PAUL KRUGMAN

Is the U.S. Economy Healing?

How goes the state of the union? Well, the state of the economy remains terrible. Three years after President Obama's inauguration and two and a half years since the official end of the recession, unemployment remains painfully high.

But there are reasons to think that we're finally on the (slow) road to better times. And America wouldn't be on that road if Mr. Obama had given in to Republican demands that he slash spending, or the Federal Reserve had given in to Republican demands that it tighten money.

Why am I letting a bit of optimism break through the clouds? Recent economic data have been a bit better, but America has already had several false dawns on that front. More important, there's evidence that the two great problems at the root of the slump — the housing bust and excessive private debt — are finally easing.

On housing: America had a monstrous housing bubble between 2000 and 2006. Home prices soared, and there was clearly a lot of overbuilding. When the bubble burst, construction — which had been the economy's main driver during the alleged "Bush boom" — plunged. But the bubble began deflating almost six years ago; house prices are back to 2003 levels. And after a protracted slump in housing starts, America now looks seriously underprovided with houses, at least by historical standards.

So why aren't people going out and buying? Because the depressed state of the economy leaves many people who would normally be buying homes either unable to afford them or too worried about job prospects to take the risk.

But the economy is depressed, in large part, because of the housing bust, which immediately suggests the possibility of a virtuous circle: an improving economy leads to a surge in home purchases, which leads to more construction, which strengthens the economy further, and so on. And if you squint hard at recent data, it looks as if something like that may be starting: home sales are up, unemployment claims are down, and builders' confidence is rising.

Furthermore, the chances for a virtuous circle have been rising, because significant progress has been made on the debt front.

That's not what you hear in public debate, of course, where all the focus is on rising government debt. But anyone who has looked seriously at how America got into this slump knows that private debt, especially household debt, was the real culprit: it was the explosion of household debt during the Bush years that set the stage for the crisis. And the good news is that this private debt has declined in dollar terms, and declined substantially as a percentage of gross domestic product, since the end of 2008.

There are, of course, still big risks — above all, the risk that trouble in Europe could derail our own incipient recovery. And thereby hangs a tale — a tale told by a recent report from the McKinsey Global Institute.

The report tracks progress on "deleveraging," the process of bringing down excessive debt levels. It documents substantial progress in the United States, which it contrasts with failure to make progress in Europe. And while the report doesn't say this explicitly, it's pretty clear why Europe is doing worse than America is: it's because European policy makers have been afraid of the wrong things.

In particular, the European Central Bank has been worrying about inflation — even raising interest rates during 2011, only to reverse course later in the year — rather than worrying about how to sustain economic recovery. And fiscal austerity, which is supposed to limit the increase in government debt, has depressed the economy, making it impossible to achieve urgently needed reductions in private debt. The end result is that for all their moralizing about the evils of borrowing, the Europeans aren't making any progress against excessive debt — whereas America is.

Back to the United States: my guarded optimism should not be taken as a statement that all is well. America has already suffered enormous, unnecessary damage because of an inadequate response to the slump. America has failed to provide significant mortgage relief, which could have moved us much more quickly to lower debt. And even if my hoped-for virtuous circle is getting under way, it will be years before America gets to anything resembling full employment.

But things could have been worse if America had followed the policies demanded by Mr. Obama's opponents. For as I said at the beginning, Republicans have been demanding that the Fed stop trying to bring down interest rates and that federal spending be slashed immediately — which amounts to demanding that America emulate Europe's failure.

And if this year's election brings the wrong ideology to power, America's nascent recovery might well be snuffed out.

day. But they probably can't do the job thoroughly without us, and we'd get sucked into the aftermath anyway. We might as well do it right and get the credit. Really, sir, what could possibly go wrong?

The scenario above is extracted from an article by Matthew Kroenig in the latest issue of Foreign Affairs. (The particulars are Kroenig's; the mordant attitude is mine.) Kroenig, an academic who spent a year as a fellow at the Obama administration's Defense Department, apparently aspires to the Strangelovian superhawk role occupied in previous decades by the likes of John Bolton and Richard Perle. His former colleagues at Defense were pretty appalled by his article, which combines the alarmist worst case of the Iranian nuclear threat with the rosiest best

good impression of an evil madman, but Iran is not suicidal.) The more realistic dangers, plenty scary, are that a conventional conflict in that conflict-prone neighborhood would spiral into Armageddon, or that Iran would extend its protective nuclear umbrella over menacing proxies like Hezbollah, or that Arab neighbors would feel obliged to join the nuclear arms race.

For now, American policy lives between these poles of attack and acquiescence, in the realm of uncertain calculation and imperfect options. If you want to measure your next president against a hellish dilemma, here's your chance.

In the Republican field we have one candidate (Rick Santorum) who is about as close as you can get to the bomb-sooner-rather-than-later extreme, another (Ron Paul) who is

nuclear weapons, or at l
pacity to make them qu
event of an outside thre
a nuclear option is seen
of Persian pride and na
vival in the face of enemi
us) who the Iranians b
bent on toppling the Isl
The nuclear program is
Iran, even with many o
sition figures admired i
The actual state of the
not entirely clear, but the
source estimates are t
tollah Ali Khamenei or
speed-ahead — which
sign he has done — they
an actual weapon in a ye

American policy has b
tent through the Bush a
administrations: (1) a c
that a nuclear Iran is
able"; (2) a combinatio

NICHOLAS D. KRISTOF

How Mrs. Grady Transformed

If you want to understand how great teachers transform lives, listen to the story of Olly Neal.

A recent study showed how a great elementary schoolteacher can raise the lifetime earnings of a single class by $700,000. After I wrote about the study, skeptics of school reform wrote me to say: sure, a great teacher can make a difference in the right setting, but not with troubled, surly kids in a high-poverty environment. If you think that, or if you scoff at the statistics, then listen to Neal.

In the late 1950s, Olly Neal was a poor black kid with an attitude. He was one of 13 brothers and sisters in a house with no electricity, and his father was a farmer with a second-grade education. Neal attended a small school for black children — this was in the segregated South — and was always mouthing off. He remembers reducing his English teacher, Mildred Grady, to tears.

"I was not a nice kid," he recalls. "I had a reputation. I was the only one who made her cry."

Neal adds: "She would have had good reason to say, 'this boy is incorrigible.' "

A regular shoplifter back then, Neal was caught stealing from the store where he worked part time. He seemed headed for a life in trouble.

Carolyn F. Blakely, then a new teacher at the school (who retired last year as the dean of the Honors College that now bears her name at the University of Arkansas at Pine Bluff), remembers Neal as an at-risk kid prone to challenge authority. At the time, even teachers in the school called students "Mr." or "Miss," but Neal disrupted class by addressing her impertinently as "Carolyn."

To deal with kids like him, Blakely told me, "I'd go home and stand in front of the mirror and practice being mean."

One day in 1957, in the fall of his senior year, Neal cut Blakely's class and wandered in the library, set up by Grady, the English teacher whom he had tormented. Neal wasn't a reader, but he spotted a book with a risqué cover of a sexy woman.

Called "The Treasure of Pleas-

Teachers may have the most important job in America.

ant Valley," it was by Frank Yerby, a black author, and it looked appealing. Neal says he thought of checking it out, but he didn't want word to get out to any of his classmates that he was reading a novel. That would have been humiliating.

"So I stole it."

Neal tucked the book under his jacket and took it home — and loved it. After finishing the book, he sneaked it back into the library. And there, on the shelf, he noticed another novel by Yerby. He stole that one as well.

This book was also terrific. And,

to Neal's surprise, wh
turned it to the shelf aft
it, he found yet another b

Four times this happe
caught the book bug. "R
to be a thing I liked," h
trajectory changed, a
graduated to harder nov
ing those by Albert Cam
turned to newspapers
zines as well. He went to
later to law school.

In 1991, Neal was app
first black district pros
torney in Arkansas. A
later, he became a judg
an appellate court judge

But there's more.

At a high school reun
stunned Neal by confid
that she had spotted hi
that first book. Her imp
confront him, but then,
understanding, she reali
barrassment at being s
ing out a book.

So Grady kept quiet. T
urday, she told him, she c
lometers to Memphis to
bookshops for another n
rby. Finally, she found or
and put it on the library

Twice more, Grady
she spent her Saturday
to Memphis to buy book
— all in hopes of turnin
rude adolescent who ha
cry. She paid for the book
own pocket.

How can one measu
impact? Not only in N
the lives of those arou
daughter, Karama, earn
ate in genetics, taught