A pause that distresses

By Paul Krugman
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Friday's employment report was a major disappointment: only 38,000 jobs added, a big step down from the more than 200,000 a month average since January 2013. Special factors, notably the Verizon strike, explain part of the bad news, and in any case job growth is a noisy series, so you shouldn't make too much of one month's data. Still, all the evidence points to slowing growth. It's not a recession, at least not yet, but it is definitely a pause in the economy's progress.

Should this pause worry you? Yes. Because if it does turn into a recession, or even if it goes on for a long time, it's very hard to envision an effective policy response.

First things first: Why is the economy slowing? The usual suspects wasted no time blaming President Obama. But you need to remember that these same people have been warning of imminent disaster ever since Mr. Obama was elected, and have been wrong every step of the way. They predicted soaring interest rates and soaring inflation; neither happened. They declared that the Affordable Care Act would be a huge job-killer; the years after the act went into full effect were marked by the best private-sector job creation since the 1990s.

And despite this disappointing report, we should remember that private job growth under Mr. Obama has vastly exceeded George W. Bush's record, even if you leave out the economic collapse of 2008.

So what is causing the economy to slow? My guess is that the biggest factor is the recent sharp rise in the dollar, which has made U.S. goods less competitive on world markets. The dollar's rise, in turn, largely reflected misguided talk by the Federal Reserve about the need to raise interest rates.

In a way, however, it hardly matters why the economy is losing steam. After all, stuff always happens. America has been experiencing major economic downturns at irregular intervals at least since the 1870s, for a variety of reasons. Whatever the cause of a downturn, the economy can recover quickly if policy makers can and do take useful action. For example, both the 1974-5 recession and the 1981-2 recession were followed by rapid, "V-shaped" recoveries, because the Fed drastically loosened monetary policy and slashed interest rates.

But that won't — in fact, can't — happen this time. Short-term interest rates, which the Fed more or less controls, are still very low despite the small rate hike last December. We now know that it's possible for rates to go slightly below zero, but there still isn't much room for a rate cut.

That said, there are other policies that could easily reverse an economic downturn. And if Hillary Clinton wins the election, the U.S. government will understand perfectly well what the options are. (The likely response of a Trump administration doesn't bear thinking about. Maybe a series of insult Twitter posts aimed at China and Mexico?) The problem is politics.

For the simplest, most effective answer to a downturn would be fiscal stimulus — preferably government spending on much-needed infrastructure, but maybe also temporary tax cuts for lower- and middle-income households, who would spend the money. Infrastructure spending makes especially good sense given the federal government's incredibly low borrowing costs: The interest rate on inflation-protected bonds is barely above zero.

But unless the coming election delivers Democratic control of the House, which is unlikely, Republicans would almost surely block anything along those lines. Partly, this would reflect ideology: although right-wing economic predictions have been utterly wrong, there's little indication that anyone in that camp has learned from the experience. It would also reflect an unwillingness to do anything that might help a Democrat in the White House. Remember, every Republican in the House voted against a stimulus even during the darkest days of the slump, when Mr. Obama was at the peak of his popularity.

If not fiscal stimulus, then what? For much of the past six years the Fed, unable to cut interest rates further, has tried to boost the economy through large-scale purchases of things like long-term government debt and mortgage-backed securities. But it's unclear how much difference that made — and meanwhile, this policy faced constant attacks and vilification from the right, with claims that it was debasing the dollar and/or illegitimately bailing out a fiscally irresponsible president. We can guess that the Fed will be very reluctant to resume the program, and face accusations that it's in the pocket of "corrupt Hillary."

So the evidence of a U.S. slowdown should worry you. I don't see anything like the 2008 crisis on the horizon (he says with fingers crossed behind his back), but even a smaller negative shock could turn into very bad news, given our political gridlock.