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The Conscience of a Liberal

PAUL KRUGMAN

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Against Stupidity, The IMF Itself Contends In Vain

Yesterday the IMF [chided the United States](#) for spending too little and cutting its budget deficit too fast — and most people, if they heard about it, just shrugged. To be honest, that was my initial reaction too: we’ve come to accept the sheer stupidity of our current economic policies, and the fact that apparently nothing can be done about it, as part of the “new normal”.

Still, every once in a while we should step back and consider the awesomeness of the situation. Normally, we expect governments to have trouble containing demands that they spend more and/or tax less. Normally, we expect the IMF to be a fiscal scold, telling spendthrift governments to make tough choices; the old joke is that IMF stands for It’s Mostly Fiscal.

But now we’re in a situation — a liquidity trap — in which more government spending is a good thing, because it helps put unemployed resources to work; meanwhile, the cost in terms of future debt service is minimal, because interest rates are so low. Both ends of the intellectual case for austerity — the claim that spending cuts are actually expansionary and the claim that terrible things happen when debt rises even if interest rates are low — have collapsed. What could be easier, then, than for politicians to make constituents happy by spending more on things voters like?

So what happens? More austerity, because a party dedicated to the proposition that less government is always more blackmailed Obama into accepting the sequester, and now uses its blocking power to prevent any solution; and it’s true, Obama has chosen not to make this a central political issue. There are many ways to show how big the government shortfall is; here’s a comparison of the track of [overall government spending](#) (federal, state, and local) during the last recession and aftermath with the Great Recession and aftermath, just in dollar terms (if we did it in, say, real per capita terms you’d see that spending is falling fairly quickly):

If government spending had grown at normal rates since 2007, it would be hundreds of billions higher than it is — and the unemployment rate would probably be 6 percent or less. At this point austerity is the main reason we’re still in an inadequate recovery.

But there isn’t even a hint of significant movement on fiscal policy. It’s really amazing.