



PRINTER-FRIENDLY FORMAT
SPONSORED BY

This copy is for your personal, noncommercial use only. You can order presentation-ready copies for distribution to your colleagues, clients or customers [here](#) or use the "Reprints" tool that appears next to any article. Visit www.nytreprints.com for samples and additional information. [Order a reprint of this article now.](#)

June 8, 2010

Stimulus Talk Yields to Calls to Cut Deficits

By [DAVID E. SANGER](#) and [SEWELL CHAN](#)

WASHINGTON — At a moment when many economists warn that the American economic recovery is likely to be imperiled by prolonged high unemployment and slow growth, [President Obama](#) is discovering that the tools available to him last year — a big economic stimulus and action by the [Federal Reserve](#) — are both now politically untenable.

The mood in both parties of Congress has turned decidedly anti-deficit, meaning that the job-creation programs once favored by the White House and Democratic leaders in Congress have been cut back, then cut again. It is a measure of the mood that Mr. Obama on Tuesday hailed an initiative by his administration to cut the budgets of most major government agencies by 5 percent, at a time when conventional theory would call for more government spending to lift the economy.

Even the Federal Reserve is pulling in its horns. No one could expect it to cut interest rates further — they are at rock bottom. But spurred by inflation hawks in their midst, the Fed has gotten out of the business of buying [Treasury securities](#) and mortgage bonds, one of its main strategies over the last two years for pushing down long-term interest rates.

Over the last few weeks, the cautious optimism that the economy is on the mend has given way to more caution than optimism.

“My best guess is that we’ll have a continued recovery, but it won’t feel terrific,” [Ben S. Bernanke](#), the Fed

chairman, said at a dinner at the Woodrow Wilson International Center for Scholars on Monday night. “And the reason it won’t feel terrific is that it’s not going to be fast enough to put back eight million people who lost their jobs within a few years.”

One could almost envision the wincing in the White House as Mr. Bernanke observed that the unemployment rate “will stay high for some time.” He went on to note that even if the economy grew at 3 percent, which would be considered a healthy pace, it would do little more than keep pace with the normal rate of growth of the work force.

Virtually every day of late, White House officials have struggled to explain how their strategies to provide economic stimulus to bring down the unemployment rate square with Mr. Obama’s oft-expressed commitment to tackle a record budget deficit. They talk about spending this year — in modest amounts — while waiting for the prescriptions of the president’s commission on debt reduction, which reports, conveniently, a few weeks after the midterm elections.

In the next breath, they say that the only long-term strategy that will get Americans back to work and bring the deficit under control is promoting rapid economic growth. That is the elixir that allowed the Clinton administration, where many members of Mr. Obama’s team cut their teeth, to briefly wipe out budget deficits. But for now, it is unclear where that growth will come from — and how soon.

So rather than promoting another broad **stimulus package**, the White House is pointing to a series of familiar-sounding, low-cost measures to create jobs: stimulating export-oriented manufacturing, subsidizing energy-efficiency improvements by homeowners, preventing layoffs of teachers and police officers and pressing for a new (and unpaid for) highway bill that could, like the Census, create a short-term burst in hiring.

Lawrence H. Summers, the director of the National Economic Council and the economic adviser at Mr. Obama’s elbow, argued that the effects of last year’s \$787 billion spending program had not fully kicked in. “Given fiscal lag, the Recovery Act is still gaining force and having increasing impact,” he said, adding that the administration’s job approach “goes beyond spending programs” to include mortgage relief for homeowners and expanded lending to small businesses. “We will not let up on jobs as a priority until unemployment returns to normal levels.”

Although Congress has enacted or is likely to pass an estimated \$200 billion worth of additional spending since last year's stimulus package, the appetite for a big new fiscal boost has slackened.

The anti-deficit mood is not limited to Washington. Over the last two days, Britain and Germany have announced austerity plans, in contrast to what many in Europe were arguing for a year ago. Spain and France have announced similar moves. The politics of those moves vary from country to country: in Britain, it is explained by the election of a Conservative government; in Germany by the usual postwar German aversion to deficits.

But the crisis in Greece has focused minds across Europe, especially in Spain, Portugal and Ireland. So just two weeks ahead of a meeting of the [Group of 20](#) economic powers in Toronto, there is a widespread consensus that grand stimulus programs are a thing of the past.

The box that Europe, the Obama administration and Congress find themselves in today — desperate to stimulate the economy and fearful of the political reaction — gives new meaning to [Milton Friedman's](#) famous line from the mid-1960s. "In one sense, we are all Keynesians now," he wrote to [Time](#) magazine, referring to the theories of [John Maynard Keynes](#), who called for government spending to counter downward cycles in the economy. In a less-remembered continuation of that sentence, he added, "in another, nobody is any longer a Keynesian."

Today they are periodic Keynesians. The Senate has taken up a jobs bill that could cost \$100 billion over the next decade, a fraction of last year's historic stimulus package, but significant by the standards of other such jobs packages over the last two decades. "Here in the Senate, jobs will remain priority No. 1," Senator [Charles E. Schumer](#), a Democrat of New York, said Tuesday. "It'll be almost an obsession to us."

Not surprisingly, the parties cannot agree on the best path to satisfy their obsessions.

"The failure of this Congress to even produce a budget, let alone get spending under control, is doing direct harm to our economy," Representative Dave Camp of Michigan, the top Republican on the House Ways and Means Committee, said Tuesday, arguing that the \$13 trillion national debt was choking off growth.

Although a growing number of economists now expect the Fed to start tightening monetary policy next year, rather than later this year, there is little sense that it will resume buying assets and printing money to do so — a

strategy called **quantitative easing**.

Given that inflation is well below the Fed's unofficial target of about 2 percent, Joseph E. Gagnon, a former Fed economist at the Peterson Institute for International Economics, argued, "With both employment and inflation below desired levels over the foreseeable future, the case for more monetary ease is strong."

But Johan Van Overtveldt, an economist in Brussels and the author of a book on Mr. Bernanke, said he did not believe the Fed was ready to buy that argument just yet. "The Fed has already carried out monetary policies never seen before in American history," he said. "A second round of quantitative easing at the moment would substantially increase inflationary risks."

More in Economy (26 of 27 articles)

European Stocks Follow Asian Markets' Decline

[Read More »](#)