Paul Krugman - New York Times Blog

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Fear of Froth

Carola Binder parses President Obama’s big interview with the Times, and thinks it hints at a Summers, or anyway non-Yellen appointment. Maybe; in any case, can I say just how really stupid it is for the White House to have allowed this show even to get started? Here we have Obama trying to reboot his economic message, and much of the reporting is instead focused on palace intrigue.

Anyway, the passage in question is striking; whatever it says about the Fed succession, it does give us a sense of how the people Obama listens to talk. And it’s not good:

> And what I’m looking for is somebody who understands the Fed has a dual mandate, that that’s not just lip service; that it is very important to keep inflation in check, to keep our dollar sound, and to ensure stability in the markets. But the idea is not just to promote those things in the abstract. The idea is to promote those things in service of the lives of ordinary Americans getting better.
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> And when unemployment is still too high, and long-term unemployment is still too high, and there’s still weak demand in a lot of industries, I want a Fed chairman that can step back and look at that objectively and say, let’s make sure that we’re growing the economy, but let’s also keep an eye on inflation, and if it starts heating up, if the markets start frothing up, let’s make sure that we’re not creating new bubbles.

So, here we are with inflation at a long-term low, many economists arguing that we need higher inflation expectations, and unemployment the overwhelming problem we face. Yet Obama appears if anything to give more emphasis to inflation-fighting than to unemployment reduction, and throws in stuff about bubbles; basically, he has a definite tight-money lean. I don’t know who it’s coming from.

And this has, by the way, been true all along. Back in the fall of 2009 the word I got was that senior Administration officials believed that we were in a Treasury bubble,and that long-term interest rates — then around 3.5 percent — might soar any day now. This in turn was partly behind the disastrous “pivot” away from unemployment to deficits.

The bad news from that Times interview is that it suggests that the president is still listening to the people who were telling him, four years ago, to be afraid of surging rates unless we turned to fiscal austerity. Not good.