

## Addicted to inflation

By Paul Krugman

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The first step toward recovery is admitting that you have a problem. That goes for political movements as well as individuals. So I have some advice for so-called reform conservatives trying to rebuild the intellectual vitality of the right: You need to start by facing up to the fact that your movement is in the grip of some uncontrollable urges. In particular, it's addicted to inflation — not the thing itself, but the claim that runaway inflation is either happening or about to happen.

To see what I'm talking about, consider a scene that played out the other day on CNBC.

Rick Santelli, one of the network's stars, is best known for a rant against debt relief that arguably gave birth to the Tea Party. On this occasion, however, he was ranting about another of his favorite subjects, the allegedly inflationary policies of the Federal Reserve. And his colleague Steve Liesman had had enough. "It's impossible for you to have been more wrong," Mr. Liesman declared, and he went on to detail the wrong predictions: "The higher interest rates never came, the inability of the U.S. to sell bonds never happened, the dollar never crashed, Rick. There isn't a single one that's worked for you."

You could say the same thing about many people. I've had conversations with investors bemused by the failure of the dollar to crash and inflation to soar, because "all the experts" said that was going to happen. And that is indeed what you might have imagined if your notion of expertise was what you saw on CNBC, on *The Wall Street Journal's* editorial page, or in *Forbes*.

And this has been going on for a long time — at least since early 2009. Yet despite being consistently wrong for more than five years, these "experts" never consider the possibility

that there might be something amiss with their economic framework, let alone that Ben Bernanke, Janet Yellen or, for that matter, yours truly might have been right to dismiss their warnings.

At best, the inflation-is-coming crowd admits that it hasn't happened yet, but attributes the delay to unforeseeable circumstances. Thus, in recent Congressional testimony, Lawrence Kudlow, also of CNBC, warned about "excess money and a devalued dollar." However, "Miraculously, both actual and expected inflation indicators have stayed low." It's not something wrong with my model. It's a miracle!

At worst, inflationistas resort to conspiracy theories: Inflation is already high, but the government is covering it up. The sources purporting to document this cover-up were thoroughly debunked years ago; among other things, private indicators of inflation like the Billion Prices Index (derived from Internet prices) basically confirm the official numbers. Furthermore, inflation conspiracy theorists have faced well-deserved ridicule even from fellow conservatives. Yet the conspiracy theory keeps resurfacing. It has, predictably, been rolled out to defend Mr. Santelli.

All of this is very frustrating to those reform conservatives. If you ask what new ideas they have to offer, they often mention "market monetarism," which translates under current circumstances to the notion that the Fed should be doing more, not less.

One member of the group, Josh Barro — who is now at *The Times* — has gone so far as to call market monetarism "the shining success of the conservative reform movement." But this idea has achieved no traction at all with the rest of American conservatism, which is still

obsessed with the phantom menace of runaway inflation.

And the roots of inflation addiction run deep. Reformers like to minimize the influence of libertarian fantasies — fantasies that invariably involve the notion that inflationary disaster looms unless we return to gold — on today's conservative leaders. But to do that, you have to dismiss what these leaders have actually said. If, for example, people accuse Representative Paul Ryan, chairman of the House Budget Committee, of believing that he's living in an Ayn Rand novel, that's because in 2009 he said that we are "living in an Ayn Rand novel."

More generally, modern American conservatism is deeply opposed to any form of

government activism, and while monetary policy is sometimes treated as a technocratic affair, the truth is that printing dollars to fight a slump, or even to stabilize some broader definition of the money supply, is indeed an activist policy.

The point, then, is that inflation addiction is telling us something about the intellectual state of one side of our great national divide. The right's obsessive focus on a problem we don't have, its refusal to reconsider its premises despite overwhelming practical failure, tells you that we aren't actually having any kind of rational debate. And that, in turn, bodes ill not just for would-be reformers, but for the nation.