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Reagan Was a Keynesian

By PAUL KRUGMAN

There's no question that America's recovery from the financial crisis has been disappointing. In fact, I've been arguing that the era since 2007 is best viewed as a "depression," an extended period of economic weakness and high unemployment that, like the Great Depression of the 1930s, persists despite episodes during which the economy grows. And Republicans are, of course, trying — with considerable success — to turn this dismal state of affairs to their political advantage.

They love, in particular, to contrast President Obama's record with that of Ronald Reagan, who, by this point in his presidency, was indeed presiding over a strong economic recovery. You might think that the more relevant comparison is with George W. Bush, who, at this stage of his administration, was — unlike Mr. Obama — still presiding over a large loss in private-sector jobs. And, as I'll explain shortly, the economic slump Reagan faced was very different from our current depression, and much easier to deal with. Still, the Reagan-Obama comparison is revealing in some ways. So let's look at that comparison, shall we?

For the truth is that on at least one dimension, government spending, there was a large difference between the two presidencies, with total government spending adjusted for inflation and population growth rising much faster under one than under the other. I find it especially instructive to look at spending levels three years into each man's administration — that is, in the first quarter of 1984 in Reagan's case, and in the first quarter of 2012 in Mr. Obama's — compared with four years earlier, which in each case more or less corresponds to the start of an economic crisis. Under one president, real per capita government spending at that point was 14.4 percent higher than four years previously; under the other, less than half as much, just 6.4 percent.

O.K., by now many readers have probably figured out the trick here: Reagan, not Obama, was the big spender. While there was a brief burst of government spending early in the Obama administration — mainly for emergency aid programs like unemployment insurance and food stamps — that burst is long past. Indeed, at this point, government spending is falling fast, with real per capita spending falling over the past year at a rate not seen since the demobilization that followed the Korean War.

Why was government spending much stronger under Reagan than in the current slump? "Weaponized Keynesianism" — Reagan's big military buildup — played some role. But the big difference was real per capita spending at the state and local level, which continued to rise under

Reagan but has fallen significantly this time around.

And this, in turn, reflects a changed political environment. For one thing, states and local governments used to benefit from revenue-sharing — automatic aid from the federal government, a program that Reagan eventually killed but only after the slump was past. More important, in the 1980s, anti-tax dogma hadn't taken effect to the same extent it has today, so state and local governments were much more willing than they are now to cover temporary deficits with temporary tax increases, thereby avoiding sharp spending cuts.

In short, if you want to see government responding to economic hard times with the "tax and spend" policies conservatives always denounce, you should look to the Reagan era — not the Obama years.

So does the Reagan-era economic recovery demonstrate the superiority of Keynesian economics? Not exactly. For, as I said, the truth is that the slump of the 1980s — which was more or less deliberately caused by the Federal Reserve, as a way to bring down inflation — was very different from our current depression, which was brought on by private-sector excess: above all, the surge in household debt during the Bush years. The Reagan slump could be and was brought to a rapid end when the Fed decided to relent and cut interest rates, sparking a giant housing boom. That option isn't available now because rates are already close to zero.

As many economists have pointed out, America is currently suffering from a classic case of debt deflation: all across the economy people are trying to pay down debt by slashing spending, but, in so doing, they are causing a depression that makes their debt problems even worse. This is exactly the situation in which government spending should temporarily rise to offset the slump in private spending and give the private sector time to repair its finances. Yet that's not happening.

The point, then, is that we'd be in much better shape if we were following Reagan-style Keynesianism. Reagan may have preached small government, but in practice he presided over a lot of spending growth — and right now that's exactly what America needs.