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## On the Second Day, Atlas Waffled

By PAUL KRUGMAN

**D**ear Alan Greenspan:

After reading your recent testimony, I'd like to share some Objectivist philosophy with you. As a disciple of Ayn Rand, you'll undoubtedly appreciate it. Here it is, from John Galt's big speech in "Atlas Shrugged": "A is A: non-contradiction."

John Galt wouldn't be very happy with you right now.

On Tuesday you went some distance toward repairing your reputation and steering the country away from fiscal disaster. But the next day you appeared to waffle.

In your initial remarks you more or less acknowledged the grim fiscal outlook. As your discussion of "accrual" accounting made clear, you know that if the federal budget took into account the future liabilities of Social Security and Medicare — as it should — it wouldn't show the "modest" deficits the White House talks about; it would show a government deep in the red.

Yet here's what you said on Wednesday: "Actually, it turns out that we do not really have a fiscal problem of moment until we get beyond the end of this decade . . . deficits even under the president's program beyond these next two years [will be] in areas where the rate of debt to G.D.P. does not move up in any way which suggests we are in an unstable system."

There's a strict interpretation in which that statement is true. But it was widely read as a gesture of appeasement to the Bushies, as you surely knew it would be. And neither you nor the country can afford that kind of appeasement.

Surely you aren't going to let rosy budget projections snooker you, yet again, into supporting irresponsible tax cuts? By now you know that this administration always projects big budget improvement two years ahead; but every six months it marks its projection down another \$140 billion or so, blaming outside events. Independent analysts, who take into account the stuff the administration pretends doesn't exist — the war, the alternative minimum tax, and so on — think we're looking at deficits of 3 or 4 percent of G.D.P., maybe more, for the next decade. And then it will get much worse.

Moreover, since you advocate accrual accounting, you obviously realize that the ratio of debt to G.D.P. is a highly misleading number. Properly measured, the U.S. fiscal system is already "unstable" — and the new Bush proposals would quickly push it past what you called the "point of no return."

Fed chairmen aren't allowed to speculate about disaster scenarios, so let me do it for you. If the administration gets what it wants, within a decade — or perhaps sooner — the United States will have budget fundamentals comparable to Brazil's a year ago. The ratios of debt and deficits to G.D.P. won't

be all that high by historical standards, but the bond market will look ahead and see that things don't add up: the rich have been promised low tax rates, middle-class baby boomers have been promised pensions and medical care, and the government can't meet all those promises while paying interest on its debt. Fears that the government will solve its problem by inflating away its debt will drive up interest rates, worsening the deficit, and things will spiral out of control.

So why are you still giving these people political cover?

No doubt you're under intense pressure to be a team player. But these guys are users: they persuade other people to squander their hard-won credibility on behalf of bad policies, then discard those people once they are no longer useful. Think of John DiIulio, or your friend Paul O'Neill. It's happening to Colin Powell right now. (A digression: The U.S. media are soft-pedaling it as usual, but the business of the Osama tape has destroyed Mr. Powell's credibility in much of the world. The tape calls Saddam Hussein an "infidel" whose "jurisdiction . . . has fallen," but says that it's still O.K. to fight the "Crusaders" — and Mr. Powell claims that it ties Saddam to Al Qaeda. Huh? All it shows is that Al Qaeda views a U.S. invasion of Iraq as an excellent recruiting opportunity.)

Two years ago you acted as George W. Bush's enabler; you share part of the blame for our plunge into deficit. But now the situation is truly dire. If you waffle now, and take the easy way out, your reputation — and the country's finances — will quickly pass the point of no return.

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