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Et Tu, Bernanke?

By PAUL KRUGMAN

For the most part, Ben Bernanke and his colleagues at the Federal Reserve have been good guys in these troubled economic times. They have tried to boost the economy even as most of Washington seemingly either forgot about the jobless, or decided that the best way to cure unemployment was to intensify the suffering of the unemployed. You can argue — and I would — that the Fed's activism, while welcome, isn't enough, and that it should be doing even more. But at least it didn't lose sight of what's really important.

Until now.

Lately, Fed officials have been issuing increasingly strong hints that rather than doing more, they want to do less, that they are eager to start "tapering," returning to normal monetary policy. The impression that the Fed is tired of trying so hard got even stronger last week, after a news conference in which Mr. Bernanke seemed quite happy to reinforce the message of an imminent reduction in stimulus.

The trouble is that this is very much the wrong signal to be sending given the state of the economy. We're still very much living through what amounts to a low-grade depression — and the Fed's bad messaging reduces the chances that we're going to exit that depression any time soon.

The first thing you need to understand is how far we remain from full employment four years after the official end of the 2007-9 recession. It's true that measured unemployment is down — but that mainly reflects a decline in the number of people actively seeking jobs, rather than an increase in job availability. Look, for example, at the fraction of adults in their prime working years (25 to 54) who have jobs; that ratio fell from 80 to 75 percent in the recession, and has since recovered only to 76 percent.

Given this grim reality — plus very low inflation — you have to wonder why the Fed is talking at all about reducing its efforts on the economy's behalf.

Still, it's just talk, right? Well, yes — but what the Fed says often matters as much as or more than what it does. This is inherent in the relationship between what the Fed more or less directly controls, namely short-term interest rates, and longer-term rates, which reflect expected as well as current short-term rates. Even if the Fed leaves short rates unchanged for now, statements that convince investors that these rates will be going up sooner rather than later will cause long rates to rise. And because long rates are what mainly matter for private spending, this will weaken growth and employment.

Sure enough, rates have shot up since the tapering talk started. Two months ago the benchmark interest rate on 10-year U.S. government bonds was only 1.7 percent, close to a historic low. Since then the rate has risen to 2.4 percent — still low by normal standards, but, as I said, this isn't a normal economy. Maybe the economic recovery will, as the Fed predicts, continue and strengthen despite that increase in rates. But maybe not, and in any case higher rates will surely mean a slower recovery than we would have had if Fed officials had avoided all that talk of tapering.

Fed officials surely understand all of this. So what do they think they're doing?

One answer might be that the Fed has quietly come to agree with critics who argue that its easy-money policies are having damaging side-effects, say by increasing the risk of bubbles. But I hope that's not true, since whatever damage low rates may do is trivial compared with the damage higher rates, and the resulting rise in unemployment, would inflict.

In any case, my guess is that what's really happening is a bit different: Fed officials are, consciously or not, responding to political pressure. After all, ever since the Fed began its policy of aggressive monetary stimulus, it has faced angry accusations from the right that it is "debasing" the dollar and setting the stage for high inflation — accusations that haven't been retracted even though the dollar has remained strong and inflation has remained low. It's hard to avoid the suspicion that Fed officials, worn down by the constant attacks, have been looking for a reason to slacken their efforts, and have seized on slightly better economic news as an excuse.

And maybe they'll get away with it; maybe the economic recovery will strengthen and all will be well. But rising interest rates make that happy outcome less likely. And now that everyone knows that the Fed is eager to slacken off, it will be hard to get interest rates back down to where they were.

It's sad and depressing, in both senses of the word. The fundamental reason our economy is still depressed after all these years is that so many policy makers lost the thread, forgetting that job creation was their most urgent task. Until now the Fed was an exception; but now it seems to be joining the club. Et tu, Ben?