



Written by [Thomas R. Eddlem](#) on June 30, 2010

NYT's Krugman Claims Europeans Balancing Budgets Means Worldwide Depression

"We are now, I fear, in the early stages of a third depression. It will probably look more like the Long Depression [of 1873-77] than the much more severe Great Depression. But the cost — to the world economy and, above all, to the millions of lives blighted by the absence of jobs — will nonetheless be immense."



Why does he say this is going to happen? [According to](#) Krugman: "Around the world — most recently at last weekend's deeply discouraging G-20 meeting — governments are obsessing about inflation when the real threat is deflation, preaching the need for belt-tightening when the real problem is inadequate spending." And by "inadequate spending," Krugman means "inadequate government spending."

America is very likely headed for the much talked about "double-dip" recession that Krugman is talking about, but not for the reasons he states. Of course, if recessions were prevented by massive government deficit spending, the United States would be well on its way to prosperity right now. Krugman's idea is that an economy thrives on spending, not savings and investment, which is why his economic arguments (such as they are) have no validity.

The United States government is finishing up its second consecutive \$1.4 trillion annual budget deficit, an excess of spending of more than \$11,000 for every American family per year (there are approximately [115 million households in America](#)) over and above all the tax money the federal government takes in. Measured in terms of spending, [the federal government has only been this big during the Second World War](#). Krugman argues that the way to become prosperous is to go deeper into debt, and at a faster rate than the current increase of \$11,000 in new debt per year. As American families found out during the last 10 years of the housing boom, the path to prosperity is not to accumulate additional debt. Rather, both families and nations prosper by savings and investment rather than spending their way into greater debt.

That economic reality didn't stop Krugman's fellow Keynesians at the *New York Times* from backing him up with a ridiculous "news" story that claimed spending cuts won't help to balance the budget. "Despite its strenuous efforts," Liz Alderman [wrote](#) in a June 29 *Times* story on the Irish spending cuts, "Ireland has been thrust into the same ignominious category as Portugal, Italy, Greece and Spain. It now pays a hefty three percentage points more than Germany on its benchmark bonds, in part because investors fear that the austerity program, by retarding growth and so far failing to reduce borrowing,



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will make it harder for Dublin to pay its bills rather than easier.” Alderman assumes the economic mythology that only governments are efficient enough to spend money to stimulate economic growth. The reverse is closer to the mark.

Krugman [claims](#) that “there is no evidence that short-run fiscal austerity in the face of a depressed economy reassures investors. On the contrary: Greece has agreed to harsh austerity, only to find its risk spreads growing ever wider; Ireland has imposed savage cuts in public spending, only to be treated by the markets as a worse risk than Spain, which has been far more reluctant to take the hard-liners’ medicine.” But the reality is that perhaps the riots in Greece, which [continued to take place even as Krugman was penning his column](#), were the real reason investors have been skittish to send money to the financially troubled nation.

Krugman’s economic analysis, that continually incurring massive new debt in peacetime is necessary for an economy to avoid recession, is equivalent to someone on the sinking Titanic arguing that the problem is not too much water inside the hull of the ship, but rather too little water inside the ship. That doesn’t make any sense, which come to think of it, pretty much defines Keynesian economic theory.

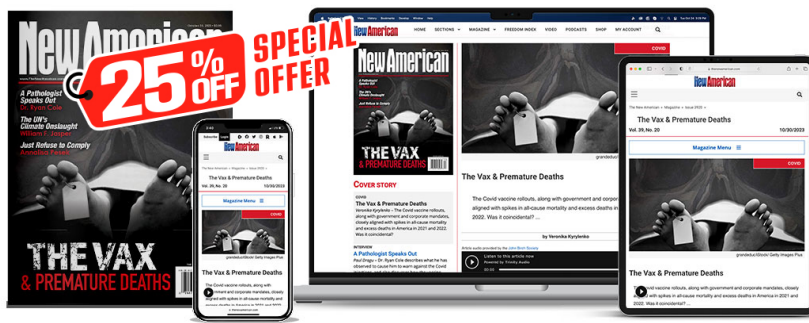


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