

**PAUL KRUGMAN**

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# *Fiscal Scare Tactics*

These days it's hard to pick up a newspaper or turn on a news program without encountering stern warnings about the federal budget deficit. The deficit threatens economic recovery, we're told; it puts American economic stability at risk; it will undermine our influence in the world. These claims generally aren't stated as opinions, as views held by some analysts but disputed by others. Instead, they're reported as if they were facts, plain and simple.

Yet they aren't facts. Many economists take a much calmer view of budget deficits than anything you'll see on TV. Nor do investors seem unduly concerned: U.S. government bonds continue to find ready buyers, even at historically low interest rates. The long-run budget outlook is problematic, but short-term deficits aren't — and even the long-term outlook is much less frightening than the public is being led to believe.

So why the sudden ubiquity of deficit scare stories? It isn't being driven by any actual news. It has been obvious for at least a year that the U.S. government would face an extended period of large deficits, and projections of those deficits haven't changed much since last summer. Yet the drumbeat of dire fiscal warnings has grown vastly louder.

To me — and I'm not alone in this — the sudden outbreak of deficit hysteria brings back memories of the groupthink that took hold during the run-up to the Iraq war. Now, as then, dubious allegations, not backed by hard evidence, are being reported as if they have been established beyond a shadow of a doubt. Now, as then, much of the political and media establishments have bought into the notion that we must take drastic action quickly, even though there hasn't been any new information to justify this

sudden urgency. Now, as then, those who challenge the prevailing narrative, no matter how strong their case and no matter how solid their background, are being marginalized.

And fear-mongering on the deficit may end up doing as much harm as the fear-mongering on weapons of mass destruction.

Let's talk for a moment about budget reality. Contrary to what you often hear, the large deficit the federal government is running right now isn't the result of runaway spending growth. Instead, well more than half of the deficit was caused by the ongoing economic crisis, which has led to a plunge in tax receipts, required federal bailouts of financial institutions, and been met — appropriately

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## What's behind deficit hysteria?

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— with temporary measures to stimulate growth and support employment.

The point is that running big deficits in the face of the worst economic slump since the 1930s is actually the right thing to do. If anything, deficits should be bigger than they are because the government should be doing more than it is to create jobs.

True, there is a longer-term budget problem. Even a full economic recovery wouldn't balance the budget, and it probably wouldn't even reduce the deficit to a permanently sustainable level. So once the economic crisis is past, the U.S. government will have to increase its revenue and control its costs. And in

the long run there's no way to make the budget math work unless something is done about health care costs.

But there's no reason to panic about budget prospects for the next few years, or even for the next decade. Consider, for example, what the latest budget proposal from the Obama administration says about interest payments on federal debt; according to the projections, a decade from now they'll have risen to 3.5 percent of G.D.P. How scary is that? It's about the same as interest costs under the first President Bush.

Why, then, all the hysteria? The answer is politics.

The main difference between last summer, when we were mostly (and appropriately) taking deficits in stride, and the current sense of panic is that deficit fear-mongering has become a key part of Republican political strategy, doing double duty: it damages President Obama's image even as it cripples his policy agenda. And if the hypocrisy is breathtaking — politicians who voted for budget-busting tax cuts posing as apostles of fiscal rectitude, politicians demonizing attempts to rein in Medicare costs one day (death panels!), then denouncing excessive government spending the next — well, what else is new?

The trouble, however, is that it's apparently hard for many people to tell the difference between cynical posturing and serious economic argument. And that is having tragic consequences.

For the fact is that thanks to deficit hysteria, Washington now has its priorities all wrong: all the talk is about how to shave a few billion dollars off government spending, while there's hardly any willingness to tackle mass unemployment. Policy is headed in the wrong direction — and millions of Americans will pay the price. □

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# Now That's Rich

We need to pinch pennies these days. Don't you know we have a budget deficit? For months that has been the word from Republicans and conservative Democrats, who have rejected every suggestion that we do more to avoid deep cuts in public services and help the ailing economy.

But these same politicians are eager to cut checks averaging \$3 million each to the richest 120,000 people in the country.

What — you haven't heard about this proposal? Actually, you have: I'm talking about demands that we make all of the Bush tax cuts, not just those for the middle class, permanent.

Some background: Back in 2001, when the first set of Bush tax cuts was rammed through Congress, the legislation was written with a peculiar provision — namely, that the whole thing would expire, with tax rates reverting to

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Three million  
for me, nothing  
for thee.

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2000 levels, on the last day of 2010.

Why the cutoff date? In part, it was used to disguise the fiscal irresponsibility of the tax cuts: lopping off that last year reduced the headline cost of the cuts, because such costs are normally calculated over a 10-year period. It also allowed the Bush administration to pass the tax cuts using reconciliation — yes, the same procedure that Republicans denounced when it was used to enact health reform — while sidestepping rules designed to prevent the use of that procedure to increase long-run budget

deficits.

Obviously, the idea was to go back at a later date and make those tax cuts permanent. But things didn't go according to plan. And now the witching hour is upon us.

So what's the choice now? The Obama administration wants to preserve those parts of the original tax cuts that mainly benefit the middle class — which is an expensive proposition in its own right — but to let those provisions benefiting only people with very high incomes expire on schedule. Republicans, with support from some conservative Democrats, want to keep the whole thing.

And there's a real chance that Republicans will get what they want. That's a demonstration, if anyone needed one, that our political culture has become not just dysfunctional but deeply corrupt.

What's at stake here? According to the nonpartisan Tax Policy Center, making all of the Bush tax cuts permanent, as opposed to following the Obama proposal, would cost the federal government \$680 billion in revenue over the next 10 years. For the sake of comparison, it took months of hard negotiations to get Congressional approval for a mere \$26 billion in desperately needed aid to state and local governments.

And where would this \$680 billion go? Nearly all of it would go to the richest 1 percent of Americans, people with incomes of more than \$500,000 a year. But that's the least of it: the policy center's estimates say that the majority of the tax cuts would go to the richest one-tenth of 1 percent. Take a group of 1,000 randomly selected Americans, and pick the one with the highest income; he's going to get the majority of that group's tax break. And the average tax break for those lucky few — the poorest members of the group have annual incomes of more than \$2 million, and the average

member makes more than \$7 million a year — would be \$3 million over the course of the next decade.

How can this kind of giveaway be justified at a time when politicians claim to care about budget deficits? Well, history is repeating itself. The original campaign for the Bush tax cuts relied on deception and dishonesty. In fact, my first suspicions that we were being misled into invading Iraq were based on the resemblance between the campaign for war and the campaign for tax cuts the previous year. And sure enough, that same trademark deception and dishonesty is being deployed on behalf of tax cuts for the wealthiest Americans.

So, for example, we're told that it's all about helping small business; but only a tiny fraction of small-business owners would receive any tax break at all. And how many small-business owners do you know making several million a year?

Or we're told that it's about helping the economy recover. But it's hard to think of a less cost-effective way to help the economy than giving money to people who already have plenty, and aren't likely to spend a windfall.

No, this has nothing to do with sound economic policy. Instead, as I said, it's about a dysfunctional and corrupt political culture, in which Congress won't take action to revive the economy, pleads poverty when it comes to protecting the jobs of schoolteachers and firefighters, but declares cost no object when it comes to sparing the already wealthy even the slightest financial inconvenience.

So far, the Obama administration is standing firm against this outrage. Let's hope that it prevails in its fight. Otherwise, it will be hard not to lose all faith in America's future. □

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# Downhill With The G.O.P.

Once upon a time, a Latin American political party promised to help motorists save money on gasoline. How? By building highways that ran only downhill.

I've always liked that story, but the truth is that the party received hardly any votes. And that means that the joke is really on us. For these days one of America's two great political parties routinely makes equally nonsensical promises. Never mind the war on terror, the party's main concern seems to be the war on arithmetic. And this party has a better than even chance of retaking at least one house of Congress this November.

Banana republic, here we come.

On Thursday, House Republicans released their "Pledge to America," supposedly outlining their policy agenda. In essence, what they say is, "Deficits are a terrible thing. Let's make them much bigger." The document repeatedly condemns federal debt — 16 times, by my count. But the main substantive policy proposal is to make the Bush tax cuts permanent, which independent estimates say would add about \$3.7 trillion to the debt over the next decade — about \$700 billion more than the Obama administration's tax proposals.

True, the document talks about the need to cut spending. But as far as I can see, there's only one specific cut proposed — canceling the rest of the Troubled Asset Relief Program, which Republicans claim (implausibly) would save \$16 billion. That's less than half of 1 percent of the budget cost of those tax cuts. As for the rest, everything must be cut, in ways not specified — "except for common-sense exceptions for seniors, veterans, and our troops." In other words, Social Security, Medicare and the defense budget are off-limits.

So what's left? Howard Gleckman of

the nonpartisan Tax Policy Center has done the math. As he points out, the only way to balance the budget by 2020, while simultaneously (a) making the Bush tax cuts permanent and (b) protecting all the programs Republicans say they won't cut, is to completely abolish the rest of the federal government: "No more national parks, no more Small Business Administration loans, no more export subsidies, no more N.I.H. No more Medicaid (one-third of its budget pays for long-term care for our parents and others with disabilities). No more child health or child nutrition programs. No more highway

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**Banana republic,  
here we come.**

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construction. No more homeland security. Oh, and no more Congress."

The "pledge," then, is nonsense. But isn't that true of all political platforms? The answer is, not to anything like the same extent. Many independent analysts believe that the Obama administration's long-run budget projections are somewhat too optimistic — but, if so, it's a matter of technical details. Neither President Obama nor any other leading Democrat, as far as I can recall, has ever claimed that up is down, that you can sharply reduce revenue, protect all the programs voters like, and still balance the budget.

And the G.O.P. itself used to make more sense than it does now. Ronald Reagan's claim that cutting taxes would actually increase revenue was wishful thinking, but at least he had some kind of theory behind his proposals. When

former President George W. Bush campaigned for big tax cuts in 2000, he claimed that these cuts were affordable given (unrealistic) projections of future budget surpluses. Now, however, Republicans aren't even pretending that their numbers add up.

So how did we get to the point where one of our two major political parties isn't even trying to make sense?

The answer isn't a secret. The late Irving Kristol, one of the intellectual godfathers of modern conservatism, once wrote frankly about why he threw his support behind tax cuts that would worsen the budget deficit: his task, as he saw it, was to create a Republican majority, "so political effectiveness was the priority, not the accounting deficiencies of government." In short, say whatever it takes to gain power. That's a philosophy that now, more than ever, holds sway in the movement Kristol helped shape.

And what happens once the movement achieves the power it seeks? The answer, presumably, is that it turns to its real, not-so-secret agenda, which mainly involves privatizing and dismantling Medicare and Social Security.

Realistically, though, Republicans aren't going to have the power to enact their true agenda any time soon — if ever. Remember, the Bush administration's attack on Social Security was a fiasco, despite its large majority in Congress — and it actually increased Medicare spending.

So the clear and present danger isn't that the G.O.P. will be able to achieve its long-run goals. It is, rather, that Republicans will gain just enough power to make the country ungovernable, unable to address its fiscal problems or anything else in a serious way. As I said, banana republic, here we come. □

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# The Hijacked Commission

Count me among those who always believed that President Obama made a big mistake when he created the National Commission on Fiscal Responsibility and Reform — a supposedly bipartisan panel charged with coming up with solutions to the nation's long-run fiscal problems. It seemed obvious, as soon as the commission's membership was announced, that "bipartisanship" would mean what it so often does in Washington: a compromise between the center-right and the hard-right.

My misgivings increased as we got a better feel for the views of the commission's co-chairmen. It soon became clear that Erskine Bowles, the Democratic co-chairman, had a very Republican-sounding small-government agenda. Meanwhile, Alan Simpson, the Republican co-chairman, revealed the kind of honest broker he is by sending an abusive e-mail to the executive director of the National Older Women's League in which he described Social Security as being "like a milk cow with 310 million tits."

We've known for a long time, then, that nothing good would come from the commission. But on Wednesday, when the co-chairmen released a PowerPoint outlining their proposal, it was even worse than the cynics expected.

Start with the declaration of "Our Guiding Principles and Values." Among them is, "Cap revenue at or below 21% of G.D.P." This is a guiding principle? And why is a commission charged with finding every possible route to a balanced budget setting an upper (but not lower) limit on revenue?

Matters become clearer once you reach the section on tax reform. The goals of reform, as Mr. Bowles and Mr. Simpson see them, are presented in the form of seven bullet points. "Lower Rates" is the first point; "Reduce the Deficit" is the seventh.

So how, exactly, did a deficit-cutting commission become a commission whose first priority is cutting tax rates, with deficit reduction literally at the bottom of the list?

Actually, though, what the co-chairmen are proposing is a mixture of tax cuts and tax increases — tax cuts for the wealthy, tax increases for the middle class. They suggest eliminating tax breaks that, whatever you think of them, matter a lot to middle-class Americans — the deductibility of health benefits and mortgage interest — and using much of the revenue gained thereby, not to reduce the deficit, but to allow sharp reductions in both the top marginal tax rate and in the corporate tax rate.

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## A truly terrible budget proposal.

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It will take time to crunch the numbers here, but this proposal clearly represents a major transfer of income upward, from the middle class to a small minority of wealthy Americans. And what does any of this have to do with deficit reduction?

Let's turn next to Social Security. There were rumors beforehand that the commission would recommend a rise in the retirement age, and sure enough, that's what Mr. Bowles and Mr. Simpson do. They want the age at which Social Security becomes available to rise along with average life expectancy. Is that reasonable?

The answer is no, for a number of reasons — including the point that working until you're 69, which may sound doable

for people with desk jobs, is a lot harder for the many Americans who still do physical labor.

But beyond that, the proposal seemingly ignores a crucial point: while average life expectancy is indeed rising, it's doing so mainly for high earners, precisely the people who need Social Security least. Life expectancy in the bottom half of the income distribution has barely inched up over the past three decades. So the Bowles-Simpson proposal is basically saying that janitors should be forced to work longer because these days corporate lawyers live to a ripe old age.

Still, can't we say that for all its flaws, the Bowles-Simpson proposal is a serious effort to tackle the nation's long-run fiscal problem? No, we can't.

It's true that the PowerPoint contains nice-looking charts showing deficits falling and debt levels stabilizing. But it becomes clear, once you spend a little time trying to figure out what's going on, that the main driver of those pretty charts is the assumption that the rate of growth in health-care costs will slow dramatically. And how is this to be achieved? By "establishing a process to regularly evaluate cost growth" and taking "additional steps as needed." What does that mean? I have no idea.

It's no mystery what has happened on the deficit commission: as so often happens in modern Washington, a process meant to deal with real problems has been hijacked on behalf of an ideological agenda. Under the guise of facing our fiscal problems, Mr. Bowles and Mr. Simpson are trying to smuggle in the same old, same old — tax cuts for the rich and erosion of the social safety net.

Can anything be salvaged from this wreck? I doubt it. The deficit commission should be told to fold its tents and go away. □

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# The Humbug Express

Hey, has anyone noticed that “A Christmas Carol” is a dangerous leftist tract?

I mean, consider the scene, early in the book, where Ebenezer Scrooge rightly refuses to contribute to a poverty relief fund. “I’m opposed to giving people money for doing nothing,” he declares. Oh, wait. That wasn’t Scrooge. That was Newt Gingrich — last week. What Scrooge actually says is, “Are there no prisons?” But it’s pretty much the same thing.

Anyway, instead of praising Scrooge for his principled stand against the welfare state, Charles Dickens makes him out to be some kind of bad guy. How leftist is that?

As you can see, the fundamental issues of public policy haven’t changed since Victorian times. Still, some things are different. In particular, the production of humbug — which was still a somewhat amateurish craft when Dickens wrote — has now become a systematic, even industrial, process.

Let me walk you through a case in point, one that I’ve been following lately.

If you listen to the recent speeches of Republican presidential hopefuls, you’ll find several of them talking at length about the harm done by unionized gov-

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## America’s nonsense industry at work.

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ernment workers, who have, they say, multiplied under the Obama administration. A recent example was an op-ed article by the outgoing Minnesota governor

Tim Pawlenty, who declared that “thanks to President Obama,” government is the only booming sector in our economy: “Since January 2008” — silly me, I thought Mr. Obama wasn’t inaugurated until 2009 — “the private sector has lost nearly eight million jobs, while local, state and federal governments added 590,000.”

Horrors! Except that according to the Bureau of Labor Statistics, government employment has fallen, not risen, since January 2008. And since January 2009, when Mr. Obama actually did take office, government employment has fallen by more than 300,000 as hard-pressed state and local governments have been forced to lay off teachers, police officers, firefighters and other workers.

So how did the notion of a surge in government payrolls under Mr. Obama take hold?

It turns out that last spring there was, in fact, a bulge in government employment. And both politicians and researchers at humbug factories — I mean, conservative think tanks — quickly seized on this bulge as evidence of an exploding public sector. Over the summer, articles and speeches began to appear highlighting the rise in government employment and issuing dire warnings about what it portended for America’s future.

But anyone paying attention knew why public employment had risen — and it had nothing to do with Big Government. It was, instead, the fact that the federal government had to hire a lot of temporary workers to carry out the 2010 Census — workers who have almost all left the payroll now that the Census is done.

Is it really possible that the authors of those articles and speeches about soaring public employment didn’t know what was going on? Well, I guess we should never assume malice when ignorance remains a possibility.

There has not, however, been any visible effort to retract those erroneous claims. And this isn’t the only case of a claimed huge expansion in government that turns out to be nothing of the kind. Have you heard the one about how there’s been an explosion in the number of federal regulators? Mike Konczal of the Roosevelt Institute looked into the numbers behind that claim, and it turns out that almost all of those additional “regulators” work for the Department of Homeland Security, protecting us against terrorists.

Still, why does it matter what some politicians and think tanks say? The answer is that there’s a well-developed right-wing media infrastructure in place to catapult the propaganda, as former President George W. Bush put it, to rapidly disseminate bogus analysis to a wide audience where it becomes part of what “everyone knows.” (There’s nothing comparable on the left, which has fallen far behind in the humbug race.)

And it’s a very effective process. When discussing the alleged huge expansion of government under Mr. Obama, I’ve repeatedly found that people just won’t believe me when I try to point out that it never happened. They assume that I’m lying, or somehow cherry-picking the data. After all, they’ve heard over and over again about that surge in government spending and employment, and they don’t realize that everything they’ve heard was a special delivery from the Humbug Express.

So in this holiday season, let’s remember the wisdom of Ebenezer Scrooge. Not the bit about denying food and medical care to those who need them: America’s failure to take care of its own less-fortunate citizens is a national disgrace. But Scrooge was right about the prevalence of humbug. And we’d be much better off as a nation if more people had the courage to say “Bah!” □