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The Conscience of a Liberal

Paul Krugman

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What Reagan Didn't Do

Via [Ezra Klein](#), I see that the latest thing on the right is to compare the economic recovery from the 1981-2 recession with our current state and claim that it proves the superiority of conservative economic policies.

This shows why I can't maintain the pretense that we're having any kind of intelligent, or remotely honest, discussion.

The 1981-2 recession was a very different kind of event from the 2007-9 recession: basically, it was a recession deliberately created by the Fed to bring down inflation. The Fed raised interest rates sky-high, causing a plunge in home construction, which was the main driver of the slump. When Paul Volcker believed that we had suffered enough, he cut rates, housing sprang back — and it was housing that mainly drove the recovery. Reaganomics was basically irrelevant.

The 2007-9 recession was driven by the collapse of a huge housing bubble, and the resulting financial fallout. The Fed couldn't cut rates sharply, because they weren't all that high to begin with; there couldn't be a housing boom, because housing was already overbuilt. Here's the picture:

Is Dan Mitchell unaware of all that? My guess is not — he knows, but he hopes you don't. There's a lot of that going around.

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