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Dwindling Deficit Disorder

By PAUL KRUGMAN

For three years and more, policy debate in Washington has been dominated by warnings about the dangers of budget deficits. A few lonely economists have tried from the beginning to point out that this fixation is all wrong, that deficit spending is actually appropriate in a depressed economy. But even though the deficit scolds have been wrong about everything so far — where are the soaring interest rates we were promised? — protests that we are having the wrong conversation have consistently fallen on deaf ears.

What's really remarkable at this point, however, is the persistence of the deficit fixation in the face of rapidly changing facts. People still talk as if the deficit were exploding, as if the United States budget were on an unsustainable path; in fact, the deficit is falling more rapidly than it has for generations, it is already down to sustainable levels, and it is too small given the state of the economy.

Start with the raw numbers. America's budget deficit soared after the 2008 financial crisis and the recession that went with it, as revenue plunged and spending on unemployment benefits and other safety-net programs rose. And this rise in the deficit was a good thing! Federal spending helped sustain the economy at a time when the private sector was in panicked retreat; arguably, the stabilizing role of a large government was the main reason the Great Recession didn't turn into a full replay of the Great Depression.

But after peaking in 2009 at $1.4 trillion, the deficit began coming down. The Congressional Budget Office expects the deficit for fiscal 2013 (which began in October and is almost half over) to be $845 billion. That may still sound like a big number, but given the state of the economy it really isn't.

Bear in mind that the budget doesn't have to be balanced to put us on a fiscally sustainable path; all we need is a deficit small enough that debt grows more slowly than the economy. To take the classic example, America never did pay off the debt from World War II — in fact, our debt doubled in the 30 years that followed the war. But debt as a percentage of G.D.P. fell by three-quarters over the same period.

Right now, a sustainable deficit would be around $460 billion. The actual deficit is bigger than that. But according to new estimates by the budget office, half of our current deficit reflects the effects of a still-depressed economy. The "cyclically adjusted" deficit — what the deficit would be if we were near full employment — is only about $423 billion, which puts it in the sustainable range; next year the budget office expects that number to fall to just $172 billion. And that's why budget office projections show the nation's debt position more or less stable over the next decade.

So we do not, repeat do not, face any kind of deficit crisis either now or for years to come.

There are, of course, longer-term fiscal issues: rising health costs and an aging population will put the budget under growing pressure over the course of the 2020s. But I have yet to see any coherent explanation of why these longer-run concerns should determine budget policy right now. And as I said, given the needs of the economy, the deficit is currently too small.

Put it this way: Smart fiscal policy involves having the government spend when the private sector won't, supporting the economy when it is weak and reducing debt only when it is strong. Yet the cyclically adjusted deficit as a share of G.D.P. is currently about what it was in 2006, at the height of the housing boom — and it is headed down.

Yes, we'll want to reduce deficits once the economy recovers, and there are gratifying signs that a solid recovery is finally under way. But unemployment, especially long-term unemployment, is still unacceptably high. "The boom, not the slump, is the time for austerity," John Maynard Keynes declared many years ago. He was right — all you have to do is look at Europe to see the disastrous effects of austerity on weak economies. And this is still nothing like a boom.

Now, I'm aware that the facts about our dwindling deficit are unwelcome in many quarters. Fiscal fearmongering is a major industry inside the Beltway, especially among those looking for excuses to do what they really want, namely dismantle Medicare, Medicaid and Social Security. People whose careers are heavily invested in the deficit-scold industry don't want to let evidence undermine their scare tactics; as the deficit dwindles, we're sure to encounter a blizzard of bogus numbers purporting to show that we're still in some kind of fiscal crisis.

But we aren't. The deficit is indeed dwindling, and the case for making the deficit a central policy concern, which was never very strong given low borrowing costs and high unemployment, has now completely vanished.