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Other People's Money

By PAUL KRUGMAN

It wasn't true when Richard Nixon said it, but it is true today: We are all Keynesians now — at least when we look at our own economy. We give anti-Keynesian advice only to other countries.

When it comes to the U.S. economy, everyone — including people who imagine that they have rejected Keynesianism in favor of some doctrine more congenial to the free-market faithful — in practice views the current slowdown in terms of the intellectual framework John Maynard Keynes created 65 years ago. In particular, everyone thinks that during a slump what we need is more spending.

Before Keynes, the general view was quite the opposite: economic slumps were supposed to be the invisible hand's way of punishing excesses, and the best cure was supposed to be a good dose of austerity, public and private. Only as a result of the Keynesian revolution did it become obvious to everyone — so obvious that people take it for granted — that the problem during a slump is too little spending, not too much, and that recovery depends on persuading the public to start spending again.

So every time you read an article worrying that declining consumer confidence may tip us into recession, or that interest rate cuts will soon spark a recovery, or even that this time interest rate reductions may not do the trick, you are reading Keynesian economics. Like the man who was unaware that he had been writing prose all his life, these writers may not know that they are Keynesians — but they are.

And you would have to search far and wide to find anyone who thinks that the U.S. government should slash spending and raise taxes to offset the budget impact of this year's downturn, or who thinks that the Fed is wrong to cut interest rates in the face of a slump. (There are some people who think that the Fed has overdone it — but they aren't opposed to the policy in principle.)

But we — by which I mean both policy makers in Washington and bankers in New York — often seem to prescribe for other countries the kind of root-canal economics that we would never tolerate here in the U.S.A.

Yesterday former Senator Howard Baker, our new ambassador to

Japan, told reporters he did not expect to see that country drive down the value of the yen. Aside from being inappropriate — exchange rate policy is a highly sensitive subject, about which even the secretary of the Treasury needs to be highly circumspect — this comment was part of a pattern of hints from U.S. officials that we would not like to see Japan weaken its currency. Since it is very difficult to imagine a recovery strategy for Japan that does not involve at least the possibility of a much weaker yen, this amounts to telling the Japanese that they cannot do what we do routinely, that is, print however much money it takes to get the economy moving again.

And then, of course, there's Argentina. What's shocking about the political and economic crisis there is not so much its severity — though it is amazing to see the punishment now being inflicted on a country that just three years ago was the toast of Wall Street — as how gratuitous it is. We're talking about a government whose debt really isn't very large compared with the size of its national economy, and whose fairly modest budget deficit is entirely the product of an economic slump, forced into drastic spending cuts that will further worsen that slump. It wouldn't be tolerated here — but the bankers in New York tell the Argentines that they have no alternative. And Washington — not the Bush administration, which has been eerily silent as Argentina melts down, but the conservative think tanks that helped the country bind itself in a monetary straitjacket — agrees.

Does it have to be this way? Is Keynesianism good only for the U.S. and selected other Western countries, but out of bounds for everyone else? Maybe. But I suspect that the core of the problem is that small countries, and even big countries like Japan that have lost their self-confidence, are too easily bullied by men in suits who give them advice dictated by a hard-line ideology they would never try to impose back home.

My advice would be to stop listening to those men in suits, and do as we do, not as we say.