.

And here’s the good news: The forces that have been holding the economy back seem likely to fade away in the years ahead. Housing starts have been at extremely low levels for years, so the overhang of excess construction from the bubble years is long past — and it looks as if a housing recovery has already begun. Household debt is still high by historical standards, but the ratio of debt to G.D.P. is way down from its peak, setting the stage for stronger consumer demand looking forward.

And what about business investment? It has actually been recovering rapidly since late 2009, and there’s every reason to expect it to keep rising as businesses see rising demand for their products.

So, as I said, the odds are that barring major mistakes, the next four years will be much better than the past four years.

Does this mean that U.S. economic policy has done a good job? Not at all.

\*g\*\*\*\*