

## **Paul Krugman on How to Fix the Economy**

**By Julian Brookes, Rolling Stone**

03 May 12

Four years after the start of the Great Recession, nobody would mistake U.S. economy for a thrumming engine of growth, prosperity, and human flourishing. Sure, we're officially out of "recession." But the recovery is painfully slow and uneven, and 24 million Americans are still unemployed or underemployed. There's a lot of pain out there, and a lot of potential going to waste.

The worst part? It doesn't have to be this way. Or so says Paul Krugman. In a new book, *End This Depression Now!*, the Nobel-winning economist and New York Times columnist makes an urgent, even passionate case that our economic problems are, at root, fairly simple, and we have the knowledge and the tools to solve them. We've been here before, Krugman argues, during the Great Depression, and the actions that got us out of that crisis will get us out of this one, too.

The basic issue, says Krugman, is a lack of demand. American consumers and businesses, aren't spending enough, and efforts to get them to open their wallets have gone nowhere. Krugman's solution: The federal government needs to step in and spend. A lot. On debt relief for struggling homeowners; on infrastructure projects; on aid to states and localities; on safety-net programs. Call it "stimulus" if you like. Call it Keynesian economics, after the great economic thinker (and Krugman idol) John Maynard Keynes, who first championed the idea that government has an essential role in saving the free market from its own excesses. Whatever you call it, it worked in the late nineteen-thirties and forties, when the U.S. government started shelling out on the military in the build-up to World War II, bringing an abrupt end to years of economic misery and laying the foundation for decades of prosperity. Krugman is not calling for an increase in military spending, much less a global war! But the WWII example shows that large-scale government spending can kick-start the economy. It worked then, he says, and it will work now.

Krugman's diagnosis and prescriptions cut sharply against the conventional wisdom in Washington, according to which "austerity," - throttle back on government spending, tackle the budget deficit now - is the way to get the economy back on track. Not only is this wrong, he argues, it's making a bad situation even worse. He writes: "Now is the time for the government to spend more, not less, until the private sector is ready to carry the economy forward again." On the positive side, people are starting to look at the train wreck that is Europe, where austerity has failed - and how - to produce growth, and at our own protracted slump, and concluding that people like Krugman - who, truth be told, has been right about a lot in recent years - might be onto something. "All indications are that the economy will remain weak for a very long time unless our policy makers change course," he writes in his introduction. "And my aim here is to bring pressure, by means of an informed public, to get that course change and bring an end to this depression."

Krugman, who dedicates his book to "the unemployed, who deserve better," spoke to *RollingStone.com* by phone the other day from his home in Princeton, New Jersey.

Passion isn't something we expect from economists, but this strikes me as a passionate book.

It's easy to become deadened to this depression. But I think it's really important to step back and think and realize that, hey, this is an ongoing terrible thing that does not have to be happening. Everyone, unless they're completely secluded, knows somebody who's suffering terribly. The passion is not always there for me because, like everybody else, I get used to days and weeks going by when nothing much changes. But I need to keep hold of it and I tried to tap into it for this book.

You say we're in a "depression," but isn't the economy improving?

A depression is being down for an extended period, even if there are ups and downs along the way. What we call the Great Depression actually contained two recessions and two recoveries. We're technically not in a recession anymore, but things are deeply depressed, and the economy is operating well below its productive capacity.

And the basic problem is a lack of overall demand?

The economy is suffering because there isn't enough spending. Not because there aren't enough resources out there. Not because of hard choices we're refusing to make. But because there isn't enough spending. It's really that simple.

Really?

A lot of people find emotionally unacceptable the idea that economic suffering on this scale could have a relatively trivial cause. But this has happened again and again through history. And it could be fixed fairly easily, by having government step in and spend.

Something else a lot of people find emotionally unacceptable is increased government spending! And anyway, didn't Obama already try to juice the economy with the "stimulus" and come up short?

Well, the Obama administration's stimulus didn't work as well as many people had hoped - but it didn't work any worse than other people, myself included, predicted. When the stimulus was being promoted and discussed, I was very publicly tearing my hair out, saying this is way inadequate. And sure enough, it was.

Even so, this is tough sell politically.

It is. But you have to keep on hammering on the right argument, even if it appears that it's a political nonstarter right now. Things change. If you give up on making the point that's right, you have no hope at all. Also, I think we're approaching a watershed here - there's been a palpable change in the last seven or eight months in the discussion of deficits and austerity.

Because of what's happening in Europe?

Yes. In Europe, the failure of austerity, which has been obvious for some time, has suddenly reached the threshold where everybody's saying it. Two years ago, it was, "Slash now, or you'll turn into Greece." Now people are saying, "If you do austerity at a moment like this, you'll turn into Europe." So the background noise has changed.

Even so, Republicans will need to get on board, and they've shown an amazing ability to brush off evidence that calls free-market dogma into question. Not even the apocalyptic financial crisis has shaken their certainty. How do you make sense of that?

Part of it is that if you've been brought up to believe that capitalism is wonderful and perfect then the notion that it could use some help every now and then becomes alien to you, and there are a lot of people who are so deep into that mindset that it's very hard for them to get out. And then, a lot of conventional wisdom is shaped; it doesn't just come from nowhere. It comes from the long-term operation of a lavishly funded propaganda operation. When you've had 40 years of [right-wing mega-donor Richard Mellon] Scaife and the Koch brothers and the Heritage Foundation and so on pushing a line about the perfection of markets and the evil of doing anything that encroaches upon the unfettered right of billionaires to do what they like, that is coloring the way people think about economics, even people who've never heard anything directly from any of these think tanks.

Given that, what are the chances the congressional GOP will come around to your way of thinking?

I don't think John Boehner is going to announce next week that Republicans were wrong and we need more government spending, but I do think that some time next year we might be able to have a discussion that turns around at least some of the mistakes that were made in the past few years.

OK, so where would you start?

You could get a lot of stimulus, about \$300 billion, just by providing aid to states and localities so they can reverse their budget cuts. That would create a million jobs, including those 300,000 schoolteachers that were

laid off.

Don't you worry about the impact on the deficit?

The deficit is way overstated as an immediate action-forcing issue. It's something to worry about over the next decade, but not something that should be dictating your policies right now. And the fact of the matter is that austerity, when you're in depression economics, doesn't even work from a fiscal point of view. Slash government spending and the economy contracts and it cuts into the economy's long-run prospects.

You've criticized Federal Reserve chairman Ben Bernanke for not doing enough to right the economy. He's lowered interest rates to the basement. What more can he do?

It's true that the interest rates the Fed controls directly are as low as they can go. But Bernanke could change expectations about the Fed's future behavior and convince people it will hold off on raising rates. If somebody's thinking about borrowing for a project or a business is deciding whether to sit on cash or invest it, it makes a big difference whether you think that money you borrow now will be paid in dollars that have less purchasing power than they have now. If you can convince people they can borrow at 2 percent interest right now and the rate will stay at 2 for 10 years, and inflation will be 4 percent, then borrowing becomes a much more attractive proposition than borrowing at 1 percent with 2 percent inflation. It's just textbook economics applied to a very nonstandard situation, which just happens to be world we live in. The depressing thing is that the Fed has basically said: We wash our hands of this.

You say in the book that higher inflation would be a good thing. That's not something you hear very often.

There's nothing in the Fed's charter that says inflation has to be at 2 percent. Back when Ronald Reagan was president they used to consider 4 percent perfectly OK.

You've called Obama out on his too-timid approach to the economy. How hopeful are you that he'll get religion on this?

You never know, but my sense from talking to people in the administration and watching their behavior is that they and he have had something of a defining moment. At some point, they finally appreciated that the people they were negotiating with were not negotiating in good faith. They're looking at the news coming in from Europe and understand that we've had a rather drastic demonstration of the wrongheadedness of the policy approach that's been dominating our discussion. I think the chances that they'll do the right thing are reasonably good.

And the chances they'll play hardball?

Also pretty good. It's going to be rough. We have to expect more scorched-earth politics until something changes about the nature of the modern Republican Party, but I think the notion that a second Obama term would be just like the disappointments of the first is probably wrong.