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Axis of Depression

By PAUL KRUGMAN

What do the government of China, the government of Germany and the Republican Party have in common? They're all trying to bully the Federal Reserve into calling off its efforts to create jobs. And the motives of all three are highly suspect.

It's not as if the Fed is doing anything radical. It's true that the Fed normally conducts monetary policy by buying short-term U.S. government debt, whereas now, under the unhelpful name of "quantitative easing," it's buying longer-term debt. (Buying more short-term debt is pointless because the interest rate on that debt is near zero.) But Ben Bernanke, the Fed chairman, had it right when he protested that this is "just monetary policy." The Fed is trying to reduce interest rates, as it always does when unemployment is high and inflation is low.

And inflation is indeed low. Core inflation — a measure that excludes volatile food and energy prices, and is widely considered a better gauge of underlying trends than the headline number — is running at just 0.6 percent, the lowest level ever recorded. Meanwhile, unemployment is almost 10 percent, and long-term unemployment is worse than it has been since the Great Depression.

So the case for Fed action is overwhelming. In fact, the main concern reasonable people have about the Fed's plans — a concern that I share — is that they are likely to prove too weak, too ineffective.

But there are reasonable people — and then there's the China-Germany-G.O.P. axis of depression.

It's no mystery why China and Germany are on the warpath against the Fed. Both nations are accustomed to running huge trade surpluses. But for some countries to run trade surpluses, others must run trade deficits — and, for years, that has meant us. The Fed's expansionary policies, however, have the side effect of somewhat weakening the dollar, making U.S. goods more competitive, and paving the way for a smaller U.S. deficit. And the Chinese and Germans don't want to see that happen.

For the Chinese government, by the way, attacking the Fed has the additional benefit of shifting attention away from its own currency manipulation, which keeps China's currency artificially weak — precisely the sin China falsely accuses America of committing.

But why are Republicans joining in this attack?

Mr. Bernanke and his colleagues seem stunned to find themselves in the cross hairs. They thought they were acting in the spirit of none other than Milton Friedman, who blamed the Fed for not acting more forcefully during the Great Depression — and who, in 1998, called on the Bank of Japan to “buy government bonds on the open market,” exactly what the Fed is now doing.

Republicans, however, will have none of it, raising objections that range from the odd to the incoherent.

The odd: on Monday, a somewhat strange group of Republican figures — who knew that William Kristol was an expert on monetary policy? — released an open letter to the Fed warning that its policies “risk currency debasement and inflation.” These concerns were echoed in a letter the top four Republicans in Congress sent Mr. Bernanke on Wednesday. Neither letter explained why we should fear inflation when the reality is that inflation keeps hitting record lows.

And about dollar debasement: leaving aside the fact that a weaker dollar actually helps U.S. manufacturing, where were these people during the previous administration? The dollar slid steadily through most of the Bush years, a decline that dwarfs the recent downtick. Why weren't there similar

letters demanding that Alan Greenspan, the Fed chairman at the time, tighten policy?

Meanwhile, the incoherent: Two Republicans, Mike Pence in the House and Bob Corker in the Senate, have called on the Fed to abandon all efforts to achieve full employment and focus solely on price stability. Why? Because unemployment remains so high. No, I don't understand the logic either.

So what's really motivating the G.O.P. attack on the Fed? Mr. Bernanke and his colleagues were clearly caught by surprise, but the budget expert Stan Collender predicted it all. Back in August, he warned Mr. Bernanke that "with Republican policy makers seeing economic hardship as the path to election glory," they would be "opposed to any actions taken by the Federal Reserve that would make the economy better." In short, their real fear is not that Fed actions will be harmful, it is that they might succeed.

Hence the axis of depression. No doubt some of Mr. Bernanke's critics are motivated by sincere intellectual conviction, but the core reason for the attack on the Fed is self-interest, pure and simple. China and Germany want America to stay uncompetitive; Republicans want the economy to stay weak as long as there's a Democrat in the White House.

And if Mr. Bernanke gives in to their bullying, they may all get their wish.



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