

# The perversion of fiscal policy

## Austerity in a slump, stimulus in a boom

By Paul Krugman

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As many people have pointed out, the Trump tax represented a total break with the normal principles of fiscal policy. Historically, we've tended to run big deficits when the economy is weak, smaller deficits or surpluses when it's strong. But now the deficit is soaring even in the face of low unemployment. This is irresponsible, and shows that Republican handwringing over deficits was always phony – which some of us pointed out at the time.

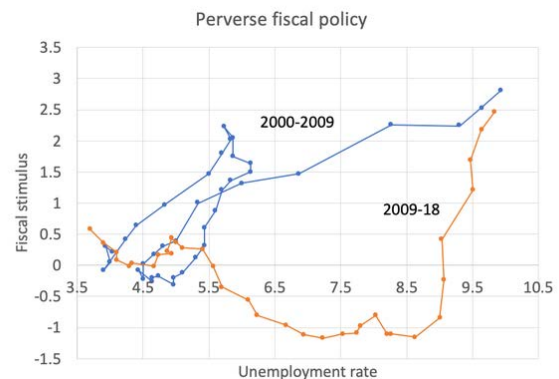
But something that has been pointed out less is that this is actually part of a broader story: fiscal policy has been off the rails since 2010, not because of what it has done to the national debt, but because of what it has done to the macroeconomy.

Here's what fiscal policy should do: it should support demand when the economy is weak, and it should pull that support back when the economy is strong. As John Maynard Keynes said, "The boom, not the slump, is the right time for austerity." And up until 2010 the U.S. more or less followed that prescription. Since then, however, fiscal policy has become perverse: first austerity despite high unemployment, now expansion despite low unemployment.

I illustrate this point with a chart using the [Fiscal Impact Measure](#) calculated by the Hutchins Center at the Brookings Institution, which estimates how much fiscal policy at all levels of government adds to or subtracts from short-term economic growth. The chart plots the Hutchins measure against the unemployment rate since 2000; I break it up into two sub-periods, 2000 to the end of 2009 and 2010 to the present.

What you can see in the chart is that during the first period (the blue line) high unemployment

was met with fiscal expansion. This happened during the 2001 recession and aftermath, and again when the Great Recession struck. From this point of view the Obama stimulus was normal policy, applied in an exceptional situation.



But then fiscal policy went off track, which you can see by the big red clockwise loop. The wrong turn actually, by this measure, began even before Republicans took the House of Representatives – mainly, I think, reflecting cutbacks at the state and local level. But it got much worse after the G.O.P. gained blockade power, forcing significant austerity even as unemployment remained extremely high.

Meanwhile, the Fed couldn't cut interest rates any further, because they were already zero, and count me in the camp that's skeptical about the effectiveness of quantitative easing (which Republicans also fiercely opposed.) So this turn to fiscal austerity surely slowed growth and delayed the economy's recovery.

And now, with unemployment very low but a Republican in the White House, we're getting the fiscal stimulus we desperately needed then – and don't need now. Fiscal policy, like so much of governance in America, has been perverted by right-wing partisanship.