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Behind the Curve

By PAUL KRUGMAN

President Obama's plan to stimulate the economy was "massive," "giant," "enormous." So the American people were told, especially by TV news, during the run-up to the stimulus vote. Watching the news, you might have thought that the only question was whether the plan was too big, too ambitious.

Yet many economists, myself included, actually argued that the plan was too small and too cautious. The latest data confirm those worries — and suggest that the Obama administration's economic policies are already falling behind the curve.

To see how bad the numbers are, consider this: The administration's budget proposals, released less than two weeks ago, assumed an average unemployment rate of 8.1 percent for the whole of this year. In reality, unemployment hit that level in February — and it's rising fast.

Employment has already fallen more in this recession than in the 1981-82 slump, considered the worst since the Great Depression. As a result, Mr. Obama's promise that his plan will create or save 3.5 million jobs by the end of 2010 looks underwhelming, to say the least. It's a credible promise — his economists used solidly mainstream estimates of the impacts of tax and spending policies. But 3.5 million jobs almost two years from now isn't enough in the face of an economy that has already lost 4.4 million jobs, and is losing 600,000 more each month.

There are now three big questions about economic policy. First, does the administration realize that it isn't doing enough? Second, is it prepared to do more? Third, will Congress go along with stronger policies?

On the first two questions, I found Mr. Obama's latest interview with The Times anything but reassuring.

"Our belief and expectation is that we will get all the pillars in place for recovery this year," the president declared — a belief and expectation that isn't backed by any data or model I'm aware of. To be sure, leaders are supposed to sound calm and in control. But in the face of the dismal data, this remark sounded out of touch.

And there was no hint in the interview of readiness to do more.

A real fix for the troubles of the banking system might help make up for the inadequate size of the stimulus plan, so it was good to hear that Mr. Obama spends at least an hour each day with his economic advisors, "talking through how we are approaching the financial markets." But he went on to dismiss calls for decisive action as coming from "blogs" (actually, they're coming from many other places, including at least one president of a Federal Reserve bank), and suggested that critics want to "nationalize all the banks" (something nobody is proposing).

As I read it, this dismissal — together with the continuing failure to announce any broad plans for bank restructuring — means that the White House has decided to muddle through on the financial front, relying on economic recovery to rescue the banks rather than the other way around. And with the stimulus plan too small to deliver an economic recovery ... well, you get the picture.

Sooner or later the administration will realize that more must be done. But when it comes back for more money, will Congress go along?

Republicans are now firmly committed to the view that we should do nothing to respond to the economic crisis, except cut taxes — which they always want to do regardless of circumstances. If Mr. Obama comes back for a second round of stimulus, they'll respond not by being helpful, but by claiming that his policies have failed.

The broader public, by contrast, favors strong action. According to a recent Newsweek poll, a majority of voters supports the stimulus, and, more surprisingly, a plurality believes that additional spending will be necessary. But will that support still be there, say, six months from now?

Also, an overwhelming majority believes that the government is spending too much to help large financial institutions. This suggests that the administration's money-for-nothing financial policy will eventually deplete its political capital.

So here's the picture that scares me: It's September 2009, the unemployment rate has passed 9 percent, and despite the early round of stimulus spending it's still headed up. Mr. Obama finally concedes that a bigger stimulus is needed.

But he can't get his new plan through Congress because approval for his economic policies has plummeted, partly because his policies are seen to have failed, partly because job-creation policies are conflated in the public mind with deeply unpopular bank bailouts. And as a result, the recession rages on, unchecked.

O.K., that's a warning, not a prediction. But economic policy is falling behind the curve, and there's a real, growing danger that it will never catch up.