

Attack of the headless chickens

Paul Krugman, *The New York Times*, August 20, 2019

One of my parents' favorite expressions about a panicky person was "He's running around like a chicken with its head cut off." As a suburban kid, I have no idea whether decapitated chickens actually do run around. But the expression seems apt for Trump and his economic officials over the past few days.

Now, the economic news isn't actually all that bad, at least so far. Growth has slowed, probably to around 2 percent, manufacturing is down, and the trade deficit has gotten bigger, not smaller. But it's by no means clear that we're heading for an actual recession. Bond markets are signaling gloom, but this doesn't look or feel anything like, say, early 2008, let alone the chaos of late 2008.

But Trump and his inner circle are acting — to mix my chicken metaphors — as if the sky is falling. Trump is lashing out at what he considers a conspiracy to get him. He's accusing the Federal Reserve of sabotaging his boom, even though interest rates are actually a lot lower than the administration projected in its own rosy forecasts from last year. He's also blaming Democrats who, he says, are "trying to 'will' the Economy to be bad."

By the way, it's news to me that opposition politicians can drag the economy down just by thinking bad thoughts. Since the term "voodoo economics" is already taken, I'd suggest that we call this "hoodoo economics."

Anyway, Trump and company are flailing. Trump is demanding drastic policy easing from the Fed, on a scale that normally only happens when the economy is definitely sliding into recession. Officials have also drawn up a white paper suggesting a cut in payroll taxes, to boost consumer spending by putting more money in the hands of ordinary workers.

What's striking about these proposals isn't just the evident panic they display. It's the implicit admission that Republican economic thinking has been wrong all along.

Some readers may remember the G.O.P.'s furious attacks on the Fed for pursuing an easy-money policy back in 2010-2011, when the economy desperately needed a boost in the face of high unemployment. Such policies, Republican leaders claimed, would lead to inflation and "debase" the dollar. Now Trump is demanding similar policies, even though unemployment remains at a historic low.

Republicans also denounced and ridiculed the Obama administration's efforts at fiscal stimulus, which included payroll tax cuts intended to raise workers' incomes and lead to higher spending. Trump's 2017 tax cut basically bypassed ordinary workers, giving big tax breaks to corporations instead, on the theory that these tax cuts would trickle down to the middle class. Now the Trump administration is basically admitting that trickle-down isn't working and that Obama-style stimulus is actually the right way to go.

For what it's worth, I don't think any of these desperate measures is likely to happen anytime soon. The Fed is in no mood to be bullied by a president it believes has damaged the economy with his trade war. And while Democrats might support a clean payroll tax cut that really went to workers, my guess is that Republicans won't be able to resist the temptation to lard their proposals up with more goodies for the rich.

And maybe none of it will be needed. We don't actually know that a recession is coming. But if it does come, we know how the administration will respond: with blind panic.