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Their Own Private Europe

By Paul Krugman

Space for Notes
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President Obama's State of the Union address was a ho-hum affair. But the official Republican response, from Representative Paul Ryan, was really interesting. And I don't mean that in a good way.

Mr. Ryan made highly dubious assertions about employment, health care and more. But what caught my eye, when I read the transcript, was what he said about other countries: "Just take a look at what's happening to Greece, Ireland, the United Kingdom and other nations in Europe. They didn't act soon enough; and now their governments have been forced to impose painful austerity measures: large benefit cuts to seniors and huge tax increases on everybody."

It's a good story: Europeans dithered on deficits, and that led to crisis. Unfortunately, while that's more or less true for Greece, it isn't at all what happened either in Ireland or in Britain, whose experience actually refutes the current Republican narrative.

But then, American conservatives have long had their own private Europe of the imagination — a place of economic stagnation and terrible health care, a collapsing society groaning under the weight of Big Government. The fact that Europe isn't actually like that — did you know that adults in their prime working years are more likely to be employed in Europe than they are in the United States? — hasn't deterred them. So we shouldn't be surprised by similar tall tales about European debt problems.

Let's talk about what really happened in Ireland and Britain.

On the eve of the financial crisis, conservatives had nothing but praise for Ireland, a low-tax, low-spending country by European standards. The Heritage Foundation's Index of Economic Freedom ranked it above every other Western nation. In 2006, George Osborne, now Britain's chancellor of the Exchequer, declared Ireland "a shining example of the art of the possible in long-term economic policy making." And the truth was that in 2006-2007 Ireland was running a budget surplus, and had one of the lowest debt levels in the advanced world.

So what went wrong? The answer is: out-of-control banks; Irish banks ran wild during the good years, creating a huge property bubble. When the bubble burst, revenue collapsed, causing the deficit to surge, while public debt exploded because the government ended up taking over bank debts. And harsh spending cuts, while they have led to huge job losses, have failed to restore confidence.

The lesson of the Irish debacle, then, is very nearly the opposite of what Mr. Ryan would have us believe. It doesn't say "cut spending now, or bad things will happen"; it says that balanced budgets won't protect you from crisis if you don't effectively regulate your banks — a point made in the newly released report of the Financial Crisis Inquiry Commission, which concludes that "30 years of deregulation and reliance on self-regulation" helped create our own catastrophe. Have I mentioned that Republicans are doing everything they can to undermine financial reform?

What about Britain? Well, contrary to what Mr. Ryan seemed to imply, Britain has not, in fact, suffered a debt crisis. True, David Cameron, who became prime minister last May, has made a sharp turn toward fiscal austerity. But that was a choice, not a response to market pressure.

And underlying that choice was the new British government's adherence to the same theory offered by Republicans to justify their demand for immediate spending cuts here — the claim that slashing government spending in the face of a depressed economy will actually help growth rather than hurt it.

So how's that theory looking? Not good. The British economy, which seemed to be recovering earlier in 2010, turned down again in the fourth quarter. Yes, weather was a factor, and, no, you shouldn't read too much into one quarter's numbers. But there's certainly no sign of the surging private-sector confidence that was supposed to offset the direct effects of eliminating half-a-million government jobs. And, as a result, there's no comfort in the British experience for Republican claims that the United States needs spending cuts in the face of mass unemployment.

Which brings me back to Paul Ryan and his response to President Obama. Again, American conservatives have long used the myth of a failing Europe to argue against progressive policies in America. More recently, they have tried to appropriate Europe's debt problems on behalf of their own agenda, never mind the fact that events in Europe actually point the other way.

But Mr. Ryan is widely portrayed as an intellectual leader within the G.O.P., with special expertise on matters of debt and deficits. So the revelation that he literally doesn't know the first thing about the debt crises currently in progress is, as I said, interesting — and not in a good way.