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Fears and Failure

By **PAUL KRUGMAN**

From G.D.P. to private-sector payrolls, from business surveys to new claims for unemployment insurance, key economic indicators suggest that the recovery may be sputtering.

And it wasn't much of a recovery to start with. Employment has risen from its low point, but it has grown no faster than the adult population. And the plight of the unemployed continues to worsen: more than six million Americans have been out of work for six months or longer, and more than four million have been jobless for more than a year.

It would be nice if someone in Washington actually cared.

It's not as if our political class is feeling complacent. On the contrary, D.C. economic discourse is saturated with fear: fear of a debt crisis, of runaway inflation, of a disastrous plunge in the dollar. Scare stories are very much on politicians' minds.

Yet none of these scare stories reflect anything that is actually happening, or is likely to happen. And while the threats are imaginary, fear of these imaginary threats has real consequences: an absence of any action to deal with the real crisis, the suffering now being experienced by millions of jobless Americans and their families.

What does Washington currently fear? Topping the list is fear that budget deficits will cause a fiscal crisis any day now. In fact, a number of people — like Erskine Bowles and Alan Simpson, the co-chairmen of President Obama's debt commission — have settled on a specific time frame: terrible things will happen within two years unless we make drastic spending cuts.

I have no idea where that two-year deadline comes from. After all, what we do in the next couple of years hardly matters at all for U.S. solvency, which mainly depends on what we'll do in the long run about Medicare and taxes. And, for what it's worth, actual investors — people putting real money on the line — are notably unworried about any near-term fiscal

crisis: the Treasury Department continues to have no trouble selling debt and remains able to borrow very cheaply, indicating high confidence on the part of investors that debts will be repaid in full.

Do the scare-mongers even believe their own stories? Maybe not. As Jonathan Chait of The New Republic notes, the politicians most given to apocalyptic rhetoric about the deficit are also utterly opposed to any tax increase; they argue that debt is destroying America, but they'd rather let that happen than accept even a dime of higher taxes. Yet the inconsistency and probable insincerity of their fear-mongering hasn't stopped it from having a huge effect on policy debate.

The deficit isn't the only unfounded fear. I've written before about misguided inflation fear, but, for now, let me focus on a new issue that has suddenly begun to loom large in opinion pieces and remarks on talk shows: fear of a disastrous plunge in the dollar. (Who sends out the memos telling people what to worry about, and why don't I get them?)

What you would never know from all the agitated dollar discussion is that the recent dollar slide is actually tiny compared with big drops in the past, notably under the administration of George W. Bush and during Ronald Reagan's second term. And you'd also never know that those earlier dollar slides, far from hurting the economy, were beneficial, because they helped U.S. manufacturing compete on world markets.

Which brings me back to the destructive effect of focusing on invisible monsters. For the clear and present danger to the American economy isn't what some people imagine might happen one of these days, it's what is actually happening now.

Unemployment isn't just blighting the lives of millions, it's undermining America's future. The longer this goes on, the more workers will find it impossible ever to return to employment, the more young people will find their prospects destroyed because they can't find a decent starting job. It may not create excited chatter on cable TV, but the unemployment crisis is real, and it's eating away at our society.

Yet any action to help the unemployed is vetoed by the fear-mongers. Should we spend modest sums on job creation? No way, say the deficit hawks, who threaten us with the purely hypothetical wrath of financial markets, and, in fact, demand that we slash spending now now now — which might well send us back into recession. Should the Federal Reserve do more to promote expansion? No, say the inflation and dollar hawks, who have been wrong again and again but insist that this time their dire warnings about runaway prices

and a plunging dollar really will be vindicated.

So we're paying a heavy price for Washington's obsession with phantom menaces. By looking for trouble in all the wrong places, our political class is preventing us from dealing with the real crisis: the millions of American men and women who can't find work.