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The Big Zero

By [PAUL KRUGMAN](#)

Maybe we knew, at some unconscious, instinctive level, that it would be an era best forgotten. Whatever the reason, we got through the first decade of the new millennium without ever agreeing on what to call it. The aughts? The naughties? Whatever. (Yes, I know that strictly speaking the millennium didn't begin until 2001. Do we really care?)

But from an economic point of view, I'd suggest that we call the decade past the Big Zero. It was a decade in which nothing good happened, and none of the optimistic things we were supposed to believe turned out to be true.

It was a decade with basically zero job creation. O.K., the headline employment number for December 2009 will be slightly higher than that for December 1999, but only slightly. And private-sector employment has actually declined — the first decade on record in which that happened.

It was a decade with zero economic gains for the typical family. Actually, even at the height of the alleged “Bush boom,” in 2007, median household income adjusted for inflation was lower than it had been in 1999. And you know what happened next.

It was a decade of zero gains for homeowners, even if they bought early: right now housing prices, adjusted for inflation, are roughly back to where they were at the beginning of the decade. And for those who bought in the decade's middle years — when all the serious people ridiculed warnings that housing prices made no sense, that we were in the middle of a gigantic bubble — well, I feel your pain. Almost a quarter of all mortgages in America, and 45 percent of mortgages in Florida, are underwater, with owners owing more than their houses are worth.

Last and least for most Americans — but a big deal for retirement accounts, not to mention the talking heads on financial TV — it was a decade of zero gains for stocks, even without taking inflation into account. Remember the excitement when the Dow first topped 10,000, and best-selling books like “Dow 36,000” predicted that the good times would just keep rolling? Well, that was back in 1999. Last week the market closed at 10,520.

So there was a whole lot of nothing going on in measures of economic progress or success. Funny how that happened.

For as the decade began, there was an overwhelming sense of economic triumphalism in America's business and political establishments, a belief that we — more than anyone else in the world — knew what we were

doing.

Let me quote from a speech that Lawrence Summers, then deputy Treasury secretary (and now the Obama administration's top economist), gave in 1999. "If you ask why the American financial system succeeds," he said, "at least my reading of the history would be that there is no innovation more important than that of generally accepted accounting principles: it means that every investor gets to see information presented on a comparable basis; that there is discipline on company managements in the way they report and monitor their activities." And he went on to declare that there is "an ongoing process that really is what makes our capital market work and work as stably as it does."

So here's what Mr. Summers — and, to be fair, just about everyone in a policy-making position at the time — believed in 1999: America has honest corporate accounting; this lets investors make good decisions, and also forces management to behave responsibly; and the result is a stable, well-functioning financial system.

What percentage of all this turned out to be true? Zero.

What was truly impressive about the decade past, however, was our unwillingness, as a nation, to learn from our mistakes.

Even as the dot-com bubble deflated, credulous bankers and investors began inflating a new bubble in housing. Even after famous, admired companies like Enron and WorldCom were revealed to have been Potemkin corporations with facades built out of creative accounting, analysts and investors believed banks' claims about their own financial strength and bought into the hype about investments they didn't understand. Even after triggering a global economic collapse, and having to be rescued at taxpayers' expense, bankers wasted no time going right back to the culture of giant bonuses and excessive leverage.

Then there are the politicians. Even now, it's hard to get Democrats, President Obama included, to deliver a full-throated critique of the practices that got us into the mess we're in. And as for the Republicans: now that their policies of tax cuts and deregulation have led us into an economic quagmire, their prescription for recovery is — tax cuts and deregulation.

So let's bid a not at all fond farewell to the Big Zero — the decade in which we achieved nothing and learned nothing. Will the next decade be better? Stay tuned. Oh, and happy New Year.

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