

# Who's afraid of the budget deficit?

By Paul Krugman

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On Thursday, the best House speaker of modern times reclaimed her gavel, replacing one of the worst. It has taken the news media a very long time to appreciate the greatness of Nancy Pelosi, who saved Social Security from privatization, then was instrumental in gaining health insurance for 20 million Americans. And the media are still having a hard time facing up to the phoniness of their darling Paul Ryan, who, by the way, left office with a 12 percent favorable rating. But I think the narrative is finally, grudgingly, catching up with reality.

There's every reason to expect that Pelosi will once again be highly effective. But some progressive Democrats object to one of her initial moves — and on the economics, and probably the politics, the critics are right.

The issue in question is “paygo,” a rule requiring that increases in spending be matched by offsetting tax increases or cuts elsewhere.

You can argue that as a practical matter, the rule won't matter much if at all. On one side, paygo is the law, whether Democrats put it in their internal rules or not. On the other side, the law can fairly easily be waived, as happened after the G.O.P.'s huge 2017 tax cut was enacted.

But adopting the rule was a signal of Democratic priorities — a statement that the party is deeply concerned about budget deficits and willing to cramp its other goals to address that concern. Is that a signal the party should really be sending?

The economics of crude, mechanical rules about budget deficits are clear: They're a really bad idea.

Deficit obsession was deeply destructive in the years that followed the global financial crisis, helping conservatives push for austerity

measures that held back economic recovery for years. True, we no longer have a depressed economy, and austerity is a lot less destructive when the unemployment rate is less than 4 percent than it is when unemployment is more than 8 percent. But another recession will come, sooner or later — probably sooner rather than later — and a rigid budget rule will not be helpful when it does.

Furthermore, there are things the government should be spending money on even when jobs are plentiful — things like fixing our deteriorating infrastructure and helping children get education, health care and adequate nutrition. Such spending has big long-run payoffs, even in purely monetary terms.

Meanwhile, the federal government can borrow money very cheaply — the interest rate on inflation-protected 10-year bonds is only about 1 percent. These low borrowing costs, in turn, reflect what seems to be a persistent savings glut — that is, the private sector wants to save more than it's willing to invest, even with very low interest rates.

Given this reality, why not put some of those excess savings to work in high-return public investments? Should we really refuse to spend money repairing sewer systems or providing child nutrition if doing so raises the deficit a bit, with only a minor impact on future interest costs?

But, you may say, isn't it politically important for Democrats to present themselves as the party of fiscal responsibility? I'm highly skeptical.

Consider budget history over the past generation. The story is very clear: When in power, Democrats make big efforts to balance the budget; when Republicans come in, they promptly blow the money on tax cuts for the

wealthy. Yet polling consistently shows the G.O.P. with an edge on the question of which party is better at dealing with deficits.

Or consider what happened after Democrats enacted the Affordable Care Act, going to great lengths to pay for the additional benefits with tax increases and spending cuts. A majority of voters still believed that it increased the deficit. Reality doesn't seem to matter.

Anyway, the truth is that while voters may claim to care about the deficit, hardly any of them really do. For example, does anyone still believe that the Tea Party uprising was a protest against deficits? From the beginning, it was basically about race — about the government spending money to help Those People. And that's true of a lot of what pretends to be fiscal conservatism.

In fact, even the deficit scolds who played such a big role in Beltway discourse during the

Obama years seem oddly selective in their concerns about red ink. After all those proclamations that fiscal doom was coming any day now unless we cut spending on Social Security and Medicare, it's remarkable how muted their response has been to a huge, budget-busting tax cut. It's almost as if their real goal was shrinking social programs, not limiting national debt.

So am I saying that Democrats should completely ignore budget deficits? No; if and when they're ready to move on things like some form of Medicare for All, the sums will be so large that asking how they'll be paid for will be crucial.

But while fiscal prudence is always necessary, for Democrats to put spending in a straitjacket — especially when Republicans have shown themselves completely irresponsible — looks like a bad move.