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The President Surrenders

By PAUL KRUGMAN

A deal to raise the federal debt ceiling is in the works. If it goes through, many commentators will declare that disaster was avoided. But they will be wrong.

For the deal itself, given the available information, is a disaster, and not just for President Obama and his party. It will damage an already depressed economy; it will probably make America's long-run deficit problem worse, not better; and most important, by demonstrating that raw extortion works and carries no political cost, it will take America a long way down the road to banana-republic status.

Start with the economics. We currently have a deeply depressed economy. We will almost certainly continue to have a depressed economy all through next year. And we will probably have a depressed economy through 2013 as well, if not beyond.

The worst thing you can do in these circumstances is slash government spending, since that will depress the economy even further. Pay no attention to those who invoke the confidence fairy, claiming that tough action on the budget will reassure businesses and consumers, leading them to spend more. It doesn't work that way, a fact confirmed by many studies of the historical record.

Indeed, slashing spending while the economy is depressed won't even help the budget situation much, and might well make it worse. On one side, interest rates on federal borrowing are currently very low,

so spending cuts now will do little to reduce future interest costs. On the other side, making the economy weaker now will also hurt its long-run prospects, which will in turn reduce future revenue. So those demanding spending cuts now are like medieval doctors who treated the sick by bleeding them, and thereby made them even sicker.

And then there are the reported terms of the deal, which amount to an abject surrender on the part of the president. First, there will be big spending cuts, with no increase in revenue. Then a panel will make recommendations for further deficit reduction — and if these recommendations aren't accepted, there will be more spending cuts.

Republicans will supposedly have an incentive to make concessions the next time around, because defense spending will be among the areas cut. But the G.O.P. has just demonstrated its willingness to risk financial collapse unless it gets everything its most extreme members want. Why expect it to be more reasonable in the next round?

In fact, Republicans will surely be emboldened by the way Mr. Obama keeps folding in the face of their threats. He surrendered last December, extending all the Bush tax cuts; he surrendered in the spring when they threatened to shut down the government; and he has now surrendered on a grand scale to raw extortion over the debt ceiling. Maybe it's just me, but I see a pattern here.

Did the president have any alternative this time around? Yes.

First of all, he could and **should have demanded an increase** in the debt ceiling back in December.

When asked why he didn't, he replied that he was sure that Republicans would act responsibly. Great call.

And even now, the Obama administration could have resorted to legal maneuvering to sidestep the debt ceiling, using any of several options. In ordinary circumstances, this might have been an extreme step. But faced with the reality of what is happening, namely raw extortion on the part of a party that, after all, only controls one house of Congress, it would have been totally justifiable.

At the very least, Mr. Obama could have used the possibility of a legal end run to strengthen his bargaining position. Instead, however, he ruled all such options out from the beginning.

But wouldn't taking a tough stance have worried markets? Probably not. In fact, if I were an investor I would be reassured, not dismayed, by a demonstration that the president is willing and able to stand up to blackmail on the part of right-wing extremists. Instead, he has chosen to demonstrate the opposite.

Make no mistake about it, what we're witnessing here is a catastrophe on multiple levels.

It is, of course, a political catastrophe for Democrats, who just a few weeks ago seemed to have Republicans on the run over their plan to dismantle Medicare; now Mr. Obama has thrown all that away. And the damage isn't over: there will be more choke points where Republicans can threaten to create a crisis unless the president surrenders, and they can now act with the confident expectation that he will.

In the long run, however, Democrats won't be the only losers. What Republicans have just gotten away with calls our whole system of government into question. After all, how can American democracy work if whichever party is most prepared to be ruthless, to threaten the nation's economic security, gets to dictate policy? And the answer is, maybe it can't.



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