

Paul Krugman - New York Times Blog

February 27, 2013, 1:12 pm

Bernanke of Hippo

In discussing fiscal policy, I've been fond of quoting St. Augustine [of Hippo]: "Grant me chastity and continence, but not yet". Trying to slash the deficit while the economy is still up against the zero lower bound is a really bad idea, because it will depress the economy further and hurt both growth and revenue.

What's more, there really isn't any huge urgency about deficit reduction. Borrowing costs are low, and current projections show only a modest rise in the debt-GDP ratio over the next decade. Beyond that there are bigger issues — but these issues don't have to be solved right away, and should not be used to justify growth-killing austerity now.

But hey, I'm a crazy economic hippie, whom nobody agrees with — except, well, the chairman of the Federal Reserve. Allowing for the constraints of rhetoric that come with his position, Ben Bernanke's testimony today was highly Krugmanesque:

Significant progress has been made recently toward reducing the federal budget deficit over the next few years. The projections released earlier this month by the Congressional Budget Office (CBO) indicate that, under current law, the federal deficit will narrow from 7 percent of GDP last year to 2-1/2 percent in fiscal year 2015.⁸ As a result, the federal debt held by the public (including that held by the Federal Reserve) is projected to remain roughly 75 percent of GDP through much of the current decade.

However, a substantial portion of the recent progress in lowering the deficit has been concentrated in near-term budget changes, which, taken together, could create a significant headwind for the economic recovery ... Moreover, besides having adverse effects on jobs and incomes, a slower recovery would lead to less actual deficit reduction in the short run for any given set of fiscal actions.

...

To address both the near- and longer-term issues, the Congress and the Administration should consider replacing the sharp, frontloaded spending cuts required by the sequestration with policies that reduce the federal deficit more gradually in the near term but more substantially in the longer run.

Of course, credentials aren't dispositive here; Bernanke could be all wrong, failing to understand that if we don't slash spending now now now we'll turn into Greece, Greece I tell you. But these remarks should give pause to all the people who imagine that "nobody" except me and a couple of other crazies think that we're paying far too much attention to short-term deficits.

Privacy Policy

NYTimes.com 620 Eighth Avenue New York, NY 10018